

OC250818

30 October 2025

Tēnā koe [REDACTED],

I refer to your email dated 3 September 2025, requesting the following under the Official Information Act 1982 (the Act):

“1) Ministerial papers on the Maritime Levy

Please provide all papers, briefings, aides-mémoire, reports, submissions, and Cabinet material prepared by the Ministry of Transport relating to the Maritime Levy (and any related Oil Pollution Levy settings) that have been provided to the Minister or Associate Minister(s) of Transport from 1 January 2023 to present, including attachments and appendices.

2) Inter-agency material

Please also provide any advice, correspondence, or joint material exchanged with Maritime New Zealand concerning the Maritime Levy during the same period, where this material was used in the development of advice for the Minister.

3) Forward work programme / planned reviews

If available, please provide any work programme documents or forward-looking plans that note upcoming or ongoing reviews of the Maritime Levy (or its methodology, rates, or sectoral breakdown).”

On 17 September 2025, Maritime New Zealand (MNZ) partially transferred its request from you to the Ministry of Transport (the Ministry) for response:

*“Please provide all briefings, reports, submissions, and Cabinet material that Maritime NZ has sent to or through the Ministry of Transport **and/or provided to the Minister/Associate Minister(s) of Transport** relating to the Maritime Levy (and any related Oil Pollution Levy settings), from 1 January 2023 to present, including attachments and appendices.”*

The Ministry leads the development of Cabinet materials on the Maritime and Oil Pollution Levy and thus is the responsible agency for related materials that MNZ has sent to or through the Ministry. Any input MNZ has had into Cabinet papers and associated materials will have been via Ministry papers. I am advised MNZ is still responding to the question as it relates to papers it has provided to the Minister/Associate Minister of Transport.

On 1 October 2025, we advised you that due to consultations necessary to make a decision on their request, a proper response could not reasonably be made within the original time limit. We advised that we would be extending the due date on your request by up to 20 working days.

There are 59 documents within the scope of your request. Of these, 19 are released with some information withheld or refused, 5 are released in full, and 35 are withheld or refused in full. Information included in the documents that are withheld in full is currently being considered by the Minister. Following the final decisions, some information will be proactively released.

The document schedule attached as Annex 1 outlines how the documents have been treated under the Act. Certain information is withheld or refused under the following sections:

- | | |
|-------------|---|
| 9(2)(a) | to protect the privacy of natural persons |
| 9(2)(f)(iv) | to maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials |
| 9(2)(g)(i) | to maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any public service agency or organisation in the course of their duty |
| 18(d) | the information requested is or will soon be publicly available |

With regard to the information that has been withheld under section 9 of the Act, I am satisfied that the reasons for withholding the information at this time are not outweighed by public interest considerations that would make it desirable to make the information available.

You have the right to seek an investigation and review of this response by the Ombudsman, in accordance with section 28(3) of the Act. The relevant details can be found on the Ombudsman's website www.ombudsman.parliament.nz

The Ministry publishes our Official Information Act responses and the information contained in our reply to you may be published on the Ministry's website. Before publishing we will remove any personal or identifiable information.

Nāku noa, nā



Duncan Wilson
Acting Manager, Transport Financing

Annex 1: Document Schedule

Doc #	Reference number	Date	Title of Document	Decision on request
1.	OC221106	15/12/2022	<p>Briefing: <i>Maritime NZ: Draft Funding Review Cabinet Paper and Consultation Document</i></p> <p>Appendix 1: Draft Cabinet Paper <i>Consultation Document: Maritime New Zealand Review of Levies Funding for 2024/25-2029/30</i></p> <p>Appendix 2: Draft Consultation Document <i>Maritime New Zealand Review of Levies Funding for 2024/25-2029/30</i></p>	<p>Released with some information withheld under section 9(2)(a).</p> <p>Note: Though this was provided to the Minister's Office outside of the date range requested (from 1 January 2023), we have considered this package of material to be in scope of the request as it relates to the 2024 Funding Review, is the precursor to Document 4, and aids in providing a more complete picture.</p>
2. Page 46	N/A	20/01/2023 27/01/2023 3/02/2023 10/02/2023 17/02/2023 24/02/2023 3/03/2023 10/03/2023	<p>Weekly Report to the Minister of Transport</p> <p>Ministry of Transport</p> <p><u>Cabinet papers</u></p> <p><i>Maritime NZ Review of Levies Funding for 2024/25 – 2029/30</i></p> <p><u>Upcoming briefings</u></p> <p><i>Maritime New Zealand funding review: Draft Cabinet paper"</i></p> <p>Maritime New Zealand</p> <p><u>Transport Crown Entity and SOE Updates</u></p> <p><i>Review of Levies funding 2024/24 to 2029/30</i></p>	Released in full.
3. Page 55	N/A	2/02/2023	Email from Richard Cross to Peter Brunt and Andrew Saunderson	<p>Released with some information withheld under section 9(2)(a).</p> <p>Some information has been marked out of scope.</p>
4. Page 57	OC230071	8/02/2023	<p>Briefing: <i>Maritime New Zealand Funding Review 2024/25 – Draft Cabinet Paper for Ministerial Consultation</i></p> <p>Attachment 1: Draft Cabinet paper <i>Consultation Document: Maritime New Zealand Review of Levies Funding for 2024/25-2029/30</i></p> <p>Appendix 1: Consultation Document <i>Maritime New Zealand Review of Levies Funding for 2024/25-2029/30</i></p> <p>Attachment 2: <i>Initial Cost Recovery Impact Information</i></p>	<p>Released with some information withheld under section 9(2)(a).</p> <p>Some information has been marked out of scope.</p> <p>Note: The paper attached was not proactively released as planned.</p>

Doc #	Reference number	Date	Title of Document	Decision on request
5. Page 131	N/A	24/02/2023	Email from Robyn Wong to Richard Cross and Johnny Crawford Subject: Final Draft Consultation Document Attachment 1: Draft Consultation Document <i>Maritime NZ Review of Levies Funding for 2024/25 – 2029/30</i> Attachment 2 – <i>Revisions to Detailed Oil Pollution Levy Rates Following Review</i>	Released with some information withheld under section 9(2)(a).
6. Page 159	OC230119	27/02/2023	Aide Memoire: <i>Update on Maritime New Zealand Funding Review 2024/25 Ahead of 28 February 2023 Officials Meeting</i> Attachment 1: Cabinet Paper: <i>Maritime New Zealand Funding Review 2024/25 – Final Cabinet Paper to be Lodged</i> Appendix 1: Consultation Document <i>Maritime NZ Review of Levies Funding for 2024/25 – 2029/30</i>	Released with some information withheld under section 9(2)(a). Due to shift in the Ministerial priorities, this paper did not go to Cabinet.
7. Page 206	OC230184	17/03/2023	Briefing: <i>Options and Implications for Delaying Maritime New Zealand and Civil Aviation Authority Funding Reviews</i> <i>Annex 1: Summary of the impact of proposed levy increases on maritime and aviation sectors</i> <i>Annex 2: Letter of Support for the 2022/23 and 2023/24 financial years – MNZ</i> Annex 3: (Out of scope)	Released with some information withheld under section 9(2)(a). Some information has been marked out of scope.
8. Page 222	N/A	11/04/2023	Email from Richard Cross to Brett Thomson and Johnny Crawford Subject: FW: Concerns re funding review Cabinet paper	Released with some information withheld under section 9(2)(a).
9. Page 225	N/A	12/04/2023	Email from Peter Brunt to Brent Johnston, Richard Cross and Brett Thomson Subject: Cabinet Paper Meeting on Friday	Released with some information withheld under section 9(2)(a).
10. Page 226	OC230454	26/05/2023	Briefing: <i>Meeting with Maritime New Zealand Deputy Chief Executives – 1 June 2023</i>	Released with some information withheld under section 9(2)(a). Some information has been marked out of scope.
11. Page 231	N/A	2/06/2023 9/06/2023 16/06/2023 23/06/2023 30/06/2023	Weekly Report to the Minister of Transport Ministry of Transport <u>Cabinet papers</u> <i>Cabinet Approval of Changes to Maritime Levy and Oil Pollution Levy</i>	Released in full.

Doc #	Reference number	Date	Title of Document	Decision on request
		7/07/2023 13/07/2023 21/07/2023 4/08/2023 18/08/2023 1/09/2023	<u>Key priorities</u> <i>Maritime New Zealand fees and funding review</i> Maritime New Zealand <i>Funding review delayed</i> <i>Funding Review consultation now live</i> <i>Maritime NZ Public Consultation Levies Funding</i> <i>Public Consultation on Maritime and Oil Pollution Levies</i> <i>Next steps following consultation on Maritime and Oil Pollution Levies</i>	
12. Page 243	OC230473	1/06/2023	Briefing: <i>Supporting the Ongoing Financial Sustainability of Maritime New Zealand and Civil Aviation Authority – Supporting Information for Cabinet Paper, Talking Points for DEV attached as Annex 1.</i> Appendix 1 – Cabinet paper <i>Supporting the ongoing financial sustainability of Maritime New Zealand and Civil Aviation Authority</i> and Consultation Document <i>Maritime New Zealand Review of Levies Funding for 2024/25-2029/30</i>	Released with some information withheld under section 9(2)(a). Some information has been marked out of scope. Note: There were two versions of this Cabinet paper submitted to the Minister's Office – one with changes tracked and one clean. Both have been provided.
13. Page 289	OC230681	4/08/2023	Briefing: <i>Proactive Release of Maritime New Zealand and Civil Aviation Authority – Supporting Ongoing Financial Sustainability Cabinet Paper and Associated Documents</i> Annex 1 <i>Document Schedule</i> Annex 2 <i>Document One OC230473 Maritime New Zealand and Civil Aviation Authority: Supporting Ongoing Financial Sustainability</i> Annex 3 <i>Document Two Consultation document – Maritime NZ Review of Levies Funding</i> Annex 4 <i>Document Three Cabinet Paper Maritime New Zealand and Civil Aviation Authority: Supporting Ongoing Financial Sustainability</i> Annex 5 <i>Document Four Cabinet Economic Development Committee Minute DEV-23-Min-0227</i> Annex 6 <i>Document Five Cabinet Minute CAB-0227.01 Minute</i> Annex 7 <i>Document Six Cabinet Minute DEV-23-MIN-0110 Minute</i> Annex 8 <i>Document Seven Cabinet Minute DEV-23-SUB-0110 Summary</i>	Released with some information withheld under section 9(2)(a) and refused under section 18(d). Some information has been marked out of scope. The Cabinet paper included in this package is reflected above in Document 12. Note: This was not proactively released as planned.

Doc #	Reference number	Date	Title of Document	Decision on request
14. Page 332	N/A	13/10/2023	Email from Robyn Wong to RIA Coordinator MoT Subject: MNZ revised CRIS for RIA panel Attachment 1 – [Stage 2] <i>Cost Recovery Impact Statement, Maritime NZ Review of Levies funding for 2024/25-2029/30</i> Appendix 8: <i>Summary and analysis of submissions</i>	Released with some information withheld under section 9(2)(a) and refused under section 18(d). Appendix 8 is publicly available on MNZ's website here: https://www.maritimenz.govt.nz/media/yqwelssk/d24-22233-cabinet-paper-appendix-4-summary-of-submissions.pdf
15. Page 369	N/A	1/12/2023 8/12/2023 22/12/2023 12/01/2024 19/01/2024 26/01/2024 2/02/2024 9/02/2024 16/02/2024 23/02/2024 8/03/2024 15/03/2024 18/03/2024 25/03/2024 2/04/2024 29/04/2024	Weekly Report to the Minister of Transport Ministry of Transport <u>Updates on 100-Day Plan</u> <i>Maritime New Zealand and Civil Aviation Authority funding reviews</i> <u>Upcoming briefings</u> <i>Maritime New Zealand funding review</i> <u>Recommended summer reading list, Cabinet papers</u> <i>Approval of Proposed Increases to the Maritime and Oil Pollution Levies</i> <u>Cabinet papers</u> <i>Approval of legislative changes required for Maritime and Oil Pollution Levies changes</i> <i>Maritime and Oil Pollution Levies: Proposed increases</i> Associate Minister of Transport Weekly Report (Minister Doocey) Ministry of Transport <u>Upcoming Cabinet papers</u> <i>Maritime and Oil Pollution Levies: Proposed increases (ECO)</i> <i>Maritime and Oil Pollution Levies: Proposed increases (LEG)</i> <i>Approval of legislative changes required for Maritime and Oil Pollution Levies changes</i> Maritime New Zealand <i>Funding review</i>	Released in full.

Doc #	Reference number	Date	Title of Document	Decision on request
			<p>Transport Portfolio Weekly Report (Minister Brown)</p> <p>Ministry of Transport</p> <p><u>Other upcoming Ministry of Transport Cabinet papers:</u></p> <p><i>Cabinet Paper: Maritime and Oil Pollution Levies: Proposed Increases</i></p> <p><u>Actions from transport officials meeting:</u></p> <p><i>Maritime and Oil Pollution Levies: Proposed Increases</i></p> <p><u>Upcoming Minister of Transport meetings:</u></p> <p><i>Maritime fee and funding review</i></p>	
16. Page 399	OC231026	12/12/2023	Briefing: <i>Maritime New Zealand Funding Review</i>	Released with some information withheld under section 9(2)(a).
17. Page 407	OC230985	20/12/2023	<p>Briefing: <i>OC230985 Approval of Proposed Increases to the Maritime and Oil Pollution Levies</i></p> <p>Attachment 1: Annex 1 – Draft Cabinet paper <i>Approval of Proposed Increases to the Maritime and Oil Pollution Levies</i></p> <p>Appendix 1: [Stage Two] <i>Cost Recovery Impact Statement, Maritime NZ Review of Levies funding for 2024/25-2029/30</i></p>	<p>Released with some information refused under section 18(d).</p> <p>Appendix 1 is publicly available on MNZ's website here: https://www.maritimenz.govt.nz/media/0xzfsfnr/d24-22229-cabinet-paper-appendix-1-mnz-cost-recovery-impact-statement-stage-2.pdf</p>
18. Page 419	OC240001 <i>Note: the correct reference for this is OC240005</i>	19/01/2024	<p>Briefing: <i>Approval of Proposed Increases to the Maritime and Oil Pollution Levies</i></p> <p>Appendix 1 – Draft Cabinet Paper – <i>Approval of Proposed Increases to the Maritime and Oil Pollution Levies</i></p> <p>Attachment 1 – [Stage Two] <i>Cost Recovery Impact Statement, Maritime NZ Review of Levies funding for 2024/25-2029/30</i></p>	<p>Released with some information withheld under section 9(2)(a) and refused under section 18(d).</p> <p>Attachment 1 is publicly available on MNZ's website here: https://www.maritimenz.govt.nz/media/0xzfsfnr/d24-22229-cabinet-paper-appendix-1-mnz-cost-recovery-impact-statement-stage-2.pdf</p>
19. Page 436	OC230985	21/02/2024	<p>Cabinet paper <i>Approval of Proposed Increases to the Maritime and Oil Pollution Levies</i></p> <p>Appendix 1: [Stage Two] <i>Cost Recovery Impact Statement, Maritime NZ Review of Levies funding for 2024/25-2029/30</i></p> <p>Appendix 2: <i>Summary of Proposed Levies Impacts</i></p>	<p>Released with some information refused under section 18(d).</p> <p>Appendix 1 is linked above under Document 18.</p> <p>Appendix 2 is publicly available on MNZ's website here: https://www.maritimenz.govt.nz/media/oisjisl2/d24-29991-cabinet-paper-appendix-2-detail-on-impacts-from-levies-increases-with-redactions.pdf</p> <p>The final version of the Cabinet paper is publicly available on MNZ's website here:</p>

Doc #	Reference number	Date	Title of Document	Decision on request
				<p>https://maritimenz.govt.nz/media/t4xps1fo/cabinet-approval-of-proposed-increases-to-the-maritime-and-oil-pollution-levies-final-redacted.pdf</p> <p>However, at the time of publishing some information was redacted under active consideration (part of para 61, and para 70). We consider that this previously redacted information can now be released.</p> <p>A final, unredacted copy of the Cabinet paper is attached to Document 21 as Attachment 1.</p>
20. Page 460	N/A	27/03/2024	Draft advice from MNZ, incorporated into the Ministry's advice reflected as Document 24 – <i>Oil Pollution Levy Options</i>	Released in full.
21. Page 462	OC240327	28/03/2024	Aide Memoire: <i>Oil Pollution Levy Options</i>	Released with some information withheld under section 9(2)(a).
22. Page 469	OC240479	6/05/2024	<p>Briefing: <i>OC240479 Ministerial Consultation on Legislative Changes for Maritime and Oil Pollution Levies Changes</i></p> <p>Attachment 1: Draft Cabinet paper <i>OC240214 Approval of legislative changes required for Maritime and Oil Pollution Levies changes</i></p> <p>Appendix 1: Draft for Consultation <i>Maritime Levies Amendment Regulations 2024</i></p> <p>Appendix 2: Draft for Consultation <i>Maritime Transport (Oil Pollution Levies) Amendment Order 2024</i></p>	Released with some information withheld under section 9(2)(a).
23.	OC240214	15/05/2024	<p>Cabinet paper: <i>Approval of Legislative Changes Required for Maritime and Oil Pollution Levies Changes</i></p> <p>Appendix 1 - <i>Maritime Levies Amendment Regulations 2024</i></p> <p>Appendix 2 – <i>Maritime Transport (Oil Pollution Levies) Amendment Order 2024</i></p>	<p>Refused under section 18(d).</p> <p>The final Cabinet paper and Amendment Regulations, as well as associated Cabinet Minutes, have been published on the Ministry's website here: https://www.transport.govt.nz/assets/Uploads/Maritime-and-Oil-Pollution-Levies-Changes-Amendment-Regulations_Redacted.pdf</p>
24. Page 486	N/A	10/06/2024	<p>Associate Minister of Transport Weekly Report (Minister Doocey)</p> <p>Maritime New Zealand</p> <p><i>Funding Review update</i></p>	Released in full.

Doc #	Reference number	Date	Title of Document	Decision on request
25.	N/A	3/06/2025	Project Initiation Document – Maritime New Zealand (MNZ) Funding Review	Withheld in full under section 9(2)(f)(iv).
26.	N/A	11/07/2025	Email from Robyn Wong to Tony Frost Subject: Re: EXTERNAL: Follow up regarding reserves	Withheld in full under section 9(2)(f)(iv).
27.	N/A	15/07/2025	Email from Robyn Wong to Tony Frost Subject: IN CONFIDENCE Draft Briefing to Minister on the need for a Funding Review Attachment 1 – Draft Briefing – <i>Maritime NZ's Levy Funding Pressures and Forward Path</i> Attachment 2 – <i>Maritime Levies Activities and our Regulatory Approach</i>	Withheld in full under section 9(2)(f)(iv).
28.	N/A	16/07/2025	Email from Tony Frost to Robyn Wong Subject: RE: IN CONFIDENCE Draft Briefing to Minister on the need for a Funding Review	Withheld in full under section 9(2)(f)(iv).
29.	N/A	22/07/2025	Email from Tony Frost to Andrew Saunderson, Mark Leeming and Robyn Wong Subject: FW: Email to Maritime NZ summarising this morning's discussion	Withheld in full under section 9(2)(f)(iv).
30.	N/A	30/07/2025	Maritime New Zealand Draft Briefing to Associate Minister Meager <i>Three-Yearly Review of the Maritime Levy</i>	Withheld in full under section 9(2)(f)(iv).
31	MNZ 25-035	6/08/2025	Maritime New Zealand Aide Memoire – <i>Three-Yearly Review of the Maritime Levy</i>	Withheld in full under section 9(2)(f)(iv).
32	N/A	7/08/2025	Email from Tony Frost to Robyn Wong and Andrew Saunderson Subject: RE: EXTERNAL: RE: IN CONFIDENCE – Funding Briefing	Withheld in full under section 9(2)(f)(iv).
33.	N/A	25/08/2025	Email from Isaac Trienen to Robyn Wong Subject: RE: EXTERNAL: Follow-up from Maritime NZ meeting with Minister	Withheld in full under section 9(2)(f)(iv).
34.	N/A	25/08/2025	Associate Transport Portfolio Weekly Report Week commencing 25 August 2025 Section 1.1 Portfolio Priorities – Maritime	Withheld in full under section 9(2)(f)(iv).

Doc #	Reference number	Date	Title of Document	Decision on request
			<i>Maritime NZ funding review - the case for a review of the Maritime Levies</i>	
35.	N/A	1/09/2025	Associate Transport Portfolio Weekly Report Week commencing 1 September 2025 Section 1.1 Portfolio Priorities – Maritime <i>Maritime NZ funding review - the case for a review of the Maritime Levies</i>	Withheld in full under section 9(2)(f)(iv).
36.	N/A	3/09/2025	Email from Isaac Trienen to Robyn Wong Subject: IN-CONFIDENCE: Ministry feedback on Maritime Levy and Oil Pollution Levy Discussion Document Outline	Withheld in full under section 9(2)(f)(iv).
37.	N/A	4/09/2025	Email from Robyn Wong to Isaac Trienen and Mark Hodge Subject: IN-CONFIDENCE: Ministry feedback on Maritime Levy and Oil Pollution Levy Discussion Document Outline <i>Attachment 1 – Maritime Levy and Oil Pollution Levy Discussion Document Outline</i> <i>Attachment 2 – Maritime Levy and Oil Pollution Levy Back-pocket Notes</i>	Withheld in full under section 9(2)(f)(iv).
38.	N/A	4/09/2025	Email from Isaac Trienen to Robyn Wong Subject: Further Ministry feedback on Maritime Levy and Oil Pollution Levy Discussion Document	Withheld in full under section 9(2)(f)(iv).
39.	N/A	5/09/2025	Email from Isaac Trienen to Robyn Wong Subject: Re: Question	Withheld in full under section 9(2)(f)(iv).
40.	N/A	5/09/2025	Email from Robyn Wong to Isaac Trienen Subject: Re: EXTERNAL: Question <i>Attachment 1 – Maritime Levy and Oil Pollution Levy Discussion Document Outline</i>	Withheld in full under section 9(2)(f)(iv).
41.	N/A	5/09/2025	Email from Robyn Wong to Isaac Trienen Subject: Re: EXTERNAL: Question	Withheld in full under section 9(2)(f)(iv).
42.	N/A	5/09/2025	Email from Robyn Wong to Mark Hodge and Isaac Trienen Subject: FW: MNZ 25-038 – Maritime Levy and Oil pollution Aide Memoire	Withheld in full under section 9(2)(f)(iv).

Doc #	Reference number	Date	Title of Document	Decision on request
			Attachment 1 – Aide Memoire for Minister 5 Sep 2025 Attachment 2 – <i>Maritime Levy and Oil Pollution Levy Discussion Document Outline 5 Sep</i> Attachment 3 – <i>Funding sources other than Maritime Levy and increases since 2017</i>	
43.	N/A	8/09/2025	Email from Isaac Trienen to Robyn Wong and Mark Hodge Subject: Re: MNZ 25-038 – Maritime Levy and Oil pollution Aide Memoire	Withheld in full under section 9(2)(f)(iv).
44.	N/A	9/09/2025	Email from Isaac Trienen to Robyn Wong Subject: Re: EXTERNAL: Fw: Ministry feedback on Maritime NZ funding review – Maritime Levy and Oil Pollution Levy Discussion Document	Withheld in full under section 9(2)(f)(iv).
45.	N/A	10/09/2025	Email from Isaac Trienen to Robyn Wong Subject: Re: IN-CONFIDENCE: Interrogation of inflationary costs Attachment 1 – Re: EXTERNAL: Question Attachment 1.1 – <i>Initial Funding Review modelling 10 September 2025</i>	Withheld in full under section 9(2)(f)(iv).
46.	N/A	10/09/2025	Email from Robyn Wong to Isaac Trienen Subject: Re: EXTERNAL: Re: IN-CONFIDENCE: Interrogation of inflationary costs	Withheld in full under section 9(2)(f)(iv).
47. Page 487	N/A	10/09/2025	Email from Robyn Wong to Isaac Trienen Subject: IN-CONFIDENCE: Last Funding Review consultation period Attachment 1 – Cabinet paper Appendix 2: <i>Detail on impacts from levies increases</i> Attachment 2 – Cabinet paper Appendix 3: <i>Summary of consultation and engagement (April 2024)</i> Attachment 3 – Summary of consultation process (March 2024) Attachment 4 – Talking points 27 Feb 2024 explaining engagement with OMV (OMV is the only FPSO).	Released with some information withheld under section 9(2)(a) and refused under section 18(d). Attachments 1 and 2 are publicly available on MNZ's website here: https://www.maritimenz.govt.nz/media/oisjisl2/d24-29991-cabinet-paper-appendix-2-detail-on-impacts-from-levies-increases-with-redactions.pdf And here: https://www.maritimenz.govt.nz/media/diwbrqh5/d24-22232-cabinet-paper-appendix-3-summary-of-consultation-and-engagement.pdf
48.	N/A	10/09/2025	Email from Isaac Trienen to Robyn Wong	Withheld in full under section 9(2)(f)(iv).

Doc #	Reference number	Date	Title of Document	Decision on request
			Subject: Re: EXTERNAL: Re: IN-CONFIDENCE: Interrogation of inflationary costs	
49.	N/A	10/09/2025	Email from Isaac Trienen to Robyn Wong Subject: Re: IN-CONFIDENCE: Last Funding Review consultation period	Withheld in full under section 9(2)(f)(iv).
50.	N/A	11/09/2025	Email from Isaac Trienen to Robyn Wong Subject: Re: IN-CONFIDENCE: Last Funding Review consultation period	Withheld in full under section 9(2)(f)(iv).
51.	N/A	15/09/2025	Email from Isaac Trienen to Robyn Wong Subject: Maritime Levy review – Cabinet timelines Attachment 1 – 250915 Draft timelines to Maritime Levy public consultation	Withheld in full under section 9(2)(f)(iv).
52.	N/A	15/09/2025	Email from Isaac Trienen to Robyn Wong Subject: Re: Maritime Levy review – Cabinet timelines	Withheld in full under section 9(2)(f)(iv).
53.	N/A	16/09/2025	Email from Isaac Trienen to Robyn Wong Subject: Fw: MNZ levy review and wider context Attachment 1 – <i>Levies and charges payable by cruise lines</i>	Withheld in full under section 9(2)(f)(iv).
54.	N/A	16/09/2025	Email from Isaac Trienen to Robyn Wong Subject: Re: MNZ levy review and wider context	Withheld in full under section 9(2)(f)(iv).
55.	N/A	16/09/2025	Email from Isaac Trienen to Robyn Wong Subject: Draft timelines to Cabinet Attachment 1 – 250916 Draft timelines to Maritime Levy public consultation	Withheld in full under section 9(2)(f)(iv).
56.	N/A	17/09/2025	Email from Isaac Trienen to Robyn Wong and Mark Hodge Subject: Re: External: Fw: MNZ levy review and wider context	Withheld in full under section 9(2)(f)(iv).
57.	N/A	16/09/2025	Email from Isaac Trienen to Robyn Wong Subject: Fw: CRIS requirements	Withheld in full under section 9(2)(f)(iv).
58.	N/A	16/09/2025	Email from Isaac Trienen to Mark Hodge Subject: Fw: Update on consultation document and CRIS exemption process	Withheld in full under section 9(2)(f)(iv).

Doc #	Reference number	Date	Title of Document	Decision on request
59.	N/A	17/09/2025	Email from Isaac Trienen to Robyn Wong Subject: Re: EXTERNAL: Re: Draft timelines to Cabinet	Withheld in full under section 9(2)(f)(iv).



15 December 2022

OC221106

Hon Michael Wood

Action required by:

Minister of Transport

Friday, 20 January 2023

cc Hon Kieran McAnulty

Associate Minister of Transport

MARITIME NZ: DRAFT FUNDING REVIEW CABINET PAPER AND CONSULTATION DOCUMENT

Purpose

Seeks your feedback on a draft Cabinet paper which proposes the release of the *Consultation Document: Maritime NZ Review of Levies Funding for 2024/25 – 2029/30*, and the accompanying consultation document.

Key points

- Maritime NZ (MNZ) is undertaking a funding review to address cost pressures, increase regulatory capacity and provide ongoing funding for two Government commitments.
- The Ministry is providing the Cabinet paper and consultation document to you in draft form, to enable sufficient time for your review over the upcoming break.
- The Ministry will work with MNZ in the new year to further refine the draft Cabinet paper and undertake further work in support of the proposed levy changes.
- This further work would include the Ministry reviewing the figures that are cited in the paper and the consultation document and key underlying assumptions, gaining a better understanding of the impact of the proposed changes on different groups of levy payers compared to status quo, and engaging with the Treasury and other departments on any feedback they might have on the proposals.
- We were unable to complete this work prior to the draft Cabinet paper being provided to you, given that the cited figures were only available in the last week.

Recommendations

We recommend you:

- 1 **Agree** to provide feedback to Te Manatū Waka officials on the draft Cabinet paper and consultation document (attached) by 20 January 2023. Yes / No

- 2 **Note** that our intended timeframe is for the Cabinet Government Administration and Expenditure Review Committee to consider the Cabinet paper on 8 March 2023.



Brent Johnston
Acting Deputy Chief Executive, System
Performance and Governance
15/12/22

Hon Michael Wood
Minister of Transport
...../...../.....

- Minister's office to complete:**
- Approved Declined
 - Seen by Minister Not seen by Minister
 - Overtaken by events

Comments

Contacts

Name	Telephone	First contact
Chris Jones, Principal Adviser Governance	s 9(2)(a)	
Carmen Mak, Director, System & Regulatory Design		✓

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

MARITIME NZ: DRAFT FUNDING REVIEW CABINET PAPER AND CONSULTATION DOCUMENT

Maritime NZ has drafted a consultation document which seeks an increase in the maritime levy and oil pollution levy

- 1 MNZ is undertaking a funding review to address a gap between its current funding and the funding that it estimates is necessary to:
 - 1.1 maintain existing regulatory and oil pollution response capacity beyond 30 June 2024 (when the Crown's liquidity facility is expected to end)
 - 1.2 grow additional capacity and/or capability in some areas
 - 1.3 fund two new Government commitments associated with ongoing provision of seafarer welfare services and MARPOL Annex VI administration.

Alignment to Government priorities

- 2 MNZ's funding review addresses two 2020 Labour Party Election Manifesto commitments related to provision of seafarer welfare services and administration of MARPOL Annex VI.
- 3 In October 2021, Cabinet lifted the moratorium on MNZ undertaking a funding review and agreed to a number of expectations concerning MNZ's review (DEV-21-MIN-0192 refers), including:
 - 3.1 that MNZ be required to undertake a funding review "based on Option Two (i.e. maintain or moderately increase capability and capacity; but raise charges, fees and levies) to support a managed transition back to cost recovery"
 - 3.2 that MNZ's funding review take account of a range of factors, including:
 - 3.2.1 the capacity and capability required for regulatory and operational functions, evidence that these levels are effective and efficient and that options for service delivery have been considered
 - 3.2.2 the health of the sector and its recovery, including its capacity to adjust to cost increases
 - 3.2.3 whether existing funding review cycles are still appropriate.

Further work required in the new year

- 4 The Ministry will work closely with MNZ in the new year to undertake further assessment of the risks and potential impacts associated with the consultation process and draft consultation document.

- 5 This is because:
- 5.1 we have not had sufficient time to adequately analyse the assumptions and data that underpins the funding review
 - 5.2 some information will require further work to produce (e.g., detail on the proposed change in method for calculating the oil pollution levy)
 - 5.3 MNZ is scheduled to complete an independent quality assurance review of its process and financial models etc (scheduled to occur in February 2023).

Potential stakeholder feedback

- 6 The draft consultation document identifies eight funding proposals which fall into three categories:
- 6.1 Proposals one to four are designed to mitigate regulatory risks by increasing capacity and/or capability in MNZ's core regulatory and compliance functions
 - 6.2 Proposals five and six are designed to implement Government commitments on seafarer welfare services and MARPOL Annex VI administration
 - 6.3 Proposals seven and eight are designed to improve the oil pollution levy methodology and maintain oil spill preparedness and response capability at adequate levels (respectively).
- 7 Proposals one to six seek an increase in the maritime levy, while proposal eight seeks an increase in the oil pollution levy.
- 8 MNZ expects proposals five and six to generate significant feedback during the consultation process, given that levy payers are likely to have the view that these two proposals should more appropriately be Crown funded.
- 9 It is possible that proposals one to four will generate some interest and feedback from the sector, given the proposed \$5.1 million per annum increase and the intended benefits from the proposals. However, MNZ notes that these proposals reflect feedback from the sector itself for the need for MNZ capacity and/or capability to be increased.

Next steps

- 10 We propose that you provide feedback to officials on the draft Cabinet paper and consultation document by 20 January 2023. This would enable us to reflect your feedback in the next draft.
- 11 We will undertake departmental consultation on the draft Cabinet Paper in parallel, including with the Treasury. We expect to complete this process by 27 January 2023. MNZ would like to provide you with a final Cabinet paper and consultation document by 27 January, and for you to complete ministerial consultation in February before lodging both documents with the Cabinet Office on 1 March 2023, for consideration on 8 March by the Cabinet Government Administration and Expenditure Review Committee.

- 12 If agreed by Cabinet, MNZ intends releasing their consultation document from 14 March to 18 April 2023.

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

APPENDIX 1: DRAFT CABINET PAPER

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

APPENDIX 2: DRAFT CONSULTATION DOCUMENT

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

BUDGET SENSITIVE

Office of the Minister of Transport

Cabinet Government Administration and Expenditure Review Committee

Proposal

- 1 This paper seeks agreement to release a consultation document *Maritime NZ Review of Levies Funding for 2024/25 – 2029/30*, which proposes an increase in the maritime levy and oil pollution levy from 1 July 2024.

Relation to government priorities

- 2 Two proposals outlined in the consultation document address Labour 2020 Election Manifesto commitments. One proposal seeks to fund seafarer welfare services via the maritime levy. This proposal addresses a commitment to "...ensure that Seafarer Welfare Centres provide services to the level required by the ILO Maritime Labour Convention 2006 by amending the Maritime Transport Act 1994 to enable the maritime levy to fund the services required for seafarers' wellbeing."
- 3 The MARPOL Annex VI funding proposal supports the Government's climate change response and Labour's Manifesto commitment to transition the country to a cleaner, greener carbon neutral position and improve NZ's natural environment.

Executive Summary

- 4 [to be populated]

Background

The regulatory roles and responsibilities of Maritime New Zealand

- 5 Maritime New Zealand (MNZ) is a Crown entity primarily governed by the Maritime Transport Act 1994 and the Crown Entities Act 2004.
- 6 MNZ is the national regulatory and response agency for the safety, security and environmental protection of coastal and inland waterways. It also has responsibility for maintaining marine oil spill preparedness and response capability.

Maritime NZ's funding has changed significantly since 2018/19

- 7 MNZ's last funding review was completed in 2018/19, with new maritime levy rates and fees taking effect on 1 July 2019. In April 2019, Cabinet agreed to an increase in maritime levy rates estimated to raise an additional \$10 million per annum in funding for 2019/20 and 2020/21, and a further \$3 million per annum from 2022/23 (DEV-19-MIN-0062 refers).

- 8 However, the outbreak of COVID-19 in early 2020 had a significant impact on maritime levy revenue, which declined 29 percent to \$23.1 million in 2020/21. The maritime levy is expected to raise \$24.3 million in 2022/23 (26 of total revenue). COVID-19 also had an adverse impact on oil pollution levy income, which declined 19 percent to \$6.7 million in 2020/21.
- 9 As a result, Cabinet approved funding support to enable MNZ to maintain its core regulatory and compliance capability and capacity in April 2020 (CAB-20-MIN-0148 refers). This 'liquidity facility' was extended in Budget 2021 until 30 June 2022, and in Budget 2022 until 30 June 2023.
- 10 Depending on the outcome of a Budget 2023 bid to extend the Crown's liquidity facility to 2023/24, the Crown will continue to provide enhanced financial support until 30 June 2024, when the liquidity facility is expected to end. A continuation of this enhanced financial support is predicated on MNZ completing its funding review by 30 June 2024.
- 11 In October 2021, Cabinet agreed to lift the moratorium on undertaking funding reviews and agreed that MNZ undertake a review to maintain or moderately increase capability and capacity by raising charges, fees and levies, to support a managed transition back to cost recovery (DEV-21-MIN-0192 refers).

Regulatory risks and pressures

- 12 In 2021, MNZ sought feedback from across the maritime sector (unions, industry bodies, maritime operators, ports and harbourmasters) on the entity's regulatory performance and areas of concern. This feedback was combined with findings from an internal scrutiny of performance and delivery, and an examination of good practice in other regulators.
- 13 This process identified a number of areas of regulatory risk and improvements needed in capability and capacity. The resulting regulatory strategy - Te Korowai o Kaitiakitanga (Te Korowai) – sets out how the organisation will address the issues identified.
- 14 These risks and areas for improvement were reinforced by the International Maritime Organisation (IMO) as part of its audit of New Zealand's maritime regulatory system during 12-19 September 2022. The IMO made 13 findings which must be addressed. Most notably, the IMO made recommendations to improve compliance with international conventions related to port and flag state control, and oversight of third-party recognised organisations.
- 15 Where possible, Maritime NZ has made changes within its current baseline to support needed improvements identified by Te Korowai and the IMO. This has included an organisational re-design, some redeployment and disestablishment of staff, and efficiencies. Refer to the consultation document (Appendix one) for more detail on MNZ's actions arising from Te Korowai.

- 16 To enable Maritime NZ to achieve the level of change needed to address identified areas of regulatory risk and the issues affecting industry performance and causing concern, an increase in levies is required.

Other cost pressures and drivers

- 17 Since the last funding review was completed in 2018/19, the Government has made commitments in two areas which require ongoing resourcing through levies:

17.1 provision of seafarer welfare services

17.2 administration of the International Convention on Prevention of Pollution from Ships (MARPOL Annex VI).

- 18 When these commitments were made, there was an expectation that funding would need to be recovered from the maritime sector from 1 July 2024.

- 19 Since the last review of oil pollution levies in 2018/19, payee types and activity levels have changed significantly, and a time-limited element (a capability levy) has now lapsed. Together, this means that revenue generated from the current oil pollution levy falls short of what is required to sustain the oil pollution response capabilities.

Analysis

- 20 MNZ's eight funding proposals fall into three categories:

20.1 Proposals one to four are designed to mitigate regulatory risks by increasing capacity and/or capability in the entity's core regulatory and compliance functions

20.2 Proposals five and six are designed to implement Government commitments

20.3 Proposals seven and eight are designed to improve the oil pollution levy methodology and maintain oil spill preparedness and response capability at adequate levels (respectively).

- 21 Proposals one to six seek an increase in the maritime levy, while proposal eight seeks an increase in the oil pollution levy. No other changes to Maritime NZ fees, charges or levies are proposed as part of this funding review.

Proposals for public consultation

Proposal 1: Maintaining and enhancing regulatory operations (port and flag state control)

- 22 Maritime NZ undertakes maritime inspections of foreign and domestic ships on behalf of the New Zealand government, in accordance with various international agreements - referred to as Port State Control (PSC) and Flag State Control (FSC) inspections. The purpose of these inspections is to ensure the safety of the marine environment and the welfare of seafarers.
- 23 Following the introduction of the new Maritime Operator Safety System and new Seafarer Certification System in 2014, much of the resource available to undertake PSC and FSC activity was required to support the two new domestic systems. This resulted in significantly fewer PSC inspections and New Zealand has not been undertaking all of the priority one high risk Tokyo MOU vessels, nor other vessels that are high risk.
- 24 COVID-19 has made this issue worse, as it has impacted the quality of vessels entering New Zealand waters (as ships have been in demand and there has been less time for maintenance). Unions, pilots, stevedores, ports, harbourmasters have all raised concerns about the safety of vessels and the Maritime NZ's inspection capacity. The issue has also been raised by industry and the Port Health and Safety Leadership Group as a growing concern and the IMO audit also raised a number of issues raised in this area that need addressing. Concerns with safety of vessels seem justified with large numbers of deficiencies being found that need to be rectified where inspections have occurred.
- 25 In response, MNZ recently established a maritime inspections team with the objective of increasing the number of inspections and the efficacy of this function. However, the capacity of this team currently does not enable it to address all high-risk vessels, ensure New Zealand does not become an easy target for poor quality shipping, and address IMO recommendations.
- 26 An increase in funding of \$1.9 million in 2024/25 (rising to \$2.1 million in 2029/30) via the maritime levy is sought to enable these objectives to be achieved.

Proposal 2: Increase policy, rules drafting and technical advice capacity

- 27 Maritime NZ has responsibility for managing many complex maritime and marine protection rules which regulate (amongst other things) the construction, crewing and operation of every domestic commercial and recreational craft. These rules are often out of date; out of keeping with changes in industry practice; or reflect a prescriptiveness that has is no longer necessary.
- 28 Maritime NZ has an ongoing regulatory reform programme to address the changes needed. Those reforms reduce the demand for exemptions, remove

unnecessary requirements and associated costs to industry, and provide better support for safety and marine protection outcomes.

- 29 Rules reform is a therefore a priority, but the speed at which it can happen is being affected by the organisation's current rules drafting resources and access to technical advice.
- 30 Maritime NZ received a funding increase in the last 2018/19 funding review to help with regulatory reform projects and has made progress with its reform programme. However, a significant backlog of outdated rules remains. While Maritime NZ receives funding from Te Manatu Waka to deliver an agreed rules reform programme, this funding was not increased for a number of years and was reduced by 20% in 2017/18 to \$0.8 million, given the need for Te Manatū Waka to reprioritise their funding.
- 31 An increase in funding of \$1.0 million in 2024/25 (rising to \$1.1 million in 2029/30) via the maritime levy is sought to ensure the regulatory reform programme can continue to keep pace with critical reform needs and avoid unnecessary costs and regulatory risks.

Proposal 3: Improving performance in responding to notifications and processing licensing applications

- 32 Te Korowai identified the notifications and licencing functions as key areas for improvement. Maritime NZ has initiated changes to both functions but needs increased funding to maintain momentum and maximise impact.
- 37 It is essential that the organisation has in place the capacity, capability and processes to efficiently triage and respond to these within a timeframe commensurate with their urgency. Maritime NZ recently established a centralised notifications and enquiries team to improve how it manages the more than 5,000 enquiries that it receives per annum.
- 38 Without this centralised function, notifications (most critically, accidents and incidents) have multiple or unclear points of entry, accountability, triaging and prioritisation decision making. This causes delays at times in responding to incidents, a lack of clarity and difficulty in tracking themes / building a good understanding of where risk lies. However, current funding does not allow the new team to become fully functional and effective.
- 39 Maritime NZ's regulatory licencing performance has suffered in recent years from a range of factors including increasing work-loads, reliance on largely administrative fixed term contractors, a lack of capacity, work-flow issues and pressures arising from needing to change processes during the height of COVID. There has been a significant backlog of unprinted certificates and processing times were well over the performance expectations of 20 working days. This was impacting the continuity of maritime operations, creating seafarer workforce issues and affecting the livelihood for individuals.
- 40 Maritime NZ has invested more permanent resources in the two teams performing certification functions. This has seen a significant impact on

reduction of backlogs and improvements of timeliness, and the team going forward will be able to begin on some of the other issues identified by the sector around quality of practice and systems. However, current funding does not allow these improvements to be sustained nor will it enable the team to be able to respond to the high volumes of Maritime Operator Safety System renewals which will come in on top of the business as usual over the next few years, resulting in significant impacts on the operation of the sector.

- 41 An increase in funding of \$1.2 million in 2024/25 (rising to \$1.4 million in 2029/30) via the maritime levy is sought to ensure the core effectiveness of MNZ's notifications and regulatory licencing functions, ensuring risks are effectively addressed and avoiding backlogs.

Proposal 4: Establishing a third-party oversight capacity

- 42 Maritime NZ currently authorises more than 250 individuals and entities to perform a total of 23 regulatory functions such as conducting ship surveys, inspections, approval of safety plans and seafarer examinations. Appropriate oversight of third-party regulators to ensure they are performing functions to the required standard is critical to the avoidance of regulatory failure and to achievement of safety and marine protection outcomes.
- 43 Te Korowai and the IMO audit identified a number of issues with third party monitoring. Maritime NZ has undertaken recent work and adoption of a third-party regulators stewardship framework to support a systematised approach to all oversight (entry controls, performance monitoring, support and training, and exit controls), But the breadth and scale of third-party regulation in the maritime domain requires a breath and scale of oversight activity that cannot be achieved within current resources. This means Maritime NZ is in a largely reactive and risk avoidance mode. This is not sustainable and cannot guarantee the management of many actual or potential risks.
- 44 Maritime NZ is seeking to set up small third-party oversight team to lead, support and improve oversight activity. Having such a team will enable Maritime NZ to move more quickly from reactive to preventative mode, significantly reduce the risk of regulatory failure; and support safety and marine protection outcomes
- 45 An increase in funding of \$0.8 million in 2024/25 (rising to \$0.9 million in 2029/30) via the maritime levy is sought to establish a small team to provide third-party oversight, significantly reducing risks of regulatory failure.

Proposal 5: Sustainable funding for MARPOL Annex VI administration

- 46 In 2021, as part of its commitment to reducing greenhouse gases, the Government signed an international convention known as MARPOL Annex VI, designed to reduce emissions to air from ships.
- 47 The implementation of MARPOL Annex VI has significant financial implications for Maritime NZ, which has responsibility for testing fuel, maritime

inspections and assisting the domestic maritime sector to comply with the new regulations.

- 48 Maritime NZ's current MARPOL-related costs are covered by the Crown's liquidity facility, which ends on 30 June 2024 (subject to pending Budget 2023 decision). As with the administration of other rules (other than the fee-able activity elements) implementation will then need to be funded through levies revenues. Without ongoing funding, recouped through an uplift in levies, Maritime NZ will not be able to administer MARPOL Annex VI
- 49 An increase the maritime levy is sought to raise an additional \$1.8 million in 2024/25 (rising to \$2.0 million in 2029/30) to enable the ongoing implementation of MARPOL Annex VI.

Proposal 6: Sustainable funding for seafarer welfare services

- 50 Labour's 2020 election manifesto included a commitment to "...ensure that Seafarer Welfare Centres provide services to the level required by the ILO Maritime Labour Convention 2006 by amending the Maritime Transport Act 1994 to enable the maritime levy to fund the services required for seafarers' wellbeing." In 2021, the Maritime Transport Act was amended to enable the maritime levy to be used for this purpose.
- 51 An increase to the maritime levy is sought to continue to fund seafarer welfare services of \$1.5 million per annum, from 2024/25. This is the same level of current funding provided by the Crown (via the liquidity facility), based on an estimate of the services reasonably required to meet the Maritime Labour Convention. Without this additional funding ongoing, Maritime NZ will be unable to continue to fund Seafarer Welfare services.
- 52 The consultation document also seeks feedback from stakeholders about different options for delivering seafarer welfare services, including the status quo (whereby Maritime NZ funds the Seafarer Welfare Board, which coordinates and delivers many of the services).

Proposal 7: Amend the oil pollution levy methodology

- 53 Oil pollution levies are currently calculated using a complex methodology which is costly to apply and produces unreliable results. Maritime NZ has developed a new method that is less complex, less costly to administer and produces more reliable results.
- 54 [awaiting further detail from MNZ about this proposal]
- 55 Maritime NZ plans to consult with the Oil Pollution Advisory Committee (OPAC) on the proposed change in methodology before the consultation document is released.

Proposal 8: Maintain marine oil spill preparedness and response capability

- 56 The current oil pollution levy (as specified in the Oil Pollution Levies Order 2016) rates are out of date and no longer projected to raise adequate funding

to deliver New Zealand's Marine Oil Spill Readiness and Response Strategy and associated implementation plan, as agreed by OPAC (which represents stake holding central government agencies, local government and the different levy paying sectors). The New Zealand Marine Oil Spill Readiness and Response Strategy sets out the required nature and scale of New Zealand's oil spill response preparedness, co-ordination, capability, and equipment.

- 57 The Strategy and its associated plan indicate the level of revenue needed but changes in the operating environment since 2016 means that the current OPL is not raising the necessary revenue. Crown has funded the gap in revenue to date but Government has directed that full cost recovery should recommence from 1 July 2024 as is intended under the relevant provision of the Maritime Transport Act.
- 58 MNZ is seeking an increase in oil pollution levy revenue by an annual average \$1.1 million (13.3% percent) over the period 2024/25 to 2026/27, to maintain the country's oil spill preparedness and response capability.

Financial impact of proposals

...on Maritime NZ...

- 59 The proposed increase in maritime and oil pollution levies are expected to increase MNZ's total revenue by \$11.1 million in 2024/25, subject to decisions on funding for section 9(1) funded activities as outlined in paragraph 72 below.
- 60 If all proposals are adopted this would result in an average uplift in the maritime levy of \$10.3m per annum (approximately 29%) over the three-year period between 2024/25 and 2026/27. Of that overall potential increase, 30% is to cover the cost of commitments already made by Government (through proposals five and six) and 20% attends to normal inflationary cost pressures in areas of work covered by the levy; with the remaining uplift addressing known regulatory risks (through proposals one to four).
- 61 The proposals would also result in an average uplift of \$1.1m in oil pollution levies over the same period; an 13.3% average increase over 3 years.

...and the maritime sector

- 62 The maritime and oil pollution levies are charged by MNZ to the owners/operators of domestic and foreign commercial ships operating in New Zealand waters. Approximately 90 percent of the proposed levy increases are expected to fall on foreign vessels.
- 63 The consultation document outlines the financial impact of the proposed increase in the maritime levy on maritime operators. [Information on the estimated cumulative financial impact on operators arising from the proposed changes to the oil pollution levy is expected to be available from MNZ in the new year]

- 64 [TMW will need to work with MNZ in the new year to further understand the impact of proposed levies on operators]
- 65 [Summary table to be included once oil pollution levy calculations are completed by MNZ]

Implementation

- 66 MNZ proposes an open and inclusive approach to the consultation process, which will run from 14 March to 18 April 2023 (subject to Cabinet approval).
- 67 A consultation pack (or link to it) will be sent directly to key stakeholder contacts by email and will be made publicly available on the MNZ website. It will also notify stakeholders via its Twitter account and Facebook page. A dedicated email address will be available for stakeholders to send questions and seek any clarification. Online drop-in sessions hosted by MNZ staff will also be made available for those who wish to seek additional information.
- 68 MNZ is working to a challenging timeline to seek Cabinet’s approval of the new funding regime before the pre-Election period of restraint. Figure 1 summarises the funding review’s key milestones, culminating in a planned change in maritime and oil pollution levies on 1 July 2024.

Figure 1: Funding Review Key Milestones

Milestone/Activity	Timeframe
Public consultation process	14 March–18 April 2023
Submissions analysed	19-24 April 2023
Stage two Cost Recovery Impact Statement (CRIS) reviewed by the Ministry of Transport’s Investment Panel	1-5 May 2023
Final CRIS, Cabinet Paper and summary of submissions submitted to Minister of Transport	15 May 2023
Cabinet Economic Development Committee considers proposed increase in levies	5-9 June 2023
Cabinet Legislation Committee considers proposed regulatory changes (to give effect to earlier Cabinet decisions)	26-30 June 2023
New maritime and oil pollution levies take effect	1 July 2024

Financial Implications

- 69 The consultation document does not have any financial implications for the Crown.
- 70 However, Maritime NZ will remain reliant on the liquidity facility until the funding review is completed (by 30 June 2024). MNZ is seeking an extension of the liquidity facility as part of Budget 2023 (amounting to \$16.1 million), to maintain the provision of core regulatory functions and seafarer welfare services for 2023/24. MNZ also has another Budget bid to address maritime security cost pressures, amounting to \$4.8 million over four years.
- 71 Longer-term, MNZ will remain reliant on Crown funding to perform or deliver a range of activities, including work on maritime security, incident readiness, search and rescue and maritime safety infrastructure (such as aids to navigation, distress radio and distress beacons).
- 72 Section 9(1) of the Land Transport Management Act 2003, the Crown may use land transport revenue to support search and rescue activities and recreational boating safety and maritime safety services. Since 2004, MNZ has received Fuel Excise Duty (FED) funding under section 9(1) to provide these services - it currently receives \$13.4 million per annum.
- 73 Section 9(1) funded activities will face inflationary pressures over the six years from 2024/25, which may result in a funding shortfall of \$10.3 million over that period. This shortfall is unable to be met through maritime levies, given that this would be inconsistent with the funding review principles published by the Office of the Auditor-General. I therefore intend to seek the agreement of the Minister of Finance to an uplift in FED funding from 1 July 2024.

Legislative Implications

- 74 There are no legislative implications associated with the release of the consultation document. Final funding proposals (if agreed by Cabinet) will require amendments to the Maritime Levies Regulations 2016 and the Oil Pollution Levies Order 2016.

Regulatory Impact Statement

- 75 The Treasury has exempted the consultation document from the Regulatory Impact Analysis requirements. A stage two Cost Recovery Impact Statement (CRIS) will be required for any proposed regulatory changes following the consultation process.

Population Implications

- 76 There are no material population implications associated with the release of the consultation document.

Human Rights

- 77 There are no material human rights implications associated with the release of the consultation document.

Consultation

- 78 The Treasury was consulted on this Cabinet Paper and the associated consultation document [pending].

Communications

- 79 [check with Minister]

Proactive Release

- 80 I intend to release the Cabinet Paper, in whole, proactively within 30 business days of the public consultation process commencing [check with Minister].

Recommendations

The Minister of Transport recommends that the Committee:

- 1 **note** that Cabinet agreed to lift a moratorium on Maritime New Zealand undertaking a funding review in October 2021, and that such a review should seek to maintain or moderately increase capability and capacity by raising charges, fees and levies to support a managed transition back to cost recovery (DEV-21-MIN-0192 refers)
- 2 **note** that Maritime New Zealand is undertaking a funding review to address cost pressures, fund two new commitments and return MNZ to a financially sustainable position by 1 July 2024
- 3 **note** that I intend to seek the agreement of the Minister of Finance to an uplift in FED funding from 1 July 2024 for section 9(1) funded activities, which is unable to be met through maritime levies
- 4 **note** that the consultation document proposes a \$10.3 million increase in maritime levy revenue in 2024/25, and a \$0.8 million increase in oil pollution levy revenue
- 5 **approve** the release of Maritime New Zealand's public consultation document seeking an increase in the maritime levy and oil pollution levy
- 6 **note** that Maritime New Zealand proposes a five-week public consultation process from 14 March to 18 April 2023
- 7 **note** that the proposed timeline envisages further Cabinet consideration of the proposed levy increases in June 2023 (post consultation).

Authorised for lodgement

Hon Michael Wood
Minister of Transport

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

Appendix One: *Consultation Document Maritime NZ Review of Levies for 2024/25 – 2029/30*

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

CONSULTATION DOCUMENT

MARITIME NZ REVIEW OF LEVIES
FUNDING FOR 2024/25 – 2029/30

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

FOREWORD FROM THE AUTHORITY CHAIR AND THE DIRECTOR

We are pleased to be introducing this consultation document and hope that those of you impacted by Maritime NZ's performance and those who support the cost of that through levies will use this opportunity to give feedback on the proposals it sets out.

Kirstie Hewlett, Maritime NZ's new Director was welcomed in June 2021 and her first priority was to get a good understanding from industry around how Maritime NZ was performing as a regulator. Kirstie's engagement with a number of you, alongside other work we have undertaken, and international audit, generated some key insights into what was working well and where improvements needed to be made. We listened, and through a whole of organisation strategy we carefully examined how close we are to 'what good looks like' on a function-by-function basis.

Over 2022 we developed the regulatory strategy Te Korowai o Kaitiakitanga (the Cloak of Stewardship) to guide how we will get to what good looks like. As part of that we went through an organisational re-design to create an optimally efficient internal structure. And we used the savings created by the new structure to start addressing issues concerning and affecting the maritime sector (regulatory licensing delays and backlog, our need to focus more on deterring sub-standard ships on internal voyages arriving at our ports and being more responsive (quicker and better) when we receive enquiries or notifications.

However, our internal efficiencies in themselves are insufficient to address some regulatory risks, or to deliver the service needed by the sector. There are just eight proposals for your consideration, and of those, four are focussed on building on what we have done so far, addressing a narrow set of residual regulatory risks and making provision for further functional improvement.

The arrival of COVID in early 2020, and its continuing effects on the maritime sector and maritime activity levels has not passed us by. Border closures, lock downs, and other COVID related sector turbulence has meant that since 2021 Maritime NZ has needed to rely in part on Crown funding in lieu of anticipated Maritime Levies and Oil Pollution Levies revenue. That funding has been provided in anticipation of this Funding Review and under expectations that from 1 July 2024 we will be back to full cost recovery as a consequence of it.

Of the eight proposals there are two that are in response to Government commitments and decisions. The first, a priority commitment made in 2020 to fund the provision of seafarer welfare services, and in 2021 a decision by Parliament that the commercial maritime sector should fund those services through Maritime Levies.

The second was a Government decision to sign up to what is known as MARPOL Annex VI – an international convention, now part of New Zealand legislation (Maritime Rules), containing a series of new requirements for the management of air pollution from ships. Maritime NZ is the administrator of the regime and there is an expectation from government that from 1 July 2024 the cost of that administration will be recovered through fees and Maritime Levies.

The remaining two proposals go respectively to a new method for calculating oil pollution levies liability and raising Oil Pollution Levies revenue to the level needed to deliver the New Zealand Oil Pollution Response Strategy. That Strategy is so important to our preparedness for a major oil spill and being able to respond to it in a way that minimises the various harms such events can cause.

As this is a mid-point funding review (for fees and maritime levies) we have not looked at fees nor at the hourly rate on which they are based. A full review of fees will be conducted at the next full funding review. This means (until at least the completion of the next Funding Review) the maritime sector is guaranteed of no fees increases.

We have been careful to keep this document to the minimum necessary to explain the proposals in full context and set out the implications of them. This may be sufficient for you to form a view but if you want more information there is a link at [page 3](#) to a supporting document.

We encourage you to be part of this consultation process and look forward to receiving and considering your feedback.

Jo Brosnahan, Chair Maritime NZ

Kirstie Hewlett, Director Maritime NZ

CONTENTS

Foreword from the Authority Chair AND THE DIRECTOR.....	1
Process for consultation and making submission	3
How to make a submission.....	3
PART 1.....	4
The purpose of this review	4
Overview and context	5
What we are trying to achieve	6
What we have done to date	8
Case study 1: Investment in our Certification capacity.....	8
Case study 2: Creating a new Maritime Inspections team.....	9
Case study 3: Establishing a centralised notifications and enquiries team.....	9
What more we need to do to deliver our regulatory strategy and address regulatory risks	10
What else we are required to attend to.....	10
PART 2.....	10
The proposals	10
Supporting the delivery of our Regulatory Strategy and managing regulatory risks.....	10
Proposal 1: Maintaining and enhancing regulatory operations capacity (Maritime Levies).....	11
Proposal 2: Supporting the achievement of safety and marine protection outcomes at reduced COST (Maritime Levies).....	11
Proposal 3: Improving our performance in responding to notifications and REGULATORY LICENCING (Maritime Levies).....	12
Proposal 4: Establishing a third party oversight capacity (Maritime Levies)	13
Recovering the cost of commitments made by government.....	13
Proposal 5: Sustaining funding for MARPOL Annex VI administration	14
Proposal 6: Seafarer Welfare Services Funding (Maritime Levies)	14
Revising the Oil Pollution Levies allocation methodology and maintaining MARINE oil spill response capability	15
Proposal 7: Changing the Oil Pollution Levies Allocation Methodology	15
Proposal 8: Maintaining MARINE Oil SPILL PREPAREDNESS AND Response Capability	16
Financial and other implications	17
Sector impact scenarios	18
PART 3.....	19
MARITIME NEW ZEALAND’S INTENTIONS TO SEEK ADDITIONAL CROWN FUNDING	19
Efficiency improvement initiatives	19
Questions to assist those wanting to make a submission	20

PROCESS FOR CONSULTATION AND MAKING SUBMISSION

HOW TO MAKE A SUBMISSION

This consultation document invites feedback on a set of proposals that if adopted would variously require additional Maritime Levies and Oil Pollution Levies funding; that affect the amount payable for all fee-able activities; and that change the way liability for Oil Pollution Levies is calculated.

You can give us feedback on the proposals in this document by:

- e-mail to fundingreview@maritimenz.govt.nz
- ordinary post to, Funding Review, Maritime NZ PO Box 25620, Wellington 6146
- fax to (04) 494 8901
- filling the online form at www.maritimenz.govt.nz/funding

If you want clarification on any of the proposals, for the purpose of making a submission, please feel free to send your questions through to us by email at the address above.

At the end of the consultation document we have set out a series of questions that you may find useful in the preparation of your submission. These same questions are asked in the online form at: [LINK](#)

We have sought to find the right balance between keeping the document to an approachable length and providing sufficient detail for readers to have a clear understanding of the basis for the proposals, their benefits and their implications. There is however further detail and contextual information, and it is available at: [LINK](#)

The deadline for making a submission is 18 April 2023.

We appreciate that making a submission takes time and doing so within a specific deadline on top of other commitments requires particular effort. In fairness to those who make that effort we will not be accepting or taking account of submissions received after the deadline.

Please note that it is our intention to prepare and publish a summary of submissions. This is for the purposes of transparency and assurance that all submissions have been considered. Submissions themselves will not be published but a list of submitters is intended for inclusion in the summary document. If there is any element of your submission that you do not want to be in the public domain, please signal that when you make your submission.

THE PURPOSE OF THIS REVIEW

For regulatory agencies such as Maritime NZ funding reviews are about ensuring that sufficient funding is sustained across different sources to deliver core regulatory functions and do so in a way that reflects the regulatory strategy. For maritime levies and fees this is a mid-point funding review and is focused on ensuring we can deliver regulatory functions effectively and minimise risks and attend to new Government driven funding-relating matters that have arisen since the last full Funding Review in 2018/19. Due to COVID impact and recovery related decisions taken by government to freeze public sector funding reviews in 2020 and 2021 in order to minimise fiscal pressures on levy payers, this review is occurring two years 'out of cycle'. It is also occurring in the context of the Crown having provided additional funding to Maritime NZ to support the organisation through COVID on the basis that from 1 July 2024 the purposes for which the funding has been provided will be recovered through Maritime Levies. For oil pollution levies (OPL) this is a delayed full term funding review, but we have made it part of this mid-point review to support an aligned and full view of both our levies funding sources. The OPL review focus is on ensuring levies rates are set at the right level to sustain the required revenue to deliver in full the New Zealand Marine Pollution Response Strategy. A review of how oil pollution levies are calculated (the methodology) has also been carried out and the outcome is reflected in this document.

The eight proposals set out in this document, if agreed by government consequent to this consultation, would be effective from 1 July 2024 and remain in effect up until July 2030 (pending changes or adjustments resulting from a full Funding review in three years from now).

Our regulatory strategy, Te Korowai o Kaitiakitanga (the Cloak of Stewardship) sets out how we will deliver and perform our regulatory functions. It reflects what industry has told us about how we are performing and where we need to do better; it addresses regulatory risks; it sets out a way of working that is inclusive, engaged, communicative, professional, consistent, and responsive. That approach and the sector benefits it strives for, are the key drivers for the first four proposals set out in this document.

In 2020 the Government signalled the funding of seafarer welfare services as a clear priority. A change was made to the Maritime Transport Act to enable such funding to be generated through Maritime Levies and there is an expectation that this funding review is the process through which bridging finance provided by the Crown will be replaced, from July 2024, with funding through levies. We have therefore examined and made a proposal in relation to the quantum of funding to be raised for this purpose and how we intend it to be managed and distributed for optimal value and efficiency.

Since the last Funding Review in 2018/19 Maritime NZ also has been given responsibility for the administration of a wide-ranging set of new requirements under MARPOL Annex VI relating to the prevention of air pollution from ships. Government has committed to fund those administrative costs on an interim basis, but from July 2024 there is an expectation that the same will be recovered through a combination of fees (for certification related activity) and Maritime Levies. As part of this funding review we have therefore examined the ongoing cost of that administration and have made a proposal in relation to it for additional maritime levies funding.

This review has also looked at how to fully fund the delivery of New Zealand's Marine Oil Spill Readiness and Response Strategy (the Strategy), as endorsed by the Oil Pollution Advisory Committee (OPAC), which represents the views and interests of all Oil Pollution Levy paying sectors and key stakeholders. There have been very significant changes in the operating environment (closure of the refinery at Marsden Point, alterations to the types of oil imported and vessel activity levels and sailing patterns) and the time expiry of one element of the current OPL; together these have impacted the level of Oil Pollution Levies revenue that can be generated under the current methodology. This affects our ability to fully implement the Strategy. We have used this review as the opportunity to address the impacts of the significant changes and to propose a refreshed and revised levies calculation method, and applying that method, we have calculated and proposed new oil pollution levies rates.

Maritime NZ's costs are partly recovered through fees. Specific fees and the hourly rate on which all fees are based were reviewed in the last full funding review in 2018/19 and set in regulations effective 1 July 2019. This being a mid-point review we have not looked again at specific fees or the hourly rate but will do so in the new full funding review in three years.

In order to be given effect all but two of the proposals in this document would require the recovery of additional costs through maritime or oil pollution levies. We make no assumptions as to what will be recommended or agreed following this consultation process, but it is important that in making the proposals we are explicit as to our authority for the proposed cost recovery. We also need to be transparent about how the raising of levies revenue for particular purpose aligns with relevant guidelines and principles. We have set out that authority and alignment on a per proposal basis in [Appendix 1: Authority and Alignment](#)

OVERVIEW AND CONTEXT

Funding reviews occur on a cyclical basis and are a transparent mechanism to set out proposals for alignment of revenue from levies and fees with particularised costs. Ordinarily, and as was the case with the last full funding review in 2018/19, that alignment can be achieved only through increased levies revenue and relatedly, an increase in levies rates. That is again the case in this review where seven of the eight proposals have a levies increase implication. If levies increases are recommended to, and agreed by Cabinet consequential to this consultation, they would not take effect until 1 July 2024.

The uplift in maritime levy is an average of \$10.3m each year for 2024/25 – 2026/27 which represents a price increase in maritime levy rates of 27.7%. Of that potential increase, approx. 34% would be to cover the cost of commitments made by Government and that approx. 66% Maritime NZ is to address cost pressures and regulatory risk issues through maritime levies.

The last proposal has the potential implication of an annual average of \$1.4m or 13.9% percent increase in Oil Pollution Levies revenue and rates (over the period 2024/25 – 2026/27). While for both levies types a significant proportion of the overall liability rests with foreign vessels and their activity in New Zealand waters (so their increase would be proportionately more), that does not detract from the fact that domestic operators could see an increase in levies payable.

The cost element is a reasonable focus for levies payers, but we ask that attention is also paid to the benefits, some of which will, over time, offset the cost at an industry wide or individual level. In setting out the proposals we have been clear about potential costs and given a fair appraisal of benefits. In the event the proposals are adopted, as part of the next full funding review we are committed to reporting back on how they were effected and evidence of benefits.

Consequential to the 2018/19 Funding Review additional maritime levies revenue was generated to cover the cost of a set of specified activities. Consistent with a looking forward and reporting back approach we have set out below how that additional funding was applied, and the benefits derived.

International engagement (\$1 million per annum from 2020/21): We have established a new International Engagement and Coordination team. This has brought a more strategic and proactive focus to our influencing strategy and participation in international maritime fora that are critical to New Zealand's shipping interests. As a consequence we have been able to participate in and have influence over a wider range of IMO initiatives, including ongoing work on international maritime emissions, a variety of key safety issues, the international Maritime COVID response, seafarer welfare issues and other key issues for New Zealand.

Regulatory reform projects development and implementation (on average, \$1.2 million per annum from 2019/20): This funding has helped to ensure that our approach to implementing rules is fit for purpose and workable for operators; and that operators impacted by new or revised rules are supported with clear and updated guidance on what to do. We have also established a process to more consistently identify and prioritise regulatory reform activities to update our ageing ruleset; and have made a start in addressing some of the biggest priorities for reform through our 40 series project, which has focused on ship design, construction and equipment rules. We also established teams that are focused on the more effective end to end implementation of new rules, including a guidance team and a service design team. Together this enabled us to make progress on some of the problems in our rules that impact on operators as well as safety and environmental outcomes (to date this has included work on the 40 series, the development of rules to implement MARPOL, reform of navigational safety rules, pilot boarding arrangements and preparation for the implementation of the Cape Town Agreement. Areas of future focus are likely to include seafarer certification rules and MOSS).

Surveyor standards of performance (\$0.57 million per year for three years): The resourcing for updating the 2014 surveyor standards of performance has been integrated with the 40 series reform project, which is addressing ship design, construction and equipment rules. This ensures that the development of revised performance standards is part of and reflect a wider package of joined up and coherent rules. Work on the surveyor performance standards is well advanced.

Systemic Risk Activities (on average, \$2.68 million per year from 2019/20): Through the addition of a number of key technical, environmental and engagement roles we have increased our capacity to identify and attend to systemic risks *within* the recreational and commercial maritime sectors. It has also enabled us to strengthen our analytics, risk and intelligence function. This has allowed greater focus on outcomes-based interventions such as industry outreach activities, engagement/relationships, education, guidance and campaigns. During the COVID-19 pandemic this enabled Maritime NZ to play a vital role acting as the key interface between the maritime industry and Government. This ensured that domestic operators and international shipping kept operating moving goods and people, while strengthening our partnerships along the way.

ICT systems and integration (on average, \$1.94 million per year from 2019/20): We have invested in our underlying technology and systems including growing capability and capacity with a strong focus on refreshing our digital infrastructure, applications and security. We have continued to integrate systems, move data from old to new platforms, and develop new functional capability. We have also made improvements to our regulatory management information systems which support core regulatory functions and compliance activities (e.g. exemptions, Safe Operating Plans, vessel data and seafarer certification). As a result an increasing number of manual regulatory processes are now undertaken digitally. Going forward this money will also assist us to develop technology to ensure there is a better front portal into Maritime New Zealand and better mobile notification technology.

Port and Harbour Marine Safety Code (on average, \$0.33 million per year from 2019/20): Through this funding Maritime NZ's input to, and support of, the Port and Harbour Marine Safety Code has been increased in the areas of technical, policy, guidance, education, data and research, communication, administration and strategy development. We participate in five safety management system peer reviews each year and have led the development and review of various guidelines issues under the Code. This has included Key Principles for Marine Safety Risk Management; Aids to Navigation; and good practice guidelines for hydrographic surveys in New Zealand ports and harbours.

Around \$2 million per annum additional maritime levies revenue was also agreed in the last funding review to cover cost pressures associated with Maritime NZ's administration of the Ballast Water Management Convention regulatory requirements, the provision of aids to navigation, maritime distress and safety communications, and general business cost pressures.

WHAT WE ARE TRYING TO ACHIEVE

Maritime NZ is a steward or guardian of the maritime domain. Our stewardship role is mandated under the Maritime Transport, Ship Registration, and Maritime Security Acts, across which our functions and powers are all about ensuring the offshore, coastal and inland waters of Aotearoa are safe, secure and clean. We are also designated under the Health and Safety at Work Act in relation to maritime activities and have stewardship responsibilities under the Public Service Act 2020 and the Crown Entities Act in terms of our capability as regulators, our systems and processes, retaining our institutional knowledge, and maintaining the legislation we administer.

All of these matters have fed in to and are reflected in our regulatory strategy Te Korowai o Kaitiakitanga which sets out our pathway to becoming an increasingly effective regulator. This means strong regulatory stewardship and being better able to support outcomes for the maritime sector (recreational and commercial), for the New Zealand public (because we are a Public Service entity), and for New Zealand (because having safe, secure and clean waters generates a range of social, cultural, economic and reputational benefits).

In 2021 Maritime NZ undertook a robust examination of how well we are delivering our various regulatory functions. This included internal workshops; conversations with industry organisations; looking at how other regulators perform 'like' functions; and reflection on how close we are to 'what good looks like' (as informed by what industry had told us, and by current thinking on good regulatory practice). That examination gave clear signals of gaps in our capability, capacity, systems, processes and culture; important insights into how these are affecting our performance and continued maturation as a regulator, and in some cases creating or contributing to risk. In 2022, an independent audit was undertaken of the extent to which New Zealand complies with its obligations under the various International Maritime Organisation (IMO) to which it is a Party, and the findings reinforced our earlier assessment, particularly in relation to our oversight of those we authorise to perform regulatory functions and some of our Port State Control work. Key areas highlighted were:

- Our investment in Flag and Port State Control inspections (and the quantum of activity it makes room for) has not in recent years been at a level sufficient to best manage the risks associated with sub-standard shipping. Over COVID the quality of vessels has declined as ships have been in demand and there has been less time for maintenance, COVID has also impacted on the ability on countries to undertake inspections. These issues have been raised by industry, the Port Health and Safety Leadership Group and other stakeholders as a growing concern. A 2022 IMO audit confirmed there were a number of matters in this area that need addressing. Concerns with safety of vessels seem justified with large numbers of deficiencies being found that need to be rectified where inspections have occurred.
- We recognise that licensing application timeframes affect livelihoods, business continuity and employment, and that the quality of our internal systems for the processing of applications can affect licencing costs. Certificates or licences are a common requirement across the commercial maritime sector and an efficient and reliable licencing function is essential for the thousands of operators and seafarers requiring licencing services. Our Regulatory Licencing (Certification) team has for some time faced issues driven by a combination of increasing workloads, practice, process and workforce capacity and capability issues. This has resulted in backlogs and significant impacts on seafarers and operators. These issues have to be attended to in an enduring way.
- There are over 50 other statutory notification requirements; they all ultimately serve a maritime safety or marine protection purpose, and notifiers need to be confident that we are attending to notifications as necessary (this is particularly the case for notifications of incidents and accidents). Our systems for receiving and responding to enquiries are also important to being, and being seen to be, a supportive, assisting, professional and responsive regulator. Feedback has indicated that our arrangements and processes for receiving, triaging and responding to notifications and enquiries are in a number of areas compromising the timeliness, quality, consistency, and at times, the appropriateness of our responses, make it harder for people to get easy access to information they need to comply with requirements, and are not enabling good sharing of insights on where and why harm is occurring.
- Through our work on Te Korowai, our engagement with stakeholders and discussions among staff we have identified (confirmed by a recent IMSAS audit) the need to take a more systematic and deliberate approach to third party oversight. There are 250 individuals and entities (third parties) who carry out regulatory activity in the maritime sector under a delegation, recognition or approval issued by the Director. In granting these permissions Maritime NZ is ultimately responsible for ensuring third parties are performing that activity to the standard necessary to support safety and marine protection outcomes and in a way that creates and maintains the confidence and trust of maritime operators. It is also important that operators can have confidence in the third parties providing roles in the system. Good regulatory practice is the right balance (based on information, intelligence, and data) of reactive and pro-active activity and about not relying only on regulatory requirements (and enforcement of the same) to achieve outcomes sought. In light of this, while recognising that compliance activity remains a valid part of our regulatory approach, we need to invest more in harm prevention, and pro-active activity to reduce risk and support the achievement of safe and clean outcomes for the commercial and recreational maritime sectors.
- Our front-line staff are the 'face' of Maritime NZ, and the nature and quality of their work directly affects every maritime operator, seafarer, recreational boatie or other person / entity that they interact with. With a specific quantum of staff available for work 'in the field' (audits, inspections, the delivery of harm prevention initiatives or compliance campaigns) it is critical that the regulatory effort is well planned and prioritised. We have identified that we do not have the mix of practice policy, practice tools and guidance needed to support best practice among our front-line staff and that our capacity to plan for and prioritise regulatory operations is less than what is required to do it consistently well. A lack of clearly explained and shared practice also makes it harder for sector participants to transparently understand why and how we approach our work, and how to hold us to account for how we operate.
- Every person who works or play on our waters is variously subject to requirements under maritime rules and marine protection rules. The purpose of those rules is to support safe, clean and secure outcomes, but this is made harder to achieve when rules are outdated, no longer 'fit for purpose' or create unnecessary or disproportionate cost and effort. Unfit rules can also drive the need for exemptions and the process for

obtaining these involves cost and effort for the maritime sector. This is an enduring issue and speeding up our rules reform programme is key to addressing it.

We looked closely at the basis for these issues and found them to be grounded in a combination of how we are internally organised; in the nature and quantum of resources we have available across several functional areas; some deficiencies in our regulatory processes; the absence of an operational policy and practice framework; information and intelligence limitations indicating the need for further investment in technology, and our organisational culture. In the round, all of these are affecting the calibre of our regulatory delivery in specific areas, and some are having a material impact on the maritime sector.

WHAT WE HAVE DONE TO DATE

Having recognised over a year ago that there needed to be changes across numerous elements of our organisation – how our staff and their effort is distributed, and the capability and capacity held in respect to particular functions, we went about making some necessary changes. This involved a combination of internal re-alignment of teams or functions, the disestablishment of some roles and the creation of new roles where necessary. The changes we made are as follows:

- We've invested more resources in our Certification (now called Regulatory Licensing) team to reduce application processing timeframes and improve our licencing performance more generally (see Case Study 1 below)
- We have created a separate Maritime Inspections team with a specific focus on Port and Flag State Control so we can better oversight the standard of ships, shipping, and crew safety (See Case Study 2 below)
- We are putting in place the staff, processes and arrangements for the establishment of a small, centralised Notifications and Enquiries team to improve our response processes and timeframes. (See Case Study 3 below)
- We have established a new Harm Prevention and Engagement team to support a strategic and pro-active approach to addressing the causes of harms in different parts of the maritime domain and to provide leadership on engagement practices and processes
- We've improved our arrangements for big regulatory reform projects by converting a temporary and project specific team into a permanent Regulatory Reform Projects team. This in both an efficiency measure and an investment in building and maintaining our capacity to deliver significant regulatory reforms
- We've enhanced our back-end support capacity for front line staff, including more operational policy capacity and increased capacity to monitor their performance and plan their work. This means interactions with our front-line staff are at a frequency appropriate to risk and of a nature that represents best value for the maritime sector.

Here are some detailed case studies of changes we have made or are in the process of making.

CASE STUDY 1: INVESTMENT IN OUR CERTIFICATION CAPACITY

After a sustained period of increasing work volumes without any significant increase in resourcing, the Certification team (now Regulatory Licensing) was under immense pressure. There was a growing backlog of work with application process times well over the performance expectation of 20 working days and a significant backlog of unprinted certificates. Some of the issues causing the backlog were due to the temporary and fixed term nature of people working in the team, the capabilities hired, staff training and workflow and administrative processes. Some of the issues were exacerbated by COVID; in particular we lost many of the fixed term staff that had been relied on. Front end administration processes were failing to keep pace with the volume of work, and this was affecting the end-to-end tracking of applications. All of the above were causing major concerns with the maritime industry and the number of justified complaints received was high.

The injection of additional resources enabled a restructure and stabilisation of the team. The printing backlog was eliminated in November 2022 and the average time taken to process applications reduced last year from 32 to 18 working days. A separate front-end Workflow & Administration team was established with application and document management being significantly improved. Permanent staff have replaced those employed on a temporary basis and staff turnover has greatly reduced. Stakeholder complaints have also reduced significantly, and we have received positive feedback on the material improvement in our regulatory licensing services.

CASE STUDY 2: CREATING A NEW MARITIME INSPECTIONS TEAM

New Zealand (through Maritime NZ) is a member of what is known as the Tokyo MOU. This is an organisation established in 1993 to set up an effective port State control inspections regime in the Asia-Pacific region. The purpose of the inspections is to eliminate substandard shipping and in doing so promote maritime safety, protect the marine environment and safeguard working and living conditions on ships. Being a member obliges New Zealand (Maritime NZ) to be part of a harmonised system of inspections of foreign flagged vessels entering our ports and our largest domestic vessels that operate outside our coastal limits. There is also a small number of New Zealand's largest ships that are covered by the International Convention for the Safety of Life at Sea (SOLAS) and as signatory to that convention there is an obligation on New Zealand (through Maritime NZ) to ensure those ships are being operated according to the required safety management system.

The introduction of the domestic Maritime Operator Safety System (MOSS) in 2014, covering over 1800 operators and 3500 vessels, brought all of the audit and compliance monitoring of those operations in house and this has continued to be a significant draw on our Maritime Officer resource. The level of resources available for port State control (PSC) and flag State control inspections has also continued to be affected by those required for MOSS-related activity and for want of more resources we have not been able to 're-set' the level of PSC/FSC activity to the pre-2014 level. This has a potential impact on the standard of shipping in our waters and the Asia-Pacific region and has been raised by industry as a growing concern.

In the second half of 2022, we therefore made a decision to create a dedicated PSC/FSC team made up of Inspectors with PSC/FSC expertise who are based at key shipping ports throughout New Zealand. To ensure the Inspectors can focus on inspections, a role was also created to conduct the risk profiling of visiting ships and the scheduling of inspections. Given their work is entirely port based there is efficiency in the Inspectors also being assigned harm prevention functions at ports. For efficiency gains the Inspections team will also lead on HSWA activity at ports (noting that that activity is not funded through Maritime Levies).

We are at the early stage of putting in place the new team, with a focus on priority inspections, the training, of new staff, and the processes, operational policies and practice tools needed for optimal effectiveness and efficiency. Already, our renewed focus on PSC and FSC activity has shown that there are a number of ships with deficiencies coming to New Zealand and some that need to be detained which is re-enforcing the importance of the work

CASE STUDY 3: ESTABLISHING A CENTRALISED NOTIFICATIONS AND ENQUIRIES TEAM

Maritime NZ receives over 5000 notifications and general enquiries each year and the timeliness and quality of our responses to the same is a reflection and measure of our efficiency and responsiveness as a regulatory agency. As part of a function-by-function examination of where we are now and 'what good looks like' we closely examined our arrangements for receiving, and processes for responding to, incoming notifications and enquiries.

We found that while for some types (for example oil spill notifications or enquiries about ship registration requirements) we have reliable and effective end to end systems that are meeting the reasonable expectations of us, for others, most critically, notifications of incidents and accidents, our arrangements were leading to variability in the timeliness and quality of our responses. Those arrangements included multiple points of entry, unclear lines of accountability and responsibility, and the absence of documented end to end processes. We also found that people were not always notifying when they should. In relation to answering of enquiries these are devolved across our frontline staff which takes them away from proactive work and we have no centralised way of knowing what our enquiries look like and what additional guidance and support we may need to provide to the sector to address them in a more efficient way.

To address the issues and improve our performance in an enduring way, we made the decision in the last third quarter of 2022 that we need to establish a small, centralised team with the dedicated function of receiving, triaging, and processing incoming enquiries and notifications. In association, we are developing and embedding end to end processes for different notification and enquiry types. We are looking to put the new team in place through 2023 and will require funding to implement the team well.

WHAT MORE WE NEED TO DO TO DELIVER OUR REGULATORY STRATEGY AND ADDRESS REGULATORY RISKS

Some of the changes detailed above were made possible through efficiencies achieved through an organisational redesign. The redesign, which was fully effected over 2022, was focussed on altering the quantum, arrangement and distribution of staff to the extent reasonably necessary to effectively and efficiently address the functional delivery issues already identified. The redesign involved removing a management layer, staff re-deployment, and the disestablishment of some roles. We also undertook work to make greater efficiencies as outlined later in this document.

We received additional Working Safer Levies funding through a 2022 Budget Bid, and this enabled us to pay for additional resources for HSWA related activity: an element of our new harm prevention and engagement team, some additional regulatory practice resources, additional investigations capacity, and address inflationary pressures associated with our health and safety related regulatory function.

While we have made good progress in attending to specific gaps or deficits in the delivery of our functions, under our current funding levels (specifically, Maritime Levies) we cannot maintain and give full effect to some of the changes already made, and we cannot address some enduring regulatory risks at the causative rather than symptomatic level.

As some matters cannot be maintained or addressed within our current level of Maritime Levies funding, we have developed four proposals for additional funding.

WHAT ELSE WE ARE REQUIRED TO ATTEND TO

There is a small group of other matters that we have been required to cover in this review. These derive from Government commitments and decisions made since the last full-funding review, and issues arising from the method we apply to the setting of OPL rates and (relatedly) our ability to give effect to the New Zealand Marine Oil Spill Response Strategy. Additional proposals are grouped under these categories and are set out in Part 2 below.

PART 2

THE PROPOSALS

The proposals set out below, and the amount of additional levies revenue that we have estimated will be required to give effect to them, reflect the minimum viable capacity / revenue uplift needed to achieve or to maintain the improvements we need to make. For three of the proposals, the additional maritime or oil pollution levies revenue proposed aligns with what the Crown has to date provided either as liquidity funding or as part of the Budget bid process.

We have not provided options within the proposals. As they reflect the minimum required, we consider that including other (and higher cost) options is not reasonable or appropriate. Further, as multiple options across multiple proposals does not enable us to indicate a single potential maritime or oil pollution levies revenue (rates) increase, this would not be consistent with our principle of transparency.

SUPPORTING THE DELIVERY OF OUR REGULATORY STRATEGY AND MANAGING REGULATORY RISKS

PROPOSAL 1: MAINTAINING AND ENHANCING REGULATORY OPERATIONS CAPACITY (MARITIME LEVIES)

As outlined in what we are trying to achieve (page 6) and in the case study above (pages 8 and 9), we have built the foundations of a Maritime Inspections team, however we will need maritime levy funding to ensure the team has sufficient capacity to:

- be able to inspect all priority high risk ships leading to better safety, environmental and maritime labour outcomes (up to XX per year from 2024/25);
- inspect other vessels that our data and intelligence indicate are high risk (numbers would depend on how many vessels our intelligence signals are high risk, but we could accommodate at least XX a year if required from 2024/25
- ensure we have the presence to act as a deterrent to sub-standard ships coming to New Zealand ports and harbours, this includes undertaking a specified number or percentage of random inspections each year
- meet our Tokyo MOU obligations
- build better holistic understanding and relationships with our flag state operators to deliver safety outcomes; and
- address some of the IMO audit recommendations in this area and have the effect of improved audit results in future.

Without a sustainable funding source the relevant positions will need to be funded through drawing resources away from another regulatory function which is simply moving the regulatory risks to another area.

The proposal is to raise Maritime Levies revenue by \$2.0m per annum from 1 July 2024 to fund the maintenance and expansion of the Maritime Inspections team.

PROPOSAL 2: SUPPORTING THE ACHIEVEMENT OF SAFETY AND MARINE PROTECTION OUTCOMES AT REDUCED COST (MARITIME LEVIES)

The only purpose of maritime and marine protection rules is to support safety and marine protection outcomes. There are thousands of Maritime and Marine Protection Rules and sub-rules and these variously apply to the construction, crewing and operation of every domestic commercial vessel and recreational craft.

Where rules are specifically out of date (for instance, they require a piece of equipment no longer in production or that has been superseded) or are generally out of keeping with changes in industry practice or are more prescriptive than necessary, they do not serve their purpose and they create unnecessary cost for industry. That cost comes in the form of exemption application fees, an inability to innovate, and where exemptions from certain requirements are prohibited under rules, a compulsion to meet those requirements irrespective of their fitness.

We have made significant progress since our last funding review in establishing an annual regulatory reform programme that attends to priority rules amendments, and the creation of new rules where required. We are also in the process of reforming the 40 series (ship design, construction and equipment rules), which a big driver of exemption applications. But there remains a significant back log of outdated rules that do not support the achievement of safety and marine protection outcomes. Through sequencing and prioritisation we can gradually work through the full set of rules, but based on our current rules drafting, policy and technical capacity our progress will be unduly slow; and the level of misalignment with international norms and modern standards could grow.

Increased rules policy and drafting capacity and a dedicated technical rules resource will speed up the end-to-end process for rules amendments and support good standards in the development and drafting of technical rules. Further, dedicated technical capability within our regulatory policy team is more efficient than the current arrangement where requests for technical advice and support for rules development compete with other demands on our technical resources. Faster

progress in regulatory reform, as will be supported by the proposed resources, will, over time, reduce costs and unnecessary compliance burden within the maritime community'. We anticipate that the additional resources proposed will enable an expansion to the scale of our annual regulatory reform programme year on year (pending the complexity and scale of priority rules reviews and amendments required each year).

As the timeframe for working through all current rules extends beyond the timeframe for this funding review period (ending 2029/30), and as we cannot foreshadow what entirely new rules might be required within and beyond that time, the proposed levies uplift will be required on an ongoing basis.

The proposal is to raise maritime levies revenue by \$1.0m per annum from 1 July 2024 to increase our policy, rules drafting and technical advice capacity and make faster progress in regulatory reform.

PROPOSAL 3: IMPROVING OUR PERFORMANCE IN RESPONDING TO NOTIFICATIONS AND REGULATORY LICENCING (MARITIME LEVIES)

As outlined in what we are trying to achieve (page 7) and the case study (page 9) the decision to establish a centralised Notifications and Enquires (NET) team was made in 2022 on the basis of a critical need to improve our practice around receipt, triaging and responses to incoming enquiries and notifications. Through the Port Health and Safety, and recreational safety, work we have also identified that people may not be notifying as much as they should. Notifications data is important as it shows where, and why, incidents may be occurring and helps us, and the sector consider where to target our effort. Getting this part of our regulatory business working well is mission critical given the issues and risks arising from multiple entry points, response delays and gaps, unclear responsibilities and accountabilities, and inconsistency in triaging and response standards. We are in the early stages of building our NET function and will need levy support for it to be fully functional and effective. The team was established out of necessity but ahead of an assured on-going funding stream.

The benefits for industry as a whole will not be limited to a more responsive and reliable notifications and enquiries service. A functioning NET team will also result in:

- improved recording and analysis of notification and enquiries trends
- reliable insights into where industry guidance and education are needed
- capacity to make the necessary links between notifications and points of vulnerability in safety system or other rules requirements
- pro-active front-line activity best aligned with attending to industry information and support needs, and risks and harms signalled in notification and enquiry trends.

We anticipate measurable qualitative improvement in the timeframes and consistency of responses (where relevant) to notifications, and enquiries. As we cannot forecast year on year the number of notifications we will receive, and a key part of the role of the new team will be encouraging people to notify more in compliance with the law, a quantitative measure is not appropriate at this point on time.

As set out in the case study on page 8, Maritime New Zealand's regulatory licencing performance has suffered in recent years and until recently this has impacted the continuity of maritime operations, creating seafarer workforce issues and in some cases affecting the livelihood of individuals through delaying their entry into the commercial maritime sector.

A decision in 2022 to invest more and permanent regulatory decision-making resources in the two teams performing certification functions and create a small workflow and administration team continues to make a significant difference to the quality of regulatory licencing services we provide.

Because of the urgent need for improvements, the investment decision was made ahead of an assured future. Unless the improvements can be sustained Maritime New Zealand will need to decrease staff and risk a reversion to pre and early 2022 performance issues.

Maritime NZ expects that from 2024/25 - 2029/30 additional fees revenue will cover some but not all of the cost of the increased regulatory licencing capacity. As the capacity uplift is not only in relation to individual certification applications

processing (which is feeable) but also to more general workflow, licencing practice, certification enquires response and administrative process improvements (that are of general benefit to all current and prospective licensing applicants) we consider it appropriate that the cost of the uplift is recovered partly through maritime levies. This is elaborated further in Appendix 1: Authority and Alignment.

The proposal is to raise Maritime Levies revenue by \$1.3m per annum from 1 July 2024 to fund the maintenance of the NET and to maintain increased regulatory licencing improvements.

PROPOSAL 4: ESTABLISHING A THIRD-PARTY OVERSIGHT CAPACITY (MARITIME LEVIES)

Maritime NZ does not currently have the capacity to monitor and support the performance of third parties. This creates a risk of regulatory failure. It creates a risk that operators are not receiving a consistent and effective service from third parties. It also means that third parties themselves do not receive consistent support and guidance from us as a regulator.

There are over 250 individuals and entities (third parties) authorised by Maritime NZ to perform regulatory functions such as ship surveys, inspections, the servicing of maritime products, approval of safety plans and seafarer examinations. The maritime sector is highly exposed to third parties, and it is essential that they perform their functions to the standard necessary to support the achievement of marine protection and safety outcomes within the maritime sector.

Events in other regulatory domains have shown how important it is for third parties to perform their functions to the standard expected: the Whakaari/White Island event and Waka Kotahi vehicle testing issue are cases in point. To date, Maritime NZ oversight of the performance of third parties has to date been predominantly reactive. Year on year there is some engagement with individual or 'classes' of third parties on specific issues and efforts have been made to address particular issues with specific third-party regulators when they are brought to our attention.

But for want of resources Maritime NZ has not taken a 'stewardship' approach to this element of the maritime regulatory system: that is consistently maintaining oversight of third parties from point of entry to the system to their exit; monitoring their performance in between and ensuring they have the necessary tools and support to perform their functions. With a third-party stewardship framework now developed we need a small team to lead its delivery.

A dedicated third-party oversight capability will mean a deliberate and systematic assurance approach that will serve to maintain high third-party performance standards and remove the risk of regulatory failure evidenced in other regulatory domains. The type of activity enabled by a third-party team includes monitoring and providing support to recognised surveyors; ensuring the entry control processes for third parties are sufficiently rigorous; identifying where more guidance and practice materials are needed in a particular cohort of third parties and supporting the development of the same; or undertaking monitoring of regional councils and harbourmasters performing functions under delegation from the Director. This team would be small, around four, and be made up of technical expertise, audit and operational policy.

The establishment of such a team also enables Maritime NZ to address in an enduring and visible way a critical finding from a 2022 IMSAS audit. The audit was for the purposes of assessing the extent to which New Zealand complies with its obligations set out in the various IMO instruments to which it is a Party. It found that there was no evidence of a Maritime NZ oversight programme for Recognised Organisations and their nominated surveyors.

Ahead of a third-party team being established, and the detailed analysis required to ascertain the quantum and nature of oversight (and more broadly, stewardship) activity required, it is difficult to quantify the uplift in activity that will be required and enabled through the additional funding. However, if the proposal is effected, we will report on that activity as part of the full funding review in 2026/27.

The proposal is to fund, through a \$0.8m increase in Maritime Levies revenue from 1 July 2024, the establishment and maintenance of a small team to lead the delivery of the organisation's third-party oversight activity.

RECOVERING THE COST OF COMMITMENTS MADE BY GOVERNMENT

PROPOSAL 5: SUSTAINING FUNDING FOR MARPOL ANNEX VI ADMINISTRATION

In 2021, as part of its commitment to reducing greenhouse gases, the Government signed what is known as MARPOL Annex VI, which sets out a regime for the prevention of air emissions from ships. When the Government signs an international convention there is an obligation to give effect to it domestically. Maritime NZ is the administrator of Maritime Rules developed for the specific purpose of implementing the MARPOL Annex VI regime in New Zealand. The cost of that administration can in small part be recovered through fees (certification activity) but there are other elements that it is appropriate and necessary to cost recover through Maritime Levies. To date, our implementation and administration of the new requirements has been Crown funded, but on the assumption that from 1 July 2024 those costs will be recovered through Maritime Levies.

Administration of the MARPOL Annex VI regime includes Maritime NZ oversight of the taking and testing of fuel; an additional element within Port and Flag State Control inspections and within audits of some domestic maritime operations; the provision of information and guidance to our domestic maritime sector; adjustments to our IT platform; a dedicated technical advisor; an additional legal and investigations capacity; ongoing training for our Maritime Officers and Inspectors; and because it is an international regime for which modifications will be raised in the IMO context, an ability to play an active part in those negotiations to ensure any changes sought are acceptable to New Zealand.

This is a significant and complex regulatory regime that is potentially applicable to the operation of hundreds of commercial and recreational craft. Maritime NZ needs to be best positioned to support the maritime sector in understanding and complying with the new requirements and enforcing the same where necessary.

A sustainable funding base ensures that Maritime NZ can give effect to the requirements as intended and as obliged under the relevant convention. Having the funding to administer MARPOL Annex VI also means New Zealand can play a credible and influencing role in climate-related negotiations at the International Maritime Organization (IMO).

The proposal is to raise maritime levies revenue by \$1.9 million per annum from 1 July 2024 to fund Maritime NZ's administration of MARPOL Annex VI

PROPOSAL 6: SEAFARER WELFARE SERVICES FUNDING (MARITIME LEVIES)

By way of background, seafarer welfare services in New Zealand were for many years funded from charitable sources, with local welfare organisations providing services for seafarers at ports, and the Seafarers' Welfare Board (operating since 1964) fostering ways and means of caring for seafarers, and actively promoting cooperation between welfare providers. In 2021 (in part in response to the impact of COVID on the ability to raised funds through donations) a centralised Crown funding arrangement was put in place, with a set of specified services provided by the SWB under a contract with Maritime NZ.

In 2021, Parliament made a decision to amend the Maritime Levies provisions under the Maritime Transport Act to enable Maritime Levies to be raised and used to help meet the cost of seafarer welfare services. Current levies rates are not set at the level necessary to generate funding for this purpose.

As this goes to a new proposed use of Maritime Levies funding, further detail about that use is set out below. Seafarer welfare services would be available to the crew of all ships covered by the MLC, except the crew of domestic ships and New Zealand-operated ships under foreign flags (as New Zealand law and services apply). Foreign-flagged fishing vessels calling at New Zealand ports would be covered. MNZ proposes that the funding be applied to a set of services that help meet what is required under the MLC. These fall into the following broad categories – communications services (such as the provision of Wi-Fi and telecommunications); information services; ship visits; shopping (for those crew not able to leave ship) and money exchange; access and transport to welfare centres; transport services to and from town; and mental health, wellbeing and advocacy services.

The Government currently provides \$1.5m for all costs (including MNZ's) for welfare services to seafarers. We propose that the amount to be recovered from maritime levies for this same purpose should also be \$1.5 million per annum.

MNZ has considered options for the best way to deliver services in a way that will see value for money. These include the status quo (MNZ funding SWB who coordinate and deliver many welfare services), an amended status quo with the SWB bulk funding port welfare groups according to an MNZ formula, an MNZ grants system, and MNZ delivery.

The use of the grants model by MNZ enables tighter MNZ control over accountability, maintains an MLC-consistent role for the SWB, and allows local port welfare organisations to deliver services in a way appropriate to their port. The MNZ grants model is currently the preferred delivery model, but we welcome feedback on each of these models (and any others).

If this proposal is adopted the Crown will continue to meet its obligations under the Maritime Labour Convention in respect to the availability of seafarer welfare services and there will be a reliable funding source for their delivery. Seafarers working on the above vessels will continue to have access to these services and the provision of the same will have a positive impact on their ability to carry out their ship-based duties effectively. This will contribute directly to the safety of shipping conducted in New Zealand waters (and in the waters of other jurisdictions) with an associated reduction in the likelihood of accidents and marine pollution incidents.

The proposal is raising an additional \$1.5 million maritime levies revenue per annum from 1 July 2024 to fund a specified quantum of seafarer welfare services.

REVISING THE OIL POLLUTION LEVIES ALLOCATION METHODOLOGY AND MAINTAINING MARINE OIL SPILL RESPONSE CAPABILITY

PROPOSAL 7: CHANGING THE OIL POLLUTION LEVIES ALLOCATION METHODOLOGY

Oil Pollution Levies rates have previously been calculated through applying a complex methodology and model that is costly to apply and at future risk of unreliability as a basis on which the levy rates for different sectors are determined. The approach is heavily reliant on the use of historical national and international data from the recent past being representative of future activity.

Given the very significant changes that occurred during the Covid 19 pandemic recent historical data will not be reliable going forward. In addition there have been very significant changes in the operating environment that gives rise to the risks of a marine oil spill. One change with significant and on-going impacts is the closure of the Marsden Point refinery and its conversion to a refined hydrocarbon products facility. Specific impacts from this change already seen include:

- A major reduction in the import of heavy, crude oil into Marsden Point;
- Removal from the New Zealand coast of the domestic tankers previously used to ship the majority of refined products from Marsden Point around the New Zealand coast, and
- A large increase in foreign hydrocarbon product tankers coming to New Zealand to deliver refined products to multiple ports across New Zealand.

Other changes have also occurred, and further developments are highly likely in the period. As a result we face a double challenge: the existing methodology will not be reliable going forward and the change in the operating environment will drive major changes to the risk profile across the sectors.

As a result we have reviewed the OPL allocation methodology. The proposed new method for allocating relative levies liability by sector (and the basis for calculating OPL rates) is more efficient (cost effective), it takes less time and effort to generate the relevant data; is less vulnerable to unpredictable changes in shipping and oil carriage volumes and is less complex than the extant methodology.

The methodology is based on that used for the Maritime Levy which was developed and then implemented after detailed consultation as part of the 2018 Maritime NZ Maritime Levy Funding Review. The methodology considers how much of the Levy each vessel should be liable for is based on specific criteria to determine the *“value of what is placed at risk in the maritime system”*. In its truncated form, the principle is the ‘risk value’. For the Maritime Levy the criteria are (people, freight and ships); for the OPL we propose to use “ships” – reflecting oil being used as bunker fuel - and “oil as cargo”. The ships criteria will use Gross Tonnage as a proxy for bunker fuel capacity (as in the current OPL methodology), and actual quantity of oil carried as cargo (as we have access to this data and again this is as used in the current methodology).

Where the proposed methodology differs from that currently used is that we will be moving to “risk value” as opposed to an assessment of actual ‘risk’ itself, which is generally understood as a combination of likelihood and consequence of harm. As detailed above we believe that the assessment of actual risk – as used in the MOSRA – is no longer a credible or viable option as well as being expensive, time consuming and particularly prone to significant errors given its reliance on historical data being an accurate proxy for the future.

This would create risk of significant under recovery or over recovery of OPL for Maritime NZ, and for OPL payers the associated risk of being under or over levied.

Given the changes in the operating environment (oil type, activity volumes and traffic patterns etc.) it is to be expected that the risk profile and hence risk share across sectors will change significantly. Applying the proposed (ML aligned) methodology we see the impacts of these changes with a reduction in the share of the OPL to be paid by the domestic sectors (reflecting the departure of domestic tankers from the New Zealand coast) and a consequent increase in the shares paid by foreign tankers (as we see large increases in the number of foreign tankers entering New Zealand water). We also see a shift from the domestic passenger and cargo vessels (smaller vessels with less bunkers and less persistent oil as fuel) to foreign passenger and cargo (larger vessels with larger bunkers and more use of persistent oil as bunker fuel). These shifts are consistent with the concept of risk value if considering the impacts from larger volumes of oil as cargo and larger volumes of bunkers in larger vessels.

As per figure 1 below.

Figure 1 Levies liability allocation per sector under the current and proposed methodology.

Oil Pollution Levies liability allocation per sector			
Sector	Persistent	Non-Persistent	Total
Domestic passenger, cargo, and tanker bunker	3.2%	0.1%	3.2%
Domestic tankers	0.12%	0.03%	0.1%
NZ Fishing	0.25%		0.2%
Foreign passenger, cargo, and tanker bunker	64.4%	0.4%	64.8%
Foreign tanker	1.8%	28.8%	30.6%
Offshore oil and gas (FPSO)	0.9%		0.9%
Total	70.7%	29.3%	100%

PROPOSAL 8: MAINTAINING MARINE OIL SPILL PREPAREDNESS AND RESPONSE CAPABILITY

The New Zealand Marine Oil Spill Readiness and Response Strategy reflects the required nature and scale of New Zealand’s oil spill response preparedness, co-ordination, capability, and equipment. The development and five yearly review of the Strategy is a requirement under the Maritime Transport Act and is developed in consultation with the Oil Pollution Advisory Committee (OPAC - a statutorily appointed committee representing levy paying sectors, stake holding central government agencies and local government). The implementation plan for the Strategy is also developed in consultation within and agreed to by OPAC.

Delivering the Strategy (via the implementation plan) means all of the preparedness and response elements are covered and the harms of a significant marine oil spill can be at best removed, or at least minimised. The proposal, if effected, would mean a gap in the funding required to deliver the Strategy would be bridged.

The current OPL rates set out under the Oil Pollution Levies Order 2016 are now out-of-date; one element has expired and the activity types and levels that they were based on have changed. The Strategy and its associated Plan indicate the level of revenue needed but given the changes in the operating environment the current OPL is not raising the necessary

revenue. Crown has funded the gap in revenue to date, but Government has directed that full cost recovery should recommence from 01 July 2024 as is intended under the relevant provision of the Maritime Transport Act.

The proposal is to revise OPL rates to a level sufficient to generate the full quantum of funding needed to deliver the Strategy via the Plan. This is an average of \$9.6 over six years or 19.2%.

FINANCIAL AND OTHER IMPLICATIONS

Tables 1 and 2 below show the indicative and changes to the Maritime Levy and the Oil Pollution, if all levy's related proposals are adopted. These are indicative only as any proposed changes to Maritime Levy or Oil Pollution Levy rates (as would be required if the proposals are adopted) are at first instance subject to feedback from this consultation. Also, any change in funding is subject to Ministerial approval before changes can proceed to Cabinet for agreement and then to the Governor General for Royal Assent.

Table 1

Proposed Maritime Levy change \$Million (excluding GST)						
Proposal	2024/25	2025/26	2027/28	2028/29	2029/30	2030/31 & outyears
Total Maritime Levy forecast indicative revenue increase from 2024/25 (accumulated figure in brackets)	45.9	47.0 (92.9)	49.3 (142.2)	51.6 (193.8)	53.9 (247.7)	56.2 (303.9)

Table 2

Proposed Oil Pollution Levy change \$Million (excluding GST)						
Funding source	2024/25	2025/26	2027/28	2028/29	2029/30	2030/31 & outyears
Total Oil Pollution Levy forecast indicative revenue increase from 2019/20 (accumulated figure in brackets)	8.9	9.2 (18.0)	9.4 (27.5)	9.7 (37.2)	10.0 (47.2)	10.3 (57.5)

At Tables 3 and 4 below we have set out the impact of the proposals (if adopted) on maritime and oil pollution levies rates by levy paying sector.

Table 3

Impact on Maritime Levies Rates by levies paying sector

Sector	Gross tonnage	Deadweight tonnage	Passenger capacity	Overall length
Foreign passenger	0.1004 0.1282	0.0082 0.0103	2.0248 2.5845	N/A
Foreign non passenger	0.1178 0.1504	0.0095 0.0121	N/A	N/A
NZ SOLAS	7.7931 9.9463	0.4607 0.5879	46.7100 59.6161	N/A
NZ non-SOLAS (24m or more in length)	8.2197 10.4885	N/A	17.5403 22.3867	N/A
NZ non-SOLAS (less than 24m in length)	N/A	N/A	17.5403 22.3867	15.1746 19.5376

Table 4

To come

SECTOR IMPACT SCENARIOS

Operator type	Current Maritime Levy (GST exclusive)	Proposed Maritime Levy (GST exclusive)	Difference
Operator 1 Owner operator of one commercial fishing trawler Length 42.9, GT 529, Pax 0 and DWT 0	\$4,348	\$5,548	\$1,200
Operator 2 Domestic passenger ferry company (non-SOLAS) e.g. 18 vessels ranging from 18 metres to 40 metres length and from 150 to 650 passengers per vessel	\$131,406	\$167,731	\$36,325
Operator 3 Commercial fishing business e.g. 38 vessels in total	\$113,097	\$144,473	\$31,276
Operator 4 Commercial domestic passenger ferry company (SOLAS) 3 vessels	\$605,886	\$773,239	\$16,7352
Operator 5 Domestic (coastal) commercial container/freight ship GT 9910 DWT 14053	\$81,457	\$103,941	\$22,484

MARITIME NEW ZEALAND'S INTENTIONS TO SEEK ADDITIONAL CROWN FUNDING

Maritime NZ relies on on-going Crown funding to perform or deliver a range of activities. This includes its work on Maritime Security, Incident Readiness, Search and Rescue (SAR) and Maritime Safety Infrastructure (such as aids to navigation, distress radio and distress beacons). As these are public not private benefits the Crown has funded these activities consistent with transport sector funding principles and Treasury and OAG cost recovery guidance.

As a result, it will not be possible to fund these pressures through levies and Crown funding will need to be considered during the funding review period. These pressures include:

- Ensuring Maritime NZ has sufficient capacity to undertake its role in Maritime Security.
- Maintenance of sufficient capacity to respond to non-oil based maritime incidents and spills.
- Maintenance of infrastructure and provision of services provided by third parties that are essential for the distress beacon system and distress / safety communications.

Budget Bids in these areas will be put up in Budget processes, alongside a bid for implementation of the commitments made in the Emissions Reduction Plan, including the development of regulatory settings that can enable the use of low carbon technologies (which it is not reasonable for levy payers at large to fund).

EFFICIENCY IMPROVEMENT INITIATIVES

In the circumstance of making proposals that would, if effected, increase the rates for both Maritime and Oil Pollution Levies it is important that we set out what we have done to improve our efficiency and wherever possible, reduce our own costs. Our efficiency improvement initiatives and their effect are set out below.

Since the last funding review Maritime NZ has developed and is now executing an enterprise property strategy that is seeing deliberate and greater co-location of our smaller sites with other Government agencies in that place. Co-location has been focused on partner agencies such as Customs, Department of Conservation and Ministry for Primary Industries who have larger property footprints at our satellite locations and include Whangarei, Napier and New Plymouth. We are in the process of similar co-locations in Invercargill and Dunedin. We have also increased the operational efficiency of our Regional Hubs at Auckland, Tauranga and Christchurch through more flexible working practices and now also have other key supporting staff based out of these regional hubs. We have generated greater efficiency in our National Head Office through flexible working practices and a modernised environment. The cumulative effect of these small shifts has seen reduced property and occupancy, and office support costs reduced from 4.35% in FY 2020 to a forecast 3.78% in FY2023 as a % of organisational running costs.

Over time we have continued to consolidate vendors and contracts across key cost categories making greater use of All of Government panels and syndicated contracts leveraging the buying power of Government. We have implemented a contract management system which is giving greater visibility of our activities and supporting more efficient practice. The full impact of this capability will be seen in out-years.

We have been reducing manual processes through greater investment in technology which has allowed us to decommission some legacy platforms. It has also allowed greater cloud adoption generating efficiencies through increased access to data and information across Maritime NZ. Through this greater investment in upgraded information communication technology we are also making much more use of it as a substitute for travel, and as a key enabler of our work. The significant escalation of technology capability and adoption during the COVID environment was embraced by Maritime NZ. These efficiencies have seen our travel costs as a % of organisational running costs reduce from previous

levels and we expect that it will continue into the future (reduced from 4.45% in FY 20219 to a forecast 2.9% in FY2023). The nature of our role and the work we do means there will continue to be a requirement to travel.

We have also embarked on our internal carbon reduction journey which has complementary objectives and is seeing us undertaking work to optimise and transition our vehicle fleet to more sustainable vehicle options. This will have a further efficiency impact once completed over the next three years.

The cumulative impact of these activities along with increased scale economies we have been able to reduce our overheads loading to 25%.

QUESTIONS TO ASSIST THOSE WANTING TO MAKE A SUBMISSION

Suggest this does not need to be populated ahead of the document going to the Minister.

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

Appendix 1: Authority and Alignment

Proposal	Relationship to charging	Statutory authority to raise and apply levies funding for such purpose	Alignment to relevant guidelines and/or transport sector funding principles
Maintaining and Enhancing Regulatory Operations Capacity	The proposals, if effected, would all be funded through an increase in Maritime Levies revenue generated through increased Levies rates	<p>Section 191(2)(b) of the Maritime Transport Act</p> <p>191 Maritime levies</p> <p>(2) Maritime levies may provide funding for any or all of the following purposes:</p> <p>(b) any services provided, or any regulatory services or activities undertaken, by the Authority, the Director, or the Crown in the performance or exercise of functions, duties, or powers under this Act:</p>	<p>The proposal is to fund the maintenance of a Maritime Inspections team, which will undertake regulatory monitoring, compliance and enforcement activity in relation to foreign commercial ships and domestic SOLAS vessels. Under the transport regulatory system funding principles 2018 (refer page 8) such ‘system oversight and repair’ activity (at the agency-specific level) is “more likely to be a club good” and as such is appropriate to be funded through Maritime Levies. Adding further to the ‘club good’ nature of these activities is the fact that all audits and inspections (excl. HWSA inspections) are levies funded.</p>
Increasing regulatory systems design capacity			<p>The proposal is to fund additional resources in Maritime NZ’s regulatory design team to speed up the development and drafting of maritime and marine protection rules. Under the regulatory transport system funding principles such activity is a club good with the ‘participant group’ as the funding source (refer page 8). Maritime Levies are collected from the ‘participant group’. Under the Treasury Guidelines for Setting Charges in the Public Sector (2017) it is noted that a common way to charge for the ‘use’ of a club good is a levy applied to a group of users. Maritime Levies are applied to commercial maritime operators on grounds that they create the need for the regulatory system – of which maritime and marine protection rules are a central part.</p>
Improving our performance in responding to notifications and processing licensing applications			<p>The proposal is to use additional Maritime Levies to fund the maintenance of a centralised notifications and enquiries response team and to maintain additional capacity and capability (particularly around workflow, and administration) in the regulatory licencing team. These are quite different and will be covered separately.</p> <p>In respect to the notifications and enquiries team, they will be receiving and responding to enquiries received largely (but not exclusively) from participants in the maritime system. The need for the function is largely created by those participants and there is an efficient mechanism (Maritime Levies) to recover the costs from the participant group. Charging for enquiries would be impracticable and inefficient and would act as a dis-incentive to participants seeking advice or information about regulatory requirements.</p>

Proposal	Relationship to charging	Statutory authority to raise and apply levies funding for such purpose	Alignment to relevant guidelines and/or transport sector funding principles
			<p>Notifications about incidents and accidents (the largest notification type) are mandatory and there is no basis on which a person meeting that requirement could or should be charged for it.</p> <p>The transport regulatory system funding principles and the Treasury guidelines support the funding of an enquiries and notifications response function by maritime levies payers as a participant group.</p> <p>In respect to maintaining the regulatory licencing capability and capacity uplift this is both a private and club good. Individual licensing applicants will benefit from a shorter turnaround time (noting that the quantum of effort required to process their applications (which remain feeable) will not change) and from having a more permanent and stable regulatory licencing staffing base. But industry as a whole also benefits through more time efficient crew certification and operator licencing. Intendent new operators will be able to enter the system more quickly, and operators relying on certified staff will not be faced with operating disruptions caused by delayed seafarer licencing.</p> <p>In the 2018/19 Funding Review a policy decision was made to split the cost of seafarer licencing between fees and levies in recognition that industry as a whole, benefits from having a seafarer workforce. The regulatory licencing uplift proposal is based on the same rationale but at a more general level.</p>
Creating Third Party Oversight Capability			<p>The proposal is to use additional Maritime Levies to fund the establishment of a team within Maritime NZ with a specific third-party oversight function. This is 'system oversight and repair': stewardship and monitoring of an element of the maritime regulatory system. Under the transport regulatory system funding principles such activity is a club good that is appropriate to fund through participant group funding (Maritime Levies). Under the Treasury guidelines this activity does not have private nor public good characteristics and aligns closest to the club good definition.</p>
Sustaining funding for MARPOL Annex VI administration			<p>The proposal is to use additional Maritime Levies to sustain funding (provided to date by the Crown) for the administration of a new set of regulatory requirements. This includes additional legal, technical, compliance and investigations staff, staff training, and industry education and information services. Licencing activity associated with the regime requirements will be recovered through fees. Under the transport regulatory system funding</p>

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

Proposal	Relationship to charging	Statutory authority to raise and apply levies funding for such purpose	Alignment to relevant guidelines and/or transport sector funding principles
Seafarer Welfare Services funding	As above	Section 191(2)(c) of the Maritime Transport Act 1994. 191 Maritime levies (2) Maritime levies may provide funding for any or all of the following purposes (c) the facilitation of, or support for, seafarer welfare services.	principles regulatory delivery, education and information, and rules implementation are club goods and should be funded by the participant group. Under the Treasury guidelines these activities and services also meet the characteristics of a club good. The participant group as a whole, rather than individual vessel owners and operators, benefit from this activity and the general public are excluded from the benefits arising from it. The use of Maritime Levies for the funding of seafarer welfare services was a decision made by Parliament when it voted in support of the s191 amendment; as introduced by the Minister of Transport on the advice of the Ministry of Transport. Seafarer welfare services are closest to 'education and information functions' in the functions list set out in the transport regulatory system funding principles, and these are a club good with 'participant group' as the funding source. While seafarers are not, as a general rule, maritime levies payers, the owners and operators of the ships they are employed to work on, are liable for Maritime Levies. It is reasonable that this group of levies payers fund the services. As all payers of maritime levies contribute to the cost of all activities Maritime Levies fund, (irrespective of whether any particular levies payer or group of levies payers use or benefit from those activities), this does not weaken the 'club good' status of the services.
Changing Oil Pollution Levies Methodology	As with the current methodology, this determines the proportion of all levies revenue payable by levy paying sector. The proportion of total funding to be derived per sector determines the levy rates for each sector.	N/A. There is no specific statutory authority, nor authority required in respect to setting the methodology applied to calculating levies rates that are prescribed under regulations.	N/A
Giving effect to the New Zealand Marine Oil Spill Response Strategy and associated implementation plan	The proposal is effected would be funded through an increase in Oil Pollution Levies revenue generated through increased Oil Pollution Levies rates.	The development and (at least) five yearly review of the New Zealand Marine Oil Spill Response Strategy is a requirement under s283 of the Maritime Transport Act. The implementation plan for the Strategy – which sets out what will be purchased, and the activities that will be undertaken - aligns with the purposes for which the New Zealand Oil	The proposal is to raise additional oil pollution levies to continue (to full) the delivery of the implementation plan associated with the marine pollution response strategy Those who are liable for oil pollution levies operate the largest ships (24 metres or more and over 400 gross tonne) or own oil production, storage, and transfer facilities or infrastructure. They are the main tier 1 oil spill risk exacerbators, and under the transport regulatory system funding principles costs should be allocated primarily according to who creates and exacerbates the risks in the system. Oil pollution levies are an efficient and well-established mechanism for recovering the cost of preparing for and having the

Proposal	Relationship to charging	Statutory authority to raise and apply levies funding for such purpose	Alignment to relevant guidelines and/or transport sector funding principles
		<p>Pollution Fund (made up of OPL contributions) can be applied.</p> <p>The purposes for which the Oil Pollution Fund can be applied are set out under s331 of the Maritime Transport Act and include:</p> <p>(a) to meet the costs of the Oil Pollution Advisory Committee:</p> <p>(b) to purchase plant, equipment, or any other thing to make preparations for, or to implement, or assist in implementing, any responses to marine oil spills:</p> <p>(c) to meet the reasonable costs of the Authority (including the costs incurred by the Director and the National On-Scene Commander) in controlling, dispersing, and cleaning up any marine oil spill:</p> <p>(ca) to meet the costs of services associated with planning and responses for marine oil spills that are services provided under a contract or arrangement with the Authority or the Director:</p> <p>(d) (ii) taking measures to avoid marine oil spills.</p>	<p>training, equipment and arrangements needed to respond to significant oil spills (noting that there are legal mechanisms to recover specific response related costs from individual operators responsible for oil spills).</p>

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

Weekly Report to the Minister of Transport

For the week ending 20 January 2023

4. Cabinet Papers

Minister Wood		
Paper	Committee	Status
<p>Maritime NZ Review of Levies Funding for 2024/25 – 2029/30</p> <p>This paper seeks Cabinet approval to Maritime NZ releasing a consultation document which includes proposals that will, if effected, increase maritime and oil pollution levies rates and revenue from 1 July 2024.</p> <p><i>Responsibility: Sarah Polaschek, Manager, Governance</i></p>	<p>Cabinet Government Administration and Expenditure Review Committee (GOV).</p> <p>Early this year TBC.</p>	<p>A first draft is with your Office for feedback. Any feedback will be incorporated into a draft to send to Treasury during the week ending 27 January 2023.</p>



Weekly Report to the Minister of Transport

For the week ending 27 January 2023

4. Cabinet Papers

Minister Wood		
Paper	Committee	Status
<p>Maritime NZ Review of Levies Funding for 2024/25 – 2029/30</p> <p>This paper seeks Cabinet approval to Maritime NZ releasing a consultation document which includes proposals that will, if effected, increase maritime and oil pollution levies rates and revenue from 1 July 2024.</p> <p><i>Responsibility: Sarah Polaschek, Manager, Governance</i></p>	<p>Cabinet Government Administration and Expenditure Review Committee (GOV).</p> <p>9 March 2023.</p>	<p>Your Office has provided feedback on a first draft.</p> <p>We are working on incorporating this feedback into the draft Cabinet paper and Maritime NZ's Consultation Document so we can share it with the RIA Panel during the week ending 27 January 2023.</p>



Weekly Report to the Minister of Transport

For the week ending 3 February 2023

2. Upcoming briefings

Briefings to Minister Wood	Due date
Maritime New Zealand funding review: Draft Cabinet paper <i>Responsibility: Richard Cross, Director, System Performance and Governance</i>	Week ending 10 February 2023.

4. Cabinet Papers

Minister Wood		
Paper	Committee	Status
Maritime NZ Review of Levies Funding for 2024/25 – 2029/30 This paper seeks Cabinet approval to Maritime NZ releasing a consultation document which includes proposals that will, if effected, increase maritime and oil pollution levies rates and revenue from 1 July 2024. <i>Responsibility: Sarah Polaschek, Manager, Governance</i>	Cabinet Government Administration and Expenditure Review Committee (GOV). 9 March 2023.	The Review panel has summarised Maritime New Zealand's (MNZ) Cost Regulatory Impact Statement (CRIS) and reported back that it currently sits at a <i>does not meet</i> rating. MNZ is working through the suggestions for improvement and will provide a new document to the Ministry to be considered by the panel on 7 February 2023.



Weekly Report to the Minister of Transport

For the week ending 10 February 2023

4. Cabinet Papers

Minister Wood		
Paper	Committee	Status
<p>Maritime NZ Review of Levies Funding for 2024/25 – 2029/30</p> <p>This paper seeks Cabinet approval to Maritime NZ releasing a consultation document which includes proposals that will, if effected, increase maritime and oil pollution levies rates and revenue from 1 July 2024.</p> <p><i>Responsibility: Sarah Polaschek, Manager, Governance</i></p>	<p>Cabinet Government Administration and Expenditure Review Committee (GOV).</p> <p>9 March 2023.</p>	<p>Pending the Associate Minister’s delegations, a draft Cabinet paper was provided to your Office for Ministerial consultation on 8 February 2023 along with a draft consultation document and cost recovery impact information.</p> <p>The RIA panel has considered the CRIS2 type document for the second time and given it a ‘partially meets’ rating against the quality assurance criteria. This has been provided to you alongside the draft Cabinet paper.</p>

Weekly Report to the Minister of Transport

For the week ending 10 February 2023

6. Transport Crown Entity and SOE Updates



Review of Levies funding 2024/25 to 2029/30

We are continuing work on the Maritime NZ review of levies funding. The draft Cabinet paper proposing the release of the Consultation Document: Maritime New Zealand Review of Levies Funding for 2024/25 – 2029/30 was provided to your Office on 8 February 2023. We have incorporated feedback from your Office and the Ministry, and completed interdepartmental consultation with The Treasury, Customs, Ministry for Primary Industries and MBIE.

As previously advised, we are working to tight deadlines to enable the new levies to be approved by Cabinet in the window between Budget-day and the commencement of the pre-election period. In order to meet the timeline, Ministerial consultation will need to be completed by 28 February 2023 to ensure the Cabinet paper can be lodged in time for consideration by the Cabinet Government Administration and Expenditure Review Committee on 8 March 2023.



Weekly Report to the Minister of Transport

For the week ending 17 February 2023

4. Cabinet Papers

Minister Wood		
Paper	Committee	Status
<p>Maritime NZ (MNZ) Review of Levies Funding for 2024/25 – 2029/30</p> <p>This paper seeks Cabinet approval to MNZ releasing a consultation document which includes proposals that will, if effected, increase maritime and oil pollution levies rates and revenue from 1 July 2024.</p> <p><i>Responsibility: Sarah Polaschek, Manager, Governance</i></p>	<p>Cabinet Government Administration and Expenditure Review Committee (GOV).</p> <p>9 March 2023.</p>	<p>A draft of this paper has been provided to your Office, and you have agreed to Ministerial consultation on the paper and the consultation document.</p>



Te ripoata o te wiki mō te Minita o Te Manatū Waka | Weekly Report to the Minister of Transport

For the week ending 24 February 2023

4. Cabinet papers

Minister Allan		
Paper	Committee	Status
<p>Maritime NZ (MNZ) Review of Levies Funding for 2024/25 – 2029/30</p> <p>This paper seeks Cabinet approval to MNZ releasing a consultation document which includes proposals that will, if effected, increase maritime and oil pollution levies rates and revenue from 1 July 2024.</p> <p><i>Responsibility: Sarah Polaschek, Manager, Governance</i></p>	<p>Cabinet Government Administration and Expenditure Review Committee (GOV).</p> <p>9 March 2023.</p>	<p>A draft of this paper has been provided to Hon Woods Office, and Ministerial consultation has commenced.</p> <p>The Ministry is working with Maritime New Zealand (MNZ) to incorporate a scaled option and detail about its reserves into the final draft to be provided you in the week ending 3 March 2023.</p>



Te ripoata o te wiki mō te Minita o Te Manatū Waka | Weekly Report to the Minister of Transport

For the week ending 3 March 2023

4. Cabinet papers

Minister Allan		
Paper	Committee	Status
<p>Maritime NZ (MNZ) Review of Levies Funding for 2024/25 – 2029/30</p> <p>This paper seeks Cabinet approval to MNZ releasing a consultation document which includes proposals that will, if effected, increase maritime and oil pollution levies rates and revenue from 1 July 2024.</p> <p><i>Responsibility: Sarah Polaschek, Manager, Governance</i></p>	<p>Cabinet Economic Development Committee (DEV). 15 March 2023.</p>	<p>As directed by Minister Allan's Office, the paper will now be considered at DEV on 15 March.</p>



Te ripoata o te wiki mō te Minita o Te Manatū Waka | Weekly Report to the Minister of Transport

For the week ending 10 March 2023

4. Cabinet papers

Minister Allan		
Paper	Committee	Status
<p>Maritime NZ (MNZ) Review of Levies Funding for 2024/25 – 2029/30</p> <p>This paper seeks Cabinet approval to MNZ releasing a consultation document which includes proposals that will, if effected, increase maritime and oil pollution levies rates and revenue from 1 July 2024.</p> <p><i>Responsibility: Sarah Polaschek, Manager, Governance</i></p>	<p>Cabinet Economic Development Committee (DEV).</p> <p>15 March 2023.</p>	<p>As directed by Minister Allan's Office, the paper will now be considered at DEV on 15 March 2023.</p>

Breanne Dirk

From: Richard Cross
Sent: Thursday, 2 February 2023 1:46 pm
To: Peter Brunt; Andrew Saunderson
Cc: Brent Johnston; Sarah Polaschek
Subject: RE: EXTERNAL: MNZ Funding review: draft cover briefing and outstanding concerns to work through

Thanks Peter, that's all makes sense and it's good to get that issue crossed off the list. Clearly that hadn't made it's way through MOT as a few people here had raised it and were under the impression it was still on the table.

Cheers
 Richard.

Richard Cross

s 9(2)(a) E: r.cross@transport.govt.nz | transport.govt.nz



Hāpaitia ara ngā tāngata o Aotearoa kua eke
 Enabling New Zealanders to flourish

From: Peter Brunt <Peter.Brunt@maritimenz.govt.nz>
Sent: Thursday, 2 February 2023 1:13 pm
To: Richard Cross <r.cross@transport.govt.nz>; Andrew Saunderson <Andrew.Saunderson@maritimenz.govt.nz>
Cc: Brent Johnston <B.Johnston@transport.govt.nz>; Sarah Polaschek <S.Polaschek@transport.govt.nz>
Subject: RE: EXTERNAL: MNZ Funding review: draft cover briefing and outstanding concerns to work through

Hi Richard,

Out of Scope If we had been, it would have been referenced as part of the review process / document, as you say. We did discuss the possibility during our early funding review discussions (at around the time the text below was floated – and I was having a few discussions with Bronwyn about this). But, following some initial discussions with MFAT, the idea has been parked for the time being.

I can't say definitively that we won't want to return to the idea at all during the funding review period (particularly if it delivers \$ efficiencies re international travel – we can't quite make those numbers add up at the moment, even with the high flight costs – but it is possible that future discussions on emissions expectations on government agencies / attendant pricing change that dynamic). But we would have a discussion on the best way to proceed if that were the case. At this stage, it is not something we are proposing.

Happy to discuss if you need more context.

Peter Brunt (he/him) | Deputy Chief Executive, Regulatory Frameworks

Maritime New Zealand | Wellington

Nō te rere moana Aotearoa

s 9(2)(a) W maritimenz.govt.nz



From: Richard Cross <r.cross@transport.govt.nz>
Sent: Thursday, 2 February 2023 12:56 pm
To: Andrew Saunderson <Andrew.Saunderson@maritimenz.govt.nz>; Peter Brunt <Peter.Brunt@maritimenz.govt.nz>
Cc: Brent Johnston <B.Johnston@transport.govt.nz>; Sarah Polaschek <S.Polaschek@transport.govt.nz>
Subject: EXTERNAL: MNZ Funding review: draft cover briefing and outstanding concerns to work through

CAUTION: This email originated from outside of the organization. Do not click links or open attachments unless you recognize the sender and know the content is safe.

Hi Andrew & Peter

It's great to see that we've been able to make good progress with the funding review over the past week. We got through the Cabinet paper, had some good luck with the Cabinet reshuffle, and it looks like we'll be able to get the CRIS over the line as well. At this stage we are still on track to get the final draft Cabinet paper to the Minister next week.

However, there are still a number of issues we will need to work through, and we thought it would be a good time to clearly outline all of these issues so that you have as much time as possible to respond to them.

I have attached a draft of our cover briefing, which will go to the Minister alongside the Cabinet paper. The cover briefing is where the Ministry will be providing its free and frank advice to the Minister, and as I've previously signalled, we are intending to raise some concerns around the scale of the proposed levy increase, the impact this will have on the sector, and our views on Maritime NZ's decision not to include any alternative (lower cost) proposals.

We also have two further concerns, which are not referenced in the cover briefing at the moment. We would like to discuss these with you further before we decide whether or not to include them in the advice to the Minister. These are:

- Maritime NZ's reserves policy. We note that the consultation document does not outline whether MNZ intends to hold reserves. Our view is that the consultation document should clearly state the intended level of funding that MNZ intends to hold in reserve, the intended purpose of those reserves, and the circumstances in which the reserves would be called upon, regardless of whether any changes to the current practice are being proposed. We further understand that the Board will be considering its reserves policy in March and that this will include a proposal to increase the level of funding held in reserve. Any uplift in the reserves would presumably need to be accumulated through maritime levies, so we are struggling to understand how this proposal aligns with the funding review process and how this decision would be funded. This is a significant concern for us, and if we can't get additional clarity on this then our intention would be to advise the Minister to defer progressing the Cabinet paper until it has been appropriately dealt with.

Out of Scope

We have a joint steering group scheduled for tomorrow, and Brent, Sarah and I suggest we use that time to work through some of those issues.

Thanks,
Richard.

Richard Cross
Director, System Performance & Governance

Te Manatū Waka Ministry of Transport

s 9(2)(a) E: r.cross@transport.govt.nz | transport.govt.nz



MINISTRY OF TRANSPORT

Wellington (Head Office) | Ground Floor, 3 Queens Wharf | PO Box 3175 | Wellington 6011 | NEW ZEALAND | Tel: +64 4 439 9000 |

Auckland | NZ Government Auckland Policy Office | 45 Queen Street | PO Box 106238 | Auckland City | Auckland 1143 | NEW ZEALAND | Tel: +64 4 439 9000 |

Disclaimer: This email is only intended to be read by the named recipient. It may contain information which is confidential, proprietary or the subject of legal privilege. If you are not the intended recipient you must delete this email and may not use any information contained in it. Legal privilege is not waived because you have read this email.

Please consider the environment before printing this email.

This email message and any accompanying attachments do not necessarily reflect the views of Maritime New Zealand and may contain information that is confidential and subject to legal privilege. If you are not the intended recipient, you must not use, disseminate, distribute or copy this email message or its attachments. If you have received this message in error, please notify the sender by email immediately, and erase all copies of this message and attachments. Thank you. Address: Maritime New Zealand, Level 11, 1 Grey Street, Wellington 6011. PO Box 25620, Wellington 6140 Tel: 0508 22 55 22 (04 473 0111) Fax: 04 494 1263. www.maritimenz.govt.nz

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

UNCLASSIFIED



8 February 2023

OC230071

Hon Michael Wood
Minister of Transport

Action required by:
Monday, 13 February 2023

MARITIME NEW ZEALAND FUNDING REVIEW 2024/25 - DRAFT CABINET PAPER FOR MINISTERIAL CONSULTATION

Purpose

This briefing provides you with a draft Cabinet paper proposing the release of the *Consultation Document: Maritime New Zealand Review of Levies Funding for 2024/25 – 2029/30*. It sets out some of the key risks associated with the review, and requests that your office commence the Ministerial consultation process.

Key points

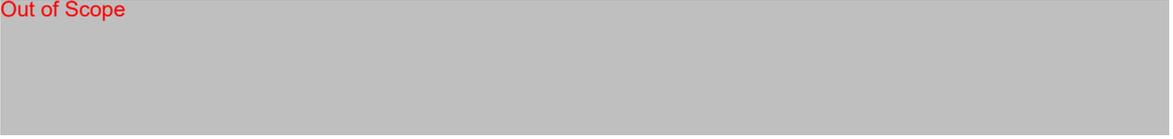
- The Maritime New Zealand Review of Levies Funding for 2024/25 – 2029/30 is on track but needs to meet tight deadlines to enable Cabinet to confirm the new levies before the pre-election period of restraint. We have worked with Maritime New Zealand (MNZ) to provide you with an updated version of the Cabinet paper, which incorporates the feedback we received from you and your office. The next step is ministerial consultation on the draft Cabinet paper, which will need to occur by 1 March 2023.
- Te Manatū Waka has also undertaken additional work to assess the costs and benefits of the proposals. We agree that there is a case for additional investment, however we believe that more could be done to consider how the proposals could be scaled, phased, or deferred to help manage the additional cost burden on the Maritime sector. MNZ has decided not to present any alternative funding options in its consultation document on the basis that it considers the proposals to be a minimum viable product. We do not agree with this assessment and consider the consultation process would be improved by including an alternative, scaled option. This would help demonstrate that MNZ has given effect to Cabinet's expectation that it will consider "the health of the sector and its ability to adjust to cost increases". We recommend you consider asking MNZ to undertake further work to develop a scaled option, while the Cabinet paper progresses through ministerial consultation.

Out of Scope

-

UNCLASSIFIED

Out of Scope



RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

Recommendations

We recommend you:

1 **Agree** to undertake ministerial consultation on the draft Cabinet paper and consultation document (attached) by 1 March 2023, to enable the Cabinet paper to be lodged for consideration at the Cabinet Government Administration and Expenditure Review Committee on 8 March 2023 Yes / No

2 **Advise** if you would like MNZ to develop a scaled option to include in the final consultation document Yes / No

3 EITHER:

Out of Scope



Yes / No

Yes / No

Richard Cross
Director, System Performance and Governance

8/02/2023

Hon Michael Wood
Minister of Transport

..... / /

- Minister's office to complete:**
- Approved Declined
 - Seen by Minister Not seen by Minister
 - Overtaken by events

Comments

Contacts

Name	Telephone	First contact
Richard Cross, Director, System Performance & Governance	s 9(2)(a)	✓
Brent Johnston, Acting Deputy Chief Executive, System Performance and Governance		

MARITIME NZ: DRAFT CABINET PAPER FOR MINISTERIAL CONSULTATION

The MNZ funding review will need to be considered by Cabinet in March 2023 to stay on track

- 1 On 15 December 2022, we provided you with a draft Cabinet paper and consultation document for MNZ's funding review (OC221106 refers). Through the funding review, MNZ is seeking an increase in the maritime levy and oil pollution levy to:
 - 1.1 maintain existing regulatory and oil pollution response capacity beyond 30 June 2024 (when the Crown's liquidity facility is expected to end)
 - 1.2 grow additional capacity and/or capability in some areas
 - 1.3 fund two new Government commitments associated with ongoing provision of seafarer welfare services and MARPOL Annex VI administration.
- 2 The funding review is working to tight deadlines, to enable the new levies to be approved by Cabinet in the window between Budget-day and the commencement of the pre-election period. If these deadlines are not met, the review will need to progress after the election. By this time, it may be more difficult to undertake industry consultation and seek Cabinet approval of the new levies before the existing Crown liquidity facility comes to an end. You have previously advised that you are supportive of progressing this work at pace to meet the pre-election timeframes.
- 3 When we provided you with the draft Cabinet paper in December, we noted that further work was required in the new year to finalise the proposal, including further assessing the impacts and risks. We subsequently received further guidance from the Treasury that the proposals trigger the need for a partial Stage 2 Cost Recovery Impact Statement (CRIS2). MNZ has developed a pre-consultation cost recovery impact analysis document, which has been reviewed by an independent Regulatory Impact Analysis Panel. The Panel has concluded that while there are opportunities for improvement, the consultation document and cost recovery impact analysis document are of sufficient quality to enable stakeholders to provide informed feedback on the proposal. A full CRIS2 will be required after the consultation process before the final proposals are considered by Cabinet.
- 4 We have worked with MNZ to incorporate feedback from your office into the draft Cabinet paper. We now consider that the paper is ready to move onto the ministerial consultation stage. Ministerial consultation will need to be completed by 1 March 2023 to ensure the Cabinet paper can be lodged in time for consideration by the Cabinet Government Administration and Expenditure Review Committee on 8 March 2023.
- 5 The proposal has been prepared by MNZ and reflects the level of funding it considers as necessary to meet pre-existing Government commitments, address inflationary pressures, and mitigate regulatory risks in the maritime sector. These proposals were informed by the development of Te Korowai o Kaitiakitanga (Te Korowai, MNZ's regulatory strategy) and the concerns raised by Maritime stakeholders through that process.

Te Manatū Waka agrees that additional funding is needed, but sees some risks in progressing with the proposed level of increase in the current economic environment

- 6 In assessing the proposals put forward by MNZ, we have been guided by the expectations set out in the October 2021 Cabinet minute, when Cabinet lifted the moratorium on MNZ undertaking a funding review (DEV-21-MIN-0192 refers). Cabinet expected MNZ to take account of a range of factors, including:
- 6.1 the capacity and capability required for regulatory and operational functions, evidence that these levels are effective and efficient and that options for service delivery have been considered
 - 6.2 the health of the sector and its recovery, including its capacity to adjust to cost increases
 - 6.3 whether existing funding review cycles are still appropriate
- 7 These expectations can only be assessed subjectively, but our view is that MNZ has only partially met these expectations. In our view, each of the individual proposals has merit, and will deliver benefits to the Maritime sector. However, the cumulative impact of the proposals is a 29 percent increase in Maritime levies in 2024/25, with annual increases of 4.4 percent through until 2029/30 (paid by all registered maritime vessels), and a further increase of 5.2 percent to the oil pollution levy, with annual increases of 3.3 percent through until 2029/30 (paid by a smaller subset of vessels). This is a significant cost increase for the Maritime sector, occurring at a time when businesses and consumers are dealing with historically large increases in costs. Previous increases of smaller scale have drawn strong criticism from the maritime sector.
- 8 A large proportion of the cost increases will be borne by operators of foreign vessels, where the levy will represent a very small proportion of total operating costs. For these operators, any costs passed on to consumers are likely to be negligible. However, in other parts of the sector where levies represent a higher proportion of operating costs, the levy increase is likely to put greater pressure on businesses, potentially resulting in cost increases for consumers in some areas (for example, domestic fishing boats, smaller passenger ferries or tourism operations).
- 9 MNZ considers that some of the proposals are likely to reduce costs for operators and have flow on benefits across the economy (for example, through reduced harm, fewer supply chain disruptions, and reduced delays for operators). While we agree that this may occur in some instances, we have not seen enough evidence to have confidence that these benefits would outweigh the costs of the proposals.
- 10 Approximately 30 percent of the levy increase would be used to implement existing Government commitments (relating to MARPOL Annex VI and the provision of seafarer welfare services) which have been Crown funded with the expectation that they would be funded through levies following the funding review. A further 20 percent are to address inflationary pressures across MNZ's business. The remainder of the proposals are aimed at addressing regulatory risks or improving MNZ's systems and processes to deliver a better service to the sector in areas where industry representatives have previously expressed concerns.

We believe there is scope for a scaled option, which could be prepared either before or after consultation with the maritime sector

- 11 MNZ has developed the proposals based on what it considers to be the minimum level of investment required to either mitigate the regulatory risk or deliver the desired service improvements in line with Te Korowai. For this reason, it has not presented any scaling options, and has stated in the consultation document that any alternative option would need to be at a higher cost than the current proposal.
- 12 We have explained to MNZ that we disagree with this decision and would prefer the paper to include a lower cost scaled option which better reflects the current economic environment and the health of the maritime sector. While MNZ has limited discretion over some of the proposals (such as those relating to MARPOL Annex VI and the provision of seafarer welfare services), other proposals would provide additional capacity and capability to undertake new functions or enhance the effectiveness of existing functions. We consider there is scope to scale, defer or reconsider the phasing of some investments until inflation has reduced and the industry is in a better position to pay.
- 13 We acknowledge that deferring the initiatives would likely result in increased risks or lower service levels and make it more difficult for MNZ to fully implement its Te Korowai strategy. But we consider the consultation process would be more robust if the consultation document included a scaled option. This would:
- 13.1 provide greater transparency around the relative importance of the different proposals and the trade-offs that the Board would make if Ministers decided that greater fiscal restraint was appropriate at this time
 - 13.2 demonstrate that MNZ has taken account of Cabinet expectations, including “the expectation that MNZ will consider the effectiveness, efficiency and options for service delivery”, and “the health of the sector and its ability to adjust to cost increases”
 - 13.3 provide levy payers with the opportunity to provide feedback on the level of service they are willing to pay for (for the proposals which are aimed at improving efficiency and service quality).
- 14 A lower cost option could be developed through a mixture of scaling and/or delaying investments across the discretionary proposals or prioritising some proposals over others. It could be presented as an alternative proposal, rather than the preferred option, and MNZ could set out the risks and consequences associated with it.
- 15 If you agreed that it was appropriate for MNZ to include a scaled option, we would recommend asking MNZ to develop an alternative, lower-cost funding option to include in the consultation document before it is released. This would need to occur while the Cabinet paper is undergoing ministerial consultation to avoid delays that would compromise our ability to have the new levies approved by Cabinet before the pre-election period of restraint.
- 16 We are unable to offer a strong view on where the greatest opportunities for scaling or deferring investments would lie across the various proposals. The consultation document does not provide a detailed breakdown of costs and expenditure, or the specific performance targets for each proposal, and MNZ has not been able to

provide information at this level of specificity. This makes it difficult to provide a robust assessment of the value for money that would be achieved through each proposal, or the level of residual risk that would remain in the system. If you decide to request a scaled option, we think the Board is best placed to determine how it would make trade-offs across the various proposals, and to advise you on the consequences of those trade-offs.

- 17 Alternatively, you may wish to consider whether there is a case for a scaled/lower cost proposal once you have considered the feedback raised by industry through the consultation process. This would have the advantage of enabling MNZ to take industry feedback into account when developing a scaled option, but risks being seen as a reactive response to stakeholder feedback.

Out of Scope

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

22

Out of Scope

23

We are continuing to work with MNZ to ensure that the consultation document includes reference to its reserves policy

- 24 Te Manatū Waka has advised MNZ that, consistent with best practice, the consultation document will need to clearly outline MNZ's reserves policy. We consider that this should include a summary of the different categories of reserves that MNZ holds, the purpose of those reserves, the targeted funding amounts, and the circumstances in which the reserves would be drawn down. Reserves are funded by levy payers, so it is important that they have transparency around the level of reserves and their purpose. This was only recently raised in detail with MNZ, and we have been unable to reach agreement on the appropriate wording to include in the consultation document in the time available. We will need to do further work with MNZ to finalise this while the Cabinet paper is undergoing ministerial consultation. This is important for transparency purposes and to ensure there is an agreed position on how the reserves can be utilised going forward, but we do not think that this issue should delay the progression of the Cabinet paper at this stage.

Other agencies have been consulted and had no comment on the draft Cabinet paper

- 25 We have consulted with Customs, the Ministry of Primary Industries, the Ministry of Business Innovation and Employment, and the Treasury on the draft Cabinet paper. None of the agencies we consulted with had any comments or concerns with the paper.

Next steps

- 26 As noted previously, the review is working to tight timeframes. To complete the review before the period of restraint prior to the election, Cabinet will need to approve the new funding model by early June 2023 and approve consequential regulatory changes by 30 June 2023. This means that consultation on the proposed levies will need to start on or around 14 March 2023.
- 27 To meet this timeframe, the Cabinet paper will need to be considered at the Cabinet Government Administration and Expenditure Review Committee on 8 March 2023. We are therefore requesting that your office completes the ministerial consultation process by 28 February 2023. This will provide two working days to incorporate any changes before the paper is lodged.

- 28 MNZ has commissioned an independent audit of its funding review process and models used to develop the proposals. This is expected to be finalised in February 2023 and will need to be completed before the Cabinet paper is lodged. We will advise your office if any changes are required to the consultation document or the cabinet paper because of this review.
- 29 MNZ has not yet developed a monitoring and evaluation framework for the funding review proposals, to provide transparency to the maritime sector and enable levy payers to hold MNZ accountable. Te Manatū Waka will work with MNZ to address this and ensure that key performance indicators are developed in each of the areas where funding is being sought before the new levies are put into effect.

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

BUDGET SENSITIVE

Office of the Minister of Transport

Cabinet Government Administration and Expenditure Review Committee

Proposal

- 1 This paper seeks agreement to release a consultation document *Maritime NZ Review of Levies Funding for 2024/25 – 2029/30*. The document includes eight proposals for which, if adopted, an increase in maritime levies and oil pollution levies would be required from 1 July 2024.

Relation to government priorities

- 2 Two proposals outlined in the consultation document address Labour's 2020 Election Manifesto commitments. One seeks to fund seafarer welfare services through maritime levies and reflects a Government commitment to "...ensure that Seafarer Welfare Centres provide services to the level required by the ILO Maritime Labour Convention 2006 by amending the Maritime Transport Act 1994 to enable the maritime levy to fund the services required for seafarers' wellbeing."
- 3 The MARPOL Annex VI funding proposal supports the Government's climate change response and Labour's Manifesto commitment to transition the country to a "clean, green, carbon neutral" position and improve NZ's natural environment.

Executive Summary

- 4 I am seeking Cabinet's agreement to release the *Maritime NZ Review of Levies Funding for 2024/25 – 2029/30* consultation document for a five-week period commencing 14 March 2023.
- 5 This is Maritime New Zealand's (Maritime NZ) first review of funding in five years due to COVID-19 and a Government moratorium on border transport agency funding reviews. Any levies changes arising from the review will not take effect until 1 July 2024.
- 6 Maritime NZ has relied on Government support since April 2020 to bridge the gap between forecast levies revenue and actual revenue in the COVID-19 affected maritime operating environment. With the funding review moratorium lifted (DEV-21-MIN-0192 refers) and levies paying sectors recovering, this review is Maritime NZ's first opportunity to engage with the sector on funding matters.
- 7 The consultation document includes eight cost recovery proposals falling into three tranches:
 - shifting two government decisions put in place during the funding review moratorium period from Crown funding to maritime levies;

BUDGET SENSITIVE

- changing the method for calculating oil pollution levies and increasing levies rates to fully deliver New Zealand's Oil Spill Readiness and Response strategy in response to significant changes in the oil production and oil transport environment; and
 - addressing four significant regulatory risks identified by Maritime NZ through engagement with the wider maritime sector. Inflationary cost pressures have been built into the proposal costings.
- 8 The proposals require additional maritime levies of \$11.7 million (averaged) or 33.1 percent of current levies over the three years from 2024/25 and replacement oil pollution levies of \$0.8 million per year (averaged) or 8.8 percent of current levies over the same period. The oil pollution levies liability by sector changes (moving away from domestic and toward foreign operators) because of significant operating environment shifts and the proposed new methodology appropriately accounts for those shifts.
- 9 Maritime NZ has realised a range of savings for operating costs and considers the proposals to represent the minimum investment necessary to achieve their purpose or intent. The organisation has prepared an interim and initial statement of cost recovery impact which will be released alongside the consultation document.
- 10 The proposals arising from Government decisions (funding seafarer welfare services and implementing MARPOL Annex IV) account for 30 percent of the proposed maritime levies increases. Maritime NZ has included these as they reflect government priorities and Cabinet expectations that will be cost recovered going forward. The four regulatory risk proposals account for 50 percent of the proposed maritime levies increases. The economic, environmental and safety costs of regulatory failure in any of these areas would be high and the sector understands this. The remaining 20 percent of maritime levies increases reflect inflationary cost pressure forecasts over the six years from 2024/25.
- 11 As with any proposal that increases costs, it is likely that some stakeholders will object to the level of increase proposed. However, half of the proposed additional costs to the sector would go to addressing concerns that maritime stakeholders have raised and have sought remedy to.
- 12 Recommendations on maritime levies and oil pollution levies rates changes will be made to Cabinet following submission analysis. The intention is to make decisions ahead of the pre-election period of restraint, to avoid impractical timeframes after the election. I support this ambition as it will provide the sector with certainty and sufficient time to incorporate any levy changes into freight and passenger charges by 1 July 2024. It should also provide Maritime NZ certainty and avoid the risk of a post-election funding review not being completed before 1 July 2024.

Background

The regulatory roles and responsibilities of Maritime New Zealand

- 13 Maritime NZ is a Crown entity primarily governed by the Maritime Transport Act 1994 and the Crown Entities Act 2004. It is the national regulatory and response agency for the safety, security, and environmental protection of coastal and inland waterways. It also has responsibility for maintaining marine oil spill, and broader maritime incident, preparedness, and response capability.

The context of the proposals Maritime NZ wishes to consult on

- 14 The proposals set out in the consultation document have variously been developed in response to Government decisions, as a least cost means to address regulatory risks clearly identified by Maritime NZ and confirmed by sector feedback and engagement. Out of necessity, they consider significant activity changes in the oil production and oil carriage environment. None of the proposals seek to build on, or further enhance, activity Maritime NZ has previously received additional funding for under a funding review.

Maritime NZ's operating context has changed significantly since 2018/19

- 15 Maritime NZ completed its last funding review in 2018/19, with new maritime levies rates and fees taking effect on 1 July 2019. In April 2019, Cabinet agreed to an increase in maritime levies rates estimated to raise an additional \$10 million per annum in funding for 2019/20 and 2020/21, and a further \$3 million per annum from 2022/23 (DEV-19-MIN-0062 refers).
- 16 The outbreak of COVID-19 in early 2020 had a significant impact on maritime levies revenue, which declined 29 percent to \$23.1 million in 2020/21. This was largely due to closure of the border to cruise ships and impacts on cargo supply chains.
- 17 COVID-19 also had an adverse impact on oil pollution levy (OPL) income, which declined 19 percent to \$6.7 million in 2020/21. It declined further in FY 2022/23 when one element of the OPL expired (a further drop of approximately 25 percent). Crown liquidity funding is being provided to maintain the required level of marine oil spill readiness and response capability.
- 18 As a result, Cabinet approved funding support to enable Maritime NZ to maintain its core regulatory and compliance capability and capacity in April 2020 (CAB-20-MIN-0148 refers). This 'liquidity facility' was extended in Budget 2021 until 30 June 2022, and in Budget 2022 until 30 June 2023. Extension is currently being considered under Budget 2023 to 30 June 2024 to coincide with a return to full cost recovery through this funding review, with new levies taking effect from 1 July 2024.
- 19 In October 2021, Cabinet agreed to lift the moratorium on undertaking funding reviews and agreed that Maritime NZ would undertake a review to maintain or moderately increase capability and capacity by raising charges, fees and levies, to support a managed transition back to cost recovery (DEV-21-MIN-0192 refers). Cabinet also agreed that Maritime NZ's funding review should take account of factors such as the health of the maritime sector and its

recovery, the effectiveness and efficiency of its regulatory and operational functions and consideration of service delivery options.

Health of the Maritime Sector and Recovery

- 20 The initial and interim cost recovery impact analysis undertaken by Maritime NZ (which will be released alongside the consultation document) considers the impacts on the maritime sector, and its capacity to adjust to cost increases. This will be expanded to a full Cost Recovery Impact Statement (CRIS) following consultation.
- 21 The consultation document refers to actions Maritime NZ has taken to reduce costs and improve efficiencies across its business, such as its re-organisation, efficiencies in overhead costs, and its approach to property. Maritime NZ considers that there is limited scope to further limit the proposed maritime levies increase. Approximately 50 percent of the increase is outside Maritime NZ's direct control as it relates to delivering on existing Government commitments to implement MARPOL Annex VI, provide seafarer welfare services and address cost pressures. The remaining 50 percent relates to measures necessary to address known regulatory risks. Sector feedback will be important in testing the reasonableness of the proposals from both a cost and benefit perspective.
- 22 Parts of the maritime sector remain disrupted by the impacts of COVID, but there are strong signs of recovery. Cruise numbers are increasing and are anticipated to return to pre-COVID levels well before July 2024, the Interislander and Bluebridge have had record numbers of passengers over the last year and there has been an increase in coastal shipping operations. Profits for foreign cargo shipping lines remained strong over the period, and international supply chains are beginning to return to greater reliability while overall freight costs of shipping are decreasing towards pre-COVID levels. Domestic tourism, charter operators and small ferries have had significant disruption and are facing workforce and inflationary issues but for many, demand is increasing to pre-pandemic levels.

Regulatory risks and pressures

- 23 In 2021, Maritime NZ sought feedback from across the maritime sector (unions, industry bodies, maritime operators, ports and harbourmasters) on its regulatory performance and areas of concern. This feedback was combined with findings from an internal scrutiny of performance and delivery, and an examination of good practice in other regulators.
- 24 This process identified some areas of regulatory risk and improvements needed in capability and capacity. The resulting regulatory strategy, Te Korowai o Kaitiakitanga (Te Korowai), sets out how the entity intends to address the issues identified.
- 25 International Maritime Organisation (IMO) reinforced these risks and issues during its audit of New Zealand's maritime regulatory system from 12 to 19 September 2022. The IMO made 13 findings which must be addressed. Most

notably, the IMO made recommendations to improve compliance with international conventions related to port and flag state control, and oversight of third-party recognised organisations.

Other cost pressures and drivers

- 26 Since the last review of oil pollution levies in 2015/16 (and the mid-point update in 2018/19), COVID impacts and additional shifts in economic activity (primarily the closure of the Marsden Point refinery) have changed payee types and activity levels significantly. Moreover, a time-limited element (the capability levy) has now lapsed. Together, this means that revenue generated from the current oil pollution levies falls well short of what is required to sustain New Zealand's marine oil spill readiness and response capabilities.
- 27 Maritime NZ faces ongoing inflationary cost pressures from rising salary and operating costs (modelled at 3 percent salaries and wages and 3.3 percent for other operating costs as guided by Treasury). If these cost pressures are not addressed, then Maritime NZ will need to cut regulatory services which will further exacerbate risk.

Analysis

- 28 Maritime NZ's eight funding proposals fall into three categories:
- Proposals one to four are designed to mitigate regulatory risks by increasing capacity and/or capability in the entity's core regulatory and compliance functions
 - Proposals five and six are designed to implement Government commitments
 - Proposals seven and eight are designed to improve the oil pollution levies methodology and maintain marine oil spill preparedness and response capability at adequate levels (respectively).
- 29 Proposals one to six seek an increase in the maritime levy, while proposal eight seeks to revise the OPL to remove the need for Crown funding and restore the required level of funding given the changes described above. No other changes to Maritime NZ fees, charges or levies are proposed as part of this funding review.

Proposals for public consultation

Proposal 1: Maintaining and enhancing regulatory operations (port and flag state control)

- 30 International and domestic ships (cruise and cargo) need to comply with maritime standards around safety, the environment and, in the case of international vessels, international labour obligations.

- 31 Maritime NZ undertakes maritime inspections of foreign and domestic ships in accordance with various international agreements—referred to as Port State Control and Flag State Control inspections. The purpose of these inspections is to ensure the safety of the marine environment and the welfare of seafarers.
- 32 Maritime NZ and the sector are seeing an increasing number of poor-quality ships coming to, or operating in NZ waters, with deficiencies in safety and environmental standards. These relate to issues with vessels equipment or procedures which, in some cases, could lead to collision or grounding events which have catastrophic impacts on safety and the environment and create significant costs for the NZ taxpayer and the local economy. Over the last few months, there has been an increase in observed near misses. These include
- on the North Island’s west coast, where one ship’s engine failure required an offshore support vessel to tow it to New Plymouth to avoid drifting onto shore;
 - issues with a vessel’s automatic identification systems resulting in a collision near miss with a navy vessel
 - two events in January 2023 involving large vessels where the Kaitaki, and Maersk Nadi (currently under investigation) had difficulties and drifted close to shore.
- 33 Besides catastrophic harm, poor vessel quality is leading to regular near misses and incidents involving stevedores, pilots, crew on-board the vessel and others interfacing with them. In many cases, ship equipment is malfunctioning, causing injuries and potential for fatalities (recent examples include poor quality pilot ladders and lifting cranes on ships, people falling through floors, and in one case, a stevedore falling overboard when leaning on faulty ship rails).
- 34 Maritime NZ does not currently have enough inspectors to undertake the minimum number of inspections to deal with high-risk vessels. It also needs to undertake a smaller number of random inspections to deter shipping lines from sending poor quality vessels to New Zealand. For example, the United States undertakes a more regular programme of port state control inspections and is not seeing the same vessels of poor quality in its waters.
- 35 The lack of inspector capacity has been exacerbated by COVID-19 and there are a number of ships behind in maintenance. The inspectors Maritime NZ does have are spending their time reacting to vessels with reported deficiencies (being ‘the ambulance at the bottom of the cliff’). Many of these deficiencies are so significant in number, or serious, Maritime NZ is having to detain vessels which causes supply chain issues. It is much better for safety and our supply chains to deter poor quality vessels from coming in the first place, rather than having to undertake significant work when they arrive.
- 36 This issue has been identified as serious and needing action by unions, stevedores, port operators, other government agencies and pilots. It was also

identified by the Port Health and Safety Leadership Group which was asked to identify key safety risks on ports and issues needing critical action to the Minister of Transport, based on insights from a wide range of port sector participants. The recent IMO audit also included recommendations in this area.

- 37 Maritime NZ cannot reprioritise maritime officers to this area. It is a specialist skill set and has a small pool of officers whose diversion to port state control activity would create risk in other areas.
- 38 Maritime NZ is seeking an increase in maritime levies funding of \$1.9 million in 2024/25 (rising to \$2.1 million in 2029/30) to increase its capacity to inspect all priority one high-risk ships and other high-risk vessels (informed by data and intelligence). It aims to undertake a small number of random inspections each year to deter sub-standard ships from entering New Zealand ports and harbours. This will enable us to meet our Tokyo MOU obligations, address IMO audit findings and improve future audit results, while contributing to better safety, environmental and maritime labour outcomes.

Proposal 2: Increase policy, rules drafting and technical advice capacity

- 39 Maritime NZ has responsibility for managing many complex maritime and marine protection rules which regulate (amongst other things) the construction, crewing and operation of every domestic commercial and recreational craft. These rules are often out of date, out of keeping with changes in industry practice or reflect a prescriptiveness that has is no longer necessary.
- 40 Maritime NZ has an ongoing regulatory reform programme to address the changes needed. Those reforms reduce the demand for exemptions, remove unnecessary requirements and associated costs to industry, and provide better support for safety and marine protection outcomes.
- 41 Rules reform is therefore a priority, but the speed at which it can happen is affected by the organisation's current rules drafting resources and access to technical advice.
- 42 Maritime NZ receives funding of \$0.8 million per annum from Te Manatū Waka to deliver an agreed rules reform programme. While it received a funding increase in the last 2018/19 funding review to help with regulatory reform projects (predominantly implementation activity), and has made progress with its reform programme, a significant backlog of outdated rules remains.
- 43 An increase in maritime levies funding of \$1.0 million in 2024/25 (rising to \$1.1 million in 2029/30) is sought to speed up the process for rules amendments and make faster progress in regulatory reform. Over time, this is expected to create an expansion to the scale of the annual regulatory reform programme year on year.

Proposal 3: Improving performance in responding to notifications and processing licensing applications

- 44 Te Korowai confirmed sector feedback and concerns that Maritime NZ's notifications and licencing functions are key areas for improvement. Maritime NZ recently established a centralised notifications and enquiries team to improve how it manages the more than 5,000 enquiries that it receives each year but needs increased funding to maintain momentum and maximise impact. This team does not have sufficient resource to address the issues that have been identified.
- 45 Without this centralised function, notifications (most critically, accidents and incidents) have multiple or unclear points of entry, accountability, triaging and prioritised decision making. This can cause delays responding to incidents, a lack of clarity and difficulty in building a good understanding of where risk lies to support Maritime NZ and the sector to target its activities.
- 46 Maritime NZ's regulatory licencing performance has suffered in recent years from a range of factors including increasing workloads, reliance on fixed term contractors, a lack of capacity, work-flow issues and pressures arising from needing to change processes during the height of COVID-19. There has been a significant backlog of unprinted certificates and processing times were well over the performance expectations of 20 working days. This has impacted the continuity of maritime operations, creating seafarer workforce issues and affecting the livelihood of individual operators and seafarers.
- 47 Maritime NZ has invested its discretionary spend, along with some support of the Multi-Year Appropriation into placing more resource in its licensing functions. This has seen a significant reduction in backlogs and improvements of timeliness and quality. However, with removal of the Multi-Year Appropriation and inflationary cost pressures this is not sustainable and will result in certification processing timelines going backwards again.
- 48 An increase in maritime levies funding of \$1.2 million in 2024/25 (rising to \$1.4 million in 2029/30) is sought to improve Maritime NZ's performance in responding to notifications and processing licensing applications. This will result in a more responsive and reliable notifications and enquiries service, better industry insights to inform industry guidance and education programmes, and reduced certification backlogs which will avoid unnecessary disruption and loss of income for maritime businesses.

Proposal 4: Establishing a third-party oversight capacity

- 49 Maritime NZ currently authorises more than 250 individuals and entities to perform a total of 23 regulatory functions such as conducting ship surveys, inspections, approval of safety plans and seafarer examinations. Appropriate oversight of third-party regulators is required to ensure they are performing functions to the required standard.
- 50 Te Korowai and the IMO audit identified issues with third party monitoring. Maritime NZ has recently adopted a third-party regulatory stewardship

framework to support a systematic approach to all oversight (entry controls, performance monitoring, support and training, and exit controls), but the breadth and scale of third-party regulation in the maritime domain requires a level of oversight activity that cannot be achieved with current resources. This means Maritime NZ is in a largely reactive and risk avoidant mode which is not sustainable and cannot guarantee the management of many actual or potential risks.

- 51 An increase in maritime levies funding of \$0.8 million in 2024/25 (rising to \$0.9 million in 2029/30) is sought to establish a small team to lead, support and improve third-party oversight activity. This will enable Maritime NZ to be more proactive, significantly reduce the risk of regulatory failure, and support safety and maritime protection outcomes.

Proposal 5: Sustainable funding for MARPOL Annex VI administration

- 52 In 2021, the Government signed an international convention known as MARPOL Annex VI, designed to reduce emissions from ships as part of its commitment to reducing greenhouse gases.
- 53 The implementation of MARPOL Annex VI has significant financial implications for Maritime NZ, which has responsibility for testing fuel, maritime inspections and assisting the domestic maritime sector to comply with the new regulations.
- 54 Maritime NZ's current MARPOL-related costs are covered by the Crown's liquidity facility, which ends on 30 June 2024 (subject to pending Budget 2023 decision). As with the administration of other rules (other than the fee-able activity elements) implementation will then need to be funded through levies. Without ongoing funding, Maritime NZ will not be able to administer MARPOL Annex VI.
- 55 An increase in maritime levies funding of \$1.8 million in 2024/25 (rising to \$2.0 million in 2029/30) is sought to replace current Crown funding and enable the ongoing implementation of MARPOL Annex VI.

Proposal 6: Sustainable funding for seafarer welfare services

- 56 Labour's 2020 election manifesto included a commitment to "...ensure that Seafarer Welfare Centres provide services to the level required by the ILO Maritime Labour Convention (MLC) 2006..." In 2021, the Maritime Transport Act was amended to enable the maritime levy to be used for this purpose.
- 57 An increase in maritime levies funding of \$1.5 million per annum from 2024/25 is sought to replace current Crown funding and enable the ongoing delivery of services reasonably required to meet the Maritime Labour Convention.
- 58 The consultation document also seeks feedback from stakeholders about different options for delivering seafarer welfare services, including the status quo (whereby Maritime NZ funds the Seafarer Welfare Board, which coordinates and delivers many of the services). Continuing funding for these

services will support ongoing maritime workforce sustainability which is critical to supply chain resilience.

- 59 The Government initiative to fund these services attracted significant positive international attention and its continued funding is a clear signal by government of its commitment to this element of the MLC.

Proposal 7: Amend the oil pollution levy methodology

- 60 The shares of oil pollution levies paid by each stakeholder in the maritime sector have previously been allocated through a dynamic, detailed and expensive likelihood and consequence model. This approach is not aligned to that used for the maritime levy and will be potentially unreliable going forward.
- 61 Maritime NZ has developed a proposed revised OPL allocation methodology that aligns closely to the approach used for the maritime levy (that was widely consulted with industry previously and is well understood). The revised methodology takes a “whole of system approach” that looks at system risks if unmitigated to determine who should pay to ensure a safe and effective system. This approach is simpler, easier to understand and less costly to implement and maintain.
- 62 Maritime NZ has sought advice from independent experts from Sapere who have provided full details of the proposed approach. Sapere’s report will be made available to external parties as part of the consultation process to allow detailed consideration by levy payers and subsequent feedback.
- 63 Maritime NZ has engaged with the Oil Pollution Advisory Committee (OPAC) on the intention to consult on the proposed change in oil pollution levies methodology. OPAC includes statutorily appointed representatives from across all sectors with OPL liability, iwi, central government agencies and local government and Maritime NZ considered it appropriate to bring the revised methodology rationale to their early attention.

Proposal 8: Maintain marine oil spill preparedness and response capability

- 64 The current OPL (as specified in the Oil Pollution Levies Order 2016) rates are out of date and no longer projected to raise adequate funding to deliver New Zealand’s Marine Oil Spill Readiness and Response Strategy and associated implementation plan, as agreed by OPAC. The New Zealand Marine Oil Spill Readiness and Response Strategy sets out the required nature and scale of New Zealand’s oil spill response preparedness, co-ordination, capability, and equipment.
- 65 The Strategy and its associated plan indicate the level of revenue needed. Both been reviewed and endorsed by OPAC, but changes in the operating environment since 2016 mean that the current OPL is not raising the necessary revenue. The Crown currently funds the gap in revenue, but full cost recovery is expected to recommence from 1 July 2024 as is intended under the relevant provision of the Maritime Transport Act.

- 66 An increase in OPL revenue of \$0.5 million in 2024/25 (rising to \$2.1 million in 2029/30), is sought to maintain the country’s oil spill preparedness and response capability and cover the cost of inflationary pressures.

Financial impact of proposals

Maritime NZ

- 67 Table One provides a summary of financial impacts on Maritime NZ, by proposal. If proposals one to six were adopted, maritime levies revenue would increase by \$10.4 million (29 percent) to \$45.7 million in 2024/25, and then by an annual average 4.4 percent to \$55.8 million in 2029/30. Proposal eight is estimated to increase oil pollution levies revenue by \$0.4 million (5 percent) to \$9.2 million in 2024/25, and then by an annual average 3.5 percent to \$10.8 million in 2029/30. The proposals variously build on differing levels of resourcing within Maritime NZ, depending on the function. Proposals 1, 2 and 3 represent critical incremental increases in existing functions. Proposal 4 is creating a critical function that currently does not exist—existing funding for third party oversight is very low and spread very thin. Proposals 5 and 6 move from Crown to maritime levies, the cost recovery of new activity arising from Government decisions.

Table 1: financial impact of proposals

Proposal	FTE	FY2025 (\$ million)	FY2030 (\$ million)	6yr Ave (\$ million)	2024/25 % increase in Levies
1	9	1.9	2.1	2.0	5.4%
2	5	1.0	1.1	1.0	2.8%
3	5.75	1.2	1.4	1.3	3.5%
4	4	0.8	0.9	0.8	2.2%
5	4	1.8	2.0	1.9	5.1%
6	1	1.5	1.5	1.5	4.2%
Cost pressures		2.1	11.5	6.4	5.9%
Maritime Levies	28.75	10.4	20.4	14.9	29.2%
8	N/A	0.4	2.1	1.2	5.2%
Maritime Levies & Oil Pollution Levies		10.8	22.4	16.2	

The maritime sector

- 68 The maritime and oil pollution levies are charged by Maritime NZ to the owners and operators of domestic and foreign commercial ships operating in New Zealand waters. All commercial operators (with a few exceptions) are

liable for the maritime levy, while only a selection of vessels is liable for the OPL. All vessels subject to the OPL are also subject to the maritime levy.

- 69 The financial impact of the proposals on individual operators depends on the type of vessel they operate (weight, length and passenger capacity), and whether they operate domestically or internationally. Approximately 90 percent of the proposed levy increases are expected to fall on foreign vessels. This is because these vessels tend to be much larger and are levied on a per port visit basis. Domestic operators are invoiced once each year and their liability (per vessel owned) is not linked to the frequency of activity.
- 70 Full consideration has been given to the impact of increased maritime levies on different parts of the sector and different types of operation (noting that not making the changes can also impact on economic operation of the levy payers and sector). Maritime NZ's analysis finds that the very largest domestic operators (who will see proportionately the highest increase in domestic liability) operate at a scale where that increase can be absorbed or covered through a minimal per unit charge increase.
- 71 For example, the three Kiwirail ferries transport around 800,000 passengers and 250,000 cars each year. If all the proposals were adopted, maritime levies liability would increase by around \$170,000 per year across the three vessels. A much smaller levies payer, operating a 104 gross tonne aquaculture vessel (mussel barge) would incur an increased levy of \$236 per year, equivalent to 64 cents per day. The impacts on consumers of any costs which are passed on are therefore expected to be negligible.
- 72 Further examples of impacts are in Appendices two and three.
- 73 There have been some very significant changes to activity patterns affecting the quantum and distribution of activity that generates oil pollution levies – primarily the removal of NZ flagged coastal tankers after the closure of Marsden Point and changes to international tanker, passenger and cargo vessel activity. Therefore, irrespective of whether the current or proposed methodology for calculating levies liability was applied, this would have seen a shift in liability distribution across levies paying sectors.
- 74 The proposed new methodology ensures that within this changed environment the per sector liability is appropriately distributed, and if applied would see foreign shipping liability for levies increase from 30 percent (currently) to 96 percent from 1 July 2024. The liability of the eligible domestic shipping sector would decline from 70 percent (current) to just four percent.
- 75 It is also important to recognise the costs involved (including cost of living) in not adopting the proposals. For example, the lack of capacity in Port State Control inspectors means Maritime NZ is spending time reacting to vessels with deficiencies which are so significant in number, or serious, that Maritime NZ is having to delay (many) or detain vessels (six since November 2022) with some delayed as long as two weeks and taking up limited Port berthing. These delays have large impacts on supply chains and result in significant costs for shipping lines, ports, importers, and exporters (which are likely

considerably more in total than the levy increases), Costs will ultimately be passed on to consumers and businesses. Delays in licensing for seafarers and operators can mean that people cannot operate businesses, have delays in starting their operations (lost revenue), or face additional costs of bringing on temporary help if they can find it.

The maritime sector is also impacted by other Government fees and charges

- 76 Maritime NZ has undertaken its funding review with an awareness of cost pressures faced by the maritime sector, some of which may arise from increases in levies imposed by other Government agencies (which in turn address cost pressures).
- 77 Customs and Biosecurity Levies have increased significantly since the last Maritime NZ funding review. As these are border levies, their direct impact falls predominantly on foreign shipping activity but there are flow on cost-of-living impacts e.g., higher freight costs and increased costs of imported goods which could impact the domestic maritime sector.

Implementation

- 78 Maritime NZ proposes an open and inclusive approach to the consultation process, which will run from 14 March to 18 April 2023 (subject to Cabinet approval).
- 79 A consultation pack (or link to it) will be sent directly to all stakeholder contacts by email and will be made publicly available on the Maritime NZ website. Maritime NZ will also notify stakeholders via its Twitter account and Facebook page. A dedicated email address will be available for stakeholders to send questions and seek any clarification. Webinars hosted by Maritime NZ staff will also be made available for those who wish to have the proposals explained further or seek additional information.
- 80 Officials are working to a challenging timeline to seek Cabinet’s approval of the new funding regime before the pre-Election period of restraint. I have supported that ambition given Cabinet expects Maritime NZ to return to full cost recovery by 1 July 2024 and given the risk of uncertainty for the organisation (and Government) in that respect if decisions are not made prior to the pre-election period and the ensuing formation period for a new government. Figure One summarises the funding review’s key milestones, culminating in a planned change in maritime and oil pollution levies on 1 July 2024.

Figure One: Funding Review Key Milestones

Milestone/Activity	Timeframe
Public consultation process	14 March–18 April 2023
Submissions analysed	19-24 April 2023

Stage two CRIS reviewed by the Manatū Waka Investment Panel	1-5 May 2023
Final CRIS, Cabinet Paper and summary of submissions submitted to Minister of Transport	15 May 2023
Cabinet Economic Development Committee considers proposed increase in levies	5-9 June 2023
Cabinet Legislation Committee considers proposed regulatory changes (to give effect to earlier Cabinet decisions)	26-30 June 2023
New maritime and oil pollution levies take effect	1 July 2024

Financial Implications

- 81 The consultation document does not have any financial implications for the Crown.
- 82 However, Maritime NZ will remain reliant on the liquidity facility until the funding review is completed (by 30 June 2024). Maritime NZ is seeking an extension of the liquidity facility as part of Budget 2023 (amounting to \$16.1 million), to maintain the provision of core regulatory functions and seafarer welfare services for 2023/24. Maritime NZ also has another Budget bid to address maritime security cost pressures, amounting to \$4.8 million over four years.
- 83 Longer-term, Maritime NZ will remain reliant on Crown funding to deliver a range of services, including maritime security, incident readiness, search and rescue and maritime safety infrastructure (such as aids to navigation, distress radio and distress beacons).
- 84 Under section 9(1) of the Land Transport Management Act 2003, the Crown may use land transport revenue to support search and rescue activities and recreational boating safety and maritime safety services. Since 2004, Maritime NZ has received Fuel Excise Duty (FED) funding under section 9(1) to provide these services – it currently receives \$13.4 million per annum.
- 85 Section 9(1) funded activities will face inflationary pressures over the six years from 2024/25, which may result in a funding shortfall of \$10.3 million over that period. This shortfall is unable to be met through maritime levies, given that this would be inconsistent with the funding review principles published by the Office of the Auditor-General. Maritime NZ intends submitting a funding request at the next triennial review of Section 9(1) funding in 2024, or earlier should it become evident that the funding shortfall would result in cross-subsidisation of maritime levies.

Legislative Implications

- 86 There are no legislative implications associated with the release of the consultation document. Final funding proposals (if agreed by Cabinet) will require amendments to the Maritime Levies Regulations 2016 and the Oil Pollution Levies Order 2016.

Regulatory Impact Statement

- 87 The Treasury's Regulatory Impact Analysis team has determined that the proposal to release the Maritime NZ Review of Levies Funding for 2024/25 – 2029/30 consultation document is exempt from the requirement to provide a Stage 2 Cost Recovery Impact Statement (CRIS). The exemption is based on advice that the consultation document includes the key features of an interim Stage 2 CRIS.
- 88 The Ministry of Transport Regulatory Impact Analysis Quality Assurance panel has reviewed Maritime NZ's analysis supporting the proposals set out in the consultation document and confirmed that the analysis conducted partially meets the Stage 2 CRIS requirements. It was assessed as not being able to achieve a meets rating largely because there was insufficient information to provide a complete picture of the problem definition, how the proposed initiatives are expected to address the problem, including specific outcomes that will be achieved. The panel has also suggested some editorial improvements to clarity and conciseness. A full Stage 2 CRIS will be completed at a later date to inform Cabinet's final decisions on this proposal once it returns from consultation.

Climate Implications

- 89 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this proposal as the threshold for significance is not met.

Population Implications

- 90 There are no population implications associated with the release of the consultation document.

Human Rights

- 91 There are no material human rights implications associated with the release of the consultation document.

Consultation

- 92 The Treasury, Customs, Ministry for Primary Industries and Ministry of Business, Innovation and Employment were consulted on this Cabinet Paper and associated consultation document. No comments were provided.

Communications

- 93 Subject to Cabinet agreement, Maritime NZ will announce the commencement of the consultation process using its website and other communication channels.

Proactive Release

- 94 I intend to release this Cabinet Paper proactively and in accordance with the Official Information Act 1982 within 30 business days of the public consultation process commencing.

Recommendations

The Minister of Transport recommends that the Committee:

- 1 **notes** that Cabinet agreed to lift a moratorium on Maritime NZ undertaking a funding review in October 2021, and that such a review should seek to maintain or moderately increase capability and capacity by raising charges, fees and levies to support a managed transition back to cost recovery (DEV-21-MIN-0192 refers).
- 2 **notes** that Maritime NZ is undertaking a funding review to address cost pressures, fund two new commitments and return Maritime NZ to a financially sustainable position by 1 July 2024.
- 3 **notes** that the consultation document *Maritime NZ Review of Levies Funding for 2024/25 – 2029/30*, proposes a \$10.4 million increase in maritime levies revenue (from a \$35.4m baseline) in 2024/25, and a \$0.4 million increase in oil pollution levies revenue (from a \$8.7m baseline) in the same year.
- 4 **notes** that Maritime NZ proposes a five-week public consultation process from 14 March to 18 April 2023.
- 5 **agrees** to the release of the consultation document, subject to any minor or editorial changes that may be required.
- 6 **invites** the Minister of Transport to report back to Cabinet with final policy proposals in June 2023.

Authorised for lodgement

Hon Michael Wood
Minister of Transport

Appendix One: *Consultation Document Maritime NZ Review of Levies for 2024/25 – 2029/30*

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

BUDGET SENSITIVE

Appendix Two: *Examples of current versus proposed Maritime Levy rates for indicative foreign vessels*

Vessel type Paid per port visit		2022/23 current rates	2024/25 proposed rates	Variance between current and proposed levy rates
	International Oil Tanker (SOLAS) GT 25,000 PAX 0 DWT 45,000	\$3,373	\$4,303	\$930
	International Container Ship (SOLAS) GT 40,000 PAX 0 DWT 52,000	\$5,206	\$6,643	\$1,437
	International Cruise Vessel (SOLAS) GT 110,000 PAX 2500 DWT 15000	\$16,229	\$20,716	\$4,487

Appendix Three: *Examples of current versus proposed Maritime Levy rates for indicative domestic vessels*

Vessel type Paid Annually		2022/23 current rates	2024/25 proposed rates	Variance between current and proposed levy rates
	Domestic Passenger Ferry (SOLAS) GT 22,365 PAX 1,350 DWT 5,794	\$240,020	\$306,338	\$66,318
	Domestic Container Ship (SOLAS) GT 6000 PAX 0 DWT 10,000	\$51,366	\$65,557	\$14,192
	Domestic Coastal Fishing Trawler (non-SOLAS) GT 529 PAX 0 DWT 0	\$4,348	\$5,548	\$1,200
	Domestic fishing Length 5.9 metres	\$90	\$115	\$26
	Domestic non-passenger aquaculture vessel (mussel barge) GT 104	\$855	\$1,091	\$236
	Domestic non-passenger barge GT 150	\$1,233	\$1,573	\$340
	Domestic non-passenger Length 23.9 metres (including tugs)	\$363	\$467	\$104
	Domestic non-passenger Length 8 metre workboat	\$121	\$156	\$35
	Domestic Passenger Ferry (non-SOLAS) GT 280 PAX 300 DWT 0	\$2,828	\$3,608	\$781
	Domestic Charter Passenger Boat (non-SOLAS) Length 18 metres PAX 140 DWT 0	\$519	\$665	\$146

BUDGET SENSITIVE

Vessel type Paid Annually		2022/23 current rates	2024/25 proposed rates	Variance between current and proposed levy rates
	Domestic Charter Passenger Boat (non-SOLAS) Length 8 metres PAX 14 DWT 0	\$139	\$179	\$40
	Domestic Commercial Jet Boat Length 8.2 metres PAX 8 DWT 0	\$265	\$339	\$75
	Domestic passenger Commercial dive boat Length 4.5 metres PAX 4	\$138	\$177	\$39
	Domestic passenger 3.7 metre personal watercraft (jet ski/novel craft) PAX 1	\$74	\$95	\$21

DRAFT
 RELEASED UNDER THE
 OFFICIAL INFORMATION ACT 1982

CONSULTATION DOCUMENT

MARITIME NZ REVIEW OF LEVIES
FUNDING FOR 2024/25 – 2029/30

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

FOREWORD FROM THE AUTHORITY CHAIR AND THE DIRECTOR

We are pleased to be introducing this consultation document and hope that those of you impacted by Maritime NZ's performance and those who support the cost of that through levies will use this opportunity to give feedback on the proposals it sets out.

Kirstie Hewlett, Maritime NZ's new Director was welcomed in June 2021 and her first priority was to get a good understanding from industry around how Maritime NZ was performing as a regulator. Kirstie's engagement with a number of you, alongside other work we have undertaken, and an international audit, generated some key insights into what was working well and where improvements needed to be made. We listened, and through a whole of organisation strategy we carefully examined how close we are to 'what good looks like' on a function by function basis.

Over 2022 we developed the regulatory strategy Te Korowai o Kaitiakitanga (the Cloak of Stewardship) to guide how we will get to what good looks like. As part of that we went through an organisational re-design to create an optimally efficient internal structure. And we used the savings created by the new structure to start addressing issues concerning and affecting the maritime sector (regulatory licensing delays and backlog, our need to focus more on deterring sub-standard ships on internal voyages arriving at our ports, and being more responsive (quicker and better) when we receive enquiries or notifications.

However, our internal efficiencies in themselves are insufficient to address some regulatory risks, or to deliver the service needed by the sector. There are just eight proposals for your consideration, and of those, four are focussed on building on what we have done so far, addressing a narrow set of residual regulatory risks and making provision for further functional improvement.

The arrival of COVID in early 2020, and its continuing effects on the maritime sector and maritime activity levels has not passed us by. Border closures, lock downs, and other COVID related sector turbulence has meant that since 2021 Maritime NZ has needed to rely in part on Crown funding in lieu of anticipated Maritime Levies and Oil Pollution Levies revenue. That funding has been provided in anticipation of this Funding Review and under expectations that from 1 July 2024 we will be back to full cost recovery as a consequence of it.

Of the eight proposals there are two that are in response to Government commitments and decisions. The first, a priority commitment made in 2020 to fund the provision of seafarer welfare services, and in 2021 a decision by Parliament that the commercial maritime sector should fund those services through Maritime Levies.

The second was a Government decision to sign up to what is known as MARPOL Annex VI – an international convention, now part of New Zealand legislation (Maritime Rules), containing a series of new requirements for the management of air pollution from ships. Maritime NZ is the administrator of the regime and there is an expectation from government that from 1 July 2024 the cost of that administration will be recovered through fees and Maritime Levies.

The remaining two proposals go respectively to a new method for calculating Oil Pollution Levies liability and raising Oil Pollution Levies revenue to the level needed to deliver the New Zealand Marine Oil Spill Readiness and Response Strategy. That Strategy is so important to our preparedness for a major oil spill and being able to respond to it in a way that minimises the various harms such events can cause.

As this is a mid-point funding review (for fees and Maritime Levies) we have not looked at fees nor at the hourly rate on which they are based. A full review of fees will be conducted at the next full funding review. This means (until at least the completion of the next Funding Review) the maritime sector is guaranteed of no fees increases.

We have been careful to keep this document to the minimum necessary to explain the proposals in full context and set out the implications of them. This may be sufficient for you to form a view but if you want more information there is a link at page 4 to a supporting document.

We encourage you to be part of this consultation process and look forward to receiving and considering your feedback.

Jo Brosnahan, Chair Maritime NZ

Kirstie Hewlett, Director Maritime NZ

CONTENTS

Foreword from the Authority Chair and the Director.....	2
Process for consultation and making submission.....	4
How to make a submission.....	4
PART 1.....	5
The purpose of this review.....	5
Overview and context.....	6
What we are trying to achieve.....	7
What we have done to date.....	9
Case study 1: Investment in our Certification capacity.....	9
Case study 2: Creating a new Maritime Inspections team.....	10
Case study 3: Establishing a centralised Notifications and Enquiries team.....	10
What more we need to do to deliver our regulatory strategy and address regulatory risks.....	11
What else we are required to attend to.....	11
PART 2.....	11
The proposals.....	11
Supporting the delivery of our Regulatory Strategy and managing regulatory risks.....	12
Proposal 1: Maintaining and enhancing regulatory operations capacity (Maritime Levies).....	12
Proposal 2: Supporting the achievement of safety and marine protection outcomes at reduced cost (Maritime Levies).....	12
Proposal 3: Improving our performance in responding to notifications and regulatory licensing (Maritime Levies).....	13
Proposal 4: Establishing a third party oversight capacity (Maritime Levies).....	14
Recovering the cost of commitments made by government.....	15
Proposal 5: Sustaining funding for MARPOL Annex VI administration.....	15
Proposal 6: Seafarer Welfare Services Funding (Maritime Levies).....	15
Revising the Oil Pollution Levies allocation methodology and maintaining Marine Oil Spill Readiness and Response Capability.....	16
Proposal 7: Changing the Oil Pollution Levies allocation methodology.....	16
Proposal 8: Maintaining Marine Oil Spill Readiness and Response Capability.....	17
Financial and other implications.....	17
Sector impact scenarios.....	19
PART 3.....	21
Maritime NZ's intentions to seek additional Crown funding.....	21
Efficiency improvement initiatives.....	21

PROCESS FOR CONSULTATION AND MAKING SUBMISSION

HOW TO MAKE A SUBMISSION

This consultation document invites feedback on a set of proposals that if adopted would variously require additional Maritime Levies and Oil Pollution Levies funding; that affect the amount payable for all fee-able activities; and that change the way liability for Oil Pollution Levies is calculated.

You can give us feedback on the proposals in this document by:

- e-mail to fundingreview@maritimenz.govt.nz
- ordinary post to, Funding Review, Maritime NZ PO Box 25620, Wellington 6146
- fax to (04) 494 8901
- filling the online form at www.maritimenz.govt.nz/funding

If you want clarification on any of the proposals, for the purpose of making a submission, please feel free to send your questions through to us by email at the address above.

We have sought to find the right balance between keeping the document to an approachable length and providing sufficient detail for readers to have a clear understanding of the basis for the proposals, their benefits and their implications. There is however further detail and contextual information and it is available [here](#).

The deadline for making a submissions is 18 April 2023.

We appreciate that making a submission takes time and doing so within a specific deadline on top of other commitments requires particular effort. In fairness to those who make that effort we will not be accepting or taking account of submissions received after the deadline.

Please note that it is our intention to prepare and publish a summary of submissions. This is for the purposes of transparency and assurance that all submissions have been considered. Submissions themselves will not be published but a list of submitters is intended for inclusion in the summary document. If there is any element of your submission that you do not want to be in the public domain please signal that when you make your submission.

THE PURPOSE OF THIS REVIEW

For regulatory agencies such as Maritime NZ funding reviews are about ensuring that sufficient funding is sustained across different sources to deliver core regulatory functions and do so in a way that reflects the regulatory strategy. For Maritime Levies and fees this is a mid-point funding review and is focused on ensuring we can deliver regulatory functions effectively and minimise risks, and attend to new Government driven funding-relating matters that have arisen since the last full Funding Review in 2018/19. Due to COVID impact and recovery related decisions taken by government to freeze public sector funding reviews in 2020 and 2021 in order to minimise fiscal pressures on levy payers, this review is occurring two years 'out of cycle'. It is also occurring in the context of the Crown having provided additional funding to Maritime NZ to support the organisation through COVID on the basis that from 1 July 2024 the purposes for which the funding has been provided will be recovered through Maritime Levies. For Oil Pollution Levies (OPL) this is a delayed full term funding review but we have made it part of this mid-point review to support an aligned and full view of both our levies funding sources. The OPL review focus is on ensuring levies rates are set at the right level to sustain the required revenue to deliver in full the New Zealand Marine Oil Spill Readiness and Response Strategy. A review of how Oil Pollution Levies are calculated (the methodology) has also been carried out and the outcome is reflected in this document.

The eight proposals set out in this document, if agreed by government consequent to this consultation, would be effective from 1 July 2024 and remain in effect up until July 2030 (pending changes or adjustments resulting from a full Funding Review in three years from now).

Our regulatory strategy, Te Korowai o Kaitiakitanga (the Cloak of Stewardship) sets out how we will deliver and perform our regulatory functions. It reflects what industry has told us about how we are performing and where we need to do better; it addresses regulatory risks; it sets out a way of working that is inclusive, engaged, communicative, professional, consistent, and responsive. That approach and the sector benefits it strives for, are the key drivers for the first four proposals set out in this document.

In 2020 the Government signalled the funding of seafarer welfare services as a clear priority. A change was made to the Maritime Transport Act to enable such funding to be generated through Maritime Levies and there is an expectation that this funding review is the process through which bridging finance provided by the Crown will be replaced, from July 2024, with funding through levies. We have therefore examined, and made a proposal in relation to the quantum of funding to be raised for this purpose and how we intend it to be managed and distributed for optimal value and efficiency.

Since the last Funding Review in 2018/19 Maritime NZ also has been given responsibility for the administration of a wide ranging set of new requirements under MARPOL Annex VI relating to the prevention of air pollution from ships. Government has committed to fund those administrative costs on an interim basis, but from July 2024 there is an expectation that the same will be recovered through a combination of fees (for certification related activity) and Maritime Levies. As part of this funding review we have therefore examined the ongoing cost of that administration and have made a proposal in relation to it for additional Maritime Levies funding.

This review has also looked at how to fully fund the delivery of New Zealand's Marine Oil Spill Readiness and Response Strategy (the Strategy), as endorsed by the Oil Pollution Advisory Committee (OPAC), which represents the views and interests of all Oil Pollution Levies paying sectors and key stakeholders. There have been very significant changes in the operating environment (closure of the refinery at Marsden Point, alterations to the types of oil imported and vessel activity levels and sailing patterns) and the time expiry of one element of the current OPL; together these have impacted the level of Oil Pollution Levies revenue that can be generated under the current methodology. This affects our ability to fully implement the Strategy. We have used this review as the opportunity to address the impacts of the significant changes and to propose a refreshed and revised levies calculation method, and applying that method, we have calculated and proposed new Oil Pollution Levies rates.

Maritime NZ's costs are partly recovered through fees. Specific fees and the hourly rate on which all fees are based were reviewed in the last full funding review in 2018/19 and set in regulations effective 1 July 2019. This being a mid-point review we have not looked again at specific fees or the hourly rate but will do so in the new full funding review in three years.

In order to be given effect all but one of the proposals in this document would require the recovery of additional costs through Maritime or Oil Pollution Levies. We make no assumptions as to what will be recommended or agreed following this consultation process, but it is important that in making the proposals we are explicit as to what the additional funding would be used for, the impact of increased levies on those who are liable, the authority we have to propose raising additional levies to effect the proposals and how cost recovery aligns with relevant guidelines and principles. This detail is set out in the attached document Initial Cost Recovery Impact Information: [link](#).

OVERVIEW AND CONTEXT

Funding reviews occur on a cyclical basis and are a transparent mechanism to set out proposals for alignment of revenue from levies and fees with particularised costs. Ordinarily, and as was the case with the last full funding review in 2018/19, that alignment can be achieved only through increased levies revenue and relatedly, an increase in levies rates. That is again the case in this review where seven of the eight proposals have a levies increase implication. If levies increases are recommended to, and agreed by Cabinet consequential to this consultation, they would not take effect until 1 July 2024.

The uplift in maritime levy is an average of \$11.7m each year for 2024/25 – 2026/27 which represents an increase in maritime levies rates of 33.1%. Of that potential increase, approx. 28% would be to cover the cost of commitments made by Government, approx. 42% to address regulatory risk issues and the balance of 29% to cover cost pressures.

The last proposal has the potential implication of an annual average of \$0.8m or 8.8% increase in Oil Pollution Levies revenue and rates (over the period 2024/25 – 2026/27). While for both levies types a significant proportion of the overall liability rests with foreign vessels and their activity in New Zealand waters (so their increase would be proportionately more), that does not detract from the fact that domestic operators could see an increase in levies payable.

The cost element is a reasonable focus for levies payers but we ask that attention is also paid to the benefits, some of which will, over time, offset the cost at an industry wide or individual level. In setting out the proposals we have been clear about potential costs and given a fair appraisal of benefits. In the event the proposals are adopted, as part of the next full funding review we are committed to reporting back on how they were effected and evidence of benefits.

Consequential to the 2018/19 Funding Review additional Maritime Levies revenue was generated to cover the cost of a set of specified activities. Consistent with a looking forward and reporting back approach we have set out below how that additional funding was applied and the benefits derived.

International engagement (\$1 million per annum from 2020/21): We have established a new International Engagement and Coordination team. This has brought a more strategic and proactive focus to our influencing strategy and participation in international maritime fora that are critical to New Zealand's shipping interests. As a consequence we have been able to participate in and have influence over a wider range of IMO initiatives, including ongoing work on international maritime emissions, a variety of key safety issues, the international Maritime COVID response, seafarer welfare issues and other key issues for New Zealand.

Regulatory reform projects development and implementation (on average, \$1.2 million per annum from 2019/20): This funding has helped to ensure that our approach to implementing rules is fit for purpose and workable for operators; and that operators impacted by new or revised rules are supported with clear and updated guidance on what to do. We have also established a process to more consistently identify and prioritise regulatory reform activities to update our ageing ruleset; and have made a start in addressing some of the biggest priorities for reform through our 40 series project, which has focused on ship design, construction and equipment rules. We also established teams that are focused on the more effective end to end implementation of new rules, including a guidance team and a service design team. Together this enabled us to make progress on some of the problems in our rules that impact on operators as well as safety and environmental outcomes (to date this has included work on the 40 series, the development of rules to implement MARPOL, reform of navigational safety rules, pilot boarding arrangements and preparation for the implementation of the Cape Town Agreement. Areas of future focus are likely to include seafarer certification rules and MOSS).

Surveyor standards of performance (\$0.57 million per year for three years): The resourcing for updating the 2014 surveyor standards of performance has been integrated with the 40 series reform project, which is addressing ship design, construction and equipment rules. This ensures that the development of revised performance standards are part of and reflect a wider package of joined up and coherent rules. Work on the surveyor performance standards is well advanced.

Systemic Risk Activities (on average, \$2.68 million per year from 2019/20): Through the addition of a number of key technical, environmental and engagement roles we have increased our capacity to identify and attend to systemic risks *within* the recreational and commercial maritime sectors. It has also enabled us to strengthen our analytics, risk and intelligence function. This has allowed greater focus on outcomes-based interventions such as industry outreach activities, engagement/relationships, education, guidance and campaigns. During the COVID-19 pandemic this enabled Maritime NZ to play a vital role acting as the key interface between the maritime industry and Government. This ensured that domestic operators and international shipping kept operating moving goods and people, while strengthening our partnerships along the way.

ICT systems and integration (on average, \$1.94 million per year from 2019/20): We have invested in our underlying technology and systems including growing capability and capacity with a strong focus on refreshing our digital infrastructure, applications and security. We have continued to integrate systems, move data from old to new platforms, and develop new functional capability. We have also made improvements to our regulatory management information systems which support core regulatory functions and compliance activities (e.g. exemptions, Safe Operating Plans, vessel data and seafarer certification). As a result an increasing number of manual regulatory processes are now undertaken digitally. Going forward this money will also assist us to develop technology to ensure there is a better front portal into Maritime NZ and better mobile notification technology.

Port and Harbour Marine Safety Code (on average, \$0.33 million per year from 2019/20): Through this funding Maritime NZ's input to, and support of, the Port and Harbour Marine Safety Code has been increased in the areas of technical, policy, guidance, education, data and research, communication, administration and strategy development. We participate in five safety management system peer reviews each year, and have led the development and review of various guidelines issues under the Code. This has included Key Principles for Marine Safety Risk Management; Aids to Navigation; and Good practice guidelines for hydrographic surveys in New Zealand ports and harbours.

Around \$2 million per annum additional Maritime Levies revenue was also agreed in the last funding review to cover cost pressures associated with Maritime NZ's administration of the Ballast Water Management Convention regulatory requirements, the provision of aids to navigation, maritime distress and safety communications, and general business cost pressures.

WHAT WE ARE TRYING TO ACHIEVE

Maritime NZ is a steward or guardian of the maritime domain. Our stewardship role is mandated under the Maritime Transport, Ship Registration, and Maritime Security Acts, across which our functions and powers are all about ensuring the offshore, coastal and inland waters of Aotearoa are safe, secure and clean. We are also designated under the Health and Safety at Work Act in relation to maritime activities and have stewardship responsibilities under the Public Service Act 2020 and the Crown Entities Act in terms of our capability as regulators, our systems and processes, retaining our institutional knowledge, and maintaining the legislation we administer.

All of these matters have fed in to and are reflected in our regulatory strategy Te Korowai o Kaitiakitanga which sets out our pathway to becoming an increasingly effective regulator. This means strong regulatory stewardship and being better able to support outcomes for the maritime sector (recreational and commercial), for the New Zealand public (because we are a Public Service entity), and for New Zealand (because having safe, secure and clean waters generates a range of social, cultural, economic and reputational benefits).

In 2021 Maritime NZ undertook a robust examination of how well we are delivering our various regulatory functions. This included internal workshops; conversations with industry organisations; looking at how other regulators perform 'like' functions; and reflection on how close we are to 'what good looks like' (as informed by what industry had told us, and by current thinking on good regulatory practice). That examination gave clear signals of gaps in our capability, capacity, systems, processes and culture; important insights into how these are affecting our performance and continued maturation as a regulator, and in some cases creating or contributing to risk. In 2022, an independent audit was undertaken of the extent to which New Zealand complies with its obligations under the various International Maritime Organisation (IMO) to which it is a Party, and the findings reinforced our earlier assessment, particularly in relation to our oversight of those we authorise to perform regulatory functions and some of our Port State Control work. Key areas highlighted were:

- Our investment in Flag and Port State Control inspections (and the quantum of activity it makes room for) has not in recent years been at a level sufficient to best manage the risks associated with sub-standard shipping. Over COVID the quality of vessels has declined as ships have been in demand and there has been less time for maintenance, COVID has also impacted on the ability on countries to undertake inspections. These issues have been raised by industry, the Port Health and Safety Leadership Group and other stakeholders as a growing concern. A 2022 IMO audit confirmed there were a number of matters in this area that need addressing. Concerns with safety of vessels seem justified with large numbers of deficiencies being found that need to be rectified where inspections have occurred.
- We recognise that licensing application timeframes affect livelihoods, business continuity and employment, and that the quality of our internal systems for the processing of applications can affect licencing costs. Certificates or licences are a common requirement across the commercial maritime sector and an efficient and reliable licencing function is essential for the thousands of operators and seafarers requiring licencing services. Our Regulatory Licencing (Certification) team has for some time faced issues driven by a combination of increasing workloads, practice, process and workforce capacity and capability issues. This has resulted in backlogs and significant impacts on seafarers and operators. These issues have to be attended to in an enduring way.
- There are over 50 other statutory notification requirements; they all ultimately serve a maritime safety or marine protection purpose and notifiers need to be confident that we are attending to notifications as necessary (this is particularly the case for notifications of incidents and accidents). Our systems for receiving and responding to enquiries are also important to being, and being seen to be, a supportive, assisting, professional and responsive regulator. Feedback has indicated that our arrangements and processes for receiving, triaging and responding to notifications and enquiries are in a number of areas compromising the timeliness, quality, consistency, and at times, the appropriateness of our responses; are making it harder for people to get easy access to information they need to comply with requirements, and are not enabling good sharing of insights on where and why harm is occurring.
- Through our work on Te Korowai, our engagement with stakeholders and discussions among staff we have identified (confirmed by a recent IMSAS audit) the need to take a more systematic and deliberate approach to third party oversight. There are 250 individuals and entities (third parties) who carry out regulatory activity in the maritime sector under a delegation, recognition or approval issued by the Director. In granting these permissions Maritime NZ is ultimately responsible for ensuring third parties are performing that activity to the standard necessary to support safety and marine protection outcomes and in a way that creates and maintains the confidence and trust of maritime operators. It is also important that operators can have confidence in the third parties providing roles in the system. Good regulatory practice is the right balance (based on information, intelligence, and data) of reactive and pro-active activity and about not relying only on regulatory requirements (and enforcement of the same) to achieve outcomes sought. In light of this, while recognising that compliance activity remains a valid part of our regulatory approach, we need to invest more in harm prevention, and pro-active activity to reduce risk and support the achievement of safe and clean outcomes for the commercial and recreational maritime sectors.
- Our front-line staff are the 'face' of Maritime NZ and the nature and quality of their work directly affects every maritime operator, seafarer, recreational boatie or other person / entity that they interact with. With a specific quantum of staff available for work 'in the field' (audits, inspections, the delivery of harm prevention initiatives or compliance campaigns) it is critical that the regulatory effort is well planned and prioritised. We have identified that we do not have the mix of practice policy, practice tools and guidance needed to support best practice among our front-line staff and that our capacity to plan for and prioritise regulatory operations is less than what is required to do it consistently well. A lack of clearly explained and shared practice also makes it harder for sector participants to transparently understand why and how we approach our work, and how to hold us to account for how we operate.
- Every person who works or play on our waters is variously subject to requirements under maritime rules and marine protection rules. The purpose of those rules is to support safe, clean and secure outcomes, but this is made harder to achieve when rules are outdated, no longer 'fit for purpose' or create unnecessary or disproportionate cost and effort. Unfit rules can also drive the need for exemptions and the process for

obtaining these involves cost and effort for the maritime sector. This is an enduring issue and speeding up our rules reform programme is key to addressing it.

We looked closely at the basis for these issues and found them to be grounded in a combination of how we are internally organised; in the nature and quantum of resources we have available across several functional areas; some deficiencies in our regulatory processes; the absence of an operational policy and practice framework; information and intelligence limitations indicating the need for further investment in technology, and our organisational culture. In the round, all of these are affecting the calibre of our regulatory delivery in specific areas and some are having a material impact on the maritime sector.

WHAT WE HAVE DONE TO DATE

Having recognised over a year ago that there needed to be changes across numerous elements of our organisation – how our staff and their effort is distributed, and the capability and capacity held in respect to particular functions, we went about making some necessary changes. This involved a combination of internal re-alignment of teams or functions, the disestablishment of some roles and the creation of new roles where necessary. The changes we made are as follows:

- We've invested more resources in our Certification (now called Regulatory Licensing) team to reduce application processing timeframes and improve our licencing performance more generally (see Case Study 1 below)
- We have created a separate Maritime Inspections team with a specific focus on Port and Flag State Control so we can better oversight the standard of ships, shipping, and crew safety (See Case Study 2 below)
- We are putting in place the staff, processes and arrangements for the establishment of a small centralised Notifications and Enquiries team to improve our response processes and timeframes. (See Case Study 3 below)
- We have established a new Harm Prevention and Engagement team to support a strategic and pro-active approach to addressing the causes of harms in different parts of the maritime domain and to provide leadership on engagement practices and processes
- We've improved our arrangements for big regulatory reform projects by converting a temporary and project specific team into a permanent Regulatory Reform Projects team. This in both an efficiency measure and an investment in building and maintaining our capacity to deliver significant regulatory reforms
- We've enhanced our back end support capacity for front line staff, including more operational policy capacity and increased capacity to monitor their performance and plan their work. This means interactions with our front line staff are at a frequency appropriate to risk and of a nature that represents best value for the maritime sector.

Here are some detailed case studies of changes we have made or are in the process of making.

CASE STUDY 1: INVESTMENT IN OUR CERTIFICATION CAPACITY

After a sustained period of increasing work volumes without any significant increase in resourcing, the Certification team (now Regulatory Licensing) was under immense pressure. There was a growing backlog of work with application process times well over the performance expectation of 20 working days and a significant backlog of unprinted certificates. Some of the issues causing the back-log were due to the temporary and fixed term nature of people working in the team, the capabilities hired, staff training and work flow and administrative processes. Some of the issues were exacerbated by COVID; in particular we lost many of the fixed term staff that had been relied on. Front end administration processes were failing to keep pace with the volume of work and this was affecting the end to end tracking of applications. All of the above were causing major concerns with the maritime industry and the number of justified complaints received was high.

The injection of additional resources enabled a restructure and stabilisation of the team. The printing backlog was eliminated in November 2022 and the average time taken to process applications reduced last year from 32 to 18 working

days. A separate front end Workflow & Administration team was established with application and document management being significantly improved. Permanent staff have replaced those employed on a temporary basis and staff turnover has greatly reduced. Stakeholder complaints have also reduced significantly and we have received positive feedback on the material improvement in our regulatory licensing services.

CASE STUDY 2: CREATING A NEW MARITIME INSPECTIONS TEAM

New Zealand (through Maritime NZ) is a member of what is known as the Tokyo MOU. This is an organisation established in 1993 to set up an effective port State control inspections regime in the Asia-Pacific region. The purpose of the inspections is to eliminate substandard shipping and in doing so promote maritime safety, protect the marine environment and safeguard working and living conditions on ships. Being a member obliges New Zealand (Maritime NZ) to be part of a harmonised system of inspections of foreign flagged vessels entering our ports and our largest domestic vessels that operate outside our coastal limits. There is also a small number of New Zealand's largest ships that are covered by the International Convention for the Safety of Life at Sea (SOLAS) and as signatory to that convention there is an obligation on New Zealand (through Maritime NZ) to ensure those ships are being operated according to the required safety management system.

The introduction of the domestic Maritime Operator Safety System (MOSS) in 2014, covering over 1800 operators and 3500 vessels, brought all of the audit and compliance monitoring of those operations in house and this has continued to be a significant draw on our Maritime Officer resource. The level of resources available for port State control (PSC) and flag State control inspections has also continued to be affected by those required for MOSS-related activity and for want of more resources we have not been able to 're-set' the level of PSC/FSC activity to the pre-2014 level. This has a potential impact on the standard of shipping in our waters and the Asia-Pacific region and has been raised by industry as a growing concern.

In the second half of 2022, we therefore made a decision to create a dedicated PSC/FSC team made up of Inspectors with PSC/FSC expertise who are based at key shipping ports throughout New Zealand. To ensure the Inspectors can focus on inspections, a role was also created to conduct the risk profiling of visiting ships and the scheduling of inspections. Given their work is entirely port based there is efficiency in the Inspectors also being assigned harm prevention functions at ports. For efficiency gains the Inspections team will also lead on HSWA activity at ports (noting that that activity is not funded through Maritime Levies).

We are at the early stage of putting in place the new team, with a focus on priority inspections, the training, of new staff, and the processes, operational policies and practice tools needed for optimal effectiveness and efficiency. Already, our renewed focus on PSC and FSC activity has shown that there are a number of ships with deficiencies coming to New Zealand and some that need to be detained which is re-enforcing the importance of the work

CASE STUDY 3: ESTABLISHING A CENTRALISED NOTIFICATIONS AND ENQUIRIES TEAM

Maritime NZ receives over 5000 notifications and general enquiries each year and the timeliness and quality of our responses to the same is a reflection and measure of our efficiency and responsiveness as a regulatory agency. As part of a function by function examination of where we are now and 'what good looks like' we closely examined our arrangements for receiving, and processes for responding to, incoming notifications and enquiries.

We found that while for some types (for example oil spill notifications or enquiries about ship registration requirements) we have reliable and effective end to end systems that are meeting the reasonable expectations of us, for others, most critically, notifications of incidents and accidents, our arrangements were leading to variability in the timeliness and quality of our responses. Those arrangements included multiple points of entry, unclear lines of accountability and responsibility, and the absence of documented end to end processes. We also found that people were not always notifying when they should. In relation to answering of enquiries these are devolved across our frontline staff which takes them away from proactive work and we have no centralised way of knowing what our enquiries look like and what additional guidance and support we may need to provide to the sector to address them in a more efficient way.

To address the issues and improve our performance in an enduring way, we made the decision in the last third quarter of 2022 that we need to establish a small centralised team with the dedicated function of receiving, triaging, and processing incoming enquiries and notifications. In association, we are developing and embedding end to end processes for different

notification and enquiry types. We are looking to put the new team in place through 2023 and will require funding to implement the team well.

WHAT MORE WE NEED TO DO TO DELIVER OUR REGULATORY STRATEGY AND ADDRESS REGULATORY RISKS

Some of the changes detailed above were made possible through efficiencies achieved through an organisational redesign. The redesign, which was fully effected over 2022, was focussed on altering the quantum, arrangement and distribution of staff to the extent reasonably necessary to effectively and efficiently address the functional delivery issues already identified. The redesign involved removing a management layer, staff re-deployment, and the disestablishment of some roles. We also undertook work to make greater efficiencies as outlined later in this document.

We received additional Working Safer Levies funding through a 2022 Budget Bid and this enabled us to pay for additional resources for HSWA related activity: an element of our new harm prevention and engagement team, some additional regulatory practice resources, additional investigations capacity, and address inflationary pressures associated with our health and safety related regulatory function.

While we have made good progress in attending to specific gaps or deficits in the delivery of our functions, under our current funding levels (specifically, Maritime Levies) we cannot maintain and give full effect to some of the changes already made, and we cannot address some enduring regulatory risks at the causative rather than symptomatic level.

As some matters cannot be maintained or addressed within our current level of Maritime Levies funding we have developed four proposals for additional funding.

WHAT ELSE WE ARE REQUIRED TO ATTEND TO

There is a small group of other matters that we have been required to cover in this review. These derive from government commitments and decisions made since the last full funding review; and issues arising from the method we apply to the setting of OPL rates and (relatedly) our ability to give effect to the New Zealand Marine Oil Spill Readiness and Response Strategy. Additional proposals are grouped under these categories and are set out in Part 2 below.

PART 2

THE PROPOSALS

The proposals set out below, and the amount of additional levies revenue that we have estimated will be required to give effect to them, reflect the minimum viable capacity / revenue uplift needed to achieve or to maintain the improvements we need to make. For three of the proposals, the additional Maritime or Oil Pollution Levies revenue proposed aligns with what the Crown has to date provided either as liquidity funding or as part of the Budget bid process.

We have not provided options within the proposals. As they reflect the minimum required we consider that including other (and higher cost) options is not reasonable or appropriate. Further, as multiple options across multiple proposals does not enable us to indicate a single potential Maritime or Oil Pollution Levies revenue (rates) increase, this would not be consistent with our principle of transparency.

SUPPORTING THE DELIVERY OF OUR REGULATORY STRATEGY AND MANAGING REGULATORY RISKS

PROPOSAL 1: MAINTAINING AND ENHANCING REGULATORY OPERATIONS CAPACITY (MARITIME LEVIES)

As outlined in what we are trying to achieve (page 7) and in the case study above (pages 10), we have built the foundations of a Maritime Inspections team, however we will need maritime levies funding to ensure the team has sufficient capacity to:

- be able to inspect all priority high risk ships leading to better safety, environmental and maritime labour outcomes
- inspect other vessels that our data and intelligence indicates are high risk (numbers would depend on how many vessels our intelligence signals are high risk).
- ensure we have the presence to act as a deterrent to sub-standard ships coming to New Zealand ports and harbours, this includes undertaking a specified number or percentage of random inspections each year
- meet our Tokyo MOU obligations
- build better holistic understanding and relationships with our flag state operators to deliver safety outcomes; and
- address some of the IMO audit recommendations in this area and have the effect of improved audit results in future.

Without a sustainable funding source the relevant positions will need to be funded through drawing resources away from another regulatory function which is simply moving the regulatory risks to another area.

The proposal is to raise Maritime Levies revenue by \$1.9m per annum from 1 July 2024 to fund the maintenance and expansion of the Maritime Inspections team.

PROPOSAL 2: SUPPORTING THE ACHIEVEMENT OF SAFETY AND MARINE PROTECTION OUTCOMES AT REDUCED COST (MARITIME LEVIES)

The only purpose of maritime and marine protection rules is to support safety and marine protection outcomes. There are thousands of Maritime and Marine Protection Rules and sub-rules and these variously apply to the construction, crewing and operation of every domestic commercial vessel and recreational craft.

Where rules are specifically out of date (for instance, they require a piece of equipment no longer in production or that has been superseded) or are generally out of keeping with changes in industry practice or are more prescriptive than necessary, they do not serve their purpose and they create unnecessary cost for industry. That cost comes in the form of exemption application fees, an inability to innovate, and where exemptions from certain requirements are prohibited under rules, a compulsion to meet those requirements irrespective of their fitness.

We have made significant progress since our last funding review in establishing an annual regulatory reform programme that attends to priority rules amendments, and the creation of new rules where required. We are also in the process of reforming the 40 series (ship design, construction and equipment rules), which a big driver of exemption applications. But there remains a significant back log of outdated rules that do not support the achievement of safety and marine protection outcomes. Through sequencing and prioritisation we can gradually work through the full set of rules, but based on our current rules drafting, policy and technical capacity our progress will be unduly slow; and the level of misalignment with international norms and modern standards could grow.

Increased rules policy and drafting capacity and a dedicated technical rules resource will speed up the end to end process for rules amendments and support good standards in the development and drafting of technical rules. Further, dedicated technical capability within our regulatory policy team is more efficient than the current arrangement where requests for technical advice and support for rules development compete with other demands on our technical resources. Faster progress in regulatory reform, as will be supported by the proposed resources, will, over time, reduce costs and

unnecessary compliance burden within the maritime community. We anticipate that the additional resources proposed will enable an expansion to the scale of our annual regulatory reform programme year on year (pending the complexity and scale of priority rules reviews and amendments required each year).

As the timeframe for working through all current rules extends beyond the timeframe for this funding review period (ending 2029/30), and as we cannot foreshadow what entirely new rules might be required within and beyond that time, the proposed levies uplift will be required on an ongoing basis.

The proposal is to raise Maritime Levies revenue by \$1.0m per annum from 1 July 2024 to increase our policy, rules drafting and technical advice capacity and make faster progress in regulatory reform.

PROPOSAL 3: IMPROVING OUR PERFORMANCE IN RESPONDING TO NOTIFICATIONS AND REGULATORY LICENSING (MARITIME LEVIES)

As outlined in what we are trying to achieve (page 7 and 8) and the case study (page 10) the decision to establish a centralised Notifications and Enquires (NET) team was made in 2022 on the basis of a critical need to improve our practice around receipt, triaging and responses to incoming enquiries and notifications. Through port health and safety and recreational safety work, we have also identified that people may not be notifying as much as they should. Notifications data is important as it shows where, and why, incidents may be occurring and helps us and the sector consider where to target our effort. Getting this part of our regulatory business working well is mission critical given the issues and risks arising from multiple entry points, response delays and gaps, unclear responsibilities and accountabilities, and inconsistency in triaging and response standards. We are in the early stages of building our NET function and will need levy support for it to be fully functional and effective. The team was established out of necessity but ahead of an assured on-going funding stream.

The benefits for industry as a whole will not be limited to a more responsive and reliable notifications and enquiries service. A functioning NET team will also result in:

- improved recording and analysis of notification and enquiries trends
- reliable insights into where industry guidance and education is needed
- capacity to make the necessary links between notifications and points of vulnerability in safety system or other rules requirements
- pro-active front line activity best aligned with attending to industry information and support needs, and risks and harms signalled in notification and enquiry trends.

We anticipate measurable qualitative improvement in the timeframes and consistency of responses (where relevant) to notifications, and enquiries.

As set out in the case study on page 10, Maritime NZ's regulatory licencing performance has suffered in recent years and until recently this has impacted the continuity of maritime operations, creating seafarer workforce issues and in some cases affecting the livelihood of individuals through delaying their entry into the commercial maritime sector.

A decision in 2022 to invest more and permanent regulatory decision making resources in the two teams performing certification functions and create a small workflow and administration team continues to make a significant difference to the quality of regulatory licencing services we provide.

Because of the urgent need for improvements, the investment decision was made ahead of an assured future. Unless the improvements can be sustained Maritime NZ will need to decrease staff and risk a reversion to pre and early 2022 performance issues.

Maritime NZ expects that from 2024/25 - 2029/30 additional fees revenue will cover some but not all of the cost of the increased regulatory licencing capacity. As the capacity uplift is not only in relation to individual certification applications processing (which is fee-able) but also to more general workflow, licencing practice, certification enquires response and administrative process improvements (that are of general benefit to all current and prospective licencing applicants) we consider it appropriate that the cost of the uplift is recovered partly through Maritime Levies.

The proposal is to raise Maritime Levies revenue by \$1.3m per annum from 1 July 2024 to fund the maintenance of the NET and to maintain increased regulatory licencing improvements.

PROPOSAL 4: ESTABLISHING A THIRD PARTY OVERSIGHT CAPACITY (MARITIME LEVIES)

Maritime NZ does not currently have the capacity to effectively monitor and support the performance of third parties. This creates a risk of regulatory failure. It creates a risk that operators are not receiving a consistent and effective service from third parties. It also means that third parties themselves do not receive consistent support and guidance from us as a regulator.

There are over 250 individuals and entities (third parties) authorised by Maritime NZ to perform regulatory functions such as ship surveys, inspections, the servicing of maritime products, approval of safety plans and seafarer examinations. The maritime sector is highly exposed to third parties and it is essential that they perform their functions to the standard necessary to support the achievement of marine protection and safety outcomes within the maritime sector.

Events in other regulatory domains have shown how important it is for third parties to perform their functions to the standard expected: the Whakaari/White Island event and Waka Kotahi vehicle testing issue are cases in point. To date, Maritime NZ oversight of the performance of third parties has been predominantly reactive. Year on year there is some engagement with individual or 'classes' of third parties on specific issues and efforts have been made to address particular issues with specific third party regulators when they are brought to our attention.

But for want of resources Maritime NZ has not taken a 'stewardship' approach to this element of the maritime regulatory system: that is consistently maintaining oversight of third parties from point of entry to the system to their exit; monitoring their performance in between and ensuring they have the necessary tools and support to perform their functions. With a third party stewardship framework now developed we need a small team to lead its delivery.

A dedicated third party oversight capability will mean a deliberate and systematic assurance approach that will serve to maintain high third party performance standards and remove the risk of regulatory failure evidenced in other regulatory domains. The type of activity enabled by a third party team includes: monitoring and providing support to recognised surveyors; ensuring the entry control processes for third parties are sufficiently rigorous; identifying where more guidance and practice materials are needed in a particular cohort of third parties and supporting the development of the same; or undertaking monitoring of regional councils and harbourmasters performing functions under delegation from the Director. This team would be small, around four, and be made up of technical expertise, audit and operational policy.

The establishment of such a team also enables Maritime NZ to address in an enduring and visible way a critical finding from a 2022 IMSAS audit. The audit was for the purposes of assessing the extent to which New Zealand complies with its obligations set out in the various IMO instruments to which it is a Party. It found that there was no evidence of a Maritime NZ oversight programme for Recognised Organisations and their nominated surveyors.

Ahead of a third party team being established, and the detailed analysis required to ascertain the quantum and nature of oversight (and more broadly, stewardship) activity required, it is difficult to quantify the uplift in activity that will be required and enabled through the additional funding. However, if the proposal is effected, we will report on that activity as part of the full funding review in 2026/27.

The proposal is to fund, through a \$0.8m increase in Maritime Levies revenue from 1 July 2024, the establishment and maintenance of a small team to lead the delivery of the organisation's third party oversight activity.

RECOVERING THE COST OF COMMITMENTS MADE BY GOVERNMENT

PROPOSAL 5: SUSTAINING FUNDING FOR MARPOL ANNEX VI ADMINISTRATION

In 2021, as part of its commitment to reducing greenhouse gases, the Government signed what is known as MARPOL Annex VI, which sets out a regime for the prevention of air emissions from ships. When the Government signs an international convention there is an obligation to give effect to it domestically. Maritime NZ is the administrator of Maritime Rules developed for the specific purpose of implementing the MARPOL Annex VI regime in New Zealand. The cost of that administration can in small part be recovered through fees (certification activity) but there are other elements that it is appropriate and necessary to cost recover through Maritime Levies. To date, our implementation and administration of the new requirements has been Crown funded, but on the assumption that from 1 July 2024 those costs will be recovered through Maritime Levies.

Administration of the MARPOL Annex VI regime includes Maritime NZ oversight of the taking and testing of fuel; an additional element within Port and Flag State Control inspections and within audits of some domestic maritime operations; the provision of information and guidance to our domestic maritime sector; adjustments to our IT platform; a dedicated technical advisor; an additional legal and investigations capacity; ongoing training for our Maritime Officers and Inspectors; and because it is an international regime for which modifications will be raised in the IMO context, an ability to play an active part in those negotiations to ensure any changes sought are acceptable to New Zealand.

This is a significant and complex regulatory regime that is potentially applicable to the operation of hundreds of commercial and recreational craft. Maritime NZ needs to be best positioned to support the maritime sector in understanding and complying with the new requirements and enforcing the same where necessary.

A sustainable funding base ensures that Maritime NZ can give effect to the requirements as intended and as obliged under the relevant convention. Having the funding to administer MARPOL Annex VI also means New Zealand can play a credible and influencing role in climate-related negotiations at the International Maritime Organization (IMO).

The proposal is to raise Maritime Levies revenue by \$1.8 million per annum from 1 July 2024 to fund Maritime NZ's administration of MARPOL Annex VI.

PROPOSAL 6: SEAFARER WELFARE SERVICES FUNDING (MARITIME LEVIES)

By way of background, seafarer welfare services in New Zealand were for many years funded from charitable sources, with local welfare organisations providing services for seafarers at ports, and the Seafarers' Welfare Board (operating since 1964) fostering ways and means of caring for seafarers, and actively promoting cooperation between welfare providers. In 2021 (in part in response to the impact of COVID on the ability to raised funds through donations) a centralised Crown funding arrangement was put in place, with a set of specified services provided by the SWB under a contract with Maritime NZ.

In 2021, Parliament made a decision to amend the Maritime Levies provisions under the Maritime Transport Act to enable Maritime Levies to be raised and used to help meet the cost of seafarer welfare services. Current levies rates are not set at the level necessary to generate funding for this purpose.

As this goes to a new proposed use of Maritime Levies funding, further detail about that use is set out below. Seafarer welfare services would be available to the crew of all ships covered by the MLC, except the crew of domestic ships and New Zealand-operated ships under foreign flags (as New Zealand law and services apply). Foreign-flagged fishing vessels calling at New Zealand ports would be covered. MNZ proposes that the funding be applied to a set of services that help meet what is required under the MLC. These fall into the following broad categories – communications services (such as the provision of Wi-Fi and telecommunications); information services; ship visits; shopping (for those crew not able to leave ship) and money exchange; access and transport to welfare centres; transport services to and from town; and mental health, wellbeing and advocacy services.

The Government currently provides \$1.5m for all costs (including MNZ's) for welfare services to seafarers. We propose that the amount to be recovered from Maritime Levies for this same purpose should also be \$1.5 million per annum.

MNZ has considered options for the best way to deliver services in a way that will see value for money. These include the status quo (MNZ funding SWB who coordinate and deliver many welfare services), an amended status quo with the SWB bulk funding port welfare groups according to an MNZ formula, an MNZ grants system, and MNZ delivery. The full options analysis is available at [link](#).

The use of the grants model by MNZ enables tighter MNZ control over accountability, maintains a MLC-consistent role for the SWB, and allows local port welfare organisations to deliver services in a way appropriate to their port. The MNZ grants model is currently the preferred delivery model, but we welcome feedback on each of these models (and any others).

If this proposal is adopted the Crown will continue to meet its obligations under the Maritime Labour Convention in respect to the availability of seafarer welfare services and there will be a reliable funding source for their delivery. Seafarers working on the above vessels will continue to have access to these services and the provision of the same will have a positive impact on their ability to carry out their ship based duties effectively. This will contribute directly to the safety of shipping conducted in New Zealand waters (and in the waters of other jurisdictions) with an associated reduction in the likelihood of accidents and marine pollution incidents.

The proposal is to raise an additional \$1.5 million Maritime Levies revenue per annum from 1 July 2024 to fund a specified quantum of seafarer welfare services.

REVISING THE OIL POLLUTION LEVIES ALLOCATION METHODOLOGY AND MAINTAINING MARINE OIL SPILL READINESS AND RESPONSE CAPABILITY

PROPOSAL 7: CHANGING THE OIL POLLUTION LEVIES ALLOCATION METHODOLOGY

Oil Pollution Levies rates have previously been calculated through applying a complex methodology and model that is costly to apply and at future risk of unreliability as a basis on which the levies rates for different sectors are determined. The approach is heavily reliant on the use of historical national and international data from the recent past being representative of future activity.

Given the very significant changes that occurred during the COVID-19 pandemic recent historical data will not be reliable going forward. In addition there have been very significant changes in the operating environment that gives rise to the risks of a marine oil spill. One change with significant and on-going impacts is the closure of the Marsden Point refinery and its conversion to a refined hydrocarbon products facility. Specific impacts from this change already seen include:

- A major reduction in the import of heavy, crude oil into Marsden Point;
- Removal from the New Zealand coast of the domestic tankers previously used to ship the majority of refined products from Marsden Point around the New Zealand coast, and
- A large increase in foreign hydrocarbon product tankers coming to New Zealand to deliver refined products to multiple ports across New Zealand.

Other changes have also occurred and further developments are highly likely in the period. As a result we face a double challenge: the existing methodology will not be reliable going forward and the change in the operating environment will drive major changes to the risk profile across the sectors.

As a result we have reviewed the OPL allocation methodology. The proposed new method for allocating relative levies liability by sector (and the basis for calculating OPL rates) is more efficient (cost effective), it takes less time and effort to generate the relevant data; is less vulnerable to unpredictable changes in shipping and oil carriage volumes, and is less complex than the extant methodology.

The methodology is based on that used for maritime levies which was developed and then implemented after detailed consultation as part of the 2018 Maritime NZ Funding Review. The methodology considers how much of the total levies required each vessel should be liable for, and is based on specific criteria to determine the “*value of what is placed at risk in the maritime system*”. In its truncated form, the principle is the ‘risk value’. For maritime levies the criteria are (people, freight and ships); for the OPL we propose to use “ships” – reflecting oil being used as bunker fuel - and “oil as cargo”. The ships criteria will use Gross Tonnage as a proxy for bunker fuel capacity (as in the current OPL methodology), and actual quantity of oil carried as cargo (as we have access to this data, and again this is as used in the current methodology).

Where the proposed methodology differs from that currently used is that we will be moving to “risk value” as opposed to an assessment of actual ‘risk’, which is generally understood as a combination of likelihood and consequence of harm. As detailed above we believe that the assessment of actual risk – as used in the MOSRA – is no longer a credible or viable option as well as being expensive, time consuming and particularly prone to significant errors given its reliance on historical data being an accurate proxy for the future.

Given the changes in the operating environment (oil type, activity volumes and traffic patterns etc.) it is to be expected that the risk profile and hence risk share across sectors will change significantly. Applying the proposed (ML aligned) methodology we see the impacts of these changes with a reduction in the share of the OPL to be paid by the domestic sectors (reflecting the departure of domestic tankers from the New Zealand coast) and a consequent increase in the shares paid by foreign tankers (as we see large increases in the number of foreign tankers entering New Zealand water). We also see a shift from the domestic passenger and cargo vessels (smaller vessels with less bunkers and less persistent oil as fuel) to foreign passenger and cargo (larger vessels with larger bunkers and more use of persistent oil as bunker fuel). These shifts are consistent with the concept of risk value if considering the impacts from larger volumes of oil as cargo and larger volumes of bunkers in larger vessels.

To support your consideration of the proposed new methodology we have attached the allocation methodology review document [here](#).

PROPOSAL 8: MAINTAINING MARINE OIL SPILL READINESS AND RESPONSE CAPABILITY

The New Zealand Marine Oil Spill Readiness and Response Strategy reflects the required nature and scale of New Zealand’s oil spill response preparedness, co-ordination, capability, and equipment. The development and five yearly review of the Strategy is a requirement under the Maritime Transport Act and is developed in consultation with the Oil Pollution Advisory Committee (OPAC - a statutorily appointed committee representing levy paying sectors, stake holding central government agencies and local government). The implementation plan for the Strategy is also developed in consultation within, and agreed to by OPAC.

Delivering the Strategy (via the implementation plan) means all of the preparedness and response elements are covered and the harms of a significant marine oil spill can be at best removed, or at least minimised. The proposal, if effected, would mean a gap in the funding required to deliver the Strategy would be bridged.

The current OPL rates set out under the Oil Pollution Levies Order 2016 are now out-of-date; one element has expired and the activity types and levels that they were based on have changed. The Strategy and its associated Plan indicate the level of revenue needed but given the changes in the operating environment the current OPL is not raising the necessary revenue. Crown has funded the gap in revenue to date but Government has directed that full cost recovery should recommence from 1 July 2024 as is intended under the relevant provision of the Maritime Transport Act.

The proposal is to raise an additional \$0.8m Oil Pollution Levies revenue per annum from 1 July 2024 to generate the full quantum of funding needed to deliver the Strategy via the Plan.

FINANCIAL AND OTHER IMPLICATIONS

Tables 1 and 2 show the indicative changes to Maritime Levies rates and Oil Pollution Levies rates, if all levies related proposals are adopted. These are indicative only as any proposed changes to Maritime Levies or Oil Pollution Levies rates (as would be required if the proposals are adopted) are at first instance subject to feedback from this consultation. Also, any change in funding is subject to Ministerial approval before changes can proceed to Cabinet for agreement and then to the Governor General for Royal Assent.

Table 1: Impact on Maritime Levies rates by levies paying sector

Vessel category	Gross tonnage	Deadweight tonnage	Passenger capacity	Overall length
Foreign passenger	0.1004 0.1282	0.0082 0.0103	2.0248 2.5845	N/A
Foreign non passenger	0.1178 0.1504	0.0095 0.0121	N/A	N/A
NZ SOLAS	7.7931 9.9463	0.4607 0.5879	46.71 59.6161	N/A
NZ non-SOLAS (24m or more in length)	8.2197 10.4885	N/A	17.5403 22.3867	N/A
NZ non-SOLAS (less than 24m in length)	N/A	N/A	17.5403 22.3867	15.1746 19.5376

Table 2: Impact on Oil Pollution Levies rates by levies paying sector

Vessel or oil site type	Oil Type	Current Base Levy	Proposed Base Levy	Basis of calculation
NZ vessels				
Passenger and cargo ships, harbour tugs and oil tankers	Persistent	414.69 cents	174.57 cents	Per gross ton of the vessel
	Non Persistent	414.69 cents	102.706 cents	Per gross ton of the vessel
Oil tankers carrying oil as cargo	Persistent	29.96 cents	12.899 cents	Per tonne of oil carried as cargo
	Non Persistent	26.76 cents	7.589 cents	Per tonne of oil carried as cargo
Fishing vessels	Persistent	73.56 cents	30.965 cents	Per gross ton of the vessel
NZ oil sites				
Floating vessel used in production, storage and offloading of oil (FPSO)	Persistent	\$858.66	\$82,346.11	Fixed Fee
Foreign vessels				
Passenger and cargo ships, harbour tugs and oil tankers	Persistent	.54 cents	2.64 cents	Per gross ton of the vessel
	Non Persistent	.54 cents	1.55 cents	Per gross ton of the vessel
Oil tankers carrying oil as cargo	Persistent	36.14 cents	35.58 cents	Per tonne of oil carried as cargo
	Non Persistent	7.6 cents	20.94 cents	Per tonne of oil carried as cargo

SECTOR IMPACT SCENARIOS

Vessel type Paid per port visit		FY25 Proposed Rate Maritime Levy	FY25 Proposed Rate Oil Pollution Levy	Proposed total Levies Increase
	International Oil Tanker (SOLAS) GT 25,000 PAX 0 DWT 45,000	\$4,303	\$524	\$1,319
	International Container Ship (SOLAS) GT 40,000 PAX 0 DWT 52,000	\$6,643	\$838	\$2,059
	International Cruise Vessel (SOLAS) GT 110,000 PAX 2500 DWT 15000	\$20,716	\$2,305	\$6,198

Vessel type Paid Annually		FY25 Proposed Rate Maritime Levy	FY25 Proposed Rate Oil Pollution Levy	Proposed total Levies Increase
	Domestic Passenger Ferry (SOLAS) GT 22,365 PAX 1,350 DWT 5,794	\$306,338	\$31,006	\$4,578
	Domestic Container Ship (SOLAS) GT 6000 PAX 0 DWT 10,000	\$65,557	\$8,318	-\$2,371
	Domestic Coastal Fishing Trawler (non-SOLAS) GT 529 PAX 0 DWT 0	\$5,548	\$164	\$975
	Domestic fishing Length 5.9 metres	\$115	NA	\$26
	Domestic non-passenger aquaculture vessel (mussel barge) GT 104	\$1,091	NA	\$236
	Domestic non-passenger barge GT 150	\$1,573	NA	\$340
	Domestic non-passenger Length 23.9 metres (including tugs)	\$467	NA	\$104

Vessel type Paid Annually		FY25 Proposed Rate Maritime Levy	FY25 Proposed Rate Oil Pollution Levy	Proposed total Levies Increase
	Domestic non-passenger Length 8 metre workboat	\$156	NA	\$35
	Domestic Passenger Ferry (Non SOLAS) GT 280 PAX 300 DWT 0	\$3,608	\$388	\$8
	Domestic Charter Passenger Boat (Non SOLAS) Length 18 metres PAX 140 DWT 0	\$665	NA	\$146
	Domestic Charter Passenger Boat (Non SOLAS) Length 8 metres PAX 14 DWT 0	\$179	NA	\$40
	Domestic Commercial Jet Boat Length 8.2 metres PAX 8 DWT 0	\$339	NA	\$75
	Domestic passenger Commercial dive boat Length 4.5 metres PAX 4	\$177	NA	\$39
	Domestic passenger 3.7 metre personal watercraft (jet ski/novel craft) PAX 1	\$95	NA	\$21

To assist you in understanding what the proposed increases could mean for your business Maritime NZ has produced a levies calculation tool that can be accessed [here](#).

MARITIME NZ'S INTENTIONS TO SEEK ADDITIONAL CROWN FUNDING

Maritime NZ relies on on-going Crown funding to perform or deliver a range of activities. This includes its work on Maritime Security, Incident Readiness, Search and Rescue (SAR) and Maritime Safety Infrastructure (such as aids to navigation, distress radio and distress beacons). As these are public not private benefits the Crown has funded these activities consistent with transport sector funding principles and Treasury and OAG cost recovery guidance.

As a result, it will not be possible to fund these pressures through levies and Crown funding will need to be considered during the funding review period. These pressures include:

- Ensuring Maritime NZ has sufficient capacity to undertake its role in Maritime Security.
- Maintenance of sufficient capacity to respond to non-oil based maritime incidents and spills.
- Maintenance of infrastructure and provision of services provided by third parties that are essential for the distress beacon system and distress / safety communications.

Budget Bids in these areas will be put up in Budget processes, alongside a bid for implementation of the commitments made in the Emissions Reduction Plan, including the development of regulatory settings that can enable the use of low carbon technologies (which it is not reasonable for levy payers at large to fund).

EFFICIENCY IMPROVEMENT INITIATIVES

In the circumstance of making proposals that would, if effected, increase the rates for both Maritime and Oil Pollution Levies it is important that we set out what we have done to improve our efficiency and wherever possible, reduce our own costs. Our efficiency improvement initiatives and their effect are set out below.

Since the last funding review Maritime NZ has developed and is now executing an enterprise property strategy that is seeing deliberate and greater co-location of our smaller sites with other Government agencies in that place. Co-location has been focused on partner agencies such as Customs, Department of Conservation and Ministry for Primary Industries who have larger property footprints at our satellite locations and include Whangarei, Napier and New Plymouth. We are in the process of similar co-locations in Invercargill and Dunedin. We have also increased the operational efficiency of our Regional Hubs at Auckland, Tauranga and Christchurch through more flexible working practices and now also have other key supporting staff based out of these regional hubs. We have generated greater efficiency in our National Head Office through flexible working practices and a modernised environment. The cumulative effect of these small shifts has seen reduced property and occupancy, and office support costs reduced from 4.35% in FY 2020 to a forecast 3.78% in FY2023 as a % of organisational running costs.

Over time we have continued to consolidate vendors and contracts across key cost categories making greater use of All of Government panels and syndicated contracts leveraging the buying power of Government. We have implemented a contract management system which is giving greater visibility of our activities and supporting more efficient practice. The full impact of this capability will be seen in out-years.

We have been reducing manual processes through greater investment in technology which has allowed us to de-commission some legacy platforms. It has also allowed greater cloud adoption generating efficiencies through increased access to data and information across Maritime NZ. Through this greater investment in upgraded information communication technology we are also making much more use of it as a substitute for travel, and as a key enabler of our work. The significant escalation of technology capability and adoption during the COVID environment was embraced by Maritime NZ. These efficiencies have seen our travel costs as a % of organisational running costs reduce from previous levels and we expect that it will continue into the future (reduced from 4.45% in FY 2019 to a forecast 2.9% in FY2023). The nature of our role and the work we do means there will continue to be a requirement to travel.

We have also embarked on our internal carbon reduction journey which has complementary objectives and is seeing us undertaking work to optimise and transition our vehicle fleet to more sustainable vehicle options. This will have a further efficiency impact once completed over the next three years.

The cumulative impact of these activities along with increased scale economies we have been able to reduce our overheads loading to 25%.

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

INITIAL COST RECOVERY IMPACT INFORMATION

AGENCY DISCLOSURE STATEMENT

Notwithstanding their status as proposals *under consultation*, it is necessary under Treasury guidance to provide an initial cost recovery impact statement. A full analysis must be provided at the point at which any recommendations are made to the Minister and Cabinet after the consultation process is completed and submissions analysed.

This initial Cost Recovery Impact Statement (CRIS) takes the general form of a final CRIS but given the stage at which it has been prepared cannot fully cover all matters. Further, this statement has been prepared on the basis that all of the proposals will be adopted and in full. Any deviation from that in what is recommended to the Minister post-consultation will be reflected in the final CRIS and like this initial version, the final CRIS will also be released publicly.

It is proposed that the cost of the proposals set out in the consultation document will, if adopted, be recovered through an increase in both Maritime Levies rates (proposals 1 – 6), and the rates for Oil Pollution Levies (proposal 8). This has implications for, and impacts on operators who are liable for those levies

The quantitative scale and scope of the impacts are reliably known at a sectoral and individual levy payer basis (for existing levy payers) as Maritime NZ holds all relevant information on its levies databases.

Feedback from industry and other interested parties received during the consultation process could add to Maritime NZ's analysis of the impact, and this will be reflected in the final CRIS if recommendations for levies changes are consequentially made to Cabinet.

The Maritime Levies proposals do not include scalable options. Maritime NZ has based the amount of additional funding that will need to be cost recovered in respect of each proposal on its assessment of the minimum feasible quantum of resources needed to implement the proposal effectively. If scaled options were included they could only be at a level higher than that reflected in the proposals. This would not be reasonable given the amount needing to be cost recovered at a minimum is not insignificant and any more than the minimum cost recovery proposed is not required to effect the purpose of the proposals.

Nor is scaling a feasible option for the Oil Pollution Levies (OPL) proposal (Proposal 8). This is because the proposal seeks to recover sufficient revenue to fund the continuing implementation of the Marine Oil Spill Readiness and Response Strategy 2022. That Strategy is already in place and sets the level of readiness and response capability required. In turn, the cost of maintaining that capability is a known factor. Greater funding would be unnecessary, while reduced funding would require a corresponding reduction in capability.

This funding review has been significantly delayed by COVID-19 and a government decision to put on hold all government sector funding reviews until now. Further, the funding review embargo, combined with the impacts of COVID-19 (border closures and lock downs) on Maritime Levies and Oil Pollution Levies revenue, resulted in the government providing a multi-year appropriation (MYA) to Maritime NZ to cover the revenue loss and new costs associated with Government decisions concerning funding for the provision of Seafarer Welfare services and accession to MARPOL Annex VI¹.

¹ Marpol Annex VI is an international convention that sets out a regulatory regime for the reduction of oil pollution emissions from ships.

MARITIME NZ'S COST RECOVERY POLICY

Under the current cost recovery policy activity such as ship registration, regulatory licencing, certification and audit and inspection activity that occurs in circumstances specified under the Maritime (Charges) Regulations² is cost recovered through fees charged to the individual service recipient.

In respect of regulatory licencing and certification, the exception is seafarer licencing, for which the administrative effort common to all licencing applications is cost recovered through a fixed fee of \$368 (reflecting 1.5 hours effort) with the balance of costs associated with each application recovered through Maritime Levies. This split between fees and levy cost recovery reflects a policy decision made in the last full funding review (2018/19), which was based on a case made out (and supported by industry) that seafarer certification has both private and club good elements. Individual seafarers directly benefit from being licenced but the commercial maritime sector as a whole benefits from having a sufficient cohort of licenced persons to crew vessels involved in commercial maritime operations. There was a further argument that full cost recovery through fees would have the perverse effect of discouraging people from renewing or upgrading their qualifications in an industry that experiences constant skill shortages.

The last full funding review also resulted in a policy decision to shift the cost recovery of audit and inspection activity (with some specific exceptions) from fees to the Maritime Levies. The case was made that the extant cost recovery policy (all maritime audit and inspection costs falling to the recipient operator through fees) did not align with how the same activity is cost recovered by other regulators and reflected a transactional (private good) rather than system view (club good) of audit and inspection activity.

As well as the cost of audits and inspections and part of seafarer licencing costs, Maritime Levies can be and are used³ to fund a range of services provided, and regulatory services undertaken by Maritime NZ in the performance or exercise of functions, powers and duties under the Maritime Transport Act. These services, which are essential to the general maintenance of the maritime regulatory system, have the characteristics of club goods⁴, and the need for which is created by those who own, operate, maintain or work on vessels in New Zealand waters, are as follows:

- The provision and maintenance of aids to navigation
- Regulatory reform activity – rules development and implementation
- The provision of maritime safety information
- Distress and safety radio services
- Prosecution activity
- General compliance and regulatory operations activity
- International engagement
- The provision and maintenance of Maritime NZ's information and technology systems
- Technical, advisory, research, intelligence, planning and sector engagement activity
- The development of education, guidance, and operational policy and practice tools

With respect to marine oil spill pollution preparedness and response activity, until the COVID-19 pandemic and its associated impacts, this had been entirely cost recovered through Oil Pollution Levies. The authority for the generation of Oil Pollution Levies funding and its use for such purpose is set out under s331 of the Maritime Transport Act.

² Audits and inspections conducted as a follow-up to an initial inspection are charged to the operator at an hourly rate. Marine Protection related Inspections and audits and inspections of vessels located outside New Zealand are also charged directly to the owner or operator at the regulated hourly rate of \$245.

³ S191 of the Maritime Transport Act 1994 sets out the specific and general purposes for which Maritime Levies may be used.

⁴ A club good is defined as a good where people can be excluded from its benefits at a low cost but its use by one person does not detract from its use by another person. Refer: The Treasury: Guidelines for Setting Charges in the Public Sector.

The rates for Maritime Levies and Oil Pollution Levies are respectively set out under the Maritime Levies Regulations 2016 and the Oil Pollution Levies Order 2019. Information about levies rates (and the basis on which levies are calculated) is available on the Maritime NZ website.

HOW THE PROPOSALS ALIGN TO THE CURRENT POLICY

For the most part, this funding review has identified that the current *cost recovery policy*, and the *nature of activities* funded through fees, through Maritime Levies, through a combination of fees and levies, and through Oil Pollution Levies (as set out above), can and should remain untouched. The exceptions are as follows:

Proposal 3 (Improving our performance in responding to notifications and regulatory licencing) includes a proposition that some of the cost of an enhanced regulatory licencing functionality should be recovered through Maritime Levies. This is consistent with, and is an extension of, the current cost recovery policy for seafarer licencing activity (i.e. cost recovered through a combination of fees and Maritime Levies). The proposal does not have implications for any particular fees or the hourly rate on which fees are based under the Maritime (Charges) Regulations, the Ship Registration (Fees) Regulations, and the Maritime Security (Charges) Regulations.

Proposal 5 (Sustaining funding for MARPOL Annex IV administration) is that the cost of administering the MARPOL Annex VI regime for prevention of air pollution from ships, which the Government acceded in 2019, should be recovered through Maritime Levies. To date, that cost has been met by the Crown (due to the timing of the funding review) but on the clear understanding that this funding review would be the mechanism through which a shift to Maritime Levies cost recovery would occur. Using Maritime Levies for such a purpose is consistent with the use of Levies for the administration of obligations under other maritime-related conventions but use for this particular MARPOL Annex is a new proposition.

Proposal 6 (Seafarer Welfare Services funding) is that Parliament's 2021 decision to amend the Maritime Transport Act's Maritime Levies provisions to enable Maritime Levies to fund the provision of seafarer welfare services, should be applied. Since that decision the Crown has provided funding (due to the timing of the funding review) but on the understanding that this funding review would be the mechanism through which a shift to Maritime Levies funding would occur. This is a new use for Maritime Levies.

The balance of the proposals (excluding Proposal 7, which does not have a cost recovery element) reflect a continuation of cost recovery for activities already funded through Maritime or Oil Pollution Levies, but at the higher indicative level necessary to cover the cost of the proposals.

While noting that the proposals largely continue current and established cost recovery policy, the table below sets out (by proposal) the policy rationale, the statutory authority and how each aligns to Treasury's *'Guidelines for Setting Charges in the Public Sector'*, the Office of the Auditor General (OAG) guidelines, and the Transport Regulatory System Funding Principles.

As the following is relevant to all of the proposals that it is proposed be cost recovered through additional Maritime Levies revenue, it is set out below rather than repeated for each proposal in the table below.

The cost recovery principle of equity or fairness goes to a charge (or recovery of cost) being paid by the appropriate people and raises the question of whether the risk exacerbator and/or the beneficiary should pay for the good or service.

The proposals concern the recovery of costs for a range of services (activities) that are more or less used by, applied to, or relevant to, different payers of Maritime Levies. In one case (Proposal 6: seafarer welfare services) the direct beneficiaries will almost exclusively be the operators and crew of foreign ships; in another, (Proposal 1: maintaining and enhancing regulatory operations capacity) only the operators of foreign vessels and the small group of New Zealand's largest commercial ships (albeit a group with high levies liability relative to other domestic payers) will receive the services for cost recovery is sought; and in another, (Proposal 3: Improving our performance in responding to notifications and processing licensing applications) the element relating to regulatory licencing has less relevance (excluding seafarer certification) to the operators of foreign vessels than to domestic vessel operators. In short, those who create the need for a particular activity or who benefit from it, share the cost of the activity with those who do not create such need and receive no benefit. The Maritime Levies liability allocation methodology is based on this 'all pay for all' principle.

Maritime Levies are payable by all foreign and domestic commercial vessels operating in New Zealand waters and entering New Zealand ports. All levy payers pay for all activities funded by levies (it is not a beneficiary or user pays model) as all levy payers bring risk to the system and create the need for a regulator. The 'all pay for all' model, but where liability is

proportionate to risk brought to the system⁵) is more efficient than a model that attempts to differentiate liability according to the extent to which an individual or sector uses or benefits from a particular activity. All levy payers are in some way or another ‘users’ of the maritime regulatory system and they collectively create the need for it and share in the advantages of it. On that basis, they collectively pay and they individually pay more or pay less according to the risk they create.

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

⁵ The Maritime Levies allocation methodology uses vessel length, passenger capacity, Gross tonnage and Dead weight tonnage as proxies for risk and the larger a vessel, and the more passengers it can carry the more risk and the higher the levies liability.

Table 1: Statutory authority and alignment to guidelines and principles

Proposal	Statutory authority to raise and apply levies funding for such purpose	Alignment to relevant guidelines and/or transport sector funding principles
<p>Maintaining and Enhancing Regulatory Operations Capacity</p>	<p>Section 191(2)(b) of the Maritime Transport Act</p> <p>191 Maritime Levies</p> <p>(2) Maritime Levies may provide funding for any or all of the following purposes:</p> <p>(b) any services provided, or any regulatory services or activities undertaken, by the Authority, the Director, or the Crown in the performance or exercise of functions, duties, or powers under this Act.</p>	<p>The proposal is to fund sufficient capacity for the Maritime Inspections team, which undertakes regulatory monitoring, compliance and enforcement activity in relation to foreign commercial ships and domestic SOLAS vessels. The funding will enable the team to undertake sufficient inspection activity to meet international obligations and to target high risk activity that may harm people and the environment. Under the transport regulatory system funding principles 2018 (refer page 8) such ‘system oversight and repair’ activity (at the agency-specific level) is “more likely to be a club good” and as such is appropriate to be funded through Maritime Levies. Adding further support to the ‘club good’ nature of these activities is the fact that all such activity is currently Maritime Levies funded.</p>
<p>Supporting the achievement of safety and marine protection outcomes at reduced cost</p>	<p>Section 191(2)(b) of the Maritime Transport Act</p>	<p>The proposal is to fund additional resources in Maritime NZ’s regulatory design team to speed up the development and drafting of maritime and marine protection rules. Under the regulatory transport system funding principles such activity is a club good with the ‘participant group’ as the funding source (refer page 8). Maritime Levies are collected from the ‘participant group’.</p> <p>Under the Treasury Guidelines for Setting Charges in the Public Sector (2017) it is noted that a common way to charge for the ‘use’ of a club good is a levy applied to a group of users. Maritime Levies are applied to commercial maritime operators on grounds that they create the need for the regulatory system – of which maritime and marine protection rules are a central part.</p>
<p>Improving our performance in responding to notifications and processing licensing applications</p>	<p>Section 191(2)(b) of the Maritime Transport Act</p>	<p>The proposal is to use additional Maritime Levies to fund the maintenance of a centralised notifications and enquiries response team and to maintain additional capacity and capability (particularly around workflow, and administration) in the regulatory licencing team. These two elements of the proposal are quite different and will be covered separately.</p> <p>In respect to the notifications and enquiries team, they will be receiving and responding to legally required notifications and to enquiries received largely (but not exclusively) from participants in the maritime system. The need for the function is largely created by those participants and there is an efficient mechanism (Maritime Levies) to recover the costs from the participant group. Charging for responding to individual enquiries would be impracticable and inefficient and would act as a disincentive to participants seeking advice or information about regulatory requirements. Notifications about incidents and accidents (the largest notification type) are mandatory and there is no basis on which a person meeting that requirement could or should be charged for it. In fact doing so would disincentivise notifications at first instance.</p> <p>The Transport Regulatory System Funding Principles support the funding of an enquiries and notifications response function by Maritime Levies payers as a participant group. Specifically, that the method of funding should support, and at least not conflict with, the objectives of the regulatory system.</p> <p>Maintaining the regulatory licencing capability and capacity uplift is both a private and club good. Individual licensing applicants will benefit from a shorter turnaround time (noting that the quantum of effort required to process their applications (which remain fee-able) will not change). But industry as a whole also benefits through more time efficient crew certification and</p>

OFFICIAL INFORMATION ACT 1987

Proposal	Statutory authority to raise and apply levies funding for such purpose	Alignment to relevant guidelines and/or transport sector funding principles
		<p>operator licencing. Intendent new operators will be able to enter the system more quickly, and operators relying on certified staff will not be faced with operating disruptions caused by delayed seafarer licencing.</p> <p>In the 2018/19 Funding Review, a policy decision was made to split the cost of seafarer licencing between fees and levies in recognition that industry as a whole benefits from having a sufficient and competent seafarer workforce The regulatory licencing uplift proposal is based on the same rationale.</p>
<p>Creating Third Party Oversight Capability</p>		<p>The proposal is to use additional Maritime Levies to fund the establishment of a team within Maritime NZ with a specific third party oversight function. This is 'system oversight and repair': stewardship and monitoring of an important element of the maritime regulatory system. Given a significant number of third parties are acting under a delegation, that is, 'standing in the shoes' of the Director, the standard of their performance has particular relevance and importance. Under the transport regulatory system funding principles such activity is a club good that is appropriate to fund through participant group funding (Maritime Levies). Under the Treasury guidelines this activity does not have private or public good characteristics and aligns closest to the club good definition.</p> <p>Currently, with the exception of audits that may be undertaken of recognised or approved third party regulators activity (and which are chargeable as a fee), the oversight activity that is occurring as part of general system oversight and (where required, repair) is cost recovered through Maritime Levies. There is also a good argument that, rather like full cost recover seafarer licencing fees, cost recovery here could be counterproductive.</p> <p>The proposal is to consolidate and enhance third party oversight activity, and in having dedicated staff focussed only on third party regulators the activity will be carried out more efficiently.</p>
<p>Sustaining funding for MARPOL Annex VI administration</p>		<p>The proposal is to use additional Maritime Levies to sustain funding (provided to date by the Crown) for the administration of MARPOL VI regulations for the prevention of pollution by emissions from ships, to which the Government acceded in 2019. This includes additional legal, technical, compliance and investigations staff, staff training, and industry education and information services. Licencing activity associated with the regime requirements will be recovered through fees. Under the transport regulatory system funding principles, regulatory delivery, education and information, and rules implementation are club goods and should be funded by the participant group. Under the Treasury guidelines these activities and services also meet the characteristics of a club good. The participant group as a whole, rather than individual vessel owners and operators, benefit from this activity and the general public are excluded from the benefits arising from it.</p>

OFFICIAL INFORMATION ACT 1982

Proposal	Statutory authority to raise and apply levies funding for such purpose	Alignment to relevant guidelines and/or transport sector funding principles
Seafarer Welfare Services funding	<p>Section 191(2)(c) of the Maritime Transport Act 1994.</p> <p>191 Maritime Levies</p> <p>(2) Maritime Levies may provide funding for any or all of the following purposes</p> <p>(c) the facilitation of, or support for, seafarer welfare services.</p>	<p>The use of Maritime Levies for the funding of seafarer welfare services was a decision made by Parliament when it voted in support of the s191 amendment. Seafarer welfare services are closest to ‘education and information functions’ in the functions list set out in the transport regulatory system funding principles, and these are a club good with ‘participant group’ as the funding source. Foreign vessel owners and operators benefit from the provision of shore-based welfare services that support the welfare of seafarers that serve on their ships, while on the other side of the equation costs incurred for the provision of seafarer welfare services can be the direct result of the conduct of a ship owner or operator. Hence it follows that this group collectively meet the relevant costs in their capacity as a club of beneficiaries and exacerbators.</p>
Changing Oil Pollution Levies Methodology	<p>N/A. There is no specific statutory authority, nor authority required in respect to setting the methodology applied to calculating levies rates that are prescribed under regulations.</p>	<p>N/A</p> <p>The proposal recommends that the methodology is aligned to that of the Maritime Levies. This would provide consistency, and a better understanding with lower implementation costs for payers.</p>
Maintaining Marine Oil Spill Readiness and Response Strategy 2022-2026 and the associated Strategy Implementation Plan 2022	<p>The development and (at least) five yearly review of the New Zealand Marine Oil Spill Readiness and Response Strategy is a requirement under s283 of the Maritime Transport Act.</p> <p>The Strategy Implementation Plan 2022 – which sets out the activities (operating and capital including personnel) that will be undertaken - aligns with the purposes for which the New Zealand Oil Pollution Fund (made up of OPL contributions) can be applied.</p> <p>The purposes for which the Oil Pollution Fund can be applied are set out under s331 of the Maritime Transport Act and include:</p> <p>(a) to meet the costs of the Oil Pollution Advisory Committee;</p> <p>(b) to purchase plant, equipment, or any other thing to make preparations for, or to implement, or assist in implementing, any</p>	<p>The proposal is to establish revised Oil Pollution Levies to continue to implement the Strategy via the plan.</p> <p>Oil Pollution Levies are an efficient and well established mechanism for recovering the cost of preparing for and having the training, equipment and arrangements needed to respond to significant marine oil spills in both the oversight and assurance role and in an operational response role should the party causing the marine oil spill fail to meet their response obligations and/or be unable to deliver an appropriate response given the scale of the event.</p> <p>Those who are liable for Oil Pollution Levies operate the largest ships fuelled by oil and/or carrying oil as cargo (24 metres or more and over 100 gross tonnes) or own oil production, storage, and transfer facilities or infrastructure. They are the main marine oil spill risk exacerbators, and under the transport regulatory system funding principles costs should be allocated primarily according to who creates and exacerbates the risks in the system.</p>

Proposal	Statutory authority to raise and apply levies funding for such purpose	Alignment to relevant guidelines and/or transport sector funding principles
	<p>responses to marine oil spills;</p> <p>(c) to meet the reasonable costs of the Authority (including the costs incurred by the Director and the National On-Scene Commander) in controlling, dispersing, and cleaning up any marine oil spill:</p> <p>(ca) to meet the costs of services associated with planning and responses for marine oil spills that are services provided under a contract or arrangement with the Authority or the Director;</p> <p>(d) (ii) taking measures to avoid marine oil spills.</p>	

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

PROBLEMS THE COST RECOVERY PROPOSALS SEEK TO ADDRESS AND WHY THEY ARE NECESSARY

All of the cost recovery proposals attend to matters that cannot be addressed within the amount of Maritime and Oil Pollution Levies that can be generated at current levy rates.

Under the status quo, none of the proposals (with the exception of the OPL methodology proposal) can be effected. The implications of the status quo option are set out as per the proposal in the table below.

Since the last funding review in 2018/19 Maritime NZ has achieved a number of efficiencies (refer the foreword to, and page 24 of the Consultation Document) which have enabled us to address or begin to address some urgent regulatory risk matters in the absence of a funding review.

The table below discusses the areas that could not be addressed without seeking an increase in levies (via a funding review) to cover the cost of extra capacity or other resources required. Under current Maritime Levies rates and associated revenue forecasts, there will be no surplus available to apply to the funding of the additional, or new, activity proposed. The table sets out, in summary⁶, the basis for the assertion that additional cost recovery is required.

The required capability to deliver the Marine Oil Spill Readiness and Response Strategy has been developed under the previous six-year OPL cycle (ending 1 July 2022). The suspension of formal funding reviews has resulted in an interim period where the revenue raised by the OPL has fallen short due to activity changes and the expiry on 1 July 2022 of the Capability Levy element.

Government has provided additional funding to ensure the continued delivery of the Strategy and the maintenance of capability. The OPL proposal (Proposal 8) seeks to establish a revised OPL that takes into account changes in activity levels and types and removes the requirement for top-up funding from Government.

Table 2: Problems and why these cannot be addressed under status quo

Proposal	Problem being addressed per proposal	Why this cannot be addressed under the status quo
Proposal 1: Maintaining and enhancing regulatory operations capacity	<p>International and domestic ships (cruise and cargo) need to comply with international and domestic approved standards. The sector and MNZ have seen increasing number of poor quality ships coming to, or operating in NZ waters. This has been evidenced by increases in notifications and ships inspected with high numbers of deficiencies in safety and environmental standards and requiring detention. These relate to issues with vessels, equipment or procedures which in some cases could lead to events like:</p> <ul style="list-style-type: none"> • navigational issues with ships colliding or running aground with catastrophic impacts on safety and the environment (for example we have had four near large ship collision and groundings in the last few months alone, where it was lucky that significant catastrophic harm did not happen to people and the environment); • increasing serious injuries and near misses for stevedores or others working on the vessels from New Zealand and crew on-board the vessel. For example, stevedores and pilots using ship equipment that can malfunction 	<p>Maritime NZ does not currently have enough qualified inspectors to undertake the minimum number of inspections to deal with high risk vessels. High risk vessels are: priority one high risk vessels that are identified as vessels with real safety and other concerns we have undertaken to inspect as part of international agreements and to play our role in international supply chains; and vessels that may come directly from some other jurisdictions, that do not undertake inspections or that belong to administrations that do not publish results of inspections (e.g. pacific countries and China) that we have safety or other concerns with. Maritime NZ also needs to undertake a smaller number of random inspections to act as a deterrent so shipping lines do not send their poor quality vessels to New Zealand. For example, from interactions with the United States Coastguard who undertakes a more regular programme of port state control inspections they are reporting not seeing the same vessels of poor quality in their waters.</p> <p>The lack of capacity in inspectors is becoming more and more of an issue, and has been exacerbated with COVID, as there are a number of ships behind in maintenance. Not only are there insufficient</p>

⁶The detail is included in the Consultation Document

Proposal	Problem being addressed per proposal	Why this cannot be addressed under the status quo
	<p>causing injuries or potential fatalities (e.g. increases in notifications of poor quality pilot ladders, identification of poor quality, lifting cranes, people falling through floors and a stevedore falling overboard recently leaning on faulty handrails).</p> <ul style="list-style-type: none"> • Environmental issues with waste, emissions and other discharges bad for people's health and the environment. • Breaches of maritime labour conventions around provisions and pay. <p>The arrival of poor quality vessels is also resource intensive as it can require significant work following up on resolution of deficiencies with vessels which can take our small pool of inspectors out of other inspections for some time.</p> <p>Inspections of these vessels need to be undertaken by qualified Port and Flag State control inspectors in jurisdictions including New Zealand as a member of the Tokyo MOU.</p>	<p>inspections of high risk vessels, but the inspectors Maritime NZ does have are spending their time reacting to vessels with deficiencies (not meeting the standards) that are so numerous, or so serious that Maritime NZ is having to detain vessels, which causes issues for supply chains. It is much better for our supply chains that New Zealand deters poor quality vessels from coming, rather than having to undertake the significant work when they arrive (and which can mean retentions that are disruptive to importers, exporters and port operators). This is an issue that has been identified as serious and needing action by unions, stevedores, Port operators, other government agencies and pilots alike. It was also one of the key issues identified by the Port Health and Safety Leadership Group which was asked to identify key safety risks on ports and issues needing critical action based on insights from a wide range of port sector participants to the Minister of Transport.</p>
<p>Proposal 2: Supporting the achievement of safety and marine protection outcomes at reduced cost</p>	<p>There are thousands of maritime and marine protection rules and these need to be maintained, reviewed and in many instances, revised. The resources currently available to deliver Maritime NZ's annual regulatory (rules) reform programme limits the volume and speed of reform activity. This is creating cost for industry as outdated rules including a number that are not fit for purpose drive the need for fee-able exemption applications and create other unnecessary compliance costs for industry. It also makes it hard to address critical safety and environment rules issues that come up and to deliver Government rule priorities in a timely way.</p> <p>Speeding up regulatory reform activity, and consequentially reducing cost for the maritime industry, requires additional technical, policy and rules drafting capacity.</p>	<p>Maritime NZ's existing regulatory reform capacity is funded in part through Crown funding through an annual appropriation received via Te Manatū Waka and in part by Maritime Levies. The amount provided has not increased over time, so the actual value decreases with inflationary pressures and Te Manatū Waka has signalled that its contribution will not increase in the foreseeable future, so funding to address the issues will not come from the Crown. The additional regulatory reform resources needed cannot be cost recovered from current Maritime Levies revenue as this will create other functional delivery and performance issues.</p> <p>Operating under the existing regulatory reform resources means industry will bear the cost of maritime and marine protection rules that are not fit for purpose, over a longer timeframe. There are currently around 700 issues (the number of which is constantly growing) identified with existing Maritime Rules, the majority of which relate to ship design / equipment, vessel operations or personnel requirements; as a result of which operators require a range of exemptions to operate, at a cost to them as well as the regulator. In the 2021/22 Financial Year there were 379 exemption applications, and up to end January 2023 there were 140.</p> <p>Maritime NZ has not received funding for additional technical policy and drafting. We are light on this resource and it is creating a bottle neck, and our other</p>

Proposal	Problem being addressed per proposal	Why this cannot be addressed under the status quo
		regulatory policy resource can also not keep up with regulatory demand.
<p>Proposal 3: Improving our performance in responding to notifications and regulatory licencing</p>	<p>Maritime NZ’s decentralised and non-systematised approach to receiving and responding to regulatory notifications and enquires has resulted in a lack of education around notification responsibilities and as a result mixed notification of incidents, inconsistency and inefficiencies in responses, and at times failure to respond in a timely way to safety incidents, which can compromise outcomes, with front-line staff being drawn into reactive rather than proactive work. It has also made it hard to identify where further education or changes in guidance for people are needed to help them comply.</p> <p>Notification and enquiry management was a key issue also identified by stakeholders as part of an organisation review (Te Korowai). In 2022 a decision was made to create a centralised notifications and response team (NET) to address these issues and deliver better outcomes. While some initial baseline resource was found through savings through the re-organisation, for the NET team to be fully functional and sustainable additional funding is needed.</p> <p>Maritime NZ’s systems in respect to its regulatory licencing function were inefficient, and there was insufficient capacity and appropriate capability in the certification team, and this was leading to significant delay in the processing of licencing applications and a growing applications back log. In response to this crisis, which was affecting industry and creating seafarer workforce issues, in 2022 a decision was made to establish a workflow and administration team as part of regulatory licencing to develop and administer system improvements. The team was established through temporary reprioritisation and using discretionary funding made available, which enabled it to deal with immediate cost pressures. This has made a significant and positive impact on regulatory licencing functionality and the regulatory licencing backlog.</p>	<p>In respect to the NET, this team cannot be fully established or functional unless additional capacity is obtained from Maritime Levies revenue. Maritime NZ cannot find this from elsewhere, as it would require it to reduce effort in other functional areas with ensuing risks and consequences, and Maritime NZ is holding a number of regulatory risks in other areas already, as this CRIS demonstrates.</p> <p>The regulatory licencing workflow and administration team is a key part of Maritime NZ maintaining a significantly improved regulatory licencing function and has already reduced application processing timeframes from 32 to 18 days and addressed a significant certificate printing back log. From 2024/25 the cost of the team can in part be met through a forecast uplift in fees revenue generated by MTOC renewal and MARPOL certification activity but there will be a shortfall. Any flexibility Maritime NZ had through discretionary funding and the MYA will also be removed given inflationary cost pressures and the removal of the MYA. If funding is not obtained to support this team from levy it will need to be dis-established and backlogs will return.</p>
<p>Proposal 4: Establishing a third party oversight capacity</p>	<p>The consequences of regulators not appropriately overseeing third parties who have been authorised to perform regulatory functions have recently been exposed in other domestic regulatory failures. Over almost 30 years Maritime NZ has authorised over 250 third parties to variously perform 23 different regulatory functions but has to date not taken a systematised and comprehensive oversight approach. A number of issues and concerns have been identified by Maritime NZ and maritime sector participants in relation to the inconsistency and lack</p>	<p>Maritime NZ cannot recover the cost of a third party regulatory oversight team from forecast Maritime Levies revenue at existing levy rates. The option of using Maritime Levies funding that is needed for the delivery of other regulatory functions is not desirable or sustainable, and as above will have knock-on effects and compromise delivery of other levy-funded activities (with associated risks arising).</p>

Proposal	Problem being addressed per proposal	Why this cannot be addressed under the status quo
	<p>of support and monitoring of third parties. In 2022 a third party regulator stewardship framework was developed and approved. But it needs resources to apply and implement to ensure appropriate supervision of third parties. This will require a small team is to deliver the framework and reduce the risk of third party regulatory failure.</p>	
<p>Proposal 5: Sustaining funding for MARPOL Annex 6 administration</p>	<p>In 2019 the New Zealand government became signatory to what is known as MARPOL Annex IV. This is part of an international convention and sets out a regime for the prevention of air pollution from ships. Maritime NZ is the administrator of that regime and in the absence of Maritime Levies funding to cover general administrative costs⁷ the Government has to date funded Maritime NZ. That funding has been provided on an understanding that this funding review will be the mechanism through which cost recovery will shift from Crown funding to Maritime Levies.</p>	<p>The status quo (Government funding Maritime NZ's MARPOL Annex IV administration costs) has been signalled by the Government as interim and pending this funding review. The proposal to raise additional Maritime Levies reflects Government expectations of the permanent cost recovery mechanism. If additional Levies are not raised for this purpose <i>and</i> if the Government discontinues its funding, New Zealand will not be able to enforce MARPOL Annex IV requirements on relevant vessels operating in New Zealand waters.</p>
<p>Proposal 6: Seafarer Welfare Services Funding</p>	<p>Under the Maritime Labour Convention, to which New Zealand is a contracting party.</p> <p>In 2021 Parliament amended the Maritime Transport Act to expressly provide for the use of Maritime Levies to fund the provision of seafarer welfare services. As the regulated rates for Maritime Levies are not set at the level needed to generate funding for this purpose the Government has provided funding to date. There is an expectation that that funding will be replaced by Maritime Levies funding consequential to this funding review.</p>	<p>The amendment to the Maritime Levies provision in the Maritime Transport Act clearly signalled government and Parliamentary support for seafarer welfare services to be funded through Maritime Levies. The funding provided by the Government to date has been clearly signalled as an interim arrangement pending this funding review. If additional Maritime Levies are not raised for this purpose and if the Government discontinues its funding, New Zealand will find it harder to meet its obligations under the Maritime Labour Convention.</p>
<p>Proposal 8: Maintaining Marine Oil Spill Readiness and Response Capability</p>	<p>There is a significant shortfall in forecast OPL revenue when compared to the funding required to deliver the Marine Oil Spill Readiness and Response Strategy (through the mechanism of the Strategy Implementation Plan). This shortfall arises from changes to the contributing vessels activity pattern and volumes and oil types and volumes carried and used arising from the impacts of the COVID Pandemic and the closure of the Marsden Point Refinery (and its transition to a storage facility). This is compounded and exacerbated by the expiry of one component of the OPL – the Capability Levy – that was time-bound to the previous six-year OPL period (2016-2022) but needs to be replaced in</p>	<p>The status quo – OPL reduced by expiry of one previous element and substantial activity types and volume changes will result in a very significant reduction in the revenue needed to deliver the Strategy and Plan (noting Government is providing additional interim funding pending revision of the OPL).</p> <p>This reduced revenue will not allow MNZ to continue to deliver the required and endorsed level of capability – there would need to be very substantial reductions in capability (revenue reduced by between 25% and 40% - estimated) with consequent major increase in impacts from any marine oil spills – environmental damage, economic damage and severe reputational</p>

⁷ The regime includes audits and inspections, and certification requirements. Associated regulatory activity associated is cost recovered through fees.

Proposal	Problem being addressed per proposal	Why this cannot be addressed under the status quo
	order to sustain the capability endorsed and developed in that previous period.	damage. Benefits built and delivered in the previous 6 years (2016 – 2022) would be substantially eroded.

REASONABLENESS OF LEVIES RATES ARISING FROM THE PROPOSALS

There are two dimensions to consideration of reasonableness. The first is relative reasonableness, that is, whether the Levies rate increases necessary to give effect to the proposals would result in new rates that are reasonable relative to equivalent levies in other jurisdictions. The second dimension is reasonableness for those who are liable for levies.

In respect to equivalent levies in other jurisdictions there are no meaningful comparisons. This is because no two comparable⁸ jurisdictions have the same reliance on levies relative to other funding sources, have exactly the same levies frameworks, or have levies that are paid on the same basis or by the same type of liable parties. Further, the number of leviable parties across jurisdictions materially affects levies rates: the more payers, the lower the rate per payer.

New Zealand, for example, has around 3230 domestic ships (including fishing vessels) with Maritime Levies liability while Australia has 31,000 leviable commercial vessels but does not levy its fishing vessels. Further, just 38% of the Australian Maritime safety Authority's cost recovery is through levies (the balance being Crown funded) while Maritime NZ's reliance on Maritime Levies is considerably higher (currently 63% of our total funding).

Canada's maritime regulator receives 96% of its funding via the Crown, and the very small remaining portion recovered through levies is recovered from both commercial and domestic vessel operators. Singapore's maritime regulator recovers all costs through four different levies applied variously to both commercial and domestic operators.

On the basis of the above, the reasonableness of levies liability for a vessel operating in New Zealand cannot meaningfully be measured against the liability of an equivalent vessel operating in any comparable jurisdiction.

Maritime NZ has commissioned an independent economic research company to undertake research into levies in other jurisdictions and this supports our analysis viz a viz comparability. The report is available at [link](#).

With respect to the reasonableness of potentially new and higher Maritime Levies rates, Maritime NZ has made proposals only as necessary to:

- address identified regulatory risk
- attend to concerns raised by industry about the elements of Maritime NZ's performance that have a negative impact on safety and environment outcomes, and also may be disrupting the efficient and effective operation of the maritime sector with impacts on the broader New Zealand economy
- cost recover for activities that Maritime NZ needs to undertake or facilitate as a consequence of Government decisions.

Maritime NZ therefore considers that it has no choice but to advance the proposals, which, if adopted, will result in higher Maritime Levies.

Maritime Levies methodology does not factor in ability to pay. However, we have given full consideration to the impact of increased Maritime Levies on different parts of the sector and different types of operation. We also note that not making the changes can also impact on economic operation of the levy payers and sector. Our analysis is covered in the two sections below. Materially, it finds that the very largest domestic operators (who will see proportionately the highest increase in liability) operate at a scale where that increase can be absorbed or covered through a minimal per unit charge increase. For example, a very large passenger ship making an average of 4 trips a day, and on each voyage carrying an average of 250 people has 365,000 passenger units across which to spread increased levies revenue every year. For a much smaller

⁸ Comparable in that these have developed regulatory frameworks that are given effect through legitimate law making processes and there is accountability for the level of charges.

operator, for example a 104 gross tonne aquaculture vessel (mussel barge) would incur an increased levy of \$236 per year, equivalent to 64 cents per day. Further examples are set out in Tables 8 and 9.

For Oil Pollution Levies, we have set out the impact by vessel type in Tables 12 and 13. All vessels subject to Oil Pollution Levies (vessels of over 100 gross tons and 24 metres in length) are subject to Maritime Levies. Approximately 150 domestic vessels are liable to both levies. As the increase in Oil Pollution Levies is relatively less than the increase in Maritime Levies, the volume and scale of activity conducted by these vessels means there is capacity to absorb the extra cost through a small increase per unit (cost per freight or passenger unit).

The increased levies rates, if effected, will come into force in July 2024. This means that from their announcement, which could be in July 2023, those who are liable have a full year to plan for, and as necessary make provision for, any levy increases.

THE LEVEL OF THE PROPOSED CHARGE AND ITS COST COMPONENTS

Tables 3 and 4 below show the proposed revenue from the Maritime and the Oil Pollution Levies, if all levies related proposals are adopted.

Table 3: Proposed Maritime Levies revenue (\$m)

The baseline in 2023/24 is assumed to be \$35.4m.

2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
45.7	46.7	49.0	51.2	53.6	55.8

Table 4: Proposed Oil Pollution Levies revenue (\$m)

The baseline in 2023/24 is assumed to be \$8.7m⁹.

2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
9.2	9.5	9.8	10.1	10.4	10.8

Table 5 on the following page shows the cost components of the proposals.

If all proposals are adopted this would result in an average uplift of \$10.3m per annum in maritime levy revenue (approximately 29%) for the 3 year period 2024/25–2026/27. Of that overall increase, 30% is to cover the cost of commitments already made by Government (through proposals five and six) and 20% attends to normal inflationary cost pressures in areas of work covered by the levy; with the remaining 50% addressing known regulatory risks (through proposals one to four).

For the OPL, the proposal would restore levies revenue to that required to deliver the required capability that is currently being delivered by the current OPL plus Government top-up funding – so removing the cost to government and returning to a full-cost recovery model. The proposal would result in an average annual uplift of \$0.77m (from the 2023/24 baseline) in Oil Pollution Levies over the same period; an 8.8% average annual increase over 3 years.

⁹ Target revenue – taken from Strategy Implementation Plan 2022-2028 at December 2022 Appendix One, page 30.

Table 5: Cost components of Maritime Levy proposals

Proposal	Proposal	FTE	Personnel	Operating	Total
Proposals that offer more/higher quality of existing service and maintain the way costs are apportioned					
1	Maintaining and enhancing regulatory operations capacity	9	1.3	0.6	1.9
2	Supporting the achievement of safety and marine protection outcomes at reduced cost	5	0.7	0.3	1.0
3	Improving our performance in responding to notifications and regulatory licencing	5.75	0.9	0.3	1.2
Proposals that offer new service/output and recover costs from beneficiaries through well-established cost recovery method					
4	Establishing a third party oversight capacity	4	0.6	0.2	0.8
5	Sustaining funding for MARPOL Annex VI administration	4	0.5	1.3	1.8
6	Seafarer Welfare Services Funding	1	0.15	1.35	1.5
Address cost pressures and maintain the way those costs are apportioned					
Cost pressures	Maritime levy related cost pressures		1.6	0.5	2.1
Maritime Levies		28.75			10.4
Proposals that maintain an existing service and change the way those costs are apportioned					
8	Maintaining Marine Oil Spill Readiness and Response Capability	N/A	0.06	0.37	0.4
Maritime Levies & Oil Pollution Levies					10.8

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

Table 6: Supporting evidence to costs

Proposal	Rationale for cost and what purchasing	Further evidence to support the investment	Counterfactual
Proposals that offer more/higher quality of existing service and maintain the way costs are apportioned			
<p>1 Maintaining and enhancing regulatory operations capacity</p>	<p>Increased resources to: undertake Port State Control (PSC) activity at the level necessary to inspect all priority high risk ships; undertake sufficient regular inspections to support deterrence of the arrival of sub-standard ships; and manage effectively any poor quality vessels that do arrive.</p> <p>There are currently only 5 maritime officers with the necessary experience and training in international convention requirements to undertake PSC inspections, so a new model (increase of 9 FTE) is required to address the risk identified.</p> <p>This includes an Inspections Team made up of 6 FTE inspectors, a scheduling resource, Manager, and a principal advisor which has been assessed as the necessary structure and quantum to enable Maritime NZ's to achieve sufficient regulatory outcomes in the large ship area. A team of this size and make up will mean Maritime NZ can inspect Priority 1 vessels (both to comply with our Tokyo MOU agreement obligations and attend to high risk vessels); undertake some minimal sub-standing shipping deterrence activity; inspect other vessels we have assessed as high risk, and support inspections to occur when we find a ship with extensive issues which may require more intensive resource.</p> <p>Operating costs include motor vehicles for Port State Officers to do their role.</p>	<p>In FY2022 161 PSC inspections were undertaken on the 1070 foreign vessels visiting New Zealand ports, some ships with identified deficiencies had multiple inspections, so it is not 161 ships that were inspected. This does not enable us to inspect priority 1/high risk vessels; the inspection of other vessels that our intelligence signals are high risk; and a small number of random inspections that are critical as a deterrent to poor quality vessels being sent to New Zealand. 100% of domestic SOLAS vessels were inspected on schedule, however, the domestic fleet is aging and maintenance issues are requiring more inspections and intensive work we are finding hard to manage.</p> <p>The mix of Priority 1 and other high risk vessels identified may change; as too might the mix of vessels (for example more Cruise ships) and this will impact both the need for more inspections and the number of additional inspections that can be undertaken. For example, a Cruise ship can take 5-7 days to inspect and require 4 inspectors; a less complex and smaller scale inspection takes between 2-3 days; and if a vessel is detained or specific compliance action is required an inspector may be fully engaged for several weeks on matters arising from a single inspection. As a case in point, a number of inspectors have been fully engaged for two weeks on just two vessels with issues in our coastal waters. But assuming the Inspections capacity uplift will roughly align to an inspection number uplift, this could see an increase of inspections from 161 to 320 or more with the full team in place, and more time to work intensively with some vessels holding a number of deficiencies, and to allow our inspectors to undertake the necessary learning and development to keep up with changes to international conventions and to continually improve the practice involved.</p>	<p>More risk of catastrophic harm events with large fatalities, poor environmental outcomes and cost, and also the potential for more individual serious injuries and fatalities. It will not address the areas requiring action identified by unions, stevedores, Port operators, other government agencies and pilots, as well as the Port Health and Safety Leadership Group.</p>
<p>2 Supporting the achievement of safety and marine protection outcomes at reduced cost</p>	<p>Increased resources to deliver Maritime NZ's annual regulatory (rules) reform programme and speed up regulatory reform activity. Additional 5 FTE:</p> <ul style="list-style-type: none"> • 3 FTE as extra drafting, technical and implementation design resource to significantly reduce bottlenecks in making changes to the most complex and impactful rules reforms we already know we need to address; based on the existing rules programme; known future issues; and historical pace at which new issues emerge from the rules programme and IMO. • 2 FTE for regulatory policy capacity to ensure we can keep pace of the stream of issues emerging from the rules programme and IMO: progressing a larger number of medium (at least one) and smaller changes and speeding up processes around large or very large changes. Enables more consistent, timely and accurate incorporation of IMO rules changes. <p>Alongside investment above, would ensure that we address existing issues at least as fast as new issues emerge; so our backlog of issues does not grow faster than our ability to address them; based historical pace at which new issues emerge from the rules programme and IMO.</p> <p>There are currently around 20 FTE directly supporting the rules programme in policy, drafting, technical or implementation / service design roles.</p>	<p>The rules programme is agreed with the Minister and Ministry and made up of: identified problems with current rules; political priorities for new rules; and incorporation of new international requirements from IMO. It incorporates policy, drafting and support for planning implementation. New issues and requirements for changes constantly arise.</p> <p>Current resources can progress 2 big or very big rules reform, as well as 2-4 medium issues and a small but variable number (depending on complexity) of smaller issues at once. For example, in the last 12 month period this has included rules work on 40 series as a 'very big' reform; MARPOL VI as a 'big' reform; work on recreational boating rules and rules to implement the Cape Town agreement as 'medium' reforms; and a wider variety of smaller rules or connected issues, such a pilot ladders, STCW issues or watch-keeping.</p> <p>Current resources are not sufficient to keep pace with pace of issues emerging. There are currently around 700 issues on our (which is non exhaustive and continuously evolving) register of issues with existing rules. There are a number of significant (very large, large or medium) issues we are not currently able to start work on, including issues relating to Seafarer Certification rules, pilotage rules and MOSS settings; and we have fallen behind on the incorporation of international rule changes, which is also problematic for industry and a source of criticism for NZ from IMO.</p>	<p>Issues with the rules will grow faster than our ability to address them and New Zealand will fall further behind on consistency with international standards. Industry will bear the cost of maritime and marine protection rules that are not fit for purpose, over a longer timeframe; with a significant risk that cost will grow further.</p>
<p>3 Improving our performance in responding to notifications and regulatory licencing</p>	<p>Staff for the centralised notifications and response team (NET) to more efficiently deliver regulatory licencing functions, and to continue the certification administration team.</p> <p>5.75 FTE to:</p> <ul style="list-style-type: none"> • make the necessary links between notifications and points of vulnerability in safety system or other rules requirements • reduce backlogs in certifying vessels, operators and seafarers which will prevent operating disruption and loss of income 	<p>Of the 5.75, 2.75 FTE, will form the NET team. In confirming the required size and make-up of the NET Maritime NZ undertook a detailed analysis of the nature, scale and complexity of incoming enquiries and notifications and the quantum of effort likely to be required in their receipt, triage and response. We also factored in other elements of the NET function; recording and analysis of notification and enquiry trends, and providing insights into where guidance and education is needed.</p> <p>The balance of 3 FTE represents the proportion of the regulatory licencing workflow and administration team that we propose is cost recovered through Maritime Levies. Accounting for the uplift in fees revenue anticipated as a consequence of MOSS certification renewal activity and MARPOL Annex IV certification activity (around \$400k per annum averaged over the six years from 2024/25), the cost of a 3 FTE positions is the shortfall.</p> <p>The workflow and administration team is already in effect and has been instrumental in removing an administrative backlog, and reducing application processing timeframes from 32 to 18 working days, but this money will not be available when the Multi-Year Appropriation is completed.</p>	<p>Notification and enquiry management issues identified by stakeholders will not be addressed and regulatory licencing backlogs will return.</p>



Proposals that offer new service/output and recover costs from beneficiaries through well-established cost recovery method				
4	Establishing a third party oversight capacity	<p>New resources to provide oversight of third parties performing regulatory functions to reduce the risk of third party regulatory failure. This will improve our understanding of the key risks posed by third parties undertaking regulatory functions and take a consistent, risk-based, approach to monitoring the performance of third parties undertaking regulatory functions.</p> <p>A new team of 4 FTE will:</p> <ul style="list-style-type: none"> Establish basic tools to oversee important (and high risk) regulatory functions that have been delegated to Third Parties including a monitoring and oversight of some of the highest risk arrangements. Complete service design work to develop and implement a consistent approach to oversight of third parties under existing and any new regulatory design. <p>The team would report to an existing manager. It would be made up of a principal advisor, senior level technical advisor, an operational policy advisor, and a trained auditor. This mix of competencies ensures there is expertise across all elements of the framework.</p>	<p>There are 250 individuals and entities performing around 23 regulatory functions and exercising regulatory powers under a delegation, recognition or approval granted by Maritime NZ.</p> <p>We have built the size and composition of the proposed team around the skills and nature of effort needed to effectively roll out the third party regulators stewardship framework. The establishment of a dedicated small team is necessary to ensure the framework's application and delivery. Having such a resource also means subject matter expertise would be built, documented and sustained.</p>	<p>A risk that a significant harm-causing regulatory failure will occur involving the large number of third-party entities who are not currently being robustly monitored, but who have a key role in the Maritime system.</p>
5	Sustaining funding for MARPOL Annex VI administration	<p>An additional 4 FTE to administer MARPOL Annex VI is made up of two and a half FTE frontline staff, one technical specialist and half an FTE senior solicitor.</p> <p>The additional regulatory work includes new functions to test fuel from ship bunkers and develop new surveys as well as extensions to existing functions such as ship certification. A small amount of cost will be recovered through direct charges to the maritime sector for certification activities subject to pending changes to the Maritime (Charges) Regulations 2014. Implementation of new legal requirements - some requirements in the marine protection rules must be complied with from the date the rules come into force in 2022, some later in 2022 and some from 1 January 2023.</p> <p>Operating costs for fuel sampling and testing services are approx. \$900k.</p> <p>This detail was submitted to Treasury for Budget 2022 on which liquidity funding was provided for this amount until a funding review could take place.</p>	<p>The government committed to acceding to MARPOL Annex VI by the end of 2021 and the marine protection rules come into force three months later, as is required by the MARPOL convention. This initiative introduces the regulation of air pollution from ships to Maritime NZ which is a new function. New functions required are a cost pressure.</p>	<p>If the proposal is not funded or is deferred, New Zealand will not meet the obligations of the MARPOL Annex VI international. If New Zealand does not properly implement Annex VI now, the New Zealand shipping industry will fall further behind the world in controlling air pollution and greenhouse gas emissions from ships and the future gap will be harder for industry and the regulators to fill.</p> <p>This initiative cannot feasibly achieve its objectives without full funding as there are eight different air pollutants regulated by Annex VI, impacting all ships operating in New Zealand coastal waters. Less than full funding will leave New Zealand unable to reliably meet the international obligations to which the government is committed.</p>
6	Seafarer Welfare Services Funding	<p>Resources to provide seafarer welfare services in New Zealand:</p> <ul style="list-style-type: none"> \$1.2m contract funding resource to support the coordination and provision of counselling and pastoral support in the larger ports across New Zealand including a sum for the provision of facilities and supplies. \$0.3m Maritime NZ expertise to support, provide oversight and monitor the SWB contract <p>Funding to Seafarers Welfare Board (SWB) of Aotearoa to ensure:</p> <ul style="list-style-type: none"> Seafarers have access to shore-based welfare facilities and services; a technically competent person is available at each facility. promote the development of welfare boards to regularly review facilities; Monitor quality of delivery of services <p>This detail was submitted to Treasury for Budget 2022 on which liquidity funding was provided for this amount until a funding review could take place.</p>	<p>Previously this has been supplied on a voluntary basis which is no longer considered appropriate given seafarer health and wellbeing are at crisis levels, partially as a result of COVID-19. While seafarer mental health statistics have always been comparatively high to global norms, the global pandemic has significantly exacerbated the issues with seafarers being at sea for indefinite periods of time and under shore-leave restrictions. The impacts on mental health are staggering and the global issue has been in the spotlight over the last 12 months. Through the pandemic, Maritime NZ and the Ministry of Transport has sought to provide through the Seafarer Welfare Board including providing wi-fi in port, shopping for personal supplies (given shore-leave is prohibited) and critical pastoral care. Even with this very modest support, the risks of physical or mental health incidents in seafarers are high.</p> <p>The Labour Party 2020 Workplace Relations and Safety manifesto included a commitment to ensure that Seafarer Welfare Centres provide welfare services, as required for New Zealand to meet Maritime Labour Convention (MLC) requirements.</p> <p>COVID-19 has highlighted issues with the limited provision of seafarer welfare services in NZ which are in high demand and the mental health of seafarers is considered to be at crisis levels.</p>	<ul style="list-style-type: none"> These high demand services may or may not be delivered by volunteers. A lack of seafarer welfare services will impact international seafarers and shipping lines may choose to withdraw shipping services to New Zealand if their seafarers are not able to access essential services. Supply chain risks arise from the impacts on crew (given New Zealand is geographically isolated). New Zealand would breach obligations under the Maritime Labour Convention.
Address cost pressures and maintain the way those costs are apportioned				
	Maritime levy related cost pressures	<p>Costs (such as existing staff salaries) have increased for core Maritime levy funded regulatory functions since the last funding review to maintain the current level of capability (currently covered by Crown funding).</p> <p>This has currently been met by the provision of Crown Liquidity funding during shortfall of levy funding.</p>	<p>Maritime NZ face ongoing inflationary cost pressures via rising salary and operating costs. These have been modelled at 3% salaries and wages and 3.3% for other operating costs as guided by Treasury.</p>	<p>If these cost pressures are not addressed then Maritime NZ will need to cut regulatory services which will further exacerbate risk.</p>
Proposals that maintain an existing service and change the way those costs are apportioned				
8	Maintaining Marine Oil Spill Readiness and Response Capability	<p>Develop, sustain and evolve capabilities so that New Zealand can respond to, and provide an effective and efficient response to, marine oil spills.</p> <p>Training, exercises, organisation, people and equipment costs as per the Strategy Implementation plan 2022-2028.</p> <p>The programme has been highly successful, increasing overall capability and ensuring that assets are fit-for-purpose, of a manageable age and that the overall asset management programme going forward will be sustainable at a reduced level of capital spend (as reflected in the Strategy Implementation Plan - SIP). The consequence of this successful capability uplift is that the costs to sustain capability have risen over time. Together with inflation, contract indexation and other time driven cost increases the total overall per annum OPL revenue requirement going forward does not reduce even though the Plan has been completed. Rather a comparable level of overall funding is required going forward to sustain the capability build over time.</p>	<p>At the last OPL Review (2015/16) Government agreed to a very significant increase in Marine Oil Spill Readiness and Response Capability with a major asset replacement and upgrade programme, additional training capacity and increased operational spending. This programme was described in detail in the Capability Plan (the Plan) and funded by one element of the levy – the Capability Levy. Originally a three year Plan, Government directed its delivery over a six year period and the Capability Levy element of the levies was time-bound to this period.</p>	<p>Reduction in Marine Oil Spill Readiness and Response Capability and deterioration of assets over time.</p>

IMPACT ANALYSIS

MARITIME LEVIES

If all proposals are adopted the new rate alongside the current rate for the three factors used to calculate the Maritime levy payment for a vessel is shown in Table 7 below.

Table 7: Current versus Proposed Maritime Levies factors

Vessel	Gross tonnage	Deadweight tonnage	Passenger capacity	Overall length
Foreign passenger	0.1004 0.1282	0.0082 0.0103	2.0248 2.5845	N/A
Foreign non passenger	0.1178 0.1504	0.0095 0.0121	N/A	N/A
NZ SOLAS	7.7931 9.9463	0.4607 0.5879	46.71 59.6161	N/A
NZ non-SOLAS (24m or more in length)	8.2197 10.4885	N/A	17.5403 22.3867	N/A
NZ non-SOLAS (less than 24m in length)	N/A	N/A	17.5403 22.3867	15.1746 19.5376

Note: The overall length in metres (Length) is used for New Zealand non-SOLAS under 24 metres and gross tonnage (GT) for all other vessel categories.

As was undertaken during the 2019 funding review these factors will be built into a Levy calculator so payers can calculate the proposed rate. This is an important tool as the Maritime and Oil Pollution Levies costs are unique to individual vessels and are dependent upon vessel characteristics. All examples below in Tables 8 and 9 are indicative only.

Table 8 Examples of current versus proposed Maritime Levies rates for indicative foreign vessels

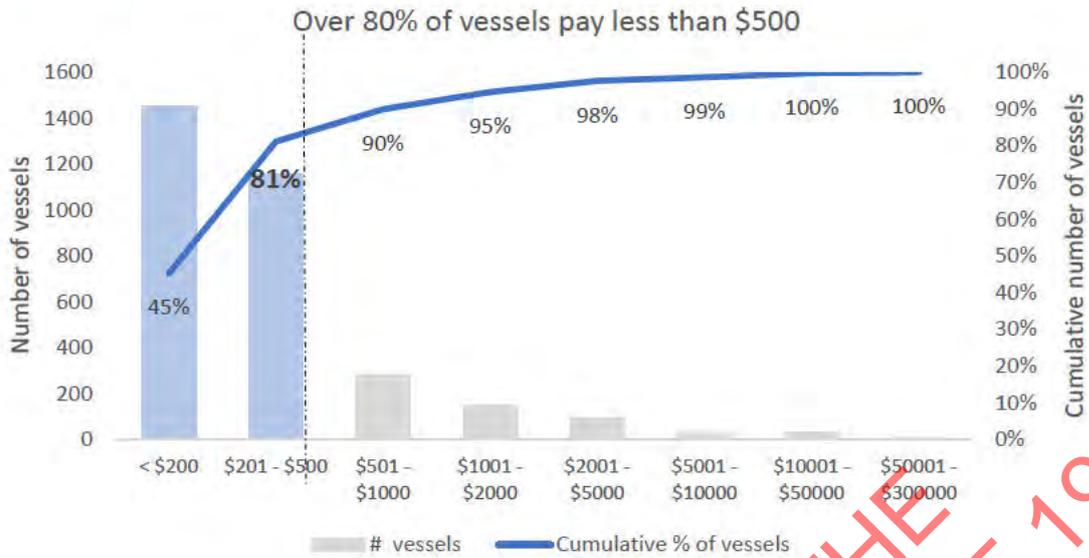
Vessel type Paid per port visit		2022/23 current rates	2024/25 proposed rates	Variance between current and proposed rates
	International Oil Tanker (SOLAS) GT 25,000 PAX 0 DWT 45,000	\$3,373	\$4,303	\$930
	International Container Ship (SOLAS) GT 40,000 PAX 0 DWT 52,000	\$5,206	\$6,643	\$1,437
	International Cruise Vessel (SOLAS) GT 110,000 PAX 2500 DWT 15000	\$16,229	\$20,716	\$4,487

Table 9: Examples of current versus proposed Maritime Levies rates for indicative domestic vessels

Vessel type Paid Annually		2022/23 current rates	2024/25 proposed rates	Variance between current and proposed rates
	Domestic Passenger Ferry (SOLAS) GT 22,365 PAX 1,350 DWT 5,794	\$240,020	\$306,338	\$66,318
	Domestic Container Ship (SOLAS) GT 6000 PAX 0 DWT 10,000	\$51,366	\$65,557	\$14,192
	Domestic Coastal Fishing Trawler (non-SOLAS) GT 529 PAX 0 DWT 0	\$4,348	\$5,548	\$1,200
	Domestic fishing Length 5.9 metres	\$90	\$115	\$26
	Domestic non-passenger aquaculture vessel (mussel barge) GT 104	\$855	\$1,091	\$236
	Domestic non-passenger barge GT 150	\$1,233	\$1,573	\$340
	Domestic non-passenger Length 23.9 metres (including tugs)	\$363	\$467	\$104
	Domestic non-passenger Length 8 metre workboat	\$121	\$156	\$35
	Domestic Passenger Ferry (Non SOLAS) GT 280 PAX 300 DWT 0	\$2,828	\$3,608	\$781
	Domestic Charter Passenger Boat (Non SOLAS) Length 18 metres PAX 140 DWT 0	\$519	\$665	\$146
	Domestic Charter Passenger Boat (Non SOLAS) Length 8 metres PAX 14 DWT 0	\$139	\$179	\$40
	Domestic Commercial Jet Boat Length 8.2 metres PAX 8 DWT 0	\$265	\$339	\$75
	Domestic passenger Commercial dive boat Length 4.5 metres PAX 4	\$138	\$177	\$39
	Domestic passenger 3.7 metre personal watercraft (jet ski/novel craft) PAX 1	\$74	\$95	\$21

Foreign vessels make up 91% of Maritime Levies revenue while the domestic sector makes up only 9%. In the domestic sector 45% of vessels attract levy costs of less than \$200 and 81% of vessels less than \$500 as shown in Figure 1.

Figure 1: Proportion of Vessels



OIL POLLUTION LEVIES

In percentage terms, there are significant changes in the shares paid by the sectors (Domestic and International and their sub-sectors). These sector shares are shares of the assessed overall “system” risk. These have changed due to a number of significant changes from the last assessment in 2018/19 – the OPL “Mid-Point” Review. At that time and previously (the 2016 OPL Review) there were also significant changes in sector risk share; sector risk share changes are not, therefore uncommon.

For this review there have been some major shifts in vessel activity patterns and activity types and volumes. In addition the fundamental “balance” between the two types of oil imported as cargo (and to a far lesser extent used as bunker fuel) has changed with the closure of the Marsden Point Refinery operation – previously New Zealand imported large volumes of “persistent” oil for refining into other hydrocarbon products. Now the bulk of imported oil is already refined into those specific products. As such the risk profile overall has changed significantly.

Further the proposal to refine the OPL allocation methodology to align it to the Maritime Levy methodology has flow on impacts around sector share. The proposal is to take a whole of system approach that looks at system risks if unmitigated to determine who should pay to ensure a safe and effective system vice the previous OPL methodology that used a dynamic, detailed and expensive likelihood and consequence model focused on statistical accident and incident data in the system and actual shipping activity and specific geographical location impacts.

As a result of all of the above factors, one sector that previously made a large revenue contribution – the domestic tanker sector has in effect ceased to exist. Foreign tanker cargo, now in the form of non-persistent oil, has increased substantially, as refined products are now shipped by this sector. The foreign passenger, cargo and tanker bunker contribution also increase. This is driven by the fact that there is a lot of activity in this sector and the need to raise the required revenue is allocated across the sectors, in part by the amount of activity forecast.

There is also a substantial percentage change in the contribution proposed to be raised from the Floating Production Storage Offloading (FPSO) facility. While the amount sought is not significant in the overall revenue required or significant to the one payer in the sector the percentage change is very large. Noting however that the FPSO sector, under the previous methodology, has for some time had very limited or nil liability. The significant increase reflects that this sector (currently one operator) brings risk to the system and creates the need for it. The levies liability uplift comes from a very low base and as a percentage of total risk / liability is relatively small.

As above, the change results from the application of the Maritime Levy risk methodology – that methodology considers the possible or potential risk from a sector that needs to be mitigated by the regulation and compliance capabilities of both the national and international systems and seeks funding based on these unmitigated system risks from system participants.

The previous OPL methodology looked at the statistical risk of the FPSO (and all other sectors) using historical accident rates and forecast activity levels. As such it took account of the risk level of a sector where the mitigations are already in place.

FPSOs in New Zealand are statistically ‘very safe’; as such, the previous OPL methodology resulted in a very low contribution. But, under the proposed methodology, the reason that FPSOs in general are “safe” is that the domestic and international system has evolved to make them so; as such they should be contributing more significantly to that overall system than under the current methodology.

Overall, as for the Maritime Levies, while the percentage increases in rates are significant for some sectors, the amounts sought as a result are in general not, and, their impacts on individual parties within each sector is small in relation to the scale of their economic activity.

Table 10: Impact on Oil Pollution risk allocation

		Existing risk from MOSRA 2018		Proposed risk	
		Persistent	Non-Persistent	Persistent	Non-Persistent
Domestic	Passenger, cargo, and tanker bunker	15.9%	0.8%	3.4%	0.1%
	Tankers	3.1%	8.3%	0.1%	0.0%
	Fishing	1.1%	0.0%	0.2%	0.0%
Foreign	Passenger, cargo, and tanker bunker	26.5%	0.3%	67.5%	0.4%
	Tankers	34.9%	9.2%	1.6%	25.7%
	Offshore oil & gas	0.0%	0.0%	0.9%	0.0%
		81.4%	18.6%	73.8%	26.2%

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

Table 11: Impact on Oil Pollution Levies rates

Vessel or oil site type	Oil Type	Current Base Levy	Proposed Base Levy	\$ Δ	% Δ	Basis of calculation
NZ vessels						
Passenger and cargo ships, harbour tugs and oil tankers	Persistent	414.69 cents	174.57 cents	-240.12 cents	-58%	Per gross ton of the vessel
	Non Persistent	414.69 cents	102.706 cents	-311.98 cents	-75%	Per gross ton of the vessel
Oil tankers carrying oil as cargo	Persistent	29.96 cents	12.899 cents	-17.06 cents	-57%	Per tonne of oil carried as cargo
	Non Persistent	26.76 cents	7.589 cents	-19.17 cents	-72%	Per tonne of oil carried as cargo
Fishing vessels	Persistent	73.56 cents	30.965 cents	-42.59 cents	-58%	Per gross ton of the vessel
NZ oil sites						
Floating vessel used in production, storage and offloading of oil (FPSO)	Persistent	\$858.66	\$82,346.11	\$81,487.45	9490%	Fixed Fee
Foreign vessels						
Passenger and cargo ships, harbour tugs and oil tankers	Persistent	.54 cents	2.64 cents	2.1 cents	389%	Per gross ton of the vessel
	Non Persistent	.54 cents	1.55 cents	1.01 cents	188%	Per gross ton of the vessel
Oil tankers carrying oil as cargo	Persistent	36.14 cents	35.58 cents	-.56 cents	-2%	Per tonne of oil carried as cargo
	Non Persistent	7.6 cents	20.94 cents	13.34 cents	175%	Per tonne of oil carried as cargo

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

VESSELS PAYING BOTH MARITIME AND OIL POLLUTION LEVIES

Table 12: Examples of Foreign vessels paying both Maritime and Oil Pollution levies

Vessel type Paid per port visit		FY25 Proposed Rate Maritime Levy	FY25 Proposed Rate Oil Pollution Levy	Proposed total Levies Increase
	International Oil Tanker (SOLAS) GT 25,000 PAX 0 DWT 45,000	\$4,303	\$524	\$1,319
	International Container Ship (SOLAS) GT 40,000 PAX 0 DWT 52,000	\$6,643	\$838	\$2,059
	International Cruise Vessel (SOLAS) GT 110,000 PAX 2500 DWT 15000	\$20,716	\$2,305	\$6,198

Table 13: Examples of Domestic vessels paying both Maritime and Oil Pollution levies

Vessel type Paid Annually		FY25 Proposed Rate Maritime Levy	FY25 Proposed Rate Oil Pollution Levy	Proposed total Levies Increase
	Domestic Passenger Ferry (SOLAS) GT 22,365 PAX 1,350 DWT 5,794	\$306,338	\$31,006	\$4,578
	Domestic Container Ship (SOLAS) GT 6000 PAX 0 DWT 10,000	\$65,557	\$8,318	-\$2,371
	Domestic Coastal Fishing Trawler (non-SOLAS) GT 529 PAX 0 DWT 0	\$5,548	\$164	\$975
	Domestic Passenger Ferry (Non SOLAS) GT 280 PAX 300 DWT 0	\$3,608	\$388	\$8

CONSULTATION

Maritime NZ has not consulted with any parties on any of the proposals that have Maritime Levies implications. It is the purpose of the formal consultation process to give all affected and interested parties equal opportunity to consider and to provide feedback.

However, in respect to Proposal 6 (Seafarer Welfare Services funding) Maritime New Zealand has had some interim engagement with the Seafarers' Welfare Board, some port welfare providers, seafarer representative groups, and ship owners' representatives, including New Zealand maritime levies payers. These meetings set out the background to MNZ funding of some seafarer welfare services and the levies review process, and noted the amendment to the Maritime Transport Act that allows these services to be funded by Maritime Levies. The meetings were an opportunity for MNZ to listen to the sector, and to get participants' initial views about and experiences of seafarer welfare, including what the strengths of the current system were, how it could be improved, and what sort of arrangements should be put in place for

sustainable funding and delivery. Discussions have also been had with the Australia Maritime Safety Authority over the policy direction in Australia. Throughout that engagement there was no discussion of the specific proposal nor any others.

The two proposals relating to Oil Pollution Levies (OPL) (Proposals 7 and 8); going respectively to revising the OPL liability allocation methodology and raising additional OPL have been discussed with the Oil Pollution Advisory Committee (OPAC). OPAC represents all OPL paying sectors. The proposal to revise the OPL is for the purposes of continuing to give full effect to the strategy and detailed implementation plan for marine oil spill preparedness and response that has already been endorsed by OPAC, and supported via interim Government funding.

OPAC is aware of the drivers for reduced OPL revenue giving rise to the risk of a capability gap. OPAC is a statutorily appointed committee with whom all matters concerning the OPL and its expenditure are discussed as a matter of course.

CONCLUSIONS AND RECOMMENDATIONS

As this is an interim CRIS on matters that are under consultation, no conclusions have been reached and no recommendations can be made.

IMPLEMENTATION PLAN

Five of the eight proposals concern funding for activities that are already in effect or are in the process of being implemented under established plans. There are only three new implementation plans that would need to be developed (assuming the relevant proposals are adopted) and Maritime NZ has not invested in such planning ahead of consultation. Further, cost recovery required to effect the proposals is not intended to commence until 1 July 2024. Based on planned decision timeframes, there will be a full year between confirmation of a proposal's adoption and the commencement of implementation. In all these circumstances, implementation planning is considered premature and an inefficient use of resources. The three proposals for which no implementation planning will occur until decisions have been made post consultation are: the establishment of a third party oversight capability; a new OPL allocation methodology; and seafarer welfare funding (the current funding distribution model could change). The delivery plan for Marine Oil Spill Readiness and Response is already in effect and is delivering on the first year details of the Strategy Implementation Plan (SIP). For 2023/24 MNZ will use the SIP as the basis for the planned activity. Current planning would have the revised OPL coming into effect from 1 July 2024 and delivering the Year 3 (and onwards) activities of the SIP.

MONITORING AND EVALUATION

Regular monitoring of Maritime NZ's performance is undertaken by the Ministry of Transport as the monitoring agency for transport sector agencies. This will include performance targets for the proposals where the increase in funding proceeds.

The funding review changes based on the above proposals (including the Crown budget bids) will be evaluated in 2022/23.

Changes will be successful if Maritime NZ's performance is assessed as:

- meeting Maritime NZ's Statements of Performance Expectations each year to 2022/23
- continuing to meet international good practice guidelines (including through audits under international conventions, e.g. by the International Maritime Organization, to retain New Zealand's 'acceptable' status under international conventions).

REVIEW

Maritime NZ does a full funding review every six year with a midpoint review as a check at year three of that next six year period. The last full funding review was 2018/19 with a midpoint review due in 2021/22, but this was delayed until now due to a government decision during COVID-19.

Under the current Transport Sector funding review programme Maritime NZ is scheduled to undertake a full funding review in 2025/26 if it is considered necessary should revenue, activity volumes and cost pressures change due to demand or a change in the operating environment.

Breanne Dirk

From: Robyn Wong <Robyn.Wong@maritimenz.govt.nz>
Sent: Friday, 24 February 2023 1:55 pm
To: Richard Cross; Johnny Crawford
Cc: Andrew Saunderson; Peter Brunt; Nigel Clifford; Louise Dooley; Katie Haughey
Subject: Final Draft Consultation Document
Attachments: Maritime NZ Review of Levies F~ Consultation Document (DRAFT).DOCX; OPL changes sent to TMW 24 Feb.pdf

Kia ora Richard and Johnny,

I've attached a final draft CD (marked up) as requested. Please note that there may be tweaks to the foreword next week.

Changes include:

1. A new paragraph on Reserves (Part 1, Overview and context, Page 6)
2. Addition of the scaled option (Part 2, Proposals, Page 12)
 - a. Proposal 2 scaled (pages 13-14)
 - b. Proposal 4 scaled (page 15)
 - c. Proposal 6 scaled (page 17)
3. A sentence explaining the "Financial and other implications" section does not include rates for the scaled option (page 19)
4. Tweaks for OPL rates in tables 2, 3 and 4 (Financial and other implications, pages 19-20)

In regards to 4 above and the tweaks to OPL rates, we have created a separate document to explain the changes. I've attached this also for your reference. In short, we've made a correction to the rates for oil as bunker fuel (no distinction between persistent and non-persistent) which has had a trickle effect on all rates.

Please don't hesitate to contact me should you have any questions.

Ngā mihi nui
 Robyn

Robyn Wong
 Strategic Business Analyst
 Planning, Performance & Risk
 Maritime New Zealand | Wellington
 Nō te rere moana Aotearoa
 s 9(2)(a) [W maritimenz.govt.nz](http://www.maritimenz.govt.nz)

Think GREEN before choosing to print this email



This email message and any accompanying attachments do not necessarily reflect the views of Maritime New Zealand and may contain information that is confidential and subject to legal privilege. If you are not the intended recipient, you must not use, disseminate, distribute or copy this email message or its attachments. If you have received this message in error, please notify the sender by email immediately, and erase all copies of this message and attachments. Thank you. Address: Maritime New Zealand, Level 11, 1 Grey Street, Wellington 6011. PO Box 25620, Wellington 6140 Tel: 0508 22 55 22 (04 473 0111) Fax: 04 494 1263. www.maritimenz.govt.nz

CONSULTATION DOCUMENT

MARITIME NZ REVIEW OF LEVIES
FUNDING FOR 2024/25 – 2029/30

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

FOREWORD FROM THE AUTHORITY CHAIR AND THE DIRECTOR

This consultation document provides an opportunity for all people that receive the benefits of Maritime NZ's performance, and fund the organisation to carry out its regulatory functions, to engage on potential changes to levies.

Kirstie Hewlett, Maritime NZ's new Director was welcomed in June 2021 and her first priority was to get a good understanding from industry around how Maritime NZ was performing as a regulator. Kirstie's engagement with a number of you, alongside other work we have undertaken, and an international audit, generated some key insights into what was working well and where improvements needed to be made. We listened, and through a whole of organisation strategy we have been working on the areas we collectively identified as regulatory risks or where regulatory services could be improved.

Over 2022 we developed the regulatory strategy Te Korowai o Kaitiakitanga (the Cloak of Stewardship) to address regulatory risks and improve regulatory services. As part of that work we went through an organisational re-design to ensure we were operating as efficiently and effectively as we could, alongside looking for efficiencies in other areas, for example sharing property with other Government agencies in our satellite offices to save costs. We used the savings created by the new structure to start addressing issues concerning and affecting the maritime sector including regulatory licensing delays and backlog, our need to focus more on deterring sub-standard ships on internal voyages arriving at our ports, and being more responsive (quicker and better) when we receive enquiries or notifications.

However, our internal efficiencies by themselves are insufficient to address some regulatory risks, or to deliver the service needed by the sector. There are just eight proposals for your consideration, and of those, four are focused on building on what we have done so far, addressing a narrow set of residual regulatory risks and making provision for further functional improvement. We recognise industry pressures and have focussed this funding review on critical risks and issues, and the minimum viable proposition to address them. Many of the proposals will not only have safety benefits but should improve smooth economic operation of the maritime sector.

During COVID-19 in early 2020, we sought, and the Government agreed, to delay the anticipated funding review. The Government also over COVID has covered any gaps in Maritime Levies and Oil Pollution Levies revenue from decreases in activity through a Crown Multi-year appropriation. That funding has been provided in anticipation of this Funding Review and under expectations that from 1 July 2024, we will be back to full cost recovery.

Of the eight proposals, there are two that are in response to Government commitments and decisions. The first, a priority commitment made in 2020 to fund the provision of seafarer welfare services, and in 2021 a decision by Parliament that the commercial maritime sector should fund those services through Maritime Levies.

The second was a Government decision to sign up to what is known as MARPOL Annex VI – an international convention, now part of New Zealand legislation (Maritime Rules), containing a series of new requirements for the management of air pollution from ships. Maritime NZ is the administrator of the regime and there is an expectation from government that from 1 July 2024 the cost of that administration will be recovered through fees and Maritime Levies.

The remaining two proposals go respectively to a new method for calculating Oil Pollution Levies liability and raising Oil Pollution Levies revenue to the level needed to deliver the New Zealand Marine Oil Spill Readiness and Response Strategy. That Strategy is so important to our preparedness for a major oil spill and being able to respond to it in a way that minimises the various harms such events can cause.

As this is a mid-point funding review (for fees and Maritime Levies) we have not looked at fees, or the hourly rate on which they are based. A full review of fees will be conducted at the next full funding review. This means (until at least the completion of the next Funding Review) the maritime sector is guaranteed of no fees increases.

We have been careful to keep this document to the minimum necessary to explain the proposals in full context and set out the implications of them. This may be sufficient for you to form a view but if you want more information there is a link at page 4 to a supporting document.

We encourage you to be part of this consultation process and look forward to receiving and considering your feedback.

CONTENTS

Foreword from the Authority Chair and the Director.....	2
Process for consultation and making submission.....	4
How to make a submission.....	4
PART 1.....	5
The purpose of this review.....	5
Overview and context.....	6
What we are trying to achieve.....	7
What we have done to date.....	9
Case study 1: Investment in our Certification capacity.....	10
Case study 2: Creating a new Maritime Inspections team.....	10
Case study 3: Establishing a centralised Notifications and Enquiries team.....	11
What more we need to do to deliver our regulatory strategy and address regulatory risks.....	11
What else we are required to attend to.....	11
PART 2.....	12
The proposals.....	12
Supporting the delivery of our Regulatory Strategy and managing regulatory risks.....	12
Proposal 1: Maintaining and enhancing regulatory operations capacity (Maritime Levies).....	12
Proposal 2: Supporting the achievement of safety and marine protection outcomes at reduced cost (Maritime Levies).....	13
Proposal 3: Improving our performance in responding to notifications and regulatory licensing (Maritime Levies).....	14
Proposal 4: Establishing a third party oversight capacity (Maritime Levies).....	14
Recovering the cost of commitments made by government.....	15
Proposal 5: Sustaining funding for MARPOL Annex VI administration.....	15
Proposal 6: Seafarer Welfare Services Funding (Maritime Levies).....	16
Revising the Oil Pollution Levies allocation methodology and maintaining Marine Oil Spill Readiness and Response Capability.....	17
Proposal 7: Changing the Oil Pollution Levies allocation methodology.....	17
Proposal 8: Maintaining Marine Oil Spill Readiness and Response Capability.....	18
Financial and other implications.....	19
Sector impact scenarios.....	20
PART 3.....	21
Maritime NZ's intentions to seek additional Crown funding.....	21
Efficiency improvement initiatives.....	21

PROCESS FOR CONSULTATION AND MAKING SUBMISSION

HOW TO MAKE A SUBMISSION

This consultation document invites feedback on a set of proposals that if adopted would variously require additional Maritime Levies and Oil Pollution Levies funding; that affect the amount payable for all fee-able activities; and that change the way liability for Oil Pollution Levies is calculated.

You can give us feedback on the proposals in this document by:

- e-mail to fundingreview@maritimenz.govt.nz
- ordinary post to, Funding Review, Maritime NZ PO Box 25620, Wellington 6146
- fax to (04) 494 8901
- filling the online form at www.maritimenz.govt.nz/funding

If you want clarification on any of the proposals, for the purpose of making a submission, please feel free to send your questions through to us by email at the address above.

We have sought to find the right balance between keeping the document to an approachable length and providing sufficient detail for readers to have a clear understanding of the basis for the proposals, their benefits and their implications. There is however further detail and contextual information and it is available [here](#).

The deadline for making a submissions is 18 April 2023.

We appreciate that making a submission takes time and doing so within a specific deadline on top of other commitments requires particular effort. In fairness to those who make that effort we will not be accepting or taking account of submissions received after the deadline.

Please note that it is our intention to prepare and publish a summary of submissions. This is for the purposes of transparency and assurance that all submissions have been considered. Submissions themselves will not be published but a list of submitters is intended for inclusion in the summary document. If there is any element of your submission that you do not want to be in the public domain please signal that when you make your submission.

THE PURPOSE OF THIS REVIEW

For regulatory agencies such as Maritime NZ funding reviews are about ensuring that sufficient funding is sustained across different sources to deliver core regulatory functions and do so in a way that reflects the regulatory strategy. For Maritime Levies and fees this is a mid-point funding review and is focused on ensuring we can deliver regulatory functions effectively and minimise risks, and attend to new Government driven funding-relating matters that have arisen since the last full Funding Review in 2018/19. Due to COVID impact and recovery related decisions taken by government to freeze public sector funding reviews in 2020 and 2021 in order to minimise fiscal pressures on levy payers, this review is occurring two years 'out of cycle'. It is also occurring in the context of the Crown having provided additional funding to Maritime NZ to support the organisation through COVID on the basis that from 1 July 2024 the purposes for which the funding has been provided will be recovered through Maritime Levies. For Oil Pollution Levies (OPL) this is a delayed full term funding review but we have made it part of this mid-point review to support an aligned and full view of both our levies funding sources. The OPL review focus is on ensuring levies rates are set at the right level to sustain the required revenue to deliver in full the New Zealand Marine Oil Spill Readiness and Response Strategy. A review of how Oil Pollution Levies are calculated (the methodology) has also been carried out and the outcome is reflected in this document.

The eight proposals set out in this document, if agreed by government consequent to this consultation, would be effective from 1 July 2024 and remain in effect up until July 2030 (pending changes or adjustments resulting from a full Funding Review in three years from now).

Our regulatory strategy, Te Korowai o Kaitiakitanga (the Cloak of Stewardship) sets out how we will deliver and perform our regulatory functions. It reflects what industry has told us about how we are performing and where we need to do better; it addresses regulatory risks; it sets out a way of working that is inclusive, engaged, communicative, professional, consistent, and responsive. That approach and the sector benefits it strives for, are the key drivers for the first four proposals set out in this document.

In 2020 the Government signalled the funding of seafarer welfare services as a clear priority. A change was made to the Maritime Transport Act to enable such funding to be generated through Maritime Levies and there is an expectation that this funding review is the process through which bridging finance provided by the Crown will be replaced, from July 2024, with funding through levies. We have therefore examined, and made a proposal in relation to the quantum of funding to be raised for this purpose and how we intend it to be managed and distributed for optimal value and efficiency.

Since the last Funding Review in 2018/19 Maritime NZ also has been given responsibility for the administration of a wide ranging set of new requirements under MARPOL Annex VI relating to the prevention of air pollution from ships. Government has committed to fund those administrative costs on an interim basis, but from July 2024 there is an expectation that the same will be recovered through a combination of fees (for certification related activity) and Maritime Levies. As part of this funding review we have therefore examined the ongoing cost of that administration and have made a proposal in relation to it for additional Maritime Levies funding.

This review has also looked at how to fully fund the delivery of New Zealand's Marine Oil Spill Readiness and Response Strategy (the Strategy), as endorsed by the Oil Pollution Advisory Committee (OPAC), which represents the views and interests of all Oil Pollution Levies paying sectors and key stakeholders. There have been very significant changes in the operating environment (closure of the refinery at Marsden Point, alterations to the types of oil imported and vessel activity levels and sailing patterns) and the time expiry of one element of the current OPL; together these have impacted the level of Oil Pollution Levies revenue that can be generated under the current methodology. This affects our ability to fully implement the Strategy. We have used this review as the opportunity to address the impacts of the significant changes and to propose a refreshed and revised levies calculation method, and applying that method, we have calculated and proposed new Oil Pollution Levies rates.

Maritime NZ's costs are partly recovered through fees. Specific fees and the hourly rate on which all fees are based were reviewed in the last full funding review in 2018/19 and set in regulations effective 1 July 2019. This being a mid-point review we have not looked again at specific fees or the hourly rate but will do so in the new full funding review in three years.

In order to be given effect all but one of the proposals in this document would require the recovery of additional costs through Maritime or Oil Pollution Levies. We make no assumptions as to what will be recommended or agreed following this consultation process, but it is important that in making the proposals we are explicit as to what the additional funding would be used for, the impact of increased levies on those who are liable, the authority we have to propose raising additional levies to effect the proposals and how cost recovery aligns with relevant guidelines and principles. This detail is set out in the attached document Initial Cost Recovery Impact Information: [link](#).

OVERVIEW AND CONTEXT

Funding reviews occur on a cyclical basis and are a transparent mechanism to set out proposals for alignment of revenue from levies and fees with particularised costs. Ordinarily, and as was the case with the last full funding review in 2018/19, that alignment can be achieved only through increased levies revenue and relatedly, an increase in levies rates. That is again the case in this review where seven of the eight proposals have a levies increase implication. If levies increases are recommended to, and agreed by Cabinet consequential to this consultation, they would not take effect until 1 July 2024.

Section 51 of the Crown Entities Act (2004) requires Maritime NZ to operate in a financially responsible manner and to endeavour to ensure its long-term financial viability and operate as a successful going concern. Accordingly Maritime NZ holds reserves to support this. Levels of cash reserves are reported annually and as at 30 June 2022 were circa \$16.3m (MNZ \$10.5m and \$5.8m for Oil Pollution Fund). This funding review does not propose to increase the current reserves position through an increase in levies rates. The next full Funding review would be the mechanism to 'correct' a significant over or under recovery of levies revenue.

Maritime NZ uses reserves to:

- Withstand short-term economic shocks and manage unforeseen border or port closures or industry changes which has significant impact on revenue streams
- Manage short term imbalances in revenue or expenditure flows
- Fund any significant litigation events that may occur
- In the case of response activities fund continued operations during long duration or complex search and rescue events, fund the necessary initial response costs of a Tier 3 spill or other maritime incident response.

MNZ intends to review its cash reserves policy and that it will be published (or otherwise made available to interested parties) prior to the commencement of the next funding review.

The proposed uplift in maritime levies revenue is an average of \$11.7m each year for 2024/25 – 2026/27 which represents an increase in maritime levies rates of 33.1%. Of that potential increase, approx. 28% would be to cover the cost of commitments made by Government, approx. 42% to address regulatory risk issues and the balance of 29% to cover cost pressures.

The last proposal has the potential implication of an annual average of \$0.8m or 8.8% increase in Oil Pollution Levies revenue and rates (over the period 2024/25 – 2026/27). While for both levies types a significant proportion of the overall liability rests with foreign vessels and their activity in New Zealand waters (so their increase would be proportionately more), that does not detract from the fact that domestic operators could see an increase in levies payable.

The cost element is a reasonable focus for levies payers but we ask that attention is also paid to the benefits, some of which will, over time, offset the cost at an industry wide or individual level. In setting out the proposals we have been clear about potential costs and given a fair appraisal of benefits. In the event the proposals are adopted, as part of the next full funding review we are committed to reporting back on how they were effected and evidence of benefits.

Consequential to the 2018/19 Funding Review additional Maritime Levies revenue was generated to cover the cost of a set of specified activities. Consistent with a looking forward and reporting back approach we have set out below how that additional funding was applied and the benefits derived.

International engagement (\$1 million per annum from 2020/21): We have established a new International Engagement and Coordination team. This has brought a more strategic and proactive focus to our influencing strategy and participation in international maritime fora that are critical to New Zealand's shipping interests. As a consequence we have been able to participate in and have influence over a wider range of IMO initiatives, including ongoing work on international maritime

emissions, a variety of key safety issues, the international Maritime COVID response, seafarer welfare issues and other key issues for New Zealand.

Regulatory reform projects development and implementation (on average, \$1.2 million per annum from 2019/20): This funding has helped to ensure that our approach to implementing rules is fit for purpose and workable for operators; and that operators impacted by new or revised rules are supported with clear and updated guidance on what to do. We have also established a process to more consistently identify and prioritise regulatory reform activities to update our ageing ruleset; and have made a start in addressing some of the biggest priorities for reform through our 40 series project, which has focused on ship design, construction and equipment rules. We also established teams that are focused on the more effective end to end implementation of new rules, including a guidance team and a service design team. Together this enabled us to make progress on some of the problems in our rules that impact on operators as well as safety and environmental outcomes (to date this has included work on the 40 series, the development of rules to implement MARPOL, reform of navigational safety rules, pilot boarding arrangements and preparation for the implementation of the Cape Town Agreement. Areas of future focus are likely to include seafarer certification rules and MOSS).

Surveyor standards of performance (\$0.57 million per year for three years): The resourcing for updating the 2014 surveyor standards of performance has been integrated with the 40 series reform project, which is addressing ship design, construction and equipment rules. This ensures that the development of revised performance standards are part of and reflect a wider package of joined up and coherent rules. Work on the surveyor performance standards is well advanced.

Systemic Risk Activities (on average, \$2.68 million per year from 2019/20): Through the addition of a number of key technical, environmental and engagement roles we have increased our capacity to identify and attend to systemic risks *within* the recreational and commercial maritime sectors. It has also enabled us to strengthen our analytics, risk and intelligence function. This has allowed greater focus on outcomes-based interventions such as industry outreach activities, engagement/relationships, education, guidance and campaigns. During the COVID-19 pandemic this enabled Maritime NZ to play a vital role acting as the key interface between the maritime industry and Government. This ensured that domestic operators and international shipping kept operating moving goods and people, while strengthening our partnerships along the way.

ICT systems and integration (on average, \$1.94 million per year from 2019/20): We have invested in our underlying technology and systems including growing capability and capacity with a strong focus on refreshing our digital infrastructure, applications and security. We have continued to integrate systems, move data from old to new platforms, and develop new functional capability. We have also made improvements to our regulatory management information systems which support core regulatory functions and compliance activities (e.g. exemptions, Safe Operating Plans, vessel data and seafarer certification). As a result an increasing number of manual regulatory processes are now undertaken digitally. Going forward this money will also assist us to develop technology to ensure there is a better front portal into Maritime NZ and better mobile notification technology.

Port and Harbour Marine Safety Code (on average, \$0.33 million per year from 2019/20): Through this funding Maritime NZ's input to, and support of, the Port and Harbour Marine Safety Code has been increased in the areas of technical, policy, guidance, education, data and research, communication, administration and strategy development. We participate in five safety management system peer reviews each year, and have led the development and review of various guidelines issues under the Code. This has included Key Principles for Marine Safety Risk Management; Aids to Navigation; and Good practice guidelines for hydrographic surveys in New Zealand ports and harbours.

Around \$2 million per annum additional Maritime Levies revenue was also agreed in the last funding review to cover cost pressures associated with Maritime NZ's administration of the Ballast Water Management Convention regulatory requirements, the provision of aids to navigation, maritime distress and safety communications, and general business cost pressures.

WHAT WE ARE TRYING TO ACHIEVE

Maritime NZ is a steward or guardian of the maritime domain. Our stewardship role is mandated under the Maritime Transport, Ship Registration, and Maritime Security Acts, across which our functions and powers are all about ensuring the offshore, coastal and inland waters of Aotearoa are safe, secure and clean. We are also designated under the Health and

Safety at Work Act in relation to maritime activities and have stewardship responsibilities under the Public Service Act 2020 and the Crown Entities Act in terms of our capability as regulators, our systems and processes, retaining our institutional knowledge, and maintaining the legislation we administer.

All of these matters have fed in to and are reflected in our regulatory strategy Te Korowai o Kaitiakitanga which sets out our pathway to becoming an increasingly effective regulator. This means strong regulatory stewardship and being better able to support outcomes for the maritime sector (recreational and commercial), for the New Zealand public (because we are a Public Service entity), and for New Zealand (because having safe, secure and clean waters generates a range of social, cultural, economic and reputational benefits).

In 2021 Maritime NZ undertook a robust examination of how well we are delivering our various regulatory functions. This included internal workshops; conversations with industry organisations; looking at how other regulators perform 'like' functions; and reflection on how close we are to 'what good looks like' (as informed by what industry had told us, and by current thinking on good regulatory practice). That examination gave clear signals of gaps in our capability, capacity, systems, processes and culture; important insights into how these are affecting our performance and continued maturation as a regulator, and in some cases creating or contributing to risk. In 2022, an independent audit was undertaken of the extent to which New Zealand complies with its obligations under the various International Maritime Organisation (IMO) to which it is a Party, and the findings reinforced our earlier assessment, particularly in relation to our oversight of those we authorise to perform regulatory functions and some of our Port State Control work. Key areas highlighted were:

- Our investment in Flag and Port State Control inspections (and the quantum of activity it makes room for) has not in recent years been at a level sufficient to best manage the risks associated with sub-standard shipping. Over COVID the quality of vessels has declined as ships have been in demand and there has been less time for maintenance, COVID has also impacted on the ability on countries to undertake inspections. These issues have been raised by industry, the Port Health and Safety Leadership Group and other stakeholders as a growing concern. A 2022 IMO audit confirmed there were a number of matters in this area that need addressing. Concerns with safety of vessels seem justified with large numbers of deficiencies being found that need to be rectified where inspections have occurred.
- We recognise that licensing application timeframes affect livelihoods, business continuity and employment, and that the quality of our internal systems for the processing of applications can affect licencing costs. Certificates or licences are a common requirement across the commercial maritime sector and an efficient and reliable licencing function is essential for the thousands of operators and seafarers requiring licensing services. Our Regulatory Licensing (Certification) team has for some time faced issues driven by a combination of increasing workloads, practice, process and workforce capacity and capability issues. This has resulted in backlogs and significant impacts on seafarers and operators. These issues have to be attended to in an enduring way.
- There are over 50 other statutory notification requirements; they all ultimately serve a maritime safety or marine protection purpose and notifiers need to be confident that we are attending to notifications as necessary (this is particularly the case for notifications of incidents and accidents). Our systems for receiving and responding to enquiries are also important to being, and being seen to be, a supportive, assisting, professional and responsive regulator. Feedback has indicated that our arrangements and processes for receiving, triaging and responding to notifications and enquiries are in a number of areas compromising the timeliness, quality, consistency, and at times, the appropriateness of our responses; are making it harder for people to get easy access to information they need to comply with requirements, and are not enabling good sharing of insights on where and why harm is occurring.
- Through our work on Te Korowai, our engagement with stakeholders and discussions among staff we have identified (confirmed by a recent IMSAS audit) the need to take a more systematic and deliberate approach to third party oversight. There are 250 individuals and entities (third parties) who carry out regulatory activity in the maritime sector under a delegation, recognition or approval issued by the Director. In granting these permissions Maritime NZ is ultimately responsible for ensuring third parties are performing that activity to the standard necessary to support safety and marine protection outcomes and in a way that creates and maintains the confidence and trust of maritime operators. It is also important that operators

can have confidence in the third parties providing roles in the system. Good regulatory practice is the right balance (based on information, intelligence, and data) of reactive and pro-active activity and about not relying only on regulatory requirements (and enforcement of the same) to achieve outcomes sought. In light of this, while recognising that compliance activity remains a valid part of our regulatory approach, we need to invest more in harm prevention, and pro-active activity to reduce risk and support the achievement of safe and clean outcomes for the commercial and recreational maritime sectors.

- Our front-line staff are the 'face' of Maritime NZ and the nature and quality of their work directly affects every maritime operator, seafarer, recreational boater or other person / entity that they interact with. With a specific quantum of staff available for work 'in the field' (audits, inspections, the delivery of harm prevention initiatives or compliance campaigns) it is critical that the regulatory effort is well planned and prioritised. We have identified that we do not have the mix of practice policy, practice tools and guidance needed to support best practice among our front-line staff and that our capacity to plan for and prioritise regulatory operations is less than what is required to do it consistently well. A lack of clearly explained and shared practice also makes it harder for sector participants to transparently understand why and how we approach our work, and how to hold us to account for how we operate.
- Every person who works or play on our waters is variously subject to requirements under maritime rules and marine protection rules. The purpose of those rules is to support safe, clean and secure outcomes, but this is made harder to achieve when rules are outdated, no longer 'fit for purpose' or create unnecessary or disproportionate cost and effort. Unfit rules can also drive the need for exemptions and the process for obtaining these involves cost and effort for the maritime sector. This is an enduring issue and speeding up our rules reform programme is key to addressing it.

We looked closely at the basis for these issues and found them to be grounded in a combination of how we are internally organised; in the nature and quantum of resources we have available across several functional areas; some deficiencies in our regulatory processes; the absence of an operational policy and practice framework; information and intelligence limitations indicating the need for further investment in technology, and our organisational culture. In the round, all of these are affecting the calibre of our regulatory delivery in specific areas and some are having a material impact on the maritime sector.

WHAT WE HAVE DONE TO DATE

Having recognised over a year ago that there needed to be changes across numerous elements of our organisation – how our staff and their effort is distributed, and the capability and capacity held in respect to particular functions, we went about making some necessary changes. This involved a combination of internal re-alignment of teams or functions, the disestablishment of some roles and the creation of new roles where necessary. The changes we made are as follows:

- We've invested more resources in our Certification (now called Regulatory Licensing) team to reduce application processing timeframes and improve our licencing performance more generally (see Case Study 1 below)
- We have created a separate Maritime Inspections team with a specific focus on Port and Flag State Control so we can better oversight the standard of ships, shipping, and crew safety (See Case Study 2 below)
- We are putting in place the staff, processes and arrangements for the establishment of a small centralised Notifications and Enquiries team to improve our response processes and timeframes. (See Case Study 3 below)
- We have established a new Harm Prevention and Engagement team to support a strategic and pro-active approach to addressing the causes of harms in different parts of the maritime domain and to provide leadership on engagement practices and processes
- We've improved our arrangements for big regulatory reform projects by converting a temporary and project specific team into a permanent Regulatory Reform Projects team. This in both an efficiency measure and an investment in building and maintaining our capacity to deliver significant regulatory reforms

- We've enhanced our back end support capacity for front line staff, including more operational policy capacity and increased capacity to monitor their performance and plan their work. This means interactions with our front line staff are at a frequency appropriate to risk and of a nature that represents best value for the maritime sector.

Here are some detailed case studies of changes we have made or are in the process of making.

CASE STUDY 1: INVESTMENT IN OUR CERTIFICATION CAPACITY

After a sustained period of increasing work volumes without any significant increase in resourcing, the Certification team (now Regulatory Licensing) was under immense pressure. There was a growing backlog of work with application process times well over the performance expectation of 20 working days and a significant backlog of unprinted certificates. Some of the issues causing the back-log were due to the temporary and fixed term nature of people working in the team, the capabilities hired, staff training and work flow and administrative processes. Some of the issues were exacerbated by COVID; in particular we lost many of the fixed term staff that had been relied on. Front end administration processes were failing to keep pace with the volume of work and this was affecting the end to end tracking of applications. All of the above were causing major concerns with the maritime industry and the number of justified complaints received was high.

The injection of additional resources enabled a restructure and stabilisation of the team. The printing backlog was eliminated in November 2022 and the average time taken to process applications reduced last year from 32 to 18 working days. A separate front end Workflow & Administration team was established with application and document management being significantly improved. Permanent staff have replaced those employed on a temporary basis and staff turnover has greatly reduced. Stakeholder complaints have also reduced significantly and we have received positive feedback on the material improvement in our regulatory licensing services.

CASE STUDY 2: CREATING A NEW MARITIME INSPECTIONS TEAM

New Zealand (through Maritime NZ) is a member of what is known as the Tokyo MOU. This is an organisation established in 1993 to set up an effective port State control inspections regime in the Asia-Pacific region. The purpose of the inspections is to eliminate substandard shipping and in doing so promote maritime safety, protect the marine environment and safeguard working and living conditions on ships. Being a member obliges New Zealand (Maritime NZ) to be part of a harmonised system of inspections of foreign flagged vessels entering our ports and our largest domestic vessels that operate outside our coastal limits. There is also a small number of New Zealand's largest ships that are covered by the International Convention for the Safety of Life at Sea (SOLAS) and as signatory to that convention there is an obligation on New Zealand (through Maritime NZ) to ensure those ships are being operated according to the required safety management system.

The introduction of the domestic Maritime Operator Safety System (MOSS) in 2014, covering over 1800 operators and 3500 vessels, brought all of the audit and compliance monitoring of those operations in house and this has continued to be a significant draw on our Maritime Officer resource. The level of resources available for port State control (PSC) and flag State control inspections has also continued to be affected by those required for MOSS-related activity and for want of more resources we have not been able to 're-set' the level of PSC/FSC activity to the pre-2014 level. This has a potential impact on the standard of shipping in our waters and the Asia-Pacific region and has been raised by industry as a growing concern.

In the second half of 2022, we therefore made a decision to create a dedicated PSC/FSC team made up of Inspectors with PSC/FSC expertise who are based at key shipping ports throughout New Zealand. To ensure the Inspectors can focus on inspections, a role was also created to conduct the risk profiling of visiting ships and the scheduling of inspections. Given their work is entirely port based there is efficiency in the Inspectors also being assigned harm prevention functions at ports. For efficiency gains the Inspections team will also lead on HSWA activity at ports (noting that that activity is not funded through Maritime Levies).

We are at the early stage of putting in place the new team, with a focus on priority inspections, the training, of new staff, and the processes, operational policies and practice tools needed for optimal effectiveness and efficiency. Already, our renewed focus on PSC and FSC activity has shown that there are a number of ships with deficiencies coming to New Zealand and some that need to be detained which is re-enforcing the importance of the work.

CASE STUDY 3: ESTABLISHING A CENTRALISED NOTIFICATIONS AND ENQUIRIES TEAM

Maritime NZ receives over 5000 notifications and general enquiries each year and the timeliness and quality of our responses to the same is a reflection and measure of our efficiency and responsiveness as a regulatory agency. As part of a function by function examination of where we are now and 'what good looks like' we closely examined our arrangements for receiving, and processes for responding to, incoming notifications and enquiries.

We found that while for some types (for example oil spill notifications or enquiries about ship registration requirements) we have reliable and effective end to end systems that are meeting the reasonable expectations of us, for others, most critically, notifications of incidents and accidents, our arrangements were leading to variability in the timeliness and quality of our responses. Those arrangements included multiple points of entry, unclear lines of accountability and responsibility, and the absence of documented end to end processes. We also found that people were not always notifying when they should. In relation to answering of enquiries these are devolved across our frontline staff which takes them away from proactive work and we have no centralised way of knowing what our enquiries look like and what additional guidance and support we may need to provide to the sector to address them in a more efficient way.

To address the issues and improve our performance in an enduring way, we made the decision in the last third quarter of 2022 that we need to establish a small centralised team with the dedicated function of receiving, triaging, and processing incoming enquiries and notifications. In association, we are developing and embedding end to end processes for different notification and enquiry types. We are looking to put the new team in place through 2023 and will require funding to implement the team well.

WHAT MORE WE NEED TO DO TO DELIVER OUR REGULATORY STRATEGY AND ADDRESS REGULATORY RISKS

Some of the changes detailed above were made possible through efficiencies achieved through an organisational redesign. The redesign, which was fully effected over 2022, was focussed on altering the quantum, arrangement and distribution of staff to the extent reasonably necessary to effectively and efficiently address the functional delivery issues already identified. The redesign involved removing a management layer, staff re-deployment, and the disestablishment of some roles. We also undertook work to make greater efficiencies as outlined later in this document.

We received additional Working Safer Levies funding through a 2022 Budget Bid and this enabled us to pay for additional resources for HSWA related activity: an element of our new harm prevention and engagement team, some additional regulatory practice resources, additional investigations capacity, and address inflationary pressures associated with our health and safety related regulatory function.

While we have made good progress in attending to specific gaps or deficits in the delivery of our functions, under our current funding levels (specifically, Maritime Levies) we cannot maintain and give full effect to some of the changes already made, and we cannot address some enduring regulatory risks at the causative rather than symptomatic level.

As some matters cannot be maintained or addressed within our current level of Maritime Levies funding we have developed four proposals for additional funding.

WHAT ELSE WE ARE REQUIRED TO ATTEND TO

There is a small group of other matters that we have been required to cover in this review. These derive from government commitments and decisions made since the last full funding review; and issues arising from the method we apply to the setting of OPL rates and (relatedly) our ability to give effect to the New Zealand Marine Oil Spill Readiness and Response Strategy. Additional proposals are grouped under these categories and are set out in Part 2 below.

THE PROPOSALS

The proposals set out below, and the amount of additional levies revenue that we have estimated will be required to give effect to them, reflect the minimum viable capacity / revenue uplift needed to achieve or to maintain the improvements we need to make. For three of the proposals, the additional Maritime or Oil Pollution Levies revenue proposed aligns with what the Crown has to date provided either as liquidity funding or as part of the Budget bid process.

Recognising that levies payers (in particular domestic payers) are facing other cost increases, Maritime NZ has prepared a scaled down option for three of the proposals. Within the relevant proposals the scaled down option is signalled. The scaling down is necessarily limited to only some elements of the overall package for these reasons:

While the proposals reflect those matters that Maritime NZ must attend to, and as soon as possible, the first proposal goes to a matter for which there are current and significant issues. Having the minimum viable funding uplift to address substandard shipping through increased Port State and Flag State Control capacity, and having that uplift as soon as possible (that is, from 1 July 2024) is critical to reducing or removing a manifest risk. For that reason, the proposal cannot be a candidate for scaling down.

Because of the additional costs it creates or the investment it can have the effect of wasting, a reduction or deferral of new funding sought is only an option where no previous investment has been made or where investment already made would not be impacted. There are only three proposals where a scaling down would not cause collateral impact. The proposals, the scaled option, and the impact of the scaling, are set out in the table below:

Scaled option package:	Impact on non-scaled rates over three years from 2024/25
Defer until 1 January 2026 Proposal 2: supporting the achievement of safety and marine protection outcomes at reduced cost.	-1.4% per year
Defer until 1 January 2026 Proposal 4: establishing a third party oversight capacity	-1.1% per year
Reduce by \$0.5m per annum Proposal 6: Seafarer Welfare Services funding	-1.4% per year

Maritime NZ is not unsympathetic to levies payers but is concerned that the relatively minor financial impact of the scaled option (for all but those with the highest levies liability) is significantly outweighed by the nature and potential scale of risks it leaves unattended. Within each relevant proposal we have set out that risk.

SUPPORTING THE DELIVERY OF OUR REGULATORY STRATEGY AND MANAGING REGULATORY RISKS

PROPOSAL 1: MAINTAINING AND ENHANCING REGULATORY OPERATIONS CAPACITY (MARITIME LEVIES)

As outlined in what we are trying to achieve (page 7) and in the case study above (pages 10), we have built the foundations of a Maritime Inspections team, however we will need maritime levies funding to ensure the team has sufficient capacity to:

- be able to inspect all priority high risk ships leading to better safety, environmental and maritime labour outcomes
- inspect other vessels that our data and intelligence indicates are high risk (numbers would depend on how many vessels our intelligence signals are high risk).
- ensure we have the presence to act as a deterrent to sub-standard ships coming to New Zealand ports and harbours, this includes undertaking a specified number or percentage of random inspections each year

- meet our Tokyo MOU obligations
- build better holistic understanding and relationships with our flag state operators to deliver safety outcomes; and
- address some of the IMO audit recommendations in this area and have the effect of improved audit results in future.

Without a sustainable funding source the relevant positions will need to be funded through drawing resources away from another regulatory function which is simply moving the regulatory risks to another area.

The proposal is to raise Maritime Levies revenue by \$1.9m per annum from 1 July 2024 to fund the maintenance and expansion of the Maritime Inspections team.

PROPOSAL 2: SUPPORTING THE ACHIEVEMENT OF SAFETY AND MARINE PROTECTION OUTCOMES AT REDUCED COST (MARITIME LEVIES)

The only purpose of maritime and marine protection rules is to support safety and marine protection outcomes. There are thousands of Maritime and Marine Protection Rules and sub-rules and these variously apply to the construction, crewing and operation of every domestic commercial vessel and recreational craft.

Where rules are specifically out of date (for instance, they require a piece of equipment no longer in production or that has been superseded) or are generally out of keeping with changes in industry practice or are more prescriptive than necessary, they do not serve their purpose and they create unnecessary cost for industry. That cost comes in the form of exemption application fees, an inability to innovate, and where exemptions from certain requirements are prohibited under rules, a compulsion to meet those requirements irrespective of their fitness.

We have made significant progress since our last funding review in establishing an annual regulatory reform programme that attends to priority rules amendments, and the creation of new rules where required. We are also in the process of reforming the 40 series (ship design, construction and equipment rules), which a big driver of exemption applications. But there remains a significant back log of outdated rules that do not support the achievement of safety and marine protection outcomes. Through sequencing and prioritisation we can gradually work through the full set of rules, but based on our current rules drafting, policy and technical capacity our progress will be unduly slow; and the level of misalignment with international norms and modern standards could grow.

Increased rules policy and drafting capacity and a dedicated technical rules resource will speed up the end to end process for rules amendments and support good standards in the development and drafting of technical rules. Further, dedicated technical capability within our regulatory policy team is more efficient than the current arrangement where requests for technical advice and support for rules development compete with other demands on our technical resources. Faster progress in regulatory reform, as will be supported by the proposed resources, will, over time, reduce costs and unnecessary compliance burden within the maritime community. We anticipate that the additional resources proposed will enable an expansion to the scale of our annual regulatory reform programme year on year (pending the complexity and scale of priority rules reviews and amendments required each year).

As the timeframe for working through all current rules extends beyond the timeframe for this funding review period (ending 2029/30), and as we cannot foreshadow what entirely new rules might be required within and beyond that time, the proposed levies uplift will be required on an ongoing basis.

The proposal is to raise Maritime Levies revenue by \$1.0m per annum from 1 July 2024 to increase our policy, rules drafting and technical advice capacity and make faster progress in regulatory reform.

The scaled down option is to delay by 18 months (that is, until 1 January 2026) any increase in Maritime Levies revenue for this purpose. This would result in a 1.4% reduction in levies increases each year for three years from 2024/25 but would extend the period of Maritime NZ's inability to keep up with the demand for rules reform with a consequential delay in removing the costs associated with unfit rules. **It will delay our ability to do large reviews of rules like STCW and consideration of how we make rules more fit for purpose for smaller or different types of operator.**

PROPOSAL 3: IMPROVING OUR PERFORMANCE IN RESPONDING TO NOTIFICATIONS AND REGULATORY LICENSING (MARITIME LEVIES)

As outlined in what we are trying to achieve (page 7 and 8) and the case study (page 10) the decision to establish a centralised Notifications and Enquires (NET) team was made in 2022 on the basis of a critical need to improve our practice around receipt, triaging and responses to incoming enquiries and notifications. Through port health and safety and recreational safety work, we have also identified that people may not be notifying as much as they should. Notifications data is important as it shows where, and why, incidents may be occurring and helps us and the sector consider where to target our effort. Getting this part of our regulatory business working well is mission critical given the issues and risks arising from multiple entry points, response delays and gaps, unclear responsibilities and accountabilities, and inconsistency in triaging and response standards. We are in the early stages of building our NET function and will need levy support for it to be fully functional and effective. The team was established out of necessity but ahead of an assured on-going funding stream.

The benefits for industry as a whole will not be limited to a more responsive and reliable notifications and enquiries service. A functioning NET team will also result in:

- improved recording and analysis of notification and enquiries trends
- reliable insights into where industry guidance and education is needed
- capacity to make the necessary links between notifications and points of vulnerability in safety system or other rules requirements
- pro-active front line activity best aligned with attending to industry information and support needs, and risks and harms signalled in notification and enquiry trends.

We anticipate measurable qualitative improvement in the timeframes and consistency of responses (where relevant) to notifications, and enquiries.

As set out in the case study on page 10, Maritime NZ's regulatory licencing performance has suffered in recent years and until recently this has impacted the continuity of maritime operations, creating seafarer workforce issues and in some cases affecting the livelihood of individuals through delaying their entry into the commercial maritime sector.

A decision in 2022 to invest more and permanent regulatory decision making resources in the two teams performing certification functions and create a small workflow and administration team continues to make a significant difference to the quality of regulatory licencing services we provide.

Because of the urgent need for improvements, the investment decision was made ahead of an assured future. Unless the improvements can be sustained Maritime NZ will need to decrease staff and risk a reversion to pre and early 2022 performance issues.

Maritime NZ expects that from 2024/25 - 2029/30 additional fees revenue will cover some but not all of the cost of the increased regulatory licencing capacity. As the capacity uplift is not only in relation to individual certification applications processing (which is fee able) but also to more general workflow, licencing practice, certification enquires response and administrative process improvements (that are of general benefit to all current and prospective licencing applicants) we consider it appropriate that the cost of the uplift is recovered partly through Maritime Levies.

The proposal is to raise Maritime Levies revenue by \$1.3m per annum from 1 July 2024 to fund the maintenance of the NET and to maintain increased regulatory licencing improvements.

PROPOSAL 4: ESTABLISHING A THIRD PARTY OVERSIGHT CAPACITY (MARITIME LEVIES)

Maritime NZ does not currently have the capacity to effectively monitor and support the performance of third parties. This creates a risk of regulatory failure. It creates a risk that operators are not receiving a consistent and effective service from third parties. It also means that third parties themselves do not receive consistent support and guidance from us as a regulator.

There are over 250 individuals and entities (third parties) authorised by Maritime NZ to perform regulatory functions such as ship surveys, inspections, the servicing of maritime products, approval of safety plans and seafarer examinations. The maritime sector is highly exposed to third parties and it is essential that they perform their functions to the standard necessary to support the achievement of marine protection and safety outcomes within the maritime sector.

Events in other regulatory domains have shown how important it is for third parties to perform their functions to the standard expected: the Whakaari/White Island event and Waka Kotahi vehicle testing issue are cases in point. To date, Maritime NZ oversight of the performance of third parties has been predominantly reactive. Year on year there is some engagement with individual or 'classes' of third parties on specific issues and efforts have been made to address particular issues with specific third party regulators when they are brought to our attention.

But for want of resources Maritime NZ has not taken a 'stewardship' approach to this element of the maritime regulatory system: that is consistently maintaining oversight of third parties from point of entry to the system to their exit; monitoring their performance in between and ensuring they have the necessary tools and support to perform their functions. With a third party stewardship framework now developed we need a small team to lead its delivery.

A dedicated third party oversight capability will mean a deliberate and systematic assurance approach that will serve to maintain high third party performance standards and remove the risk of regulatory failure evidenced in other regulatory domains. The type of activity enabled by a third party team includes: monitoring and providing support to recognised surveyors; ensuring the entry control processes for third parties are sufficiently rigorous; identifying where more guidance and practice materials are needed in a particular cohort of third parties and supporting the development of the same; or undertaking monitoring of regional councils and harbourmasters performing functions under delegation from the Director. This team would be small, around four, and be made up of technical expertise, audit and operational policy.

The establishment of such a team also enables Maritime NZ to address in an enduring and visible way a critical finding from a 2022 IMSAS audit. The audit was for the purposes of assessing the extent to which New Zealand complies with its obligations set out in the various IMO instruments to which it is a Party. It found that there was no evidence of a Maritime NZ oversight programme for Recognised Organisations and their nominated surveyors.

Ahead of a third party team being established, and the detailed analysis required to ascertain the quantum and nature of oversight (and more broadly, stewardship) activity required, it is difficult to quantify the uplift in activity that will be required and enabled through the additional funding. However, if the proposal is effected, we will report on that activity as part of the full funding review in 2026/27.

The proposal is to fund, through a \$0.8m increase in Maritime Levies revenue from 1 July 2024, the establishment and maintenance of a small team to lead the delivery of the organisation's third party oversight activity.

The scaled down option is to delay by 18 months (that is, until 1 January 2026) any increase in Maritime Levies revenue for this purpose. This would result in a 1.1% reduction in levies increases each year for the three years from 2024/25 but would create a gap of almost three years between now and when the organisation would have any capacity to oversight third party regulators and attend to the regulatory system risk identified by sector participants around the need to ensure more consistent good performance, and support, for parties operating under a delegation or authorisation

RECOVERING THE COST OF COMMITMENTS MADE BY GOVERNMENT

PROPOSAL 5: SUSTAINING FUNDING FOR MARPOL ANNEX VI ADMINISTRATION

In 2021, as part of its commitment to reducing greenhouse gases, the Government signed what is known as MARPOL Annex VI, which sets out a regime for the prevention of air emissions from ships. When the Government signs an international convention there is an obligation to give effect to it domestically. Maritime NZ is the administrator of Maritime Rules developed for the specific purpose of implementing the MARPOL Annex VI regime in New Zealand. The cost of that administration can in small part be recovered through fees (certification activity) but there are other elements that it is appropriate and necessary to cost recover through Maritime Levies. To date, our implementation and administration of the new requirements has been Crown funded, but on the assumption that from 1 July 2024 those costs will be recovered through Maritime Levies.

Administration of the MARPOL Annex VI regime includes Maritime NZ oversight of the taking and testing of fuel; an additional element within Port and Flag State Control inspections and within audits of some domestic maritime operations; the provision of information and guidance to our domestic maritime sector; adjustments to our IT platform; a dedicated technical advisor; an additional legal and investigations capacity; ongoing training for our Maritime Officers and Inspectors; and because it is an international regime for which modifications will be raised in the IMO context, an ability to play an active part in those negotiations to ensure any changes sought are acceptable to New Zealand.

This is a significant and complex regulatory regime that is potentially applicable to the operation of hundreds of commercial and recreational craft. Maritime NZ needs to be best positioned to support the maritime sector in understanding and complying with the new requirements and enforcing the same where necessary.

A sustainable funding base ensures that Maritime NZ can give effect to the requirements as intended and as obliged under the relevant convention. Having the funding to administer MARPOL Annex VI also means New Zealand can play a credible and influencing role in climate-related negotiations at the International Maritime Organization (IMO).

The proposal is to raise Maritime Levies revenue by \$1.8 million per annum from 1 July 2024 to fund Maritime NZ's administration of MARPOL Annex VI.

PROPOSAL 6: SEAFARER WELFARE SERVICES FUNDING (MARITIME LEVIES)

By way of background, seafarer welfare services in New Zealand were for many years funded from charitable sources, with local welfare organisations providing services for seafarers at ports, and the Seafarers' Welfare Board (operating since 1964) fostering ways and means of caring for seafarers, and actively promoting cooperation between welfare providers. . In 2021 (in part in response to the impact of COVID on the ability to raised funds through donations) a centralised Crown funding arrangement was put in place, with a set of specified services provided by the SWB under a contract with Maritime NZ.

In 2021, Parliament made a decision to amend the Maritime Levies provisions under the Maritime Transport Act to enable Maritime Levies to be raised and used to help meet the cost of seafarer welfare services. Current levies rates are not set at the level necessary to generate funding for this purpose.

As this goes to a new proposed use of Maritime Levies funding, further detail about that use is set out below. Seafarer welfare services would be available to the crew of all ships covered by the MLC, except the crew of domestic ships and New Zealand-operated ships under foreign flags (as New Zealand law and services apply). Foreign-flagged fishing vessels calling at New Zealand ports would be covered. MNZ proposes that the funding be applied to a set of services that help meet what is required under the MLC. These fall into the following broad categories – communications services (such as the provision of Wi-Fi and telecommunications); information services; ship visits; shopping (for those crew not able to leave ship) and money exchange; access and transport to welfare centres; transport services to and from town; and mental health, wellbeing and advocacy services.

The Government currently provides \$1.5m for all costs (including MNZ's) for welfare services to seafarers. We propose that the amount to be recovered from Maritime Levies for this same purpose should also be \$1.5 million per annum.

MNZ has considered options for the best way to deliver services in a way that will see value for money. These include the status quo (MNZ funding SWB who coordinate and deliver many welfare services), an amended status quo with the SWB bulk funding port welfare groups according to an MNZ formula, an MNZ grants system, and MNZ delivery. The full options analysis is available at [link](#).

The use of the grants model by MNZ enables tighter MNZ control over accountability, maintains a MLC-consistent role for the SWB, and allows local port welfare organisations to deliver services in a way appropriate to their port. The MNZ grants model is currently the preferred delivery model, but we welcome feedback on each of these models (and any others).

If this proposal is adopted the Crown will continue to meet its obligations under the Maritime Labour Convention in respect to the availability of seafarer welfare services and there will be a reliable funding source for their delivery. Seafarers working on the above vessels will continue to have access to these services and the provision of the same will

have a positive impact on their ability to carry out their ship based duties effectively. This will contribute directly to the safety of shipping conducted in New Zealand waters (and in the waters of other jurisdictions) with an associated reduction in the likelihood of accidents and marine pollution incidents.

The proposal is to raise an additional \$1.5 million Maritime Levies revenue per annum from 1 July 2024 to fund a specified quantum of seafarer welfare services.

The scaled down option is to reduce levies revenue raised for this purpose to \$1 million per annum. This would result in a 1.4% reduction in levies increases each year in the three years from 2024/25. A reduction in funding for seafarer welfare services would require a scaling back of services irrespective of whether current demand is sustained or increases.

REVISING THE OIL POLLUTION LEVIES ALLOCATION METHODOLOGY AND MAINTAINING MARINE OIL SPILL READINESS AND RESPONSE CAPABILITY

PROPOSAL 7: CHANGING THE OIL POLLUTION LEVIES ALLOCATION METHODOLOGY

Oil Pollution Levies rates have previously been calculated through applying a complex methodology and model that is costly to apply and at future risk of unreliability as a basis on which the levies rates for different sectors are determined. The approach is heavily reliant on the use of historical national and international data from the recent past being representative of future activity.

Given the very significant changes that occurred during the COVID-19 pandemic recent historical data will not be reliable going forward. In addition there have been very significant changes in the operating environment that gives rise to the risks of a marine oil spill. One change with significant and on-going impacts is the closure of the Marsden Point refinery and its conversion to a refined hydrocarbon products facility. Specific impacts from this change already seen include:

- A major reduction in the import of heavy, crude oil into Marsden Point;
- Removal from the New Zealand coast of the domestic tankers previously used to ship the majority of refined products from Marsden Point around the New Zealand coast, and
- A large increase in foreign hydrocarbon product tankers coming to New Zealand to deliver refined products to multiple ports across New Zealand.

Other changes have also occurred and further developments are highly likely in the period. As a result we face a double challenge: the existing methodology will not be reliable going forward and the change in the operating environment will drive major changes to the risk profile across the sectors.

As a result we have reviewed the OPL allocation methodology. The proposed new method for allocating relative levies liability by sector (and the basis for calculating OPL rates) is more efficient (cost effective), it takes less time and effort to generate the relevant data, is less vulnerable to unpredictable changes in shipping and oil carriage volumes, and is less complex than the extant methodology.

The methodology is based on that used for maritime levies which was developed and then implemented after detailed consultation as part of the 2018 Maritime NZ Funding Review. The methodology considers how much of the total levies required each vessel should be liable for, and is based on specific criteria to determine the “*value of what is placed at risk in the maritime system*”. In its truncated form, the principle is the ‘risk value’. For maritime levies the criteria are (people, freight and ships); for the OPL we propose to use “ships” – reflecting oil being used as bunker fuel - and “oil as cargo”. The ships criteria will use Gross Tonnage as a proxy for bunker fuel capacity (as in the current OPL methodology), and actual quantity of oil carried as cargo (as we have access to this data, and again this is as used in the current methodology).

Where the proposed methodology differs from that currently used is that we will be moving to “risk value” as opposed to an assessment of actual ‘risk’, which is generally understood as a combination of likelihood and consequence of harm. As detailed above we believe that the assessment of actual risk – as used in the MOSRA – is no longer a credible or viable option as well as being expensive, time consuming and particularly prone to significant errors given its reliance on historical data being an accurate proxy for the future.

Given the changes in the operating environment (oil type, activity volumes and traffic patterns etc.) it is to be expected that the risk profile and hence risk share across sectors will change significantly. Applying the proposed (ML aligned) methodology we see the impacts of these changes with a reduction in the share of the OPL to be paid by the domestic sectors (reflecting the departure of domestic tankers from the New Zealand coast) and a consequent increase in the shares paid by foreign tankers (as we see large increases in the number of foreign tankers entering New Zealand waters). We also see a shift from the domestic passenger and cargo vessels (smaller vessels with less bunkers and less persistent oil as fuel) to foreign passenger and cargo (larger vessels with larger bunkers and more use of persistent oil as bunker fuel). These shifts are consistent with the concept of risk value if considering the impacts from larger volumes of oil as cargo and larger volumes of bunkers in larger vessels.

To support your consideration of the proposed new methodology we have attached the allocation methodology review document [here](#).

PROPOSAL 8: MAINTAINING MARINE OIL SPILL READINESS AND RESPONSE CAPABILITY

The New Zealand Marine Oil Spill Readiness and Response Strategy reflects the required nature and scale of New Zealand's oil spill response preparedness, co-ordination, capability, and equipment. The development and five yearly review of the Strategy is a requirement under the Maritime Transport Act and is developed in consultation with the Oil Pollution Advisory Committee (OPAC - a statutorily appointed committee representing levy paying sectors, stake holding central government agencies and local government). The implementation plan for the Strategy is also developed in consultation within, and agreed to by OPAC.

Delivering the Strategy (via the implementation plan) means all of the preparedness and response elements are covered and the harms of a significant marine oil spill can be at best removed, or at least minimised. The proposal, if effected, would mean a gap in the funding required to deliver the Strategy would be bridged.

The current OPL rates set out under the Oil Pollution Levies Order 2016 are now out-of-date; one element has expired and the activity types and levels that they were based on have changed. The Strategy and its associated Plan indicate the level of revenue needed but given the changes in the operating environment the current OPL is not raising the necessary revenue. Crown has funded the gap in revenue to date but Government has directed that full cost recovery should recommence from 1 July 2024 as is intended under the relevant provision of the Maritime Transport Act.

The proposal is to raise an additional \$0.8m Oil Pollution Levies revenue per annum from 1 July 2024 to generate the full quantum of funding needed to deliver the Strategy via the Plan.

FINANCIAL AND OTHER IMPLICATIONS

Tables 1 and 2 show the indicative changes to Maritime Levies rates and Oil Pollution Levies rates, if all levies related proposals are adopted. The Maritime Levies rates table does not include the scaled down option rate but this has been signalled as 3.9% less than the rate if no proposals were scaled (refer page 12). The rates shown are indicative only as any proposed changes to Maritime Levies or Oil Pollution Levies rates (as would be required if the proposals are adopted) are at first instance subject to feedback from this consultation. Also, any change in funding is subject to Ministerial approval before changes can proceed to Cabinet for agreement and then to the Governor General for Royal Assent.

TABLE 1: IMPACT ON MARITIME LEVIES RATES BY LEVIES PAYING SECTOR

Vessel category	Gross tonnage	Deadweight tonnage	Passenger capacity	Overall length
Foreign passenger	0.1004 0.1282	0.0082 0.0103	2.0248 2.5845	N/A
Foreign non passenger	0.1178 0.1504	0.0095 0.0121	N/A	N/A
NZ SOLAS	7.7931 9.9463	0.4607 0.5879	46.71 59.6161	N/A
NZ non-SOLAS (24m or more in length)	8.2197 10.4885	N/A	17.5403 22.3867	N/A
NZ non-SOLAS (less than 24m in length)	N/A	N/A	17.5403 22.3867	15.1746 19.5376

TABLE 2: IMPACT ON OIL POLLUTION LEVIES RATES BY LEVIES PAYING SECTOR

Vessel or oil site type	Oil Type	Current Base Levy	Proposed Levy	Basis of calculation
NZ vessels				
Passenger and cargo ships, harbour tugs and oil tanker bunker fuel	Bunker fuel	414.69 cents	173.95 cents	Per gross ton of the vessel (annual)
Tankers carrying oil as cargo	Persistent	29.96 cents	12.85 cents	Per tonne of oil carried as cargo
	Non Persistent	26.76 cents	7.56 cents	Per tonne of oil carried as cargo
Fishing vessels		73.56 cents	30.86 cents	Per gross ton of the vessel (annual)
Oil sites				
Offshore oil and gas (FPSO)	Persistent	\$858.66	\$82,055.19	Fixed Fee (annual)
Foreign vessels				
Passenger and cargo ships, harbour tugs and oil tanker bunker fuel	Bunker fuel	0.54 cents	2.63 cents	Per gross ton of the vessel (per port visit)
Tankers carrying oil as cargo	Persistent	36.14 cents	35.46 cents	Per tonne of oil carried as cargo
	Non Persistent	7.6 cents	20.86 cents	Per tonne of oil carried as cargo

SECTOR IMPACT SCENARIOS

TABLE 3: EXAMPLES OF IMPACT ON FOREIGN VESSEL LEVIES PAYING SECTOR

Vessel type Paid per port visit		FY25 Proposed Rate Maritime Levy	FY25 Proposed Rate Oil Pollution Levy	Proposed total Levies Increase
	International Oil Tanker (SOLAS) GT 25,000 PAX 0 DWT 45,000	\$4,303	\$658	\$1,453
	International Container Ship (SOLAS) GT 40,000 PAX 0 DWT 52,000	\$6,643	\$1,052	\$2,273
	International Cruise Vessel (SOLAS) GT 110,000 PAX 2500 DWT 15000	\$20,716	\$2,893	\$6,786

TABLE 4: EXAMPLES OF IMPACT ON DOMESTIC VESSEL LEVIES PAYING SECTOR

Vessel type Paid Annually		FY25 Proposed Rate Maritime Levy	FY25 Proposed Rate Oil Pollution Levy	Proposed total Levies Increase
	Domestic Passenger Ferry (SOLAS) GT 22,365 PAX 1,350 DWT 5,794	\$306,338	\$38,904	\$12,476
	Domestic Container Ship (SOLAS) GT 6000 PAX 0 DWT 10,000	\$65,557	\$10,437	-\$253
	Domestic Coastal Fishing Trawler (non-SOLAS) GT 529 PAX 0 DWT 0	\$5,548	\$163	\$974
	Domestic fishing Length 5.9 metres	\$115	NA	\$26
	Domestic non-passenger aquaculture vessel (mussel barge) GT 104	\$1,091	NA	\$236
	Domestic non-passenger barge GT 150	\$1,573	NA	\$340
	Domestic non-passenger Length 23.9 metres (including tugs)	\$467	NA	\$104
	Domestic non-passenger Length 8 metre workboat	\$156	NA	\$35
	Domestic Passenger Ferry (Non SOLAS) GT 280 PAX 300 DWT 0	\$3,608	\$487	\$107
	Domestic Charter Passenger Boat (Non SOLAS) Length 18 metres PAX 140 DWT 0	\$665	NA	\$146

Vessel type Paid Annually		FY25 Proposed Rate Maritime Levy	FY25 Proposed Rate Oil Pollution Levy	Proposed total Levies Increase
	Domestic Charter Passenger Boat (Non SOLAS) Length 8 metres PAX 14 DWT 0	\$179	NA	\$40
	Domestic Commercial Jet Boat Length 8.2 metres PAX 8 DWT 0	\$339	NA	\$75
	Domestic passenger Commercial dive boat Length 4.5 metres PAX 4	\$177	NA	\$39
	Domestic passenger 3.7 metre personal watercraft (jet ski/novel craft) PAX 1	\$95	NA	\$21

To assist you in understanding what the proposed increases could mean for your business Maritime NZ has produced a levies calculation tool that can be accessed [here](#).

PART 3

MARITIME NZ'S INTENTIONS TO SEEK ADDITIONAL CROWN FUNDING

Maritime NZ relies on on-going Crown funding to perform or deliver a range of activities. This includes its work on Maritime Security, Incident Readiness, Search and Rescue (SAR) and Maritime Safety Infrastructure (such as aids to navigation, distress radio and distress beacons). As these are public not private benefits the Crown has funded these activities consistent with transport sector funding principles and Treasury and OAG cost recovery guidance.

As a result, it will not be possible to fund these pressures through levies and Crown funding will need to be considered during the funding review period. These pressures include:

- Ensuring Maritime NZ has sufficient capacity to undertake its role in Maritime Security.
- Maintenance of sufficient capacity to respond to non-oil based maritime incidents and spills.
- Maintenance of infrastructure and provision of services provided by third parties that are essential for the distress beacon system and distress / safety communications.

Budget Bids in these areas will be put up in Budget processes, alongside a bid for implementation of the commitments made in the Emissions Reduction Plan, including the development of regulatory settings that can enable the use of low carbon technologies (which it is not reasonable for levy payers at large to fund).

EFFICIENCY IMPROVEMENT INITIATIVES

In the circumstance of making proposals that would, if effected, increase the rates for both Maritime and Oil Pollution Levies it is important that we set out what we have done to improve our efficiency and wherever possible, reduce our own costs. Our efficiency improvement initiatives and their effect are set out below.

Since the last funding review Maritime NZ has developed and is now executing an enterprise property strategy that is seeing deliberate and greater co-location of our smaller sites with other Government agencies in that place. Co-location has been focused on partner agencies such as Customs, Department of Conservation and Ministry for Primary Industries who have larger property footprints at our satellite locations and include Whangarei, Napier and New Plymouth. We are in the process of similar co-locations in Invercargill and Dunedin. We have also increased the operational efficiency of our

Regional Hubs at Auckland, Tauranga and Christchurch through more flexible working practices and now also have other key supporting staff based out of these regional hubs. We have generated greater efficiency in our National Head Office through flexible working practices and a modernised environment. The cumulative effect of these small shifts has seen reduced property and occupancy, and office support costs reduced from 4.35% in FY 2020 to a forecast 3.78% in FY2023 as a % of organisational running costs.

Over time we have continued to consolidate vendors and contracts across key cost categories making greater use of All of Government panels and syndicated contracts leveraging the buying power of Government. We have implemented a contract management system which is giving greater visibility of our activities and supporting more efficient practice. The full impact of this capability will be seen in out-years.

We have been reducing manual processes through greater investment in technology which has allowed us to decommission some legacy platforms. It has also allowed greater cloud adoption generating efficiencies through increased access to data and information across Maritime NZ. Through this greater investment in upgraded information communication technology we are also making much more use of it as a substitute for travel, and as a key enabler of our work. The significant escalation of technology capability and adoption during the COVID environment was embraced by Maritime NZ. These efficiencies have seen our travel costs as a % of organisational running costs reduce from previous levels and we expect that it will continue into the future (reduced from 4.45% in FY 20219 to a forecast 2.9% in FY2023). The nature of our role and the work we do means there will continue to be a requirement to travel.

We have also embarked on our internal carbon reduction journey which has complementary objectives and is seeing us undertaking work to optimise and transition our vehicle fleet to more sustainable vehicle options. This will have a further efficiency impact once completed over the next three years.

The cumulative impact of these activities along with increased scale economies we have been able to reduce our overheads loading to 25%.

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

REVISIONS TO DETAILED OIL POLLUTION LEVY RATES FOLLOWING REVIEW

Maritime NZ has continued to work to confirm that the draft rates detailed previously are as accurate as possible. This work has resulted in some updates to the OPL rates. There is no change to the total quantum being sought but there are some alterations to specific rates. This document details the revised tables to be used in the final version of the Consultation Document (and reflected as necessary into the Cabinet paper and the Cost Recovery Impact information. There is also a summary table at the end that compares the updated OPL rates to the earlier rates to clearly illustrate the changes (this last table is not required for the Consultation Document).

The key driver for the changes is a correction to the rates for oil as bunker fuel. In early work by Sapere the model had drawn a distinction between persistent and non-persistent oil as bunker fuel and this distinction had been flowed through into a proposal to have separate rates for different types of bunker fuel.

The existing OPL rates do not make such a distinction and have never done so. While the MOSRA model did in the past look at the risks for different types of bunker fuel this was never built into the levy rates. This is due to the use of Gross Tonnage as a proxy and the impracticalities of obtaining the detailed data needed to have separate bunker rates. Previous consultation documents have noted that it would be impracticable to have separate rates in regards to bunker fuel.

The “near final” draft Sapere report sent to Te Manatū Waka on 01 February 2023 combined the persistent and non-persistent bunker fuel into a single percentage share. However, the rate calculations done by Maritime NZ used earlier work where there were two share percentages for bunker fuel – one for persistent and one for non-persistent, Maritime NZ took an average across these two rates to produce the figure for bunker fuel. This approach needs to be corrected; this will align the methodology for bunker fuel to that used previously. There are also some minor edits to help to clarify the tables. The tables below reflect the revisions proposed for the relevant documents.

Because there is an adjustor for bunker fuel in the calculation of tonnage used in the allocation ratio it has had a trickle effect on all rates.

CONSULTATION DOCUMENT

CURRENT TABLE

Table 2: Impact on Oil Pollution Levies rates by levies paying sector

Vessel or oil site type	Oil Type	Current Base Levy	Proposed Base Levy	Basis of calculation
NZ vessels				
Passenger and cargo ships, harbour tugs and oil tankers	Persistent	414.69 cents	174.57 cents	Per gross ton of the vessel
	Non Persistent	414.69 cents	102.706 cents	Per gross ton of the vessel
Oil tankers carrying oil as cargo	Persistent	29.96 cents	12.899 cents	Per tonne of oil carried as cargo
	Non Persistent	26.76 cents	7.589 cents	Per tonne of oil carried as cargo
Fishing vessels	Persistent	73.56 cents	30.965 cents	Per gross ton of the vessel
NZ oil sites				
Floating vessel used in production, storage and offloading of oil (FPSO)	Persistent	\$858.66	\$82,346.11	Fixed Fee
Foreign vessels				
Passenger and cargo ships, harbour tugs and oil tankers	Persistent	.54 cents	2.64 cents	Per gross ton of the vessel
	Non Persistent	.54 cents	1.55 cents	Per gross ton of the vessel
Oil tankers carrying oil as cargo	Persistent	36.14 cents	35.58 cents	Per tonne of oil carried as cargo
	Non Persistent	7.6 cents	20.94 cents	Per tonne of oil carried as cargo

REVISED TABLE

Vessel or oil site type	Oil Type	Current Base Levy	Proposed Levy	Basis of calculation
NZ vessels				
Passenger and cargo ships, harbour tugs and oil tanker bunker fuel	Bunker fuel	414.69 cents	173.95 cents	Per gross ton of the vessel (annual)
Tankers carrying oil as cargo	Persistent	29.96 cents	12.85 cents	Per tonne of oil carried as cargo
	Non Persistent	26.76 cents	7.56 cents	Per tonne of oil carried as cargo
Fishing vessels		73.56 cents	30.86 cents	Per gross ton of the vessel (annual)

Vessel or oil site type	Oil Type	Current Base Levy	Proposed Levy	Basis of calculation
Oil sites				
Offshore oil and gas (FPSO)	Persistent	\$858.66	\$82,055.19	Fixed Fee (annual)
Foreign vessels				
Passenger and cargo ships, harbour tugs and oil tanker bunker fuel	Bunker fuel	0.54 cents	2.63 cents	Per gross ton of the vessel (per port visit)
Tankers carrying oil as cargo	Persistent	36.14 cents	35.46 cents	Per tonne of oil carried as cargo
	Non Persistent	7.6 cents	20.86 cents	Per tonne of oil carried as cargo

COST RECOVERY IMPACT INFORMATION

CURRENT TABLE

Table 10: Impact on Oil Pollution risk allocation

		Existing risk from MOSRA 2018		Proposed risk	
		Persistent	Non-Persistent	Persistent	Non-Persistent
Domestic	Passenger, cargo, and tanker bunker	15.9%	0.8%	3.4%	0.1%
	Tankers	3.1%	8.3%	0.1%	0.0%
	Fishing	1.1%	0.0%	0.2%	0.0%
Foreign	Passenger, cargo, and tanker bunker	26.5%	0.3%	67.5%	0.4%
	Tankers	34.9%	9.2%	1.6%	25.7%
	Offshore oil & gas	0.0%	0.0%	0.9%	0.0%
		81.4%	18.6%	73.8%	26.2%

REVISED TABLE

	Vessel or oil site type	Oil Type	Existing share	Proposed share
Domestic	Passenger, cargo, and tanker bunker fuel	Bunker fuel	16.7%	3.6%
	Oil tankers carrying oil as cargo	Persistent	3.1%	0.1%
		Non Persistent	8.3%	0.0%
	Fishing		1.1%	0.2%
Foreign	Passenger, cargo, and tanker bunker fuel	Bunker fuel	26.8%	67.9%
	Oil tankers carrying oil as cargo	Persistent	34.9%	1.6%
		Non Persistent	9.2%	25.6%
	Offshore oil & gas	Persistent	0.0%	0.9%
			100.0%	100.0%

CURRENT TABLE

Table 11: Impact on Oil Pollution Levies rates

Vessel or oil site type	Oil Type	Current Base Levy	Proposed Base Levy	\$Δ	% Δ
NZ vessels					
Passenger and cargo ships, harbour tugs and oil tankers	Persistent	414.69 cents	174.57 cents	-240.12 cents	-58%
	Non Persistent	414.69 cents	102.706 cents	-311.98 cents	-75%
Oil tankers carrying oil as cargo	Persistent	29.96 cents	12.899 cents	-17.06 cents	-57%
	Non Persistent	26.76 cents	7.589 cents	-19.17 cents	-72%
Fishing vessels	Persistent	73.56 cents	30.965 cents	-42.59 cents	-58%
NZ oil sites					
Floating vessel used in production, storage and offloading of oil (FPSO)	Persistent	\$858.66	\$82,346.11	\$81,487.45	9490%
Foreign vessels					
Passenger and cargo ships, harbour tugs and oil tankers	Persistent	.54 cents	2.64 cents	2.1 cents	389%
	Non Persistent	.54 cents	1.55 cents	1.01 cents	188%
Oil tankers carrying oil as cargo	Persistent	36.14 cents	35.58 cents	-.56 cents	-2%
	Non Persistent	7.6 cents	20.94 cents	13.34 cents	175%

REVISED TABLE

Vessel or oil site type	Oil Type	Current Base Levy	Proposed Levy	\$ Δ	% Δ
NZ vessels					
Passenger and cargo ships, harbour tugs and oil tanker bunker fuel	Bunker fuel	414.69 cents	173.95 cents	-240.74 cents	-58%
Tankers carrying oil as cargo	Persistent	29.96 cents	12.85 cents	-17.11 cents	-57%
	Non Persistent	26.76 cents	7.56 cents	-19.2 cents	-72%
Fishing vessels		73.56 cents	30.86 cents	-42.7 cents	-58%
Oil sites					
Offshore oil and gas (FPSO)	Persistent	\$858.66	\$82,055.19	\$81,196.53	9456%
Foreign vessels					
Passenger and cargo ships, harbour tugs and oil tanker bunker fuel	Bunker fuel	0.54 cents	2.63 cents	2.09 cents	387%
Tankers carrying oil as cargo	Persistent	36.14 cents	35.46 cents	-.68 cents	-2%
	Non Persistent	7.6 cents	20.86 cents	13.26 cents	174%

CURRENT TABLES

Table 12: Examples of Foreign vessels paying both Maritime and Oil Pollution levies

Vessel type Paid per gross ton		FY25 Proposed Rate Maritime Levy	FY25 Proposed Rate Oil Pollution Levy	Proposed total Levies Increase
	International Oil Tanker (SOLAS) GT 25,000 PAX 0 DWT 45,000	\$4,303	\$524	\$1,319
	International Container Ship (SOLAS) GT 40,000 PAX 0 DWT 52,000	\$6,643	\$838	\$2,059
	International Cruise Vessel (SOLAS) GT 110,000 PAX 2500 DWT 15000	\$20,716	\$2,305	\$6,198

Table 13: Examples of Domestic vessels paying both Maritime and Oil Pollution levies

Vessel type Paid Annually		FY25 Proposed Rate Maritime Levy	FY25 Proposed Rate Oil Pollution Levy	Proposed total Levies Increase
	Domestic Passenger Ferry (SOLAS) GT 22,365 PAX 1,350 DWT 5,794	\$306,338	\$31,006	\$4,578
	Domestic Container Ship (SOLAS) GT 6000 PAX 0 DWT 10,000	\$65,557	\$8,318	-\$2,371
	Domestic Coastal Fishing Trawler (non-SOLAS) GT 529 PAX 0 DWT 0	\$5,548	\$164	\$975
	Domestic Passenger Ferry (Non SOLAS) GT 280 PAX 300 DWT 0	\$3,608	\$388	\$8

REVISED TABLES

Vessel type Paid per port visit		FY25 Proposed Rate Maritime Levy	FY25 Proposed Rate Oil Pollution Levy	Proposed total Levies Increase
	International Oil Tanker (SOLAS) GT 25,000 PAX 0 DWT 45,000	\$4,303	\$658	\$1,453
	International Container Ship (SOLAS) GT 40,000 PAX 0 DWT 52,000	\$6,643	\$1,052	\$2,273
	International Cruise Vessel (SOLAS) GT 110,000 PAX 2500 DWT 15000	\$20,716	\$2,893	\$6,786

Vessel type Paid Annually		FY25 Proposed Rate Maritime Levy	FY25 Proposed Rate Oil Pollution Levy	Proposed total Levies Increase
	Domestic Passenger Ferry (SOLAS) GT 22,365 PAX 1,350 DWT 5,794	\$306,338	\$38,904	\$12,476
	Domestic Container Ship (SOLAS) GT 6000 PAX 0 DWT 10,000	\$65,557	\$10,437	-\$253
	Domestic Coastal Fishing Trawler (non-SOLAS) GT 529 PAX 0 DWT 0	\$5,548	\$163	\$974
	Domestic Passenger Ferry (Non SOLAS) GT 280 PAX 300 DWT 0	\$3,608	\$487	\$107

OFFICIAL INFORMATION ACT 1982

COMPARE CURRENT VERSUS REVISED TABLE (NOT REQUIRED FOR CONSULTATION DOCUMENT)

Vessel type Paid per port visit		FY25 Proposed Rate Maritime Levy	FY25 Proposed Rate Oil Pollution Levy	Proposed total Levies Increase	OPL before correction	Change to total increase
	International Oil Tanker (SOLAS) GT 25,000 PAX 0 DWT 45,000	\$4,303	\$658	\$1,453	\$524	\$134
	International Container Ship (SOLAS) GT 40,000 PAX 0 DWT 52,000	\$6,643	\$1,052	\$2,273	\$838	\$214
	International Cruise Vessel (SOLAS) GT 110,000 PAX 2500 DWT 15000	\$20,716	\$2,893	\$6,786	\$2,305	\$588

Vessel type Paid Annually		FY25 Proposed Rate Maritime Levy	FY25 Proposed Rate Oil Pollution Levy	Proposed total Levies Increase	OPL before correction	Change to total increase
	Domestic Passenger Ferry (SOLAS) GT 22,365 PAX 1,350 DWT 5,794	\$306,338	\$38,904	\$12,476	\$31,006	\$7,898
	Domestic Container Ship (SOLAS) GT 6000 PAX 0 DWT 10,000	\$65,557	\$10,437	-\$253	\$8,318	\$2,119
	Domestic Coastal Fishing Trawler (non-SOLAS) GT 529 PAX 0 DWT 0	\$5,548	\$163	\$974	\$164	-\$1
	Domestic Passenger Ferry (Non SOLAS) GT 280 PAX 300 DWT 0	\$3,608	\$487	\$107	\$388	\$99

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

OC230119

27 February 2023

Hon Kiri Allan
Associate Minister of Transportcc Hon Michael Wood
Minister of Transport

AIDE MEMOIRE – UPDATE ON MARITIME NEW ZEALAND FUNDING REVIEW 2024/25 AHEAD OF 28 FEBRUARY 2023 OFFICIALS MEETING

Purpose

This Aide Memoire provides you with background on the Maritime New Zealand (Maritime NZ) funding review to support a discussion at the Te Manatū Waka officials meeting on 28 February 2023. It provides additional context and commentary on the briefing Maritime NZ has provided in which it expresses concerns with Minister Wood's decision to include a scaled option in the consultation document for the funding review.

Overview

1. Maritime NZ is undertaking a review of its levies funding. This includes Maritime levies (paid by all registered maritime operators) and the Oil Pollution Levies (OPL, paid by a subset of maritime operators). These are two of the key funding sources for Maritime NZ.
2. In 2021/22, the Maritime Levy contributed \$21.9 million (30 percent) to total revenue compared to \$44.7 million (61 percent) of Crown funding. The OPL contributed \$6.1 million to the Oil Pollution Fund. This is a decrease from pre-COVID-19 levels: in 2018/19 the Maritime levy contributed \$22.8 (43 percent) to total revenue and the OPL contributed \$7.8 million to the Oil Pollution Fund. The impact of the Maritime NZ's preferred levy proposal would represent an increase by an average of \$11.8 million (33.2 percent) over the three years from adoption.
3. This is a scheduled review (which would usually occur on a triennial basis), but it has been delayed out of necessity due to the impacts of COVID-19 on Maritime NZ's funding. New levies will need to be approved in time for them to come into effect by 1 July 2024. At this point, the existing Crown liquidity fund, put in place to cover the revenue shortfall during the COVID-19 pandemic, is expected to expire (subject to Budget 2023 decisions).
4. Maritime NZ has proposed a timeframe that involves the approval of a new funding model by June 2023 as it would likely be very challenging to undertake the review after the election. Minister Wood has indicated that he supports this timeframe. To complete this in time, the Cabinet paper will need to be lodged this Thursday (2 March) so that it can be considered by the Cabinet Government Administration and Expenditure Review Committee.

5. Maritime NZ has developed the proposals and drafted the consultation document. The role of Te Manatū Waka is to support a robust process, and to provide second opinion advice on the proposals. Ultimately, you are responsible for setting the levies, and in doing so you will need to consider whether the proposals put forward by Maritime NZ are reasonable and provide the right balance between giving Maritime NZ the resources it is asking for to perform its functions appropriately and managing costs incurred by the maritime sector.
6. Maritime NZ has developed eight proposals in total, and the collective impact would be a 33.2 percent increase in Maritime levies and an 8.8 percent increase in Oil Pollution Levies. This includes two proposals which give effect to previous Government commitments, four proposals which would increase Maritime NZ's capacity to address regulatory risks it has identified, and two proposals which relate to the methodology and level of funding recovered through the Oil Pollution Levy.

Proposal	Description	3yr Ave (\$m)	3yr % increase
1 Maintain and enhance regulatory operations (port and flag state control)	Increasing the capacity of MNZ to inspect high-risk international and domestic vessels in compliance with maritime standards.	1.9	5.5%
2 Increase policy, rules drafting and technical advice capacity	Funding new staff for the regulatory reform programme so that MNZ can keep up with demand for new Maritime rules.	1.0	2.8%
3 Improve performance in responding to notifications and processing licensing applications	Funding MNZ's notifications and regulatory licencing functions so that it can respond to notifications and licensing applications on time.	1.3	3.5%
4 Establish a third-party oversight capacity	Establishing a new team to ensure that third parties authorised to perform regulatory functions are performing functions to the required standard.	0.8	2.2%
5 Sustainable funding for MARPOL Annex VI administration	Replacing current Crown funding to enable MNZ to continue to fund activity under the MARPOL VI convention to reduce emissions from ships.	1.8	5.2%
6 Sustainable funding for seafarer welfare services	Replacing current Crown funding to ensure that Seafarer Welfare Centres provide services to the level required by international labour conventions.	1.5	4.2%
Cost Pressures		3.5	9.8%
Maritime Levies		11.8	33.2%
7 Amend the oil pollution levy methodology	Changing the method for calculating oil pollution levies to be simpler, easier to understand and less costly to implement and maintain.	N/A	N/A
8 Maintain marine oil spill preparedness and response capability	Increasing the OPL to maintain the country's oil spill preparedness and response capability.	0.8	8.8%
Maritime Levies & OPL		12.5	

Timeframes for the review

7. The Cabinet paper seeks approval to release a consultation document for a five-week consultation period starting on 14 March 2023. The paper has already been approved by Minister Wood, subject to any changes that may be needed to incorporate a scaled option (discussed below) and to address comments received through the Ministerial consultation process.

The key milestones for the funding review are as follows:

Date	Action
28 February 2023	Te Manatū Waka to provide Cabinet Paper and Consultation Document to your office.
1 March 2023	Ministerial Consultation completed (Minister Wood's office has already started this process). Cabinet paper lodged with cabinet office
8 March 2023	Cabinet paper to be considered at the Cabinet Government Administration and Expenditure Review Committee
13 March 2023	Cabinet confirms the paper
14 March 2023	Public consultation begins
18 April 2023	End date for public consultation
1 May 2023	Panel convened to consider Cost Recovery Impact Statement (CRIS)
8 May 2023	Interdepartmental consultation begins
15 May 2023	Final CRIS, cabinet paper and summary of submissions provided to Minister
Early June 2023	Cabinet approves new funding model
By 30 June 2023	Section 9(1) process for recreational boating and maritime safety
30 June 2023	Cabinet approves regulatory changes
1 July 2024	New levies come into effect
1 January 2026	Proposed date for delayed proposals to come into effect as per the scaled option

Scaled Option

8. Earlier this month, we provided advice to Minister Wood which asked him to direct Maritime NZ to include a scaled option in their consultation document. This reflected our concern that the consultation document did not include enough information on what the additional funding would be used for or the specific benefits that would be realised as a result of the additional investment.
9. The advice given by Te Manatū Waka was that including a scaled option would improve the robustness of the consultation process, help address Cabinet's expectation that the funding review take account of the maritime sector's recovery from the impact of COVID-19 and reflect the Government's focus on the cost of living (OC230071 refers). The Minister's comments on that briefing were:

In my view all of the identified areas of activity for funding are important so I would be reluctant to see a scaled proposal that removes them entirely. However I think it would be good to have an alternative option that focuses in the first instance on new non-discretionary requirements and cost pressures, and then phases in additional capacity a bit more slowly. As officials identify we can clearly and transparently set this out so that the sector can see what different levy levels will deliver.
10. In response to this request, Maritime NZ has provided a scaled option that would include delaying two proposals by 18 months and reducing funding for a third proposal. The scaled option reduces the cost of the proposals by an average of \$1.4m per annum, reducing the total percentage increase from 33.2 percent to 29.3 percent. The impacts of this option are

outlined in the Cabinet Paper and consultation document. We are satisfied that the scaled option Maritime NZ has prepared aligns with Minister Wood's expectations.

11. Maritime NZ has subsequently expressed concern with the scaled option. Maritime NZ has prepared its own advice which outlines the risks it sees with the scaled option and asks Minister Wood to reconsider his decision to include a scaled option in the consultation document. We have considered Maritime NZ's briefing but remain of the view that it is appropriate to include a scaled option in the consultation document. The key reasons for this are that:
 - The areas where investment would be deferred under the scaled option are for new/additional capacity, so there is no scenario in which the level of risk gets materially worse than under the status quo.
 - In our opinion, Maritime NZ has not provided sufficient evidence on the materiality of the risk, or the extent to which the additional investment would directly mitigate that risk.
 - Maritime NZ has argued that the difference in costs between the original proposal and the scaled option are largely immaterial to operators because they represent a small proportion of their total operating costs. In our view, this gives inadequate consideration to the need to demonstrate good value for money, regardless of the level of the increase. It also fails to account for the fact that maritime businesses are also experiencing cost increases elsewhere which will have a compounding effect.
12. Maritime NZ has suggested in its briefing that including a scaled option in the consultation document would bring into question the integrity of its consultation process, on the basis that "it is unlikely Maritime NZ can responsibly support the scaled down option, irrespective of how submitters have responded to it". We disagree with this statement. The total cost of the scaled option is only marginally lower than the original proposal. If Maritime NZ cannot support the scaled option, it suggests that it would be unlikely to support any proposal other than the one it put forward.
13. While Maritime NZ is best placed to identify the level of funding it needs, it also has strong incentives to seek as much funding as possible, and as the responsible Minister you will need to form your own judgement about the merits of the proposal. The consultation process is intended to provide you with the information you need to make that judgement and including a scaled option would make this process more robust by providing stakeholders with alternative options on which to provide feedback.
14. It is also widely regarded as best practice to provide multiple funding options in consultation documents. For example, in its Guidelines for Setting Charges in the Public Sector, Treasury recommends that entities prepare "multiple options for different service levels and/or models and [work] through the costs of each"¹. We therefore consider that, contrary to Maritime NZ's view, including a scaled option would support a more robust decision-making process and ensure that you were taking perspectives other than those of the agency seeking funding into account when making your decision.
15. Regardless of whether you decide to include a scaled option in the consultation document, lodging the Cabinet paper by Thursday 2 March 2023 is vital to meeting the timeframes set out in paragraph 7, and enabling the review to be completed before the election. Ministry

¹ <https://www.treasury.govt.nz/sites/default/files/2017-04/settingcharges-apr17.pdf>

officials will prioritise making any changes to the Cabinet paper that may be necessary to meet this timeframe.

Contacts

Name	Telephone	First contact
Brent Johnston, Acting Deputy Chief Executive – System Performance & Governance	s 9(2)(a)	✓
Richard Cross, Director – System Performance & Governance		
Sarah Polaschek, Manager, Governance		
Johnny Crawford, Senior Adviser, Governance		

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

IN CONFIDENCE

Office of the Associate Minister of Transport
Cabinet Economic Development Committee

Proposal

- 1 This paper seeks agreement to release a consultation document *Maritime NZ Review of Levies Funding for 2024/25 – 2029/30* for a five-week period commencing 21 March 2023. The document includes eight proposals for which, if adopted, an increase in maritime levies and oil pollution levies would be required from 1 July 2024.

Relation to Government priorities

- 2 Two proposals outlined in the consultation document address Labour's 2020 Election Manifesto commitments. One seeks to fund seafarer welfare services through maritime levies and reflects a Government commitment to "...ensure that Seafarer Welfare Centres provide services to the level required by the ILO Maritime Labour Convention 2006 by amending the Maritime Transport Act 1994 to enable the maritime levy to fund the services required for seafarers' wellbeing."
- 3 The MARPOL Annex VI funding proposal supports the Government's climate change response and Labour's Manifesto commitment to transition the country to a "clean, green, carbon neutral" position and improve NZ's natural environment.

Executive Summary

- 4 I am seeking Cabinet's agreement to release the *Maritime NZ Review of Levies Funding for 2024/25 – 2029/30* consultation document for a five-week period commencing 21 March 2023.
- 5 COVID-19 and a Government moratorium on border transport agency funding reviews mean that this is Maritime New Zealand's (Maritime NZ) first review of funding since it completed its last in 2018/19. Any levies changes arising from the review will take effect from 1 July 2024.
- 6 Maritime NZ has relied on Government support since April 2020 to bridge the gap between forecast levies revenue and actual revenue. With the funding review moratorium lifted (DEV-21-MIN-0192 refers) and levies paying sectors recovering, this review is Maritime NZ's first opportunity to engage with the sector on funding matters.
- 7 The consultation document includes eight cost recovery proposals falling into three tranches:
 - 7.1 addressing four significant regulatory risks identified by Maritime NZ through engagement with the wider maritime sector;

- 7.2 moving from Crown funding to maritime levies for two areas the Government funded during the funding review moratorium period; and
- 7.3 changing the method for calculating oil pollution levies and increasing levies rates in response to significant changes in the oil production and oil transport environment.
- 8 The proposals require additional maritime levies of \$11.7 million (averaged) or 33.2 percent of current levies over the three years from 2024/25 and replacement oil pollution levies of \$0.8 million per year (averaged) or 8.8 percent of current levies over the same period. The oil pollution levy's liability by sector can change (moving away from domestic and toward foreign operators) as a result of significant operating environment shifts and the proposed new methodology appropriately accounts for those shifts. Inflationary cost pressures have been built into the proposal costings.
- 9 The proposals arising from Government decisions (funding seafarer welfare services and MARPOL Annex IV) account for 30 percent of the proposed maritime levies increases. Maritime NZ has included these as they reflect Government priorities and Cabinet expectations that they will be cost recovered going forward. The four regulatory risk proposals account for 50 percent of the proposed maritime levies increases. The economic, environmental and safety costs of regulatory failure in any of these areas would be high and the sector understands this. The remaining 20 percent of maritime levies increases reflect inflationary cost pressure forecasts over the six years from 2024/25.
- 10 As with any proposal to increase costs, it is likely that some stakeholders will object to the level of increase proposed. However, proposed additional costs to the sector aim to address concerns that maritime stakeholders have raised and have sought remedy to.
- 11 Maritime NZ considers the proposals to represent the minimum investment necessary to achieve their purpose or intent. However, in recognition of the broader economic constraints, I have asked Maritime NZ to include a scaled option in its consultation document that would involve an 18-month delay in the implementation of two of its proposals and a \$500,000 reduction in the levies sought for a third. This option would require additional maritime levies of \$10.4 million (averaged), which is a 29.3 percent increase compared to current levies. It would not affect the oil pollution levy.
- 12 Final recommendations on changes to levy rates will be made to Cabinet following submission analysis. Publicly confirming the new levies, following the Cabinet decision, would provide sufficient time for foreign cruise and cargo vessel operators to incorporate any levy changes into freight and passenger charges. It would also allow domestic levy payers a full-year's notice of the change in levy rates.

Background

The regulatory roles and responsibilities of Maritime NZ

- 13 Maritime NZ is a Crown entity primarily governed by the Maritime Transport Act 1994 and the Crown Entities Act 2004. It is the national regulatory and response agency for the safety, security, and environmental protection of coastal and inland waterways. It also has responsibility for maintaining marine oil spill, and broader maritime incident, preparedness, and response capability.

The context of the proposals Maritime NZ wishes to consult on

- 14 The proposals set out in the consultation document have variously been developed in response to Government decisions, as a least costly means to address regulatory risks clearly identified by Maritime NZ and confirmed by sector feedback and engagement. Out of necessity, they consider significant activity changes in the oil production and oil carriage environment.

Maritime NZ's operating context has changed significantly since 2018/19

- 15 Maritime NZ completed its last funding review in 2018/19, with new maritime levies rates and fees taking effect on 1 July 2019. In April 2019, Cabinet agreed to an increase in maritime levies rates estimated to raise an additional \$10 million per annum in funding for 2019/20 and 2020/21, and a further \$3 million per annum from 2022/23 (DEV-19-MIN-0062 refers).
- 16 The outbreak of COVID-19 in early 2020 had a significant impact on maritime levies revenue, which declined 29 percent to \$23.1 million in 2020/21. This was largely due to closure of the border to cruise ships and impacts on cargo supply chains.
- 17 The last full review of oil pollution levies (OPL) took place in 2015/16, with a mid-point update in 2018/19. Since this time, COVID-19 has had an adverse impact on OPL income, which declined 19 percent to \$6.7 million in 2020/21. It declined further in FY 2022/23 when the time-limited capability levy lapsed (a further drop of approximately 25 percent). Crown liquidity funding is being provided to maintain the required level of marine oil spill readiness and response capability.
- 18 As a result, Cabinet approved funding support to enable Maritime NZ to maintain its core regulatory and compliance capability and capacity in April 2020 (CAB-20-MIN-0148 refers). This 'liquidity facility' was extended in Budget 2021 until 30 June 2022, and in Budget 2022 until 30 June 2023. An extension is currently being considered under Budget 2023 to 30 June 2024 to coincide with a return to full cost recovery through this funding review.
- 19 In October 2021, Cabinet agreed to lift the moratorium on undertaking funding reviews and agreed that Maritime NZ would undertake a review to maintain or moderately increase capability and capacity by raising charges, fees and levies, to support a managed transition back to cost recovery (DEV-21-MIN-0192 refers). Cabinet also agreed that Maritime NZ's funding review should take account of factors such as the health of the maritime sector and its recovery, the effectiveness and efficiency of its regulatory and operational functions and consideration of service delivery options.

Health of the Maritime Sector and Recovery

- 20 The initial and interim cost recovery impact analysis undertaken by Maritime NZ (which will be released alongside the consultation document) considers the impacts on the maritime sector, and its capacity to adjust to cost increases. This will be expanded to a full Cost Recovery Impact Statement (CRIS) following consultation.
- 21 The consultation document refers to actions Maritime NZ has taken to reduce costs and improve efficiencies across its business, such as its re-organisation, efficiencies in overhead costs, and its approach to property. Maritime NZ considers that there is limited scope to further limit the proposed maritime levies increase. Approximately 50 percent of the increase relates to delivering on existing Government commitments to implement MARPOL Annex VI, providing seafarer welfare services and addressing cost pressures. The remaining 50 percent relates to measures necessary to address known regulatory risks. Sector feedback will be important in testing the reasonableness of the proposals from both a cost and benefit perspective.
- 22 Following COVID-19 disruptions, cruise numbers are increasing, with the Border Executive Board anticipating a 90 percent recovery before July 2024. Coastal shipping operations were also recovering, as were passenger numbers for the Cook Strait ferries prior to recent disruptions to the service. Profits for foreign cargo shipping lines remained strong over the period, and international supply chains are beginning to return to greater reliability while overall freight costs of shipping are decreasing towards pre-COVID-19 levels. Domestic tourism, charter operators and small ferries have had significant disruption and are facing workforce and inflationary issues but for many, demand is increasing to pre-pandemic levels.

Regulatory risks and pressures

- 23 In 2021, Maritime NZ sought feedback from across the maritime sector on its regulatory performance and areas of concern. This feedback was combined with internal findings on performance and delivery, and an examination of good practice in other regulators.
- 24 This process identified some areas of regulatory risk and improvements needed in capability and capacity. The resulting regulatory strategy, Te Korowai o Kaitiakitanga (Te Korowai), sets out how Maritime NZ intends to address the issues identified.
- 25 The International Maritime Organization (IMO) reinforced these risks and issues during its audit of New Zealand's maritime regulatory system from 12 to 19 September 2022. The IMO made 13 findings which must be addressed. Most notably, the IMO made recommendations to improve compliance with international conventions related to port and flag state control, and oversight of third-party recognised organisations.

Other cost pressures and drivers

- 26 Since the last review of oil pollution levies, COVID-19 impacts and additional shifts in economic activity (primarily the closure of the Marsden Point refinery) have changed payee types and activity levels significantly. Together, this means that revenue generated from the current oil pollution levies falls well short of what is required to sustain New Zealand's marine oil spill readiness and response capabilities.
- 27 Maritime NZ faces ongoing inflationary cost pressures from rising salary and operating costs (based on Treasury guidance of 3 percent for salaries and wages and 3.3 percent for other operating costs). If these cost pressures are not addressed, Maritime NZ will need to cut regulatory services which will further exacerbate risk.

Proposals for public consultation

- 28 Maritime NZ's eight funding proposals fall into three categories:
- 28.1 Proposals one to four are designed to mitigate regulatory risks by increasing capacity and/or capability in the entity's core regulatory and compliance functions;
 - 28.2 Proposals five and six are designed to implement Government commitments; and
 - 28.3 Proposals seven and eight are designed to improve the OPL methodology and maintain marine oil spill preparedness and response capability at adequate levels (respectively).
- 29 Proposals one to six seek an increase in the maritime levy. Proposal seven amends the OPL methodology and proposal eight seeks to revise the OPL to remove the need for Crown funding and restore the required level of funding given the changes described above. No other changes to Maritime NZ fees, charges or levies are proposed as part of this funding review.
- 30 Maritime NZ has sought to keep the proposed cost increases as low as possible and has advised that, in its view, the preferred option represents the minimum level of investment needed to mitigate identified risks in the Maritime sector. However, as parts of the sector are still recovering from the effects of COVID-19 and other disruptions, the levy increase will come at a time when many operators are facing cost increases due to high inflation. I have asked Maritime NZ to include a scaled option in its consultation document. The scaled option would delay investment in proposals two and four by 18-months and reduce the level of funding for proposal six.

Proposal 1: Maintaining and enhancing regulatory operations (port and flag state control)

- 31 International and domestic ships (cruise and cargo) need to comply with maritime standards around safety, the environment and, in the case of international vessels, international labour obligations.

- 32 Maritime NZ undertakes Port State Control (PSC) and Flag State Control inspections of foreign and domestic ships on behalf of the government in accordance with various international agreements. These inspections aim to ensure the safety of the marine environment and the welfare of seafarers.
- 33 Maritime NZ and the sector have reported an increasing number of poor-quality ships coming to, or operating in, NZ waters, with deficiencies in safety and environmental standards. In some cases, these deficiencies could lead to collision or grounding events which have catastrophic safety, environmental and economic impacts. Over the last few months, there has been an increase in observed near misses. These include:
- 33.1 one ship's engine failure requiring an offshore support vessel to tow it to New Plymouth to avoid drifting onto shore;
 - 33.2 issues with a vessel's automatic identification systems resulting in a collision near miss with a navy vessel; and
 - 33.3 two events in January 2023 involving large vessels where the Kaitaki, and Maersk Nadi (currently under investigation) had difficulties and drifted close to shore.
- 34 Poor vessel quality is also leading to regular near misses and incidents involving workers interfacing with them. In many cases, ship equipment is malfunctioning, causing injuries and the potential for fatalities.
- 35 Maritime NZ does not currently have enough inspectors to undertake the minimum number of inspections to deal with high-risk vessels. It also needs to undertake a smaller number of random inspections to deter shipping lines from sending poor quality vessels to New Zealand. For example, the United States undertakes a more regular programme of PSC inspections and has a higher quality of vessels in its waters.
- 36 The lack of inspector capacity has been exacerbated by COVID-19 and there are a number of ships waiting on maintenance. Maritime NZ's remaining inspectors are spending their time reacting to vessels that already have reported deficiencies. Many are so numerous or serious that Maritime NZ is having to detain vessels. It preferable for safety and supply chains to deter poor quality vessels from coming in the first place, rather than undertaking significant work when they arrive.
- 37 Sector stakeholders have identified this issue as being serious and needing action. It was included in the findings of the Port Health and Safety Leadership Group which was asked to identify key safety risks on ports and issues needing critical action, as well as those of the recent IMO audit.
- 38 Maritime NZ has said it is unable to reprioritise maritime officers to this area. It is a specialist skill set and has a small pool of officers whose diversion to PSC activity would create risk in other areas.
- 39 Maritime NZ is seeking an increase in maritime levies funding of \$1.9 million in 2024/25 (rising to \$2.1 million in 2029/30) to increase its capacity to inspect

all priority one high-risk ships and other high-risk vessels. It aims to undertake a small number of random inspections each year to deter sub-standard ships from entering New Zealand ports and harbours. This will enable us to meet our Tokyo MOU obligations, address IMO audit findings and improve future audit results, while contributing to better safety, environmental and labour outcomes.

- 40 The scaled option does not include any changes to this proposal due to the risks associated with reducing funding in this area. Maritime NZ considers this proposal the lowest viable funding to mitigate these risks and expects the requirement for increased capability and capacity in this area to continue beyond the funding review.

Proposal 2: Increase policy, rules drafting and technical advice capacity

- 41 Maritime NZ is responsible for rules which regulate (amongst other things) the construction, crewing and operation of domestic commercial and recreational craft. It has reported that these rules are often out-of-date and overly prescriptive.
- 42 Maritime NZ's regulatory reform programme is addressing the changes needed by reducing demand for exemptions, removing unnecessary requirements and costs, and providing better support for safety and marine protection. While this is a priority, resourcing and access to technical advice is affecting the speed of the programme. The 2018/19 review increased funding for regulatory reform projects and the programme has progressed since then. However, a backlog of outdated rules remains. Funding from Te Manatū Waka for the rules reform programme has not increased for several years and was reduced by 20% in 2017/18 to \$0.8 million when part of it was reprioritised.
- 43 An increase in funding of \$1.0 million in 2024/25 (rising to \$1.1 million in 2029/30) via the maritime levy is sought to ensure the regulatory reform programme can continue to keep pace with important reform needs and avoid unnecessary costs and regulatory risks.
- 44 The scaled option would include an 18-month delay to the implementation of this proposal, reducing the proposed increase in levies by 1.4 percentage points. Because this would involve the addition of a small number of staff to speed up reform activity and outputs, deferring the appointment of those staff would not impact the investment already made in the regulatory reform activity.

Proposal 3: Improving performance in responding to notifications and processing licensing applications

- 45 Maritime NZ is expected to respond quickly to notifications (including for accidents and incidents) and licensing applications. It has initiated changes to this function with a new centralised team to improve how it manages enquiries but needs funding to maintain momentum and maximise impact.

- 46 In recent years, this function has been impacted by increased workloads, reliance on fixed-term contractors, a lack of capacity, work-flow issues and pressures arising from process-changes during COVID-19. There has been a backlog of unprinted certificates and processing times have been much higher than the expected 20-working days. This has impacted the continuity of maritime operations, and the livelihood of individuals and the workforce.
- 47 Maritime NZ has invested more resources into the two certification teams, reducing backlogs and improving timeliness. However, current funding does not allow these improvements to be sustained nor further improvements to be addressed. High volumes of additional Maritime Operator Safety System renewals are expected over the next few years, which the team is not currently resourced to address.
- 48 An increase in funding of \$1.2 million in 2024/25 (rising to \$1.4 million in 2029/30) via the maritime levy is sought for Maritime NZ's notifications and regulatory licencing functions and to address risks and reduce backlogs.
- 49 The scaled option does not include any changes to this proposal.

Proposal 4: Establishing a third-party oversight capacity

- 50 Maritime NZ currently authorises more than 250 individuals and entities to perform a total of 23 regulatory functions such as conducting ship surveys, inspections, approval of safety plans and seafarer examinations. Appropriate oversight of third-party regulators is required to ensure they are performing functions to the required standard.
- 51 Te Korowai and the IMO audit identified issues with third-party monitoring. Maritime NZ has recently adopted a third-party regulatory stewardship framework to support a systematic approach to all oversight (entry controls, performance monitoring, support and training, and exit controls), but the breadth and scale of third-party regulation in the maritime domain requires a level of oversight activity that cannot be achieved with current resources. This means Maritime NZ largely operates in a reactive mode which is not sustainable and cannot guarantee the management of many actual or potential risks.
- 52 An increase in maritime levies funding of \$0.8 million in 2024/25 (rising to \$0.9 million in 2029/30) is sought to establish a small team to lead, support and improve third-party oversight activity. This will enable Maritime NZ to be more proactive, significantly reduce the risk of regulatory failure, and support safety and maritime protection outcomes.
- 53 The scaled option would include an 18-month delay to the implementation of this proposal, reducing the proposed increase in levies by 1.1 percentage points.

Proposal 5: Sustainable funding for MARPOL Annex VI administration

- 54 In 2021, the Government signed an international convention known as MARPOL Annex VI, designed to reduce emissions from ships as part of its commitment to reducing greenhouse gases.
- 55 The implementation of MARPOL Annex VI has significant financial implications for Maritime NZ, which has responsibility for testing fuel, maritime inspections and assisting the domestic maritime sector to comply with the new regulations.
- 56 Maritime NZ's current MARPOL-related costs are covered by the Crown's liquidity facility, which ends on 30 June 2024 (subject to pending Budget 2023 decision). As with the administration of other rules (other than the fee-able activity elements) these would then need to be funded through levies. Without ongoing funding, Maritime NZ will not be able to administer MARPOL Annex VI.
- 57 An increase in maritime levies funding of \$1.8 million in 2024/25 (rising to \$2.0 million in 2029/30) is sought to replace current Crown funding and enable the ongoing administration of MARPOL Annex VI.
- 58 The scaled option does not include any changes to this proposal.

Proposal 6: Sustainable funding for seafarer welfare services

- 59 In 2021, the Maritime Transport Act 1994 was amended to enable the maritime levy to be used to ensure that Seafarer Welfare Centres provide services to the level required by international labour conventions, in line with Labour's 2020 election manifesto.
- 60 An increase in maritime levies funding of \$1.5 million per annum from 2024/25 is sought to replace current Crown funding and enable the ongoing delivery of services reasonably required to meet the Maritime Labour Convention.
- 61 The consultation document also seeks feedback from stakeholders about different options for delivering seafarer welfare services, including the status quo (whereby Maritime NZ funds the Seafarer Welfare Board, which coordinates and delivers many of the services). Continuing funding for these services will support ongoing maritime workforce sustainability which is important for supply chain resilience.
- 62 The Government initiative to fund these services attracted significant positive international attention and its continued funding is a clear signal by Government of its commitment to this element of the Maritime Labour Convention.
- 63 The scaled option proposes a reduction of this funding by \$500,000 to \$1.0 million per annum. This would be less than current levels but would retain a level of funding that, prior to COVID-19, was identified as appropriate for the nature and scale of seafarer welfare service demand.

Proposal 7: Amend the OPL methodology

- 64 The shares of OPL paid by each stakeholder in the maritime sector have previously been allocated through a dynamic, detailed and expensive likelihood and consequence model. This approach is not aligned to that used for the maritime levy and will be potentially unreliable going forward.
- 65 Maritime NZ has developed a proposed revised OPL allocation methodology that aligns with the approach used for the maritime levy (that was widely consulted with industry previously and is well understood). The revised methodology takes a “whole of system approach” that looks at system risks if unmitigated to determine who should pay to ensure a safe and effective system. This approach is simpler, easier to understand and less costly to implement and maintain.
- 66 Maritime NZ has sought independent advice from Sapere who has provided full details of the proposed approach. Sapere’s report will be made available to external parties as part of the consultation process to allow detailed consideration by levy payers and subsequent feedback.
- 67 Maritime NZ has engaged with the Oil Pollution Advisory Committee (OPAC) on the intention to consult on the proposed change in oil pollution levies methodology. OPAC includes statutorily appointed representatives from across all sectors with OPL liability as well as iwi, central government agencies and local government.
- 68 The scaled option does not include any changes to this proposal.

Proposal 8: Maintain marine oil spill preparedness and response capability

- 69 The current OPL rates are no longer projected to fund delivery of New Zealand’s Marine Oil Spill Readiness and Response Strategy and associated implementation plan, as agreed by OPAC. This strategy sets out the required nature and scale of New Zealand’s oil spill response preparedness, co-ordination, capability, and equipment.
- 70 Changes in the operating environment since 2016 mean that the current OPL is not raising the necessary revenue indicated by the strategy. The Crown has funded the gap in revenue to date, but Government has directed that full cost recovery should recommence from 1 July 2024 as is intended under the Maritime Transport Act 1994.
- 71 Maritime NZ is seeking an increase in oil pollution levy revenue by an annual average \$1.1 million (13.3% percent) over the period 2024/25 to 2026/27, to maintain the country’s oil spill preparedness and response capability.
- 72 The scaled option does not include any changes to this proposal.

Financial impact of proposals

Maritime NZ

- 73 Table One provides a summary of financial impacts on Maritime NZ, by proposal. If proposals one to six were adopted without scaling, maritime levies

revenue would increase by an average of \$11.8 million (33.2 percent) over the three years from adoption. Proposal eight is estimated to increase OPL revenue by an average of \$0.8 million (8.8 percent). The proposals variously build on differing levels of resourcing within Maritime NZ, depending on the function. Proposals one, two and three represent incremental increases in existing functions. Proposal four is creating a function that currently does not exist—existing funding for third-party oversight is very low and spread very thin. Proposals five and six move from Crown to maritime levies, the cost recovery of new activity arising from Government decisions.

- 74 Proposals one through six include a total of 28.75 full time equivalent staff (FTE). However, this includes five existing FTE that are currently funded by the Crown (Proposals five and six). Maritime NZ has advised that because the remaining FTE will be hired to join multiple and established parts of the organisation, there are foundations in place to bring additional staff on board quickly. For example, the four FTEs comprising the new third-party oversight function would be located within an established team and would be giving effect to an already agreed framework. Maritime NZ is confident that it will be able to recruit these new staff without significant issues.

Table 1: financial impact of proposals

Proposal	FTE	Initial Option		Scaled Option	
		3yr Ave (\$m)	3yr % increase	3yr Ave (\$m)	3yr % increase
1	9	1.9	5.5%	1.9	5.5%
2	5	1.0	2.8%	0.5	1.4%
3	5.75	1.3	3.5%	1.3	3.5%
4	4	0.8	2.2%	0.4	1.1%
5	4	1.8	5.2%	1.8	5.2%
6	1	1.5	4.2%	1.0	2.8%
Cost Pressures	N/A	3.5	9.8%	3.5	9.8%
Maritime Levies	28.75	11.8	33.2%	10.4	29.3%
8	N/A	0.8	8.8%	0.8	8.8%
Maritime Levies & OPL		12.5		11.1	

The maritime sector

- 75 The maritime and oil pollution levies are charged by Maritime NZ to the owners and operators of domestic and foreign commercial ships operating in New Zealand waters. All commercial operators (with a few exceptions) are liable for the maritime levy, while only a selection of vessels is liable for the OPL.
- 76 The financial impact of the proposals on individual operators depends on the type of vessel they operate (weight, length and passenger capacity), and whether they operate domestically or internationally. Approximately 90 percent of the proposed levy increases are expected to fall on foreign vessels. This is because these vessels tend to be much larger and are levied on a per port visit basis. Domestic operators are invoiced once each year and their liability (per vessel owned) is not linked to the frequency of activity.
- 77 Full consideration has been given to the impact of increased maritime levies on different parts of the sector and different types of operation. Maritime NZ's analysis finds that the very largest domestic operators (who will see the highest proportional increase in domestic liability) operate at a scale where that increase can be absorbed or covered through a minimal per unit charge increase.
- 78 For example, the three KiwiRail ferries transport around 800,000 passengers and 250,000 cars each year. If all the proposals were adopted, maritime levies liability would increase by around \$170,000 per year across the three vessels. A much smaller levies payer, operating a 104 gross tonne aquaculture vessel would incur an increased levy of \$236 per year, equivalent to 64 cents per day. The impacts on consumers of any costs which are passed on are therefore expected to be negligible.
- 79 Further examples of impacts are in Appendices Two and Three.
- 80 There have been significant changes to activity patterns affecting the quantum and distribution of activity that generates OPL—primarily the removal of NZ flagged coastal tankers after the closure of Marsden Point and changes to international tanker, passenger and cargo vessel activity. Therefore, irrespective of whether the current or proposed methodology for calculating levies liability was applied, this would have seen a shift in liability distribution across levy-paying sectors.
- 81 The proposed new methodology ensures that, within this changed environment, the per sector liability is more appropriately distributed, and if applied, would see foreign shipping liability for levies increase from 30 percent (currently) to 96 percent from 1 July 2024. The liability of the eligible domestic shipping sector would decline from 70 percent (current) to just four percent.
- 82 It is also important to recognise the costs (including contribution to cost of living) of not adopting the proposals. For example, the capacity of PSC inspectors means Maritime NZ is spending such a large amount of time reacting to vessels with deficiencies, that Maritime NZ is having to delay or detain vessels. Some have been delayed as long as two weeks and are taking up limited Port berthing. These delays are impacting supply chains and

increasing costs for shipping lines, ports, importers, and exporters (which are likely considerably more in total than the levy increases). Costs will ultimately be passed on to consumers and businesses. Delays in licensing for seafarers and operators can mean that people cannot operate businesses, have delays in starting their operations (lost revenue), or face additional staffing costs.

83 Maritime NZ has undertaken its funding review with an awareness of cost pressures faced by the maritime sector, some of which may arise from increases in levies imposed by other government agencies.

84 Customs and Biosecurity levies have increased since the last Maritime NZ funding review. Further increases have been proposed by Customs and the Ministry for Primary Industries, subject to Cabinet approval and public consultation. As these are border levies, their direct impact falls predominantly on foreign shipping activity but they can impact the domestic maritime sector via higher freight costs and increased costs of imported goods which could have cost-of-living implications.

Impact of the scaled option

85 Under the scaled option, Maritime Levy rates increases drop from an average of 33.2% to 29.3% over the three years from 2024/25. The option was developed through the application of two principles by Maritime NZ:

- 1 that additional funding proposed to attend to any evident and critical risk cannot be deferred or reduced; and
- 2 that a reduction or deferral of new funding sought should only be an option where no previous investment has been made or where investment already made would not be impacted.

86 These principles exclude all but three proposals. The scaled option package and its impact is as follows:

Scaled option package:	Impact compared to non-scaled rates over three years from 2024/25
Defer until 1 January 2026 Proposal 2: supporting the achievement of safety and marine protection outcomes at reduced cost.	-1.4% per year
Defer until 1 January 2026 Proposal 4: establishing a third-party oversight capacity	-1.1% per year
Reduce by \$0.5m per annum Proposal 6: Seafarer Welfare Services funding	-1.4% per year

87 For more information on the impact of levies on different types of vessels, refer to Appendices Two and Three.

88 Maritime NZ has expressed concerns with the scaled option. It considers that the scaled option would leave it in a position where it is unable to effectively mitigate the risks that it has identified. However, I consider it important to provide options in the consultation document, so that the maritime sector can

provide its perspectives on the materiality of those risks and the relative benefits of Maritime NZ's preferred option compared to the scaled option.

Implementation

- 89 Maritime NZ proposes an open and inclusive approach to the consultation process, which will run from 21 March to 26 April 2023 (subject to Cabinet approval).
- 90 A consultation pack (or link to it) will be sent directly to sector contacts by email and will be made publicly available on the Maritime NZ website. Maritime NZ will also notify the sector via its Twitter account and Facebook page. A dedicated email address will be available for submitters to send questions and seek any clarification. Webinars hosted by Maritime NZ staff will also be made available for those who wish to have the proposals explained further or seek additional information.
- 91 Officials are working to a challenging timeline to seek Cabinet's approval of the new funding regime prior to the election. I have supported that ambition given Cabinet's expectation for Maritime NZ to return to full cost recovery by 1 July 2024. Table Two summarises the funding review's key milestones, culminating in a planned change in maritime and oil pollution levies on 1 July 2024.

Table Two: Funding Review Key Milestones

Milestone/Activity	Timeframe
Public consultation process	21 March – 26 April 2023
Final CRIS, Cabinet Paper and summary of submissions submitted to Associate Minister of Transport	May 2023
Cabinet Economic Development Committee considers proposed increase in levies	June 2023
New maritime and oil pollution levies take effect	1 July 2024

- 92 Following Cabinet's agreement on the new levies, Te Manatū Waka will work with the Parliamentary Counsel Office will begin work on developing and drafting the new regulations to reflect any changes to levies. Following departmental consultation, these will be submitted to the Cabinet Legislation Committee seeking approval.

Financial Implications

- 93 The consultation document does not have any financial implications for the Crown.

- 94 However, Maritime NZ will remain reliant on the liquidity facility until the funding review is completed. Maritime NZ is seeking an extension of the liquidity facility as part of Budget 2023 (amounting to \$16.1 million), to maintain the provision of core regulatory functions and seafarer welfare services until 30 June 2024. Maritime NZ also has another Budget bid to address maritime security cost pressures, amounting to \$4.8 million over four years.
- 95 Longer-term, Maritime NZ will remain reliant on Crown funding to deliver a range of services, including maritime security, incident readiness, search and rescue and maritime safety infrastructure (such as aids to navigation, distress radio and distress beacons).
- 96 Under section 9(1) of the Land Transport Management Act 2003, the Crown may use land transport revenue to support search and rescue activities and recreational boating safety and maritime safety services. Since 2004, Maritime NZ has received Fuel Excise Duty (FED) funding under section 9(1) to provide these services. It currently receives \$13.4 million per annum.
- 97 Section 9(1) funded activities will face inflationary pressures over the six years from 2024/25. Any shortfall resulting from this would be unable to be met through maritime levies, given that this would be inconsistent with the funding review principles published by the Office of the Auditor-General. Maritime NZ intends to submit a funding request for additional Section 9(1) funding before the new maritime and oil pollution levies take effect.

Legislative Implications

- 98 There are no legislative implications associated with the release of the consultation document. Final funding proposals (if agreed by Cabinet) will require amendments to the Maritime Levies Regulations 2016 and the Oil Pollution Levies Order 2016.

Regulatory Impact Statement

- 99 The Treasury's Regulatory Impact Analysis team has determined that the proposal to release the Maritime NZ Review of Levies Funding for 2024/25 – 2029/30 consultation document is exempt from the requirement to provide a Stage 2 Cost Recovery Impact Statement (CRIS). The exemption is based on advice that the consultation document includes the key features of an interim Stage 2 CRIS.
- 100 The Regulatory Impact Analysis Quality Assurance panel at Te Manatū Waka has reviewed Maritime NZ's analysis supporting the proposals set out in the consultation document and confirmed that the analysis conducted partially meets the Stage 2 CRIS requirements. It was assessed as not being able to achieve a higher rating largely because there was insufficient information to provide a complete picture of the problem definition and how the proposed initiatives are expected to address the problem, including specific outcomes that will be achieved. The panel has also suggested some editorial improvements to clarity and conciseness. A full Stage 2 CRIS will be

completed at a later date to inform Cabinet's final decisions on this proposal once it returns from consultation.

Climate Implications

- 101 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this proposal as the threshold for significance is not met.

Population Implications

- 102 There are no population implications associated with the release of the consultation document.

Human Rights

- 103 There are no material human rights implications associated with the release of the consultation document.

Consultation

- 104 The Treasury, Customs, Ministry for Primary Industries and Ministry of Business, Innovation and Employment were consulted on this Cabinet Paper and associated consultation document. Comments provided by Customs have been reflected in this Cabinet Paper.

Communications

- 105 Subject to Cabinet agreement, Maritime NZ will announce the commencement of the consultation process using its website and other communication channels.

Proactive Release

- 106 I intend to release this Cabinet Paper proactively and in accordance with the Official Information Act 1982 within 30 business days of the public consultation process commencing.

Recommendations

The Associate Minister of Transport recommends that the Committee:

- 1 **notes** that Cabinet agreed to lift a moratorium on Maritime NZ undertaking a funding review in October 2021, and that such a review should seek to maintain or moderately increase capability and capacity by raising charges, fees and levies to support a managed transition back to cost recovery (DEV-21-MIN-0192 refers).
- 2 **notes** that Maritime NZ is undertaking a funding review to address cost pressures, fund two new commitments and return Maritime NZ to a financially sustainable position by 1 July 2024.

- 3 **notes** that the consultation document *Maritime NZ Review of Levies Funding for 2024/25 – 2029/30*, proposes a \$10.4 million increase in maritime levies revenue (from a \$35.4m baseline) in 2024/25, and a \$0.4 million increase in oil pollution levies revenue (from a \$8.7m baseline) in the same year.
- 4 **notes** that an option to scale maritime levies revenue by delaying proposals two and four and reducing the cost of proposal six has also been included.
- 5 **notes** that Maritime NZ proposes a five-week public consultation process from 21 March to 26 April 2023.
- 6 **agrees** to the release of the consultation document, subject to any minor or editorial changes that may be required.
- 7 **invites** the Associate Minister of Transport to report back to Cabinet with final policy proposals in June 2023.

Authorised for lodgement

Hon Kiri Allan
Associate Minister of Transport

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

Appendix One: *Consultation Document Maritime NZ Review of Levies for 2024/25 – 2029/30*

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

Appendix Two: *Examples of current versus proposed Maritime Levy rates for indicative foreign vessels*

Vessel type Paid per port visit		2022/23 current rates	2024/25 scaled option	Change from 2022/23	Change from Initial Option
	International Oil Tanker (SOLAS) GT 25,000 PAX 0 DWT 45,000	\$3,373	\$4,177	\$805	-\$125
	International Container Ship (SOLAS) GT 40,000 PAX 0 DWT 52,000	\$5,206	\$6,449	\$1,243	-\$194
	International Cruise Vessel (SOLAS) GT 110,000 PAX 2500 DWT 15000	\$16,229	\$20,112	\$3,883	-\$604

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

Appendix Three: *Examples of current versus proposed Maritime Levy rates for indicative domestic vessels*

Vessel type Paid Annually		2022/23 current rates	2024/25 scaled option	Change from 2022/23	Change from Initial Option
	Domestic Passenger Ferry (SOLAS) GT 22,365 PAX 1,350 DWT 5,794	\$240,020	\$297,409	\$57,389	-\$8,929
	Domestic Container Ship (SOLAS) GT 6000 PAX 0 DWT 10,000	\$51,366	\$63,647	\$12,281	-\$1,911
	Domestic Coastal Fishing Trawler (non-SOLAS) GT 529 PAX 0 DWT 0	\$4,348	\$5,387	\$1,038	-\$162
	Domestic fishing Length 5.9 metres	\$90	\$112	\$22	-\$3
	Domestic non-passenger aquaculture vessel (mussel barge) GT 104	\$855	\$1,059	\$204	-\$32
	Domestic non-passenger barge GT 150	\$1,233	\$1,527	\$294	-\$46
	Domestic non-passenger Length 23.9 metres (including tugs)	\$363	\$453	\$91	-\$14
	Domestic non-passenger Length 8 metre workboat	\$121	\$152	\$30	-\$5
	Domestic Passenger Ferry (Non SOLAS) GT 280 PAX 300 DWT 0	\$2,828	\$3,503	\$675	-\$105
	Domestic Charter Passenger Boat (Non SOLAS) Length 18 metres PAX 140 DWT 0	\$519	\$646	\$127	-\$19
	Domestic Charter Passenger Boat (Non SOLAS) Length 8 metres PAX 14 DWT 0	\$139	\$173	\$35	-\$5
	Domestic Commercial Jet Boat Length 8.2 metres PAX 8 DWT 0	\$265	\$329	\$65	-\$10
	Domestic passenger Commercial dive boat Length 4.5 metres PAX 4	\$138	\$172	\$34	-\$5
	Domestic passenger 3.7 metre personal watercraft (jet ski/novel craft) PAX 1	\$74	\$92	\$18	-\$3

OFFICIAL INFORMATION ACT 1982

CONSULTATION DOCUMENT

MARITIME NZ REVIEW OF LEVIES
FUNDING FOR 2024/25 – 2029/30

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

FOREWORD FROM THE AUTHORITY CHAIR AND THE DIRECTOR

This consultation document provides an opportunity for all people that receive the benefits of Maritime NZ's performance, and fund the organisation to carry out its regulatory functions, to engage on potential changes to levies.

Kirstie Hewlett, Maritime NZ's new Director was welcomed in June 2021 and her first priority was to get a good understanding from industry around how Maritime NZ was performing as a regulator. Kirstie's engagement with a number of you, alongside other work we have undertaken, and an international audit, generated some key insights into what was working well and where improvements needed to be made. We listened, and through a whole of organisation strategy we have been working on the areas we collectively identified as regulatory risks or where regulatory services could be improved.

Over 2022 we developed the regulatory strategy Te Korowai o Kaitiakitanga (the Cloak of Stewardship) to address regulatory risks and improve regulatory services. As part of that work we went through an organisational re-design to ensure we were operating as efficiently and effectively as we could, alongside looking for efficiencies in other areas, for example sharing property with other Government agencies in our satellite offices to save costs. We used the savings created by the new structure to start addressing issues concerning and affecting the maritime sector including regulatory licensing delays and backlog, our need to focus more on deterring sub-standard ships on internal voyages arriving at our ports, and being more responsive (quicker and better) when we receive enquiries or notifications.

However, our internal efficiencies by themselves are insufficient to address some regulatory risks, or to deliver the service needed by the sector. There are just eight proposals for your consideration, and of those, four are focused on building on what we have done so far, addressing a narrow set of residual regulatory risks and making provision for further functional improvement. We recognise industry pressures and have focussed this funding review on critical risks and issues, and the minimum viable proposition to address them. Many of the proposals will not only have safety benefits but should improve smooth economic operation of the maritime sector.

During COVID-19 in early 2020, we sought, and the Government agreed, to delay the anticipated funding review. The Government also over COVID has covered any gaps in Maritime Levies and Oil Pollution Levies revenue from decreases in activity through a Crown Multi-year appropriation. That funding has been provided in anticipation of this Funding Review and under expectations that from 1 July 2024, we will be back to full cost recovery.

Of the eight proposals, there are two that are in response to Government commitments and decisions. The first, a priority commitment made in 2020 to fund the provision of seafarer welfare services, and in 2021 a decision by Parliament that the commercial maritime sector should fund those services through Maritime Levies.

The second was a Government decision to sign up to what is known as MARPOL Annex VI – an international convention, now part of New Zealand legislation (Maritime Rules), containing a series of new requirements for the management of air pollution from ships. Maritime NZ is the administrator of the regime and there is an expectation from government that from 1 July 2024 the cost of that administration will be recovered through fees and Maritime Levies.

The remaining two proposals go respectively to a new method for calculating Oil Pollution Levies liability and raising Oil Pollution Levies revenue to the level needed to deliver the New Zealand Marine Oil Spill Readiness and Response Strategy. That Strategy is so important to our preparedness for a major oil spill and being able to respond to it in a way that minimises the various harms such events can cause.

As this is a mid-point funding review (for fees and Maritime Levies) we have not looked at fees, or the hourly rate on which they are based. A full review of fees will be conducted at the next full funding review.

We have been careful to keep this document to the minimum necessary to explain the proposals in full context and set out the implications of them. This may be sufficient for you to form a view but if you want more information there is a link at page 4 to a supporting document.

We encourage you to be part of this consultation process and look forward to receiving and considering your feedback.

Jo Brosnahan, Chair Maritime NZ

Kirstie Hewlett, Director Maritime NZ

CONTENTS

Foreword from the Authority Chair and the Director.....	2
Process for consultation and making submission.....	4
How to make a submission.....	4
PART 1.....	5
The purpose of this review.....	5
Overview and context.....	6
What we are trying to achieve.....	7
What we have done to date.....	9
Case study 1: Investment in our Certification capacity.....	10
Case study 2: Creating a new Maritime Inspections team.....	10
Case study 3: Establishing a centralised Notifications and Enquiries team.....	11
What more we need to do to deliver our regulatory strategy and address regulatory risks.....	11
What else we are required to attend to.....	11
PART 2.....	12
The proposals.....	12
Supporting the delivery of our Regulatory Strategy and managing regulatory risks.....	12
Proposal 1: Maintaining and enhancing regulatory operations capacity (Maritime Levies).....	12
Proposal 2: Supporting the achievement of safety and marine protection outcomes at reduced cost (Maritime Levies).....	13
Proposal 3: Improving our performance in responding to notifications and regulatory licensing (Maritime Levies).....	14
Proposal 4: Establishing a third party oversight capacity (Maritime Levies).....	14
Recovering the cost of commitments made by government.....	15
Proposal 5: Sustaining funding for MARPOL Annex VI administration.....	15
Proposal 6: Seafarer Welfare Services Funding (Maritime Levies).....	16
Revising the Oil Pollution Levies allocation methodology and maintaining Marine Oil Spill Readiness and Response Capability.....	17
Proposal 7: Changing the Oil Pollution Levies allocation methodology.....	17
Proposal 8: Maintaining Marine Oil Spill Readiness and Response Capability.....	18
Financial and other implications.....	19
Sector impact scenarios.....	20
PART 3.....	21
Maritime NZ's intentions to seek additional Crown funding.....	21
Efficiency improvement initiatives.....	21

PROCESS FOR CONSULTATION AND MAKING SUBMISSION

HOW TO MAKE A SUBMISSION

This consultation document invites feedback on a set of proposals that if adopted would variously require additional Maritime Levies and Oil Pollution Levies funding; that affect the amount payable for all fee-able activities; and that change the way liability for Oil Pollution Levies is calculated.

You can give us feedback on the proposals in this document by:

- e-mail to fundingreview@maritimenz.govt.nz
- ordinary post to, Funding Review, Maritime NZ PO Box 25620, Wellington 6146
- fax to (04) 494 8901
- filling the online form at www.maritimenz.govt.nz/funding

If you want clarification on any of the proposals, for the purpose of making a submission, please feel free to send your questions through to us by email at the address above.

We have sought to find the right balance between keeping the document to an approachable length and providing sufficient detail for readers to have a clear understanding of the basis for the proposals, their benefits and their implications. There is however further detail and contextual information and it is available [here](#).

The deadline for making a submissions is **18 April 2023**.

We appreciate that making a submission takes time and doing so within a specific deadline on top of other commitments requires particular effort. In fairness to those who make that effort we will not be accepting or taking account of submissions received after the deadline.

Please note that it is our intention to prepare and publish a summary of submissions. This is for the purposes of transparency and assurance that all submissions have been considered. Submissions themselves will not be published but a list of submitters is intended for inclusion in the summary document. If there is any element of your submission that you do not want to be in the public domain please signal that when you make your submission.

THE PURPOSE OF THIS REVIEW

For regulatory agencies such as Maritime NZ funding reviews are about ensuring that sufficient funding is sustained across different sources to deliver core regulatory functions and do so in a way that reflects the regulatory strategy. For Maritime Levies and fees this is a mid-point funding review and is focused on ensuring we can deliver regulatory functions effectively and minimise risks, and attend to new Government driven funding-relating matters that have arisen since the last full Funding Review in 2018/19. Due to COVID impact and recovery related decisions taken by government to freeze public sector funding reviews in 2020 and 2021 in order to minimise fiscal pressures on levy payers, this review is occurring two years 'out of cycle'. It is also occurring in the context of the Crown having provided additional funding to Maritime NZ to support the organisation through COVID on the basis that from 1 July 2024 the purposes for which the funding has been provided will be recovered through Maritime Levies. For Oil Pollution Levies (OPL) this is a delayed full term funding review but we have made it part of this mid-point review to support an aligned and full view of both our levies funding sources. The OPL review focus is on ensuring levies rates are set at the right level to sustain the required revenue to deliver in full the New Zealand Marine Oil Spill Readiness and Response Strategy. A review of how Oil Pollution Levies are calculated (the methodology) has also been carried out and the outcome is reflected in this document.

The eight proposals set out in this document, if agreed by government consequent to this consultation, would be effective from 1 July 2024 and remain in effect up until July 2030 (pending changes or adjustments resulting from a full Funding Review in three years from now).

Our regulatory strategy, Te Korowai o Kaitiakitanga (the Cloak of Stewardship) sets out how we will deliver and perform our regulatory functions. It reflects what industry has told us about how we are performing and where we need to do better; it addresses regulatory risks; it sets out a way of working that is inclusive, engaged, communicative, professional, consistent, and responsive. That approach and the sector benefits it strives for, are the key drivers for the first four proposals set out in this document.

In 2020 the Government signalled the funding of seafarer welfare services as a clear priority. A change was made to the Maritime Transport Act to enable such funding to be generated through Maritime Levies and there is an expectation that this funding review is the process through which bridging finance provided by the Crown will be replaced, from July 2024, with funding through levies. We have therefore examined, and made a proposal in relation to the quantum of funding to be raised for this purpose and how we intend it to be managed and distributed for optimal value and efficiency.

Since the last Funding Review in 2018/19 Maritime NZ also has been given responsibility for the administration of a wide ranging set of new requirements under MARPOL Annex VI relating to the prevention of air pollution from ships. Government has committed to fund those administrative costs on an interim basis, but from July 2024 there is an expectation that the same will be recovered through a combination of fees (for certification related activity) and Maritime Levies. As part of this funding review we have therefore examined the ongoing cost of that administration and have made a proposal in relation to it for additional Maritime Levies funding.

This review has also looked at how to fully fund the delivery of New Zealand's Marine Oil Spill Readiness and Response Strategy (the Strategy), as endorsed by the Oil Pollution Advisory Committee (OPAC), which represents the views and interests of all Oil Pollution Levies paying sectors and key stakeholders. There have been very significant changes in the operating environment (closure of the refinery at Marsden Point, alterations to the types of oil imported and vessel activity levels and sailing patterns) and the time expiry of one element of the current OPL; together these have impacted the level of Oil Pollution Levies revenue that can be generated under the current methodology. This affects our ability to fully implement the Strategy. We have used this review as the opportunity to address the impacts of the significant changes and to propose a refreshed and revised levies calculation method, and applying that method, we have calculated and proposed new Oil Pollution Levies rates.

Maritime NZ's costs are partly recovered through fees. Specific fees and the hourly rate on which all fees are based were reviewed in the last full funding review in 2018/19 and set in regulations effective 1 July 2019. This being a mid-point review we have not looked again at specific fees or the hourly rate but will do so in the new full funding review in three years.

In order to be given effect all but one of the proposals in this document would require the recovery of additional costs through Maritime or Oil Pollution Levies. We make no assumptions as to what will be recommended or agreed following this consultation process, but it is important that in making the proposals we are explicit as to what the additional funding would be used for, the impact of increased levies on those who are liable, the authority we have to propose raising additional levies to effect the proposals and how cost recovery aligns with relevant guidelines and principles. This detail is set out in the attached document Initial Cost Recovery Impact Information: [link](#).

OVERVIEW AND CONTEXT

Funding reviews occur on a cyclical basis and are a transparent mechanism to set out proposals for alignment of revenue from levies and fees with particularised costs. Ordinarily, and as was the case with the last full funding review in 2018/19, that alignment can be achieved only through increased levies revenue and relatedly, an increase in levies rates. That is again the case in this review where seven of the eight proposals have a levies increase implication. If levies increases are recommended to, and agreed by Cabinet consequential to this consultation, they would not take effect until 1 July 2024.

Section 51 of the Crown Entities Act (2004) requires Maritime NZ to operate in a financially responsible manner and to endeavour to ensure its long-term financial viability and operate as a successful going concern. Accordingly Maritime NZ holds reserves to support this. Levels of cash reserves are reported annually and as at 30 June 2022 were circa \$16.3m (MNZ \$10.5m and \$5.8m for Oil Pollution Fund). This funding review does not propose to increase the current reserves position through an increase in levies rates. The next full Funding review would be the mechanism to 'correct' a significant over or under recovery of levies revenue.

Maritime NZ uses reserves to:

- Withstand short-term economic shocks and manage unforeseen border or port closures or industry changes which has significant impact on revenue streams
- Manage short term imbalances in revenue or expenditure flows
- Fund any significant litigation events that may occur
- In the case of response activities fund continued operations during long duration or complex search and rescue events, fund the necessary initial response costs of a Tier 3 spill or other maritime incident response.

Maritime NZ intends to review its cash reserves policy and that it will be published (or otherwise made available to interested parties) prior to the commencement of the next funding review.

The proposed uplift in Maritime Levies revenue is an average of \$11.7m each year for 2024/25 – 2026/27 which represents an increase in maritime levies rates of 33.1%. Of that potential increase, approx. 28% would be to cover the cost of commitments made by Government, approx. 42% to address regulatory risk issues and the balance of 29% to cover cost pressures.

The last proposal has the potential implication of an annual average of \$0.8m or 8.8% increase in Oil Pollution Levies revenue and rates (over the period 2024/25 – 2026/27). While for both levies types a significant proportion of the overall liability rests with foreign vessels and their activity in New Zealand waters (so their increase would be proportionately more), that does not detract from the fact that domestic operators could see an increase in levies payable.

The cost element is a reasonable focus for levies payers but we ask that attention is also paid to the benefits, some of which will, over time, offset the cost at an industry wide or individual level. In setting out the proposals we have been clear about potential costs and given a fair appraisal of benefits. In the event the proposals are adopted, as part of the next full funding review we are committed to reporting back on how they were effected and evidence of benefits.

Consequential to the 2018/19 Funding Review additional Maritime Levies revenue was generated to cover the cost of a set of specified activities. Consistent with a looking forward and reporting back approach we have set out below how that additional funding was applied and the benefits derived.

International engagement (\$1 million per annum from 2020/21): We have established a new International Engagement and Coordination team. This has brought a more strategic and proactive focus to our influencing strategy and participation in international maritime fora that are critical to New Zealand's shipping interests. As a consequence we have been able to participate in and have influence over a wider range of IMO initiatives, including ongoing work on international maritime

emissions, a variety of key safety issues, the international Maritime COVID response, seafarer welfare issues and other key issues for New Zealand.

Regulatory reform projects development and implementation (on average, \$1.2 million per annum from 2019/20): This funding has helped to ensure that our approach to implementing rules is fit for purpose and workable for operators; and that operators impacted by new or revised rules are supported with clear and updated guidance on what to do. We have also established a process to more consistently identify and prioritise regulatory reform activities to update our ageing ruleset; and have made a start in addressing some of the biggest priorities for reform through our 40 series project, which has focused on ship design, construction and equipment rules. We also established teams that are focused on the more effective end to end implementation of new rules, including a guidance team and a service design team. Together this enabled us to make progress on some of the problems in our rules that impact on operators as well as safety and environmental outcomes (to date this has included work on the 40 series, the development of rules to implement MARPOL, reform of navigational safety rules, pilot boarding arrangements and preparation for the implementation of the Cape Town Agreement. Areas of future focus are likely to include seafarer certification rules and MOSS).

Surveyor standards of performance (\$0.57 million per year for three years): The resourcing for updating the 2014 surveyor standards of performance has been integrated with the 40 series reform project, which is addressing ship design, construction and equipment rules. This ensures that the development of revised performance standards are part of and reflect a wider package of joined up and coherent rules. Work on the surveyor performance standards is well advanced.

Systemic Risk Activities (on average, \$2.68 million per year from 2019/20): Through the addition of a number of key technical, environmental and engagement roles we have increased our capacity to identify and attend to systemic risks *within* the recreational and commercial maritime sectors. It has also enabled us to strengthen our analytics, risk and intelligence function. This has allowed greater focus on outcomes-based interventions such as industry outreach activities, engagement/relationships, education, guidance and campaigns. During the COVID-19 pandemic this enabled Maritime NZ to play a vital role acting as the key interface between the maritime industry and Government. This ensured that domestic operators and international shipping kept operating moving goods and people, while strengthening our partnerships along the way.

ICT systems and integration (on average, \$1.94 million per year from 2019/20): We have invested in our underlying technology and systems including growing capability and capacity with a strong focus on refreshing our digital infrastructure, applications and security. We have continued to integrate systems, move data from old to new platforms, and develop new functional capability. We have also made improvements to our regulatory management information systems which support core regulatory functions and compliance activities (e.g. exemptions, Safe Operating Plans, vessel data and seafarer certification). As a result an increasing number of manual regulatory processes are now undertaken digitally. Going forward this money will also assist us to develop technology to ensure there is a better front portal into Maritime NZ and better mobile notification technology.

Port and Harbour Marine Safety Code (on average, \$0.33 million per year from 2019/20): Through this funding Maritime NZ's input to, and support of, the Port and Harbour Marine Safety Code has been increased in the areas of technical, policy, guidance, education, data and research, communication, administration and strategy development. We participate in five safety management system peer reviews each year, and have led the development and review of various guidelines issues under the Code. This has included Key Principles for Marine Safety Risk Management; Aids to Navigation; and Good practice guidelines for hydrographic surveys in New Zealand ports and harbours.

Around \$2 million per annum additional Maritime Levies revenue was also agreed in the last funding review to cover cost pressures associated with Maritime NZ's administration of the Ballast Water Management Convention regulatory requirements, the provision of aids to navigation, maritime distress and safety communications, and general business cost pressures.

WHAT WE ARE TRYING TO ACHIEVE

Maritime NZ is a steward or guardian of the maritime domain. Our stewardship role is mandated under the Maritime Transport, Ship Registration, and Maritime Security Acts, across which our functions and powers are all about ensuring the offshore, coastal and inland waters of Aotearoa are safe, secure and clean. We are also designated under the Health and Safety at Work Act in relation to maritime activities and have stewardship responsibilities under the Public Service Act 2020

and the Crown Entities Act in terms of our capability as regulators, our systems and processes, retaining our institutional knowledge, and maintaining the legislation we administer.

All of these matters have fed in to and are reflected in our regulatory strategy Te Korowai o Kaitiakitanga which sets out our pathway to becoming an increasingly effective regulator. This means strong regulatory stewardship and being better able to support outcomes for the maritime sector (recreational and commercial), for the New Zealand public (because we are a Public Service entity), and for New Zealand (because having safe, secure and clean waters generates a range of social, cultural, economic and reputational benefits).

In 2021 Maritime NZ undertook a robust examination of how well we are delivering our various regulatory functions. This included internal workshops; conversations with industry organisations; looking at how other regulators perform 'like' functions; and reflection on how close we are to 'what good looks like' (as informed by what industry had told us, and by current thinking on good regulatory practice). That examination gave clear signals of gaps in our capability, capacity, systems, processes and culture; important insights into how these are affecting our performance and continued maturation as a regulator, and in some cases creating or contributing to risk. In 2022, an independent audit was undertaken of the extent to which New Zealand complies with its obligations under the various International Maritime Organisation (IMO) to which it is a Party, and the findings reinforced our earlier assessment, particularly in relation to our oversight of those we authorise to perform regulatory functions and some of our Port State Control work. Key areas highlighted were:

- Our investment in Flag and Port State Control inspections (and the quantum of activity it makes room for) has not in recent years been at a level sufficient to best manage the risks associated with sub-standard shipping. Over COVID the quality of vessels has declined as ships have been in demand and there has been less time for maintenance, COVID has also impacted on the ability on countries to undertake inspections. These issues have been raised by industry, the Port Health and Safety Leadership Group and other stakeholders as a growing concern. A 2022 IMO audit confirmed there were a number of matters in this area that need addressing. Concerns with safety of vessels seem justified with large numbers of deficiencies being found that need to be rectified where inspections have occurred.
- We recognise that licensing application timeframes affect livelihoods, business continuity and employment, and that the quality of our internal systems for the processing of applications can affect licencing costs. Certificates or licences are a common requirement across the commercial maritime sector and an efficient and reliable licencing function is essential for the thousands of operators and seafarers requiring licencing services. Our Regulatory Licensing (Certification) team has for some time faced issues driven by a combination of increasing workloads, practice, process and workforce capacity and capability issues. This has resulted in backlogs and significant impacts on seafarers and operators. These issues have to be attended to in an enduring way.
- There are over 50 other statutory notification requirements; they all ultimately serve a maritime safety or marine protection purpose and notifiers need to be confident that we are attending to notifications as necessary (this is particularly the case for notifications of incidents and accidents). Our systems for receiving and responding to enquiries are also important to being, and being seen to be, a supportive, assisting, professional and responsive regulator. Feedback has indicated that our arrangements and processes for receiving, triaging and responding to notifications and enquiries are in a number of areas compromising the timeliness, quality, consistency, and at times, the appropriateness of our responses; are making it harder for people to get easy access to information they need to comply with requirements, and are not enabling good sharing of insights on where and why harm is occurring.
- Through our work on Te Korowai, our engagement with stakeholders and discussions among staff we have identified (confirmed by a recent IMSAS audit) the need to take a more systematic and deliberate approach to third party oversight. There are 250 individuals and entities (third parties) who carry out regulatory activity in the maritime sector under a delegation, recognition or approval issued by the Director. In granting these permissions Maritime NZ is ultimately responsible for ensuring third parties are performing that activity to the standard necessary to support safety and marine protection outcomes and in a way that creates and maintains the confidence and trust of maritime operators. It is also important that operators can have confidence in the third parties providing roles in the system. Good regulatory practice is the right

balance (based on information, intelligence, and data) of reactive and pro-active activity and about not relying only on regulatory requirements (and enforcement of the same) to achieve outcomes sought. In light of this, while recognising that compliance activity remains a valid part of our regulatory approach, we need to invest more in harm prevention, and pro-active activity to reduce risk and support the achievement of safe and clean outcomes for the commercial and recreational maritime sectors.

- Our front-line staff are the 'face' of Maritime NZ and the nature and quality of their work directly affects every maritime operator, seafarer, recreational boater or other person / entity that they interact with. With a specific quantum of staff available for work 'in the field' (audits, inspections, the delivery of harm prevention initiatives or compliance campaigns) it is critical that the regulatory effort is well planned and prioritised. We have identified that we do not have the mix of practice policy, practice tools and guidance needed to support best practice among our front-line staff and that our capacity to plan for and prioritise regulatory operations is less than what is required to do it consistently well. A lack of clearly explained and shared practice also makes it harder for sector participants to transparently understand why and how we approach our work, and how to hold us to account for how we operate.
- Every person who works or play on our waters is variously subject to requirements under maritime rules and marine protection rules. The purpose of those rules is to support safe, clean and secure outcomes, but this is made harder to achieve when rules are outdated, no longer 'fit for purpose' or create unnecessary or disproportionate cost and effort. Unfit rules can also drive the need for exemptions and the process for obtaining these involves cost and effort for the maritime sector. This is an enduring issue and speeding up our rules reform programme is key to addressing it.

We looked closely at the basis for these issues and found them to be grounded in a combination of how we are internally organised; in the nature and quantum of resources we have available across several functional areas; some deficiencies in our regulatory processes; the absence of an operational policy and practice framework; information and intelligence limitations indicating the need for further investment in technology, and our organisational culture. In the round, all of these are affecting the calibre of our regulatory delivery in specific areas and some are having a material impact on the maritime sector.

WHAT WE HAVE DONE TO DATE

Having recognised over a year ago that there needed to be changes across numerous elements of our organisation – how our staff and their effort is distributed, and the capability and capacity held in respect to particular functions, we went about making some necessary changes. This involved a combination of internal re-alignment of teams or functions, the disestablishment of some roles and the creation of new roles where necessary. The changes we made are as follows:

- We've invested more resources in our Certification (now called Regulatory Licensing) team to reduce application processing timeframes and improve our licencing performance more generally (see Case Study 1 below)
- We have created a separate Maritime Inspections team with a specific focus on Port and Flag State Control so we can better oversight the standard of ships, shipping, and crew safety (See Case Study 2 below)
- We are putting in place the staff, processes and arrangements for the establishment of a small centralised Notifications and Enquiries team to improve our response processes and timeframes. (See Case Study 3 below)
- We have established a new Harm Prevention and Engagement team to support a strategic and pro-active approach to addressing the causes of harms in different parts of the maritime domain and to provide leadership on engagement practices and processes
- We've improved our arrangements for big regulatory reform projects by converting a temporary and project specific team into a permanent Regulatory Reform Projects team. This in both an efficiency measure and an investment in building and maintaining our capacity to deliver significant regulatory reforms

- We've enhanced our back end support capacity for front line staff, including more operational policy capacity and increased capacity to monitor their performance and plan their work. This means interactions with our front line staff are at a frequency appropriate to risk and of a nature that represents best value for the maritime sector.

Here are some detailed case studies of changes we have made or are in the process of making.

CASE STUDY 1: INVESTMENT IN OUR CERTIFICATION CAPACITY

After a sustained period of increasing work volumes without any significant increase in resourcing, the Certification team (now Regulatory Licensing) was under immense pressure. There was a growing backlog of work with application process times well over the performance expectation of 20 working days and a significant backlog of unprinted certificates. Some of the issues causing the back-log were due to the temporary and fixed term nature of people working in the team, the capabilities hired, staff training and work flow and administrative processes. Some of the issues were exacerbated by COVID; in particular we lost many of the fixed term staff that had been relied on. Front end administration processes were failing to keep pace with the volume of work and this was affecting the end to end tracking of applications. All of the above were causing major concerns with the maritime industry and the number of justified complaints received was high.

The injection of additional resources enabled a restructure and stabilisation of the team. The printing backlog was eliminated in November 2022 and the average time taken to process applications reduced last year from 32 to 18 working days. A separate front end Workflow & Administration team was established with application and document management being significantly improved. Permanent staff have replaced those employed on a temporary basis and staff turnover has greatly reduced. Stakeholder complaints have also reduced significantly and we have received positive feedback on the material improvement in our regulatory licensing services.

CASE STUDY 2: CREATING A NEW MARITIME INSPECTIONS TEAM

New Zealand (through Maritime NZ) is a member of what is known as the Tokyo MOU. This is an organisation established in 1993 to set up an effective port State control inspections regime in the Asia-Pacific region. The purpose of the inspections is to eliminate substandard shipping and in doing so promote maritime safety, protect the marine environment and safeguard working and living conditions on ships. Being a member obliges New Zealand (Maritime NZ) to be part of a harmonised system of inspections of foreign flagged vessels entering our ports and our largest domestic vessels that operate outside our coastal limits. There is also a small number of New Zealand's largest ships that are covered by the International Convention for the Safety of Life at Sea (SOLAS) and as signatory to that convention there is an obligation on New Zealand (through Maritime NZ) to ensure those ships are being operated according to the required safety management system.

The introduction of the domestic Maritime Operator Safety System (MOSS) in 2014, covering over 1800 operators and 3500 vessels, brought all of the audit and compliance monitoring of those operations in house and this has continued to be a significant draw on our Maritime Officer resource. The level of resources available for port State control (PSC) and flag State control inspections has also continued to be affected by those required for MOSS-related activity and for want of more resources we have not been able to 're-set' the level of PSC/FSC activity to the pre-2014 level. This has a potential impact on the standard of shipping in our waters and the Asia-Pacific region and has been raised by industry as a growing concern.

In the second half of 2022, we therefore made a decision to create a dedicated PSC/FSC team made up of Inspectors with PSC/FSC expertise who are based at key shipping ports throughout New Zealand. To ensure the Inspectors can focus on inspections, a role was also created to conduct the risk profiling of visiting ships and the scheduling of inspections. Given their work is entirely port based there is efficiency in the Inspectors also being assigned harm prevention functions at ports. For efficiency gains the Inspections team will also lead on HSWA activity at ports (noting that that activity is not funded through Maritime Levies).

We are at the early stage of putting in place the new team, with a focus on priority inspections, the training, of new staff, and the processes, operational policies and practice tools needed for optimal effectiveness and efficiency. Already, our renewed focus on PSC and FSC activity has shown that there are a number of ships with deficiencies coming to New Zealand and some that need to be detained which is re-enforcing the importance of the work.

CASE STUDY 3: ESTABLISHING A CENTRALISED NOTIFICATIONS AND ENQUIRIES TEAM

Maritime NZ receives over 5000 notifications and general enquiries each year and the timeliness and quality of our responses to the same is a reflection and measure of our efficiency and responsiveness as a regulatory agency. As part of a function by function examination of where we are now and 'what good looks like' we closely examined our arrangements for receiving, and processes for responding to, incoming notifications and enquiries.

We found that while for some types (for example oil spill notifications or enquiries about ship registration requirements) we have reliable and effective end to end systems that are meeting the reasonable expectations of us, for others, most critically, notifications of incidents and accidents, our arrangements were leading to variability in the timeliness and quality of our responses. Those arrangements included multiple points of entry, unclear lines of accountability and responsibility, and the absence of documented end to end processes. We also found that people were not always notifying when they should. In relation to answering of enquiries these are devolved across our frontline staff which takes them away from proactive work and we have no centralised way of knowing what our enquiries look like and what additional guidance and support we may need to provide to the sector to address them in a more efficient way.

To address the issues and improve our performance in an enduring way, we made the decision in the last third quarter of 2022 that we need to establish a small centralised team with the dedicated function of receiving, triaging, and processing incoming enquiries and notifications. In association, we are developing and embedding end to end processes for different notification and enquiry types. We are looking to put the new team in place through 2023 and will require funding to implement the team well.

WHAT MORE WE NEED TO DO TO DELIVER OUR REGULATORY STRATEGY AND ADDRESS REGULATORY RISKS

Some of the changes detailed above were made possible through efficiencies achieved through an organisational redesign. The redesign, which was fully effected over 2022, was focussed on altering the quantum, arrangement and distribution of staff to the extent reasonably necessary to effectively and efficiently address the functional delivery issues already identified. The redesign involved removing a management layer, staff re-deployment, and the disestablishment of some roles. We also undertook work to make greater efficiencies as outlined later in this document.

We received additional Working Safer Levies funding through a 2022 Budget Bid and this enabled us to pay for additional resources for HSWA related activity: an element of our new harm prevention and engagement team, some additional regulatory practice resources, additional investigations capacity, and address inflationary pressures associated with our health and safety related regulatory function.

While we have made good progress in attending to specific gaps or deficits in the delivery of our functions, under our current funding levels (specifically, Maritime Levies) we cannot maintain and give full effect to some of the changes already made, and we cannot address some enduring regulatory risks at the causative rather than symptomatic level.

As some matters cannot be maintained or addressed within our current level of Maritime Levies funding we have developed four proposals for additional funding.

WHAT ELSE WE ARE REQUIRED TO ATTEND TO

There is a small group of other matters that we have been required to cover in this review. These derive from government commitments and decisions made since the last full funding review; and issues arising from the method we apply to the setting of OPL rates and (relatedly) our ability to give effect to the New Zealand Marine Oil Spill Readiness and Response Strategy. Additional proposals are grouped under these categories and are set out in Part 2 below.

PART 2

THE PROPOSALS

The proposals set out below, and the amount of additional levies revenue that we have estimated will be required to give effect to them, reflect the minimum viable capacity / revenue uplift needed to achieve or to maintain the improvements we need to make. For three of the proposals, the additional Maritime or Oil Pollution Levies revenue proposed aligns with what the Crown has to date provided either as liquidity funding or as part of the Budget bid process.

Recognising that levies payers (in particular domestic payers) are facing other cost increases, Maritime NZ has prepared a scaled down option for three of the proposals. Within the relevant proposals the scaled down option is signalled. The scaling down is necessarily limited to only some elements of the overall package for these reasons:

While the proposals reflect those matters that Maritime NZ must attend to, and as soon as possible, the first proposal goes to a matter for which there are current and significant issues. Having the minimum viable funding uplift to address substandard shipping through increased Port State and Flag State Control capacity, and having that uplift as soon as possible (that is, from 1 July 2024) is critical to reducing or removing a manifest risk. For that reason, the proposal cannot be a candidate for scaling down.

Because of the additional costs it creates or the investment it can have the effect of wasting, a reduction or deferral of new funding sought is only an option where no previous investment has been made or where investment already made would not be impacted. There are only three proposals where a scaling down would not cause collateral impact. The proposals, the scaled option, and the impact of the scaling, are set out in the table below:

Scaled option package:	Impact on non-scaled rates over three years from 2024/25
Defer until 1 January 2026 Proposal 2: supporting the achievement of safety and marine protection outcomes at reduced cost.	-1.4% per year
Defer until 1 January 2026 Proposal 4: establishing a third party oversight capacity	-1.1% per year
Reduce by \$0.5m per annum Proposal 6: Seafarer Welfare Services funding	-1.4% per year

Maritime NZ is not unsympathetic to levies payers but considers that the relatively minor financial impact of the scaled option (for all but those with the highest levies liability) is significantly outweighed by the nature and potential scale of risks it leaves unattended. Within each relevant proposal we have set out that risk.

SUPPORTING THE DELIVERY OF OUR REGULATORY STRATEGY AND MANAGING REGULATORY RISKS

PROPOSAL 1: MAINTAINING AND ENHANCING REGULATORY OPERATIONS CAPACITY (MARITIME LEVIES)

As outlined in what we are trying to achieve (page 7) and in the case study above (pages 10), we have built the foundations of a Maritime Inspections team, however we will need maritime levies funding to ensure the team has sufficient capacity to:

- be able to inspect all priority high risk ships leading to better safety, environmental and maritime labour outcomes
- inspect other vessels that our data and intelligence indicates are high risk (numbers would depend on how many vessels our intelligence signals are high risk)
- ensure we have the presence to act as a deterrent to sub-standard ships coming to New Zealand ports and harbours, this includes undertaking a specified number or percentage of random inspections each year
- meet our Tokyo MOU obligations

- build better holistic understanding and relationships with our flag state operators to deliver safety outcomes; and
- address some of the IMO audit recommendations in this area and have the effect of improved audit results in future.

Without a sustainable funding source the relevant positions will need to be funded through drawing resources away from another regulatory function which is simply moving the regulatory risks to another area.

The proposal is to raise Maritime Levies revenue by \$1.9m per annum from 1 July 2024 to fund the maintenance and expansion of the Maritime Inspections team.

PROPOSAL 2: SUPPORTING THE ACHIEVEMENT OF SAFETY AND MARINE PROTECTION OUTCOMES AT REDUCED COST (MARITIME LEVIES)

The only purpose of maritime and marine protection rules is to support safety and marine protection outcomes. There are thousands of Maritime and Marine Protection Rules and sub-rules and these variously apply to the construction, crewing and operation of every domestic commercial vessel and recreational craft.

Where rules are specifically out of date (for instance, they require a piece of equipment no longer in production or that has been superseded) or are generally out of keeping with changes in industry practice or are more prescriptive than necessary, they do not serve their purpose and they create unnecessary cost for industry. That cost comes in the form of exemption application fees, an inability to innovate, and where exemptions from certain requirements are prohibited under rules, a compulsion to meet those requirements irrespective of their fitness.

We have made significant progress since our last funding review in establishing an annual regulatory reform programme that attends to priority rules amendments, and the creation of new rules where required. We are also in the process of reforming the 40 series (ship design, construction and equipment rules), which a big driver of exemption applications. But there remains a significant back log of outdated rules that do not support the achievement of safety and marine protection outcomes. Through sequencing and prioritisation we can gradually work through the full set of rules, but based on our current rules drafting, policy and technical capacity our progress will be unduly slow; and the level of misalignment with international norms and modern standards could grow.

Increased rules policy and drafting capacity and a dedicated technical rules resource will speed up the end to end process for rules amendments and support good standards in the development and drafting of technical rules. Further, dedicated technical capability within our regulatory policy team is more efficient than the current arrangement where requests for technical advice and support for rules development compete with other demands on our technical resources. Faster progress in regulatory reform, as will be supported by the proposed resources, will, over time, reduce costs and unnecessary compliance burden within the maritime community. We anticipate that the additional resources proposed will enable an expansion to the scale of our annual regulatory reform programme year on year (pending the complexity and scale of priority rules reviews and amendments required each year).

As the timeframe for working through all current rules extends beyond the timeframe for this funding review period (ending 2029/30), and as we cannot foreshadow what entirely new rules might be required within and beyond that time, the proposed levies uplift will be required on an ongoing basis.

The proposal is to raise Maritime Levies revenue by \$1.0m per annum from 1 July 2024 to increase our policy, rules drafting and technical advice capacity and make faster progress in regulatory reform.

The scaled down option is to delay by 18 months (that is, until 1 January 2026) any increase in Maritime Levies revenue for this purpose. This would result in a 1.4% reduction in levies increases each year for three years from 2024/25 but would extend the period of Maritime NZ's inability to keep up with the demand for rules reform with a consequential delay in removing the costs associated with unfit rules. It will delay our ability to do large reviews of rules like STCW and consideration of how we make rules more fit for purpose for smaller or different types of operator.

PROPOSAL 3: IMPROVING OUR PERFORMANCE IN RESPONDING TO NOTIFICATIONS AND REGULATORY LICENSING (MARITIME LEVIES)

As outlined in what we are trying to achieve (page 7 and 8) and the case study (page 10) the decision to establish a centralised Notifications and Enquires (NET) team was made in 2022 on the basis of a critical need to improve our practice around receipt, triaging and responses to incoming enquiries and notifications. Through port health and safety and recreational safety work, we have also identified that people may not be notifying as much as they should. Notifications data is important as it shows where, and why, incidents may be occurring and helps us and the sector consider where to target our effort. Getting this part of our regulatory business working well is mission critical given the issues and risks arising from multiple entry points, response delays and gaps, unclear responsibilities and accountabilities, and inconsistency in triaging and response standards. We are in the early stages of building our NET function and will need levy support for it to be fully functional and effective. The team was established out of necessity but ahead of an assured on-going funding stream.

The benefits for industry as a whole will not be limited to a more responsive and reliable notifications and enquiries service. A functioning NET team will also result in:

- improved recording and analysis of notification and enquiries trends
- reliable insights into where industry guidance and education is needed
- capacity to make the necessary links between notifications and points of vulnerability in safety system or other rules requirements
- pro-active front line activity best aligned with attending to industry information and support needs, and risks and harms signalled in notification and enquiry trends.

We anticipate measurable qualitative improvement in the timeframes and consistency of responses (where relevant) to notifications, and enquiries.

As set out in the case study on page 10, Maritime NZ's regulatory licencing performance has suffered in recent years and until recently this has impacted the continuity of maritime operations, creating seafarer workforce issues and in some cases affecting the livelihood of individuals through delaying their entry into the commercial maritime sector.

A decision in 2022 to invest more and permanent regulatory decision making resources in the two teams performing certification functions and create a small workflow and administration team continues to make a significant difference to the quality of regulatory licencing services we provide.

Because of the urgent need for improvements, the investment decision was made ahead of an assured future. Unless the improvements can be sustained Maritime NZ will need to decrease staff and risk a reversion to pre and early 2022 performance issues.

Maritime NZ expects that from 2024/25 - 2029/30 additional fees revenue will cover some but not all of the cost of the increased regulatory licencing capacity. As the capacity uplift is not only in relation to individual certification applications processing (which is fee-able) but also to more general workflow, licencing practice, certification enquires response and administrative process improvements (that are of general benefit to all current and prospective licencing applicants) we consider it appropriate that the cost of the uplift is recovered partly through Maritime Levies.

The proposal is to raise Maritime Levies revenue by \$1.3m per annum from 1 July 2024 to fund the maintenance of the NET and to maintain increased regulatory licencing improvements.

PROPOSAL 4: ESTABLISHING A THIRD PARTY OVERSIGHT CAPACITY (MARITIME LEVIES)

Maritime NZ does not currently have the capacity to effectively monitor and support the performance of third parties. This creates a risk of regulatory failure. It creates a risk that operators are not receiving a consistent and effective service from third parties. It also means that third parties themselves do not receive consistent support and guidance from us as a regulator.

There are over 250 individuals and entities (third parties) authorised by Maritime NZ to perform regulatory functions such as ship surveys, inspections, the servicing of maritime products, approval of safety plans and seafarer examinations. The maritime sector is highly exposed to third parties and it is essential that they perform their functions to the standard necessary to support the achievement of marine protection and safety outcomes within the maritime sector.

Events in other regulatory domains have shown how important it is for third parties to perform their functions to the standard expected: the Whakaari/White Island event and Waka Kotahi vehicle testing issue are cases in point. To date, Maritime NZ oversight of the performance of third parties has been predominantly reactive. Year on year there is some engagement with individual or 'classes' of third parties on specific issues and efforts have been made to address particular issues with specific third party regulators when they are brought to our attention.

But for want of resources Maritime NZ has not taken a 'stewardship' approach to this element of the maritime regulatory system: that is consistently maintaining oversight of third parties from point of entry to the system to their exit; monitoring their performance in between and ensuring they have the necessary tools and support to perform their functions. With a third party stewardship framework now developed we need a small team to lead its delivery.

A dedicated third party oversight capability will mean a deliberate and systematic assurance approach that will serve to maintain high third party performance standards and remove the risk of regulatory failure evidenced in other regulatory domains. The type of activity enabled by a third party team includes: monitoring and providing support to recognised surveyors; ensuring the entry control processes for third parties are sufficiently rigorous; identifying where more guidance and practice materials are needed in a particular cohort of third parties and supporting the development of the same; or undertaking monitoring of regional councils and harbourmasters performing functions under delegation from the Director. This team would be small, around four, and be made up of technical expertise, audit and operational policy.

The establishment of such a team also enables Maritime NZ to address in an enduring and visible way a critical finding from a 2022 IMSAS audit. The audit was for the purposes of assessing the extent to which New Zealand complies with its obligations set out in the various IMO instruments to which it is a Party. It found that there was no evidence of a Maritime NZ oversight programme for Recognised Organisations and their nominated surveyors.

Ahead of a third party team being established, and the detailed analysis required to ascertain the quantum and nature of oversight (and more broadly, stewardship) activity required, it is difficult to quantify the uplift in activity that will be required and enabled through the additional funding. However, if the proposal is effected, we will report on that activity as part of the full funding review in 2026/27.

The proposal is to fund, through a \$0.8m increase in Maritime Levies revenue from 1 July 2024, the establishment and maintenance of a small team to lead the delivery of the organisation's third party oversight activity.

The scaled down option is to delay by 18 months (that is, until 1 January 2026) any increase in Maritime Levies revenue for this purpose. This would result in a 1.1% reduction in levies increases each year for the three years from 2024/25 but would create a gap of almost three years between now and when the organisation would have any capacity to oversee third party regulators and attend to the regulatory system risk identified by sector participants around the need to ensure more consistent good performance, and support, for parties operating under a delegation or authorisation

RECOVERING THE COST OF COMMITMENTS MADE BY GOVERNMENT

PROPOSAL 5: SUSTAINING FUNDING FOR MARPOL ANNEX VI ADMINISTRATION

In 2021, as part of its commitment to reducing greenhouse gases, the Government signed what is known as MARPOL Annex VI, which sets out a regime for the prevention of air emissions from ships. When the Government signs an international convention there is an obligation to give effect to it domestically. Maritime NZ is the administrator of Maritime Rules developed for the specific purpose of implementing the MARPOL Annex VI regime in New Zealand. The cost of that administration can in small part be recovered through fees (certification activity) but there are other elements that it is appropriate and necessary to cost recover through Maritime Levies. To date, our implementation and administration of the new requirements has been Crown funded, but on the assumption that from 1 July 2024 those costs will be recovered through Maritime Levies.

Administration of the MARPOL Annex VI regime includes Maritime NZ oversight of the taking and testing of fuel; an additional element within Port and Flag State Control inspections and within audits of some domestic maritime operations; the provision of information and guidance to our domestic maritime sector; adjustments to our IT platform; a dedicated technical advisor; an additional legal and investigations capacity; ongoing training for our Maritime Officers and Inspectors; and because it is an international regime for which modifications will be raised in the IMO context, an ability to play an active part in those negotiations to ensure any changes sought are acceptable to New Zealand.

This is a significant and complex regulatory regime that is potentially applicable to the operation of hundreds of commercial and recreational craft. Maritime NZ needs to be best positioned to support the maritime sector in understanding and complying with the new requirements and enforcing the same where necessary.

A sustainable funding base ensures that Maritime NZ can give effect to the requirements as intended and as obliged under the relevant convention. Having the funding to administer MARPOL Annex VI also means New Zealand can play a credible and influencing role in climate-related negotiations at the International Maritime Organization (IMO).

The proposal is to raise Maritime Levies revenue by \$1.8m per annum from 1 July 2024 to fund Maritime NZ's administration of MARPOL Annex VI.

PROPOSAL 6: SEAFARER WELFARE SERVICES FUNDING (MARITIME LEVIES)

By way of background, seafarer welfare services in New Zealand were for many years funded from charitable sources, with local welfare organisations providing services for seafarers at ports, and the Seafarers' Welfare Board (operating since 1964) fostering ways and means of caring for seafarers, and actively promoting cooperation between welfare providers. In 2021 (in part in response to the impact of COVID on the ability to raised funds through donations) a centralised Crown funding arrangement was put in place, with a set of specified services provided by the SWB under a contract with Maritime NZ.

In 2021, Parliament made a decision to amend the Maritime Levies provisions under the Maritime Transport Act to enable Maritime Levies to be raised and used to help meet the cost of seafarer welfare services. Current levies rates are not set at the level necessary to generate funding for this purpose.

As this goes to a new proposed use of Maritime Levies funding, further detail about that use is set out below. Seafarer welfare services would be available to the crew of all ships covered by the MLC, except the crew of domestic ships and New Zealand-operated ships under foreign flags (as New Zealand law and services apply). Foreign-flagged fishing vessels calling at New Zealand ports would be covered. MNZ proposes that the funding be applied to a set of services that help meet what is required under the MLC. These fall into the following broad categories – communications services (such as the provision of Wi-Fi and telecommunications); information services; ship visits; shopping (for those crew not able to leave ship) and money exchange; access and transport to welfare centres; transport services to and from town; and mental health, wellbeing and advocacy services.

The Government currently provides \$1.5m for all costs (including MNZ's) for welfare services to seafarers. We propose that the amount to be recovered from Maritime Levies for this same purpose should also be \$1.5m per annum.

MNZ has considered options for the best way to deliver services in a way that will see value for money. These include the status quo (MNZ funding SWB who coordinate and deliver many welfare services), an amended status quo with the SWB bulk funding port welfare groups according to an MNZ formula, an MNZ grants system, and MNZ delivery. The full options analysis is available at [link](#).

The use of the grants model by MNZ enables tighter MNZ control over accountability, maintains a MLC-consistent role for the SWB, and allows local port welfare organisations to deliver services in a way appropriate to their port. The MNZ grants model is currently the preferred delivery model, but we welcome feedback on each of these models (and any others).

If this proposal is adopted the Crown will continue to meet its obligations under the Maritime Labour Convention in respect to the availability of seafarer welfare services and there will be a reliable funding source for their delivery. Seafarers working on the above vessels will continue to have access to these services and the provision of the same will have a positive impact on their ability to carry out their ship based duties effectively. This will contribute directly to the

safety of shipping conducted in New Zealand waters (and in the waters of other jurisdictions) with an associated reduction in the likelihood of accidents and marine pollution incidents.

The proposal is to raise an additional \$1.5m Maritime Levies revenue per annum from 1 July 2024 to fund a specified quantum of seafarer welfare services.

The scaled down option is to reduce levies revenue raised for this purpose to \$1 million per annum. This would result in a 1.4% reduction in levies increases each year in the three years from 2024/25. A reduction in funding for seafarer welfare services would require a scaling back of services irrespective of whether current demand is sustained or increases.

REVISING THE OIL POLLUTION LEVIES ALLOCATION METHODOLOGY AND MAINTAINING MARINE OIL SPILL READINESS AND RESPONSE CAPABILITY

PROPOSAL 7: CHANGING THE OIL POLLUTION LEVIES ALLOCATION METHODOLOGY

Oil Pollution Levies rates have previously been calculated through applying a complex methodology and model that is costly to apply and at future risk of unreliability as a basis on which the levies rates for different sectors are determined. The approach is heavily reliant on the use of historical national and international data from the recent past being representative of future activity.

Given the very significant changes that occurred during the COVID-19 pandemic, recent historical data will not be reliable going forward. In addition, there have been very significant changes in the operating environment that gives rise to the risks of a marine oil spill. One change with significant and on-going impacts is the closure of the Marsden Point refinery and its conversion to a refined hydrocarbon products facility. Specific impacts from this change already seen include:

- A major reduction in the import of heavy, crude oil into Marsden Point;
- Removal from the New Zealand coast of the domestic tankers previously used to ship the majority of refined products from Marsden Point around the New Zealand coast, and
- A large increase in foreign hydrocarbon product tankers coming to New Zealand to deliver refined products to multiple ports across New Zealand.

Other changes have also occurred and further developments are highly likely in the period. As a result we face a double challenge: the existing methodology will not be reliable going forward and the change in the operating environment will drive major changes to the risk profile across the sectors.

As a result we have reviewed the OPL allocation methodology. The proposed new method for allocating relative levies liability by sector (and the basis for calculating OPL rates) is more efficient (cost effective), it takes less time and effort to generate the relevant data; is less vulnerable to unpredictable changes in shipping and oil carriage volumes, and is less complex than the extant methodology.

The methodology is based on that used for maritime levies which was developed and then implemented after detailed consultation as part of the 2018 Maritime NZ Funding Review. The methodology considers how much of the total levies required each vessel should be liable for, and is based on specific criteria to determine the *“value of what is placed at risk in the maritime system”*. In its truncated form, the principle is the ‘risk value’. For maritime levies the criteria are (people, freight and ships); for the OPL we propose to use “ships” – reflecting oil being used as bunker fuel - and “oil as cargo”. The ships criteria will use Gross Tonnage as a proxy for bunker fuel capacity (as in the current OPL methodology), and actual quantity of oil carried as cargo (as we have access to this data, and again this is as used in the current methodology).

Where the proposed methodology differs from that currently used is that we will be moving to “risk value” as opposed to an assessment of actual ‘risk’, which is generally understood as a combination of likelihood and consequence of harm. As detailed above we believe that the assessment of actual risk – as used in the MOSRA – is no longer a credible or viable option as well as being expensive, time consuming and particularly prone to significant errors given its reliance on historical data being an accurate proxy for the future.

Given the changes in the operating environment (oil type, activity volumes and traffic patterns etc.) it is to be expected that the risk profile and hence risk share across sectors will change significantly. Applying the proposed (Maritime Levies aligned) methodology we see the impacts of these changes with a reduction in the share of the OPL to be paid by the domestic sectors (reflecting the departure of domestic tankers from the New Zealand coast) and a consequent increase in the shares paid by foreign tankers (as we see large increases in the number of foreign tankers entering New Zealand waters). We also see a shift from the domestic passenger and cargo vessels (smaller vessels with less bunkers and less persistent oil as fuel) to foreign passenger and cargo (larger vessels with larger bunkers and more use of persistent oil as bunker fuel). These shifts are consistent with the concept of risk value if considering the impacts from larger volumes of oil as cargo and larger volumes of bunkers in larger vessels.

To support your consideration of the proposed new methodology we have attached the allocation methodology review document [here](#).

PROPOSAL 8: MAINTAINING MARINE OIL SPILL READINESS AND RESPONSE CAPABILITY

The New Zealand Marine Oil Spill Readiness and Response Strategy reflects the required nature and scale of New Zealand's oil spill response preparedness, co-ordination, capability, and equipment. The development and five yearly review of the Strategy is a requirement under the Maritime Transport Act and is developed in consultation with the Oil Pollution Advisory Committee (OPAC - a statutorily appointed committee representing levy paying sectors, stake holding central government agencies and local government). The implementation plan for the Strategy is also developed in consultation within, and agreed to by OPAC.

Delivering the Strategy (via the implementation plan) means all of the preparedness and response elements are covered and the harms of a significant marine oil spill can be at best removed, or at least minimised. The proposal, if effected, would mean a gap in the funding required to deliver the Strategy would be bridged.

The current OPL rates set out under the Oil Pollution Levies Order 2016 are now out-of-date; one element has expired and the activity types and levels that they were based on have changed. The Strategy and its associated Plan indicate the level of revenue needed but given the changes in the operating environment the current OPL is not raising the necessary revenue. Crown has funded the gap in revenue to date but Government has directed that full cost recovery should recommence from 1 July 2024 as is intended under the relevant provision of the Maritime Transport Act.

The proposal is to raise an additional \$0.8m Oil Pollution Levies revenue per annum from 1 July 2024 to generate the full quantum of funding needed to deliver the Strategy via the Plan.

FINANCIAL AND OTHER IMPLICATIONS

Tables 1 and 2 show the indicative changes to Maritime Levies rates and Oil Pollution Levies rates, if all levies related proposals are adopted. The Maritime Levies rates table does not include the scaled down option rate but this has been signalled as 3.9% less than the rate if no proposals were scaled (refer page 12). The rates shown are indicative only as any proposed changes to Maritime Levies or Oil Pollution Levies rates (as would be required if the proposals are adopted) are at first instance subject to feedback from this consultation. Also, any change in funding is subject to Ministerial approval before changes can proceed to Cabinet for agreement and then to the Governor General for Royal Assent.

TABLE 1: IMPACT ON MARITIME LEVIES RATES BY LEVIES PAYING SECTOR

Vessel category	Gross tonnage	Deadweight tonnage	Passenger capacity	Overall length
Foreign passenger	0.1004 0.1282	0.0082 0.0103	2.0248 2.5845	N/A
Foreign non passenger	0.1178 0.1504	0.0095 0.0121	N/A	N/A
NZ SOLAS	7.7931 9.9463	0.4607 0.5879	46.71 59.6161	N/A
NZ non-SOLAS (24m or more in length)	8.2197 10.4885	N/A	17.5403 22.3867	N/A
NZ non-SOLAS (less than 24m in length)	N/A	N/A	17.5403 22.3867	15.1746 19.5376

TABLE 2: IMPACT ON OIL POLLUTION LEVIES RATES BY LEVIES PAYING SECTOR

Vessel or oil site type	Oil Type	Current Base Levy	Proposed Levy	Basis of calculation
NZ vessels				
Passenger and cargo ships, harbour tugs and oil tanker bunker fuel	Bunker fuel	414.69 cents	173.95 cents	Per gross ton of the vessel (annual)
Tankers carrying oil as cargo	Persistent	29.96 cents	12.85 cents	Per tonne of oil carried as cargo
	Non Persistent	26.76 cents	7.56 cents	Per tonne of oil carried as cargo
Fishing vessels		73.56 cents	30.86 cents	Per gross ton of the vessel (annual)
Oil sites				
Offshore oil and gas (FPSO)	Persistent	\$858.66	\$82,055.19	Fixed Fee (annual)
Foreign vessels				
Passenger and cargo ships, harbour tugs and oil tanker bunker fuel	Bunker fuel	0.54 cents	2.63 cents	Per gross ton of the vessel (per port visit)
Tankers carrying oil as cargo	Persistent	36.14 cents	35.46 cents	Per tonne of oil carried as cargo
	Non Persistent	7.6 cents	20.86 cents	Per tonne of oil carried as cargo

SECTOR IMPACT SCENARIOS

TABLE 3: EXAMPLES OF IMPACT ON FOREIGN VESSEL LEVIES PAYING SECTOR

Vessel type Paid per port visit		FY25 Proposed Rate Maritime Levy	FY25 Proposed Rate Oil Pollution Levy	Proposed total Levies Increase
	International Oil Tanker (SOLAS) GT 25,000 PAX 0 DWT 45,000	\$4,303	\$658	\$1,453
	International Container Ship (SOLAS) GT 40,000 PAX 0 DWT 52,000	\$6,643	\$1,052	\$2,273
	International Cruise Vessel (SOLAS) GT 110,000 PAX 2500 DWT 15000	\$20,716	\$2,893	\$6,786

TABLE 4: EXAMPLES OF IMPACT ON DOMESTIC VESSEL LEVIES PAYING SECTOR

Vessel type Paid Annually		FY25 Proposed Rate Maritime Levy	FY25 Proposed Rate Oil Pollution Levy	Proposed total Levies Increase
	Domestic Passenger Ferry (SOLAS) GT 22,365 PAX 1,350 DWT 5,794	\$306,338	\$38,904	\$12,476
	Domestic Container Ship (SOLAS) GT 6000 PAX 0 DWT 10,000	\$65,557	\$10,437	-\$253
	Domestic Coastal Fishing Trawler (non-SOLAS) GT 529 PAX 0 DWT 0	\$5,548	\$163	\$974
	Domestic fishing Length 5.9 metres	\$115	NA	\$26
	Domestic non-passenger aquaculture vessel (mussel barge) GT 104	\$1,091	NA	\$236
	Domestic non-passenger barge GT 150	\$1,573	NA	\$340
	Domestic non-passenger Length 23.9 metres (including tugs)	\$467	NA	\$104
	Domestic non-passenger Length 8 metre workboat	\$156	NA	\$35
	Domestic Passenger Ferry (Non SOLAS) GT 280 PAX 300 DWT 0	\$3,608	\$487	\$107
	Domestic Charter Passenger Boat (Non SOLAS) Length 18 metres PAX 140 DWT 0	\$665	NA	\$146

Vessel type Paid Annually		FY25 Proposed Rate Maritime Levy	FY25 Proposed Rate Oil Pollution Levy	Proposed total Levies Increase
	Domestic Charter Passenger Boat (Non SOLAS) Length 8 metres PAX 14 DWT 0	\$179	NA	\$40
	Domestic Commercial Jet Boat Length 8.2 metres PAX 8 DWT 0	\$339	NA	\$75
	Domestic passenger Commercial dive boat Length 4.5 metres PAX 4	\$177	NA	\$39
	Domestic passenger 3.7 metre personal watercraft (jet ski/novel craft) PAX 1	\$95	NA	\$21

To assist you in understanding what the proposed increases could mean for your business Maritime NZ has produced a levies calculation tool that can be accessed [here](#).

PART 3

MARITIME NZ'S INTENTIONS TO SEEK ADDITIONAL CROWN FUNDING

Maritime NZ relies on on-going Crown funding to perform or deliver a range of activities. This includes its work on Maritime Security, Incident Readiness, Search and Rescue (SAR) and Maritime Safety Infrastructure (such as aids to navigation, distress radio and distress beacons). As these are public not private benefits the Crown has funded these activities consistent with transport sector funding principles and Treasury and OAG cost recovery guidance.

As a result, it will not be possible to fund these pressures through levies and Crown funding will need to be considered during the funding review period. These pressures include:

- Ensuring Maritime NZ has sufficient capacity to undertake its role in Maritime Security.
- Maintenance of sufficient capacity to respond to non-oil based maritime incidents and spills.
- Maintenance of infrastructure and provision of services provided by third parties that are essential for the distress beacon system and distress / safety communications.

Budget Bids in these areas will be put up in Budget processes, alongside a bid for implementation of the commitments made in the Emissions Reduction Plan, including the development of regulatory settings that can enable the use of low carbon technologies (which it is not reasonable for levy payers at large to fund).

EFFICIENCY IMPROVEMENT INITIATIVES

In the circumstance of making proposals that would, if effected, increase the rates for both Maritime and Oil Pollution Levies it is important that we set out what we have done to improve our efficiency and wherever possible, reduce our own costs. Our efficiency improvement initiatives and their effect are set out below.

Since the last funding review Maritime NZ has developed and is now executing an enterprise property strategy that is seeing deliberate and greater co-location of our smaller sites with other Government agencies in that place. Co-location has been focused on partner agencies such as Customs, Department of Conservation and Ministry for Primary Industries who have larger property footprints at our satellite locations and include Whangarei, Napier and New Plymouth. We are in the process of similar co-locations in Invercargill and Dunedin. We have also increased the operational efficiency of our

Regional Hubs at Auckland, Tauranga and Christchurch through more flexible working practices and now also have other key supporting staff based out of these regional hubs. We have generated greater efficiency in our National Head Office through flexible working practices and a modernised environment. The cumulative effect of these small shifts has seen reduced property and occupancy, and office support costs reduced from 4.35% in FY 2020 to a forecast 3.78% in FY2023 as a % of organisational running costs.

Over time we have continued to consolidate vendors and contracts across key cost categories making greater use of All of Government panels and syndicated contracts leveraging the buying power of Government. We have implemented a contract management system which is giving greater visibility of our activities and supporting more efficient practice. The full impact of this capability will be seen in out-years.

We have been reducing manual processes through greater investment in technology which has allowed us to decommission some legacy platforms. It has also allowed greater cloud adoption generating efficiencies through increased access to data and information across Maritime NZ. Through this greater investment in upgraded information communication technology we are also making much more use of it as a substitute for travel, and as a key enabler of our work. The significant escalation of technology capability and adoption during the COVID environment was embraced by Maritime NZ. These efficiencies have seen our travel costs as a % of organisational running costs reduce from previous levels and we expect that it will continue into the future (reduced from 4.45% in FY 20219 to a forecast 2.9% in FY2023). The nature of our role and the work we do means there will continue to be a requirement to travel.

We have also embarked on our internal carbon reduction journey which has complementary objectives and is seeing us undertaking work to optimise and transition our vehicle fleet to more sustainable vehicle options. This will have a further efficiency impact once completed over the next three years.

The cumulative impact of these activities along with increased scale economies we have been able to reduce our overheads loading to 25%.

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

17 March 2023

OC230184

Hon Kiri Allan
Associate Minister of Transportcc Hon Michael Wood
Minister of Transport

OPTIONS AND IMPLICATIONS FOR DELAYING MARITIME NEW ZEALAND AND CIVIL AVIATION AUTHORITY FUNDING REVIEWS

Purpose

To recommend a way forward for the Maritime New Zealand (MNZ) and Civil Aviation Authority (CAA) funding reviews, reflecting your decision not to take the proposals to Cabinet at this time.

Key points

- You have confirmed that you do not wish to take the MNZ and CAA funding reviews to Cabinet, given the Government's focus on the cost of living. Funding reviews require multiple rounds of Cabinet approval (to approve the consultation document, final charges, and necessary regulatory changes to regulations). The process would typically take at least nine months to complete, and we do not consider it viable to complete either of the funding reviews in their entirety in the period between the election in October 2023 and 30 June 2024 without a risk that the process would be criticised by the Regulations Review Committee. We therefore recommend that you proactively extend the implementation date of both reviews by one year, with the objective of having new charges in place by 2025.
- The Entities are currently reliant on a Crown liquidity facility, which was put in place to offset the reduction of revenues the Entities experienced during the COVID-19 pandemic. An extension of the Crown liquidity facility is currently being considered as part of Budget 2023. If this bid is successful, the Entities will have sufficient funding to cover anticipated costs in the 2023/24 financial year. However, without a levy increase, their costs are likely to continue to increase, which means that some form of Crown support (in the form of a further extension of the liquidity facility, or an alternative mechanism such as a loan) would be required. This will have implications for Budget 2024.
- To reduce the financial liability to the Crown, we recommend you contact the Chairs of each Entity directly to set a clear expectation that they operate in a fiscally responsible manner, seek further opportunities to reduce costs, and refrain from incurring any unnecessary expenditure that is not expressly set out in their Statements of Performance Expectations.
- We also recommend that you direct the Entities to undertake independent baseline reviews, to provide additional assurances that they are delivering good value for

money. This would enable you to set robust limits on the amount of funding that each Entity could draw down through an extended liquidity facility in the 2024/25 financial year and ensure that the proposals put forward in their funding reviews are appropriate and reflect the Government's focus on the cost of living. We can provide further advice on the approach and scope of those reviews.

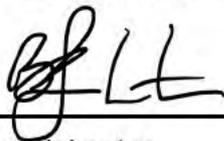
- In the meantime, without any further action, the lack of funding certainty beyond 30 June 2024 will require the Boards to take steps to significantly reduce costs in line with assumed revenue for 2024/25 i.e. without the Crown liquidity facility. This could see them take decisions that would compromise the effective delivery of regulatory services or create regulatory risks. We recommend that you send the Boards letters of support providing assurances (from both you and the Minister of Finance) that the Crown would continue to support them to operate as going concerns, on the condition that the independent baseline reviews conclude that additional funding is warranted. We expect this would be sufficient to satisfy the concerns that have been expressed by the Boards and any concerns of the Office of the Auditor General.
- As any decision to defer the completion of the funding reviews until 1 July 2025 would have implications for the 2024/25 Budget, we recommend consulting with the Ministers of Transport and Finance before making final decisions in relation to this briefing.

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

Recommendations

We recommend you:

- | | | |
|---|--|----------|
| 1 | agree to seek support from the Ministers of Transport and Finance to defer the completion of the Maritime New Zealand and Civil Aviation Authority funding reviews by 1 year (with the objective of returning to full cost recovery by 1 July 2025) | Yes / No |
| 2 | note that extending the funding reviews by 1 year may require additional support from the Crown to cover the gap between forecast revenue and forecast expenditure in the 2024/25 financial year, and letters of support to the Boards of each Entity to acknowledge that the Crown may need to provide funding to enable them to continue to operate as going concerns | |
| 3 | agree to contact the Chairs of Maritime NZ and Civil Aviation Authority directly to set a clear expectation that they operate in a fiscally responsible manner, seek further opportunities to reduce costs, and refrain from incurring any unnecessary expenditure that is not expressly set out in their Statements of Performance Expectations | Yes / No |
| 4 | agree to direct Maritime New Zealand to undertake an independent baseline review of its costs | Yes / No |
| 5 | Out of Scope | Yes / No |
| 6 | note that the Ministry will provide further advice on the approach and scope to the baseline reviews, should you agree to either or both of recommendations 4 and 5 | |



 Brent Johnston
 Acting Deputy Chief Executive, System
 Performance & Governance
 17 / 03 / 23

 Hon Kiri Allan
 Associate Minister of Transport
 / /

Minister's office to complete:

- | | | |
|---|---|--|
| <input type="checkbox"/> Approved | <input type="checkbox"/> Declined | |
| <input type="checkbox"/> Seen by Minister | <input type="checkbox"/> Not seen by Minister | <input type="checkbox"/> Overtaken by events |

Comments

Contacts

Name	Telephone	First contact
Brent Johnston, Acting Deputy Chief Executive - System Performance & Governance	s 9(2)(a)	✓
Sarah Polaschek, Manager, Governance		

ADVICE ON OPTIONS AND IMPLICATIONS FOR DELAYING CIVIL AVIATION AUTHORITY AND MARITIME NEW ZEALAND FUNDING REVIEWS

Background

- 1 COVID-19 caused a significant reduction in activity levels in the aviation and maritime sectors. This led to a sudden drop in revenue for MNZ and the CAA, both of which had received the bulk of their revenue from charges levied on operators. In response, Cabinet agreed to establish a liquidity facility¹, to bridge the gap between forecast levy revenue and actual revenue. This enabled the Entities to continue to operate as going concerns. Cabinet also issued a moratorium on border transport agency funding reviews (CVD-20-MIN-0010 refers), which it subsequently lifted in 2021 (DEV-21-MIN-0192 refers).
- 2 The most recent funding reviews took place in 2016 (for CAA's regulatory function), and 2019 for both the Aviation Security Service (AvSec, CAA's security function) and MNZ. Each Entity usually operates on a three-year funding cycle, alternating 'mid-point' reviews with more fundamental reviews every six years. Both Entities have experienced cost increases since the levies were last set, due to inflation, as well as costs associated with new regulatory functions (and in AvSec's case, new international border security requirements). While levy revenues for both organisations are gradually recovering to near pre-COVID-19 levels, this revenue is no longer sufficient to cover costs and both Entities have become increasingly reliant on Crown funding.
- 3 The Crown liquidity facility was extended through Budget 2021, and again in Budget 2022 until 30 June 2023. An extension for both Entities to 30 June 2024 is currently being considered as part of Budget 2023, to coincide with the anticipated return to full cost recovery through these funding reviews. Although the Entities may be able to carry over any unspent funding into subsequent years, this is unlikely to be a significant amount as they have composed their budget bids based on the forecast amount required to fund their core functions.
- 4 The Entities have a view that without ongoing Crown support, their ability to operate as *going concerns* may be impacted. This would have significant implications for the New Zealand public. For example, if MNZ's resourcing for its regulatory function is reduced, it could mean a degradation in the quality of vessels in New Zealand waters and a corresponding risk to the safety of workers, seafarers and recreational boaters. For CAA, the risk is most acute for its AvSec function: without an increase in FTE to meet demand and changing security requirements, airport queues will get longer, putting significant strain on their ability to operate effectively.

¹ The liquidity facility was established through the *Protection of Transport Sector Agency Core Functions* appropriation.

Consequences of deferring the funding reviews until after the election

Extending the funding reviews may necessitate further Crown support

- 5 You have confirmed that you do not wish to take the funding reviews to Cabinet at this time, given the Government's focus on the cost of living. The funding reviews are in different stages, but both Entities have developed proposals that would increase levies, which would likely be passed on to consumers. Annex 1 provides a summary of the impact of the proposals on the maritime and aviation sectors with the differences in the tables reflecting the different stages that each funding review is at.
- 6 Funding reviews are lengthy processes requiring multiple stages of Cabinet approval. Cabinet must approve the proposals being put forward for sector consultation, the final levies and the accompanying changes to the relevant regulations. These timeframes can be reduced at the margins, but any significant changes to the process may attract criticism from the Regulations Review Committee. The post-election period, coupled with the difficulty of seeking Cabinet approval or consulting with industry over Christmas and New Year means that it will not be feasible to complete this process by 30 June 2024 without significantly compromising the integrity of the process.

We recommend engaging with the Ministers of Transport and Finance, and seeking their support for extending the funding reviews by another year

- 7 We therefore recommend that you extend both reviews by one year, with the objective of having new charges in place by 1 July 2025. This may require an extension of the Crown liquidity facility for another year or another form of Crown support, such as a borrowing facility. Without this support, the Entities would need to quickly reduce costs, to meet their obligations under section 51 of the Crown Entities Act which requires them to operate in a financially sustainable manner. For CAA, this will likely result in significant and drastic cuts to service levels, particularly for the Aviation Security Service (AvSec) which is almost entirely funded through levies. MNZ is likely to have greater flexibility, as it did not draw down its reserves during COVID-19, and levies represent a smaller proportion of its total revenues. However, its Board has signalled that it would also need to cut some of the regulatory services it provides to remain solvent.
- 8 In the past, the Ministers of Transport and Finance have provided letters of support to each Entity. These letters have provided some acknowledgement that the Government may need to provide financial support until the Entities are able to return to financial sustainability through levy increases. Most recently, letters of support were provided to each Entity on 8 September 2022, covering the 2022/23 and 2023/24 financial years. These letters are attached as Annexes 2 and 3. We would recommend providing a similar letter, should you decide to extend the funding reviews by another year. We expect this would be sufficient to satisfy the concerns that have been expressed by the Boards and any concerns of the Office of the Auditor General.
- 9 As any decision to defer completion of the funding reviews until 1 July 2025 would have implications for the 2024/25 Budget, you would need the support of the Ministers of Transport and Finance before making final decisions. We recommend you consult with them before making any decisions in relation to this briefing.

There are steps you could take to reduce the financial exposure to the Crown

- 10 Extending the liquidity facility means that the Crown would be taking on costs that would ordinarily be met by the aviation and maritime sectors. The table below shows the actual spend from the Crown liquidity facility for each Entity from 2019/20 to 2021/22, and the forecast spend for 2022/23 and 2023/24. We do not yet have accurate assessments of the likely cost of extending the liquidity facility into 2024/25.

Table 1: Actual and forecast expenditure from the Crown liquidity facility (\$ millions)

	2019/20 (actual)	2020/21 (actual)	2021/22 (actual)	2022/23 (forecast)	2023/24 (forecast) ²
MNZ	-	-	15.2	22.3	25.5
CAA	-	86.0	20.1	17.8	74.9 (CAA & AvSec)
AvSec	13.0	17.0	91.8	83.5	
Total	13.0	103.0	127	124	100.4

- 11 Both Entities have indicated that they have sought to reduce costs where possible. However, as funding reviews have been occurring outside of the usual cycle, and they have received ad-hoc funding increases to perform various different functions, we do not have a clear picture of their overall efficiency. While Te Manatū Waka has sought to interrogate the assumptions and costings behind their funding proposals, funding reviews are led by the Entities themselves. We have not had an opportunity in recent years to step back and look closely at their service levels and cost drivers.
- 12 To gain assurance that the Entities are operating as efficiently as possible, and to reduce the potential liability to the Crown in future, we recommend you seek this convey to the Chairs of the Entities your expectation that they operate in a fiscally responsible manner, seek further opportunities to reduce costs, and refrain from incurring any unnecessary expenditure that is not expressly set out in their Statements of Performance Expectations.
- 13 We also recommend that you direct the Boards to commission an external party to undertake an independent baseline review. This review could identify opportunities to manage resources more efficiently and ensure that the functions of each agency are aligned with the Government's strategic objectives. This review could be used to inform decisions Cabinet makes around the maximum amount of funding the Entities could draw down through the liquidity facility in 2024/25 and test the robustness of funding review proposals before they are presented to Cabinet for approval prior to consultation.
- 14 You could ask the Entities to fund these reviews using the existing liquidity facility. However, even if the Entities outsource these baseline reviews to a third party, they will have resource implications for the Entities concerned and Te Manatū Waka. If you

² Estimates for 2023/24 are based on unspent funds for 2022/23 that are expected to be carried over, and additional funding that the Entities have sought through the budget process. Because liquidity funding requested by CAA for 2023/24 relates to both its functions, we have been unable to split this out.

agree to these baseline reviews, we will provide you with further advice on the approach, scope, cost and timeframes for these reviews.

- 15 Of the two Entities, we consider that the case for a baseline review is stronger for MNZ. Across its various funding sources, MNZ has experienced a significant increase in revenue over the past five years, despite the impact of COVID-19. A large portion of the increase is a result of the Entity taking on new functions, including those that give effect to Government decisions such as implementing MARPOL Annex VI and providing seafarer welfare services. However, there are likely to be a number of other factors contributing to the increase in costs. By comparison, CAA and AvSec's costs have been more stable. Figures 1 and 2 show total operating funding for MNZ and CAA/AvSec from all sources since 2017/18.

Figure 1: MNZ Operating Funding (\$000): 2017/18 – 2022/23 (Budget)



Out of Scope

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

- 16 If you agree to progress baseline reviews for one or both Entities, this could be used as an opportunity to 'reset' the funding review schedules, effectively treating them as full funding reviews, rather than mid-point reviews.

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

Annex 1: Summary of the impact of proposed levy increases on maritime and aviation sectors

Impact of proposed maritime and oil pollution levy increases on foreign vessels

Vessel type Paid per port visit		FY25 Proposed Rate Maritime Levy	FY25 Proposed Rate Oil Pollution Levy	Proposed total Levies Increase
	International Oil Tanker (SOLAS) GT 25,000 PAX 0 DWT 45,000	\$4,303	\$658	\$1,453
	International Container Ship (SOLAS) GT 40,000 PAX 0 DWT 52,000	\$6,643	\$1,052	\$2,273
	International Cruise Vessel (SOLAS) GT 110,000 PAX 2500 DWT 15000	\$20,716	\$2,893	\$6,786

Impact of proposed maritime and oil pollution levy increases on domestic vessels

Vessel type Paid Annually		FY25 Proposed Rate Maritime Levy	FY25 Proposed Rate Oil Pollution Levy	Proposed total Levies Increase
	Domestic Passenger Ferry (SOLAS) GT 22,365 PAX 1,350 DWT 5,794	\$306,338	\$38,904	\$12,476
	Domestic Container Ship (SOLAS) GT 6000 PAX 0 DWT 10,000	\$65,557	\$10,437	-\$253
	Domestic Coastal Fishing Trawler (non-SOLAS) GT 529 PAX 0 DWT 0	\$5,548	\$163	\$974
	Domestic fishing Length 5.9 metres	\$115	NA	\$26
	Domestic non-passenger aquaculture vessel (mussel barge) GT 104	\$1,091	NA	\$236
	Domestic non-passenger barge GT 150	\$1,573	NA	\$340
	Domestic non-passenger Length 23.9 metres (including tugs)	\$467	NA	\$104
	Domestic non-passenger Length 8 metre workboat	\$156	NA	\$35

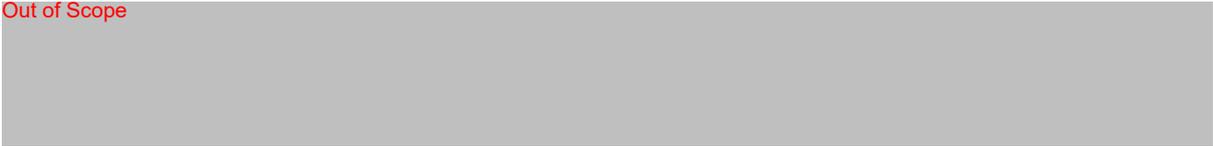
Vessel type Paid Annually		FY25 Proposed Rate Maritime Levy	FY25 Proposed Rate Oil Pollution Levy	Proposed total Levies Increase
	Domestic Passenger Ferry (Non SOLAS) GT 280 PAX 300 DWT 0	\$3,608	\$487	\$107
	Domestic Charter Passenger Boat (Non SOLAS) Length 18 metres PAX 140 DWT 0	\$665	NA	\$146
	Domestic Charter Passenger Boat (Non SOLAS) Length 8 metres PAX 14 DWT 0	\$179	NA	\$40
	Domestic Commercial Jet Boat Length 8.2 metres PAX 8 DWT 0	\$339	NA	\$75
	Domestic passenger Commercial dive boat Length 4.5 metres PAX 4	\$177	NA	\$39
	Domestic passenger 3.7 metre personal watercraft (jet ski/novel craft) PAX 1	\$95	NA	\$21

Out of Scope

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

Out of Scope



RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

Hon Michael Wood

MP for Mt Roskill

Minister of Immigration

Minister of Transport

Minister for Workplace Relations and Safety



8 September 2022

Jo Brosnahan
Chair
Maritime New Zealand
jo.brosnahan@gmail.com

Tēnā koe Jo

LETTER OF SUPPORT FOR THE 2022/23 AND 2023/24 FINANCIAL YEARS

This Letter of Support is provided to enable the Board of Maritime New Zealand (MNZ) to determine whether it is appropriate for it to continue to operate on a going concern basis. It is intended to cover MNZ, including the Oil Pollution Fund (OPF).

The Government acknowledges that support may be required until MNZ returns to financial sustainability. Cabinet agreed to provide such support until the sector recovers and/or MNZ achieves a pathway back to financial sustainability through the upcoming funding review (DEV-21-MIN-0192 refers).

We expect ongoing transparency and discipline around such financial support. The Board has a critical role in monitoring financial performance which includes continuing to identify opportunities to find cost savings and maximise available capability to meet core statutory and regulatory commitments.

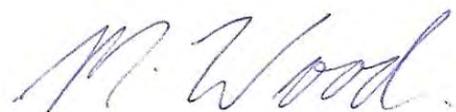
The Government is committed to working with the Board over the medium-term in its endeavour to return MNZ and the OPF to financial sustainability. We expect MNZ to work collaboratively with Te Manatū Waka to provide the Minister of Transport with an update on the funding review's key milestones and a draft terms of reference as soon as practicable. We expect MNZ to complete the current funding review by 30 June 2024 and encourage MNZ to seek any additional financial support required for 2023/24 through Budget 2023.

As part of Budget 2022, Cabinet agreed to provide up to \$23.3 million during the 2022/23 financial year to maintain the provision of MNZ's core functions via an extension of the "Protection of Transport Sector Agency Core Functions" multi-year appropriation (also known as the liquidity facility). The actual funding provided to MNZ will be the difference between actual expenditure on core functions (up to the amount budgeted in the 2022/23 SPE) and the actual revenue received in 2022/23, up to \$23.3 million.

Cabinet also agreed that – to the extent that actual revenue performs better than expected and/or costs are lower than budgeted in 2021/22 and 2022/23 – any surplus Crown funding may be made available to fund core functions in 2023/24. For the avoidance of doubt, MARPOL Annex VI implementation is regarded as one of these core functions.

This letter is provided for the above purposes only, is not a guarantee or indemnity, and is not otherwise intended to create any legal liability on the part of the Crown or any other person.

Nā māua nei, nā



Hon Michael Wood
Minister of Transport



Hon Grant Robertson
Minister of Finance

Copy to: Kirstie Hewlett, Chief Executive, Maritime New Zealand
Bryn Gandy, Acting Chief Executive, Te Manatū Waka

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

Item	Talking Points
Response to this briefing paper	<p>A copy of Te Manatū Waka's briefing has been shared with MNZ and the Authority. We suggest that you use your meeting with the respective Chairs and Chief Executives to:</p> <ul style="list-style-type: none"> • test their comfort with the proposals set out in this paper i.e., a longer delay to the funding review process and baseline review, and for CAA, the continuation of the AvSec funding review • hear their views on the implications of a delayed funding review on the entities' financial positions and operations if they do not progress before the election. <p>You may wish to ask:</p> <ul style="list-style-type: none"> • what gives the Authority/MNZ assurance that the additional resourcing sought in the funding reviews can be obtained? • why is additional resourcing required when the sector has not reached pre-COVID activity levels?
Additional Crown funding	<p>We recommend that you ask the entities what in-principle support that they may request from the Crown before completion of the funding reviews. This could include some combination of:</p> <ul style="list-style-type: none"> • an increase, extension, or amendment to the scope of the liquidity facility; • financial support via a repayable borrowing facility; • activities for which funding could be requested through the Budget process; and/or • fuel excise duty funding through Section 9(1) of the Land Transport Management Act <p>You may wish to ask the respective Chairs and Chief Executives for their views on the options available for in-principle support.</p> <p>This discussion can be kept relatively high-level as any additional Crown funding would need to be approved through the official channels before a commitment is made.</p>
Letters of Support	<p>We expect the entities to request letters acknowledging Government support until they are able to return to financial sustainability, noting that this approach was taken in 2021/22 and 2022/23.</p> <p>We recommend that you acknowledge the importance of the need for the entities to operate as a going concern until such time that funding beyond 2023/24, and the timing of the funding reviews, is clarified.</p> <p>If you intend to discuss the need for Letters of Support with Cabinet in the coming weeks, you could mention this. This process could be progressed with the input of Te Manatū Waka and Treasury.</p>

Item	Talking Points
Ongoing use of the liquidity facility	<p>You may wish to note that, subject to approval from the Ministers of Finance and Transport, the scope of the liquidity facility could be clarified to allow it to be used to address unavoidable changes in operational activity, and unforeseen shocks, if they arise in 2023/24.</p> <p>Officials will be able to advise MNZ and CAA of the outcome of this, through the Budget 2023 process.</p>

Out of Scope

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

Breanne Dirk

From: Richard Cross
Sent: Tuesday, 11 April 2023 9:23 am
To: Brett Thomson; Johnny Crawford
Cc: Harriet Shelton; Sarah Polaschek
Subject: FW: Concerns re funding review Cabinet paper

Hi both

See email chain below with the feedback on the Cab paper from MNZ.

Given that this has been escalated to Kirstie/Audrey, we'll need our response to go through at least Brent on our end. But before we start drafting anything it would be good to get a bit more information in particular in relation to Kirstie's first point on the MJ review. Can someone fire through the scope of that MJ review? I'm keen to understand whether it was actually equivalent to a full 'business review' or if it had a more limited scope than that.

Cheers
 Richard.

Richard Cross

s 9(2)(a) E: r.cross@transport.govt.nz | transport.govt.nz



From: Brent Johnston <B.Johnston@transport.govt.nz>
Sent: Tuesday, 11 April 2023 9:02 am
To: Richard Cross <r.cross@transport.govt.nz>
Subject: FW: Concerns re funding review Cabinet paper

For your consideration (and we will need to write a response)

Brent Johnston

Pou Turuki Te Pūnaha Waka me te Kāwantanga | Deputy Chief Executive System Performance and Governance
 Te Manatū Waka Ministry of Transport

s 9(2)(a) E: b.johnston@transport.govt.nz

Executive Assistant: Kathy MacFarlane | E: k.macfarlane2@transport.govt.nz



From: Audrey Sonerson <A.Sonerson@transport.govt.nz>
Sent: Tuesday, April 11, 2023 8:41 AM
To: Brent Johnston <B.Johnston@transport.govt.nz>
Subject: FW: Concerns re funding review Cabinet paper

FYI

Audrey Sonerson (she / her / Ms)

s 9(2)(a) E: a.sonerson@transport.govt.nz | transport.govt.nz

Executive Assistant: Sharyn Forty | s 9(2)(a) E: s.forty@transport.govt.nz

From: Audrey Sonerson
Sent: Tuesday, April 11, 2023 8:33 AM
To: Kirstie Hewlett <Kirstie.Hewlett@maritimenz.govt.nz>
Subject: RE: Concerns re funding review Cabinet paper

Hi Kirstie,

As I said, I was on a leadership day on Thursday, but I'm sure our teams can work their way through these differences to get us to a sensible point. I will note your high level concern with the team.

Cheers
 Audrey

Audrey Sonerson (she / her / Ms)

s 9(2)(a) E: a.sonerson@transport.govt.nz | transport.govt.nz

Executive Assistant: Sharyn Forty | s 9(2)(a) E: s.forty@transport.govt.nz

From: Kirstie Hewlett <Kirstie.Hewlett@maritimenz.govt.nz>
Sent: Monday, April 10, 2023 2:08 PM
To: Audrey Sonerson <A.Sonerson@transport.govt.nz>
Subject: Concerns re funding review Cabinet paper

Kia ora Audrey

I hope you and the family have has a good Easter.

Following up on my test message on Thursday, I thought I would outline some of our concerns with the draft Cabinet paper on the Maritime NZ and CAA funding reviews. While my team will work with Richard and Brent on it, we have some significant concerns not just with the paper but more broadly what it says around how we work together that I want to make sure you are aware of.

Essentially our concerns are:

- 1. The paper says Te Manatu Waka has concerns with cost models and has not had sufficient opportunity to step back and look closely at cost model and service levels in recent years. It also makes the point we have received ad hoc funding and suggests Te Manatu Waka contract an independent party to undertake a review of each Entity's capability, capacity and cost models before resuming the funding reviews. The inference throughout the paper is the review should be delayed because this has not occurred.**

Transport crown entities have been on a 6 yearly cycle of one fundamental, which usually looks in detail at cost models and sets up funding for a 6 year period, and one mid-point review which provides more of a check in. In 2018/19 a fundamental review was undertaken which looked at all of Maritime NZ's cost models and did a value for money exercise. The current funding review was supposed to be a mid point review. However, given the first letter of support asked us to look at our costs, and given feedback we had received from the sector on some issues with our regulator effectiveness, we undertook do an effectiveness and efficiency review. Before we undertook it, we ran our approach, which included getting support of an independent party Martin Jenkins, through the Manager of the Governance team at Te Manatu Waka. Robert agreed with the approach and also supported us using some of the Multi-Year Appropriation for the review, which the Minister of Transport signed off.

We have now undertaken this review over the last 18 months. The process drew upon range of external and internal expertise:

- Martin Jenkins (chosen for work on Waka Kotahi regulatory failure and undertaken a number of efficiency/effectiveness reviews of crown entities) acted as an external and independent advisor to the process: framing issues for us, raising best practice, led/facilitated sessions with staff and externals, supported development of the results from Phase One and where we needed to make changes. Supported implementation of staff changes through reorganisation.
- We drew heavily on feedback from key industry stakeholders on what good looks like, where we are, and where there were gaps in capability, capacity, systems, processes and culture for each of our regulatory functions.
- Detailed workshops with staff to work through these issues.
- We drew on examples of good practice from / benchmarks against other regulators, through meetings and published material.
- We were assessed independently by the International Maritime Organisation around our safety and implementation of international standards (IMSAS audit) and have built these recommendations into our change

The review found a number of areas we needed to focus on from an effectiveness and efficiency perspective, and we have taken a number of actions in response:

- We disestablished roles to create savings that would enable us to resource immediate priorities and implement Te Korowai more effectively. This included implementing new organisational design principles so we could work more efficiently (for example, sought to get more efficient manager to staff ratios and removed a layer of management).
- Redeployed staff and resources to focus on addressing risks.
- Added targeted resourcing and built clearer capabilities to address the Licensing backlogs, as well as adding systems (workflow and admin), capability and training in Licensing to create efficiencies and improve quality of decision-making.
- Replaced reliance on contractor resources working on rules and a number of other areas with permanent resources that can plan and progress projects at lower long term cost.
- Put in a Budget Bid from the HSWA levy to address HSWA inflationary cost pressures, as inflationary adjustments had not been made since 2017.
- Mapped and reviewed our end-to-end Notification processes to identify improvements to notifications, triage and responses to enquiries; and cleaned up / improved accessibility to data.
- Invested in efficiencies in our property footprint – in satellite offices moved to sharing property with other government agencies to reduce costs, and in head office used flexible working to remove one floor of a building.
- Where resources allowed, begun long term investments in updating old ICT platforms that should make the way in which we operate more efficient (data storage/sharing/use, tools for front line staff).
- For our new funding proposals we have a reduced overhead component (25%, down from 30%) to reflect efficiencies of scale.
- Transitioning our vehicle fleet to EV to create further efficiencies; and more closely managing our travel costs (especially international), better utilising technology options.

We have tried on numerous occasions to discuss our review work with Te Manatu Waka but there has been little interest. So we are frankly dismayed that after all our work (the approach which Te Manatu Waka previously agreed with) and the efficiencies we have made, that another review is being suggested by Te Manatu Waka. This is likely to take up a large amount of time by people that have already been through a period of significant change, which would be more effectively utilised to embed efficiency and effectiveness changes. In addition, given our review was paid for by the Crown it is a waste of the Crown's money in paying twice to repeat a review that has largely been done. It feels like just because the current people in Te Manatu Waka have limited knowledge of the work and there is a lack of resource in the team at the moment that the easy option has been to suggest a review. When both Jo and I talked to the Minister she also did not seem aware of our efficiency and effectiveness work.

We think the reference to ad hoc funding is misleading. Beyond the MYA, we have had two additional amounts of funding since the 2018/19 fuller cost model review- these are an extension of MFAT funding for 4 years in our work in the Pacific which came off a business case and results demonstrated, and a bid for HSWA levy funding which was largely to address inflationary cost pressures in our HSWA activity which had not moved from 2017, the bid went through the usual Budget process. Neither of these relate to the Maritime levy and OPL which are the subject of the funding review.

- 2. The paper notes if we consult before the election it is likely we could still not meet the 1 July 2024 deadline.**

We do not believe that this is the case, for Maritime NZ eight months is plenty of time to get a Cabinet decision after consultation, draft levy regulations (which are largely in effect changing a dollar amount), and implementation. If the issue is that Te Manatu Waka would find it difficult to resource drafting the policy decision Cabinet paper, we are happy to support in any way we can.

- 3. The paper indicates that the proposals will impact the cost of living, gives the impression there will be noise if it goes ahead and the paper does not outline many of the risks in delaying the funding review.**

Many of the proposals in our funding review have come from changes the sector has asked for itself and some stakeholders are directly asking that we get more capacity in some areas in letters to us. Yes, there may be a small number of people who do not want a levy increase, but we know that we have a number of people who support our funding review going ahead and will raise concerns equally if it does not. Some of the reason for this is that the areas the funding review asks for more money in will actually enable more efficient operation of the sector. Licensing backlogs and poor licensing rules impacts on the ability of people to work and operate at a time when we face labour constraints and detention of poor quality ships and delays of ships with maintenance issues impact on importers, exporters, ports and people, all of this has poor impacts on the economic activity. Overall given the proposals seek to minimise these issues we believe they will have a positive rather than negative impact on the cost of living. The funding review also seeks to address significant identified safety risks in the maritime sector.

We believe the Cabinet paper needs to tell a more balanced story around cost of living, outline a delay to the funding review will mean some regulatory risks remain unaddressed for longer, make the point that there is some support from a number of maritime stakeholders for the funding review and likely to be some noise also if it does not go ahead, and also note that it will create more ongoing funding uncertainty for Maritime NZ which is likely to mean we use more fixed term contractors rather than permanent staff which is also more expensive and inefficient.

- 4. We appreciate that CAA has some similar challenges but believe they are different from us and the paper links us too closely and does not explain where we may be different.**

The aviation sector is considerably further behind in recovery than the maritime sector (many of the operators our funding review relates too continued to operate over COVID and to make profits), the increases are larger, and CAA are unlikely to be able to complete something by 1 July 2024 whereas with consultation we are. There must be a way of fairly outlining some of this. We are different sectors, different agencies and are in different places.

Hopefully discussions between our staff, and the discussions of late with the Minister, will result in some changes to the paper. However, if there is not much change we will ask the Minister to include in the paper a Maritime NZ comment which in a much more succinct way than this email covers off some of our concerns.

Happy to discuss further.

Ngā mihi

Kirstie Hewlett (she/her) | Director/Chief Executive
Maritime New Zealand | Wellington
Nō te rere moana Aotearoa
s 9(2)(a) **W** maritimenz.govt.nz



This email message and any accompanying attachments do not necessarily reflect the views of Maritime New Zealand and may contain information that is confidential and subject to legal privilege. If you are not the intended recipient, you must not use, disseminate, distribute or copy this email message or its attachments. If you have received this message in error, please notify the sender by email immediately, and erase all copies of this message and attachments. Thank you. Address: Maritime New Zealand, Level 11, 1 Grey Street, Wellington 6011. PO Box 25620, Wellington 6140 Tel: 0508 22 55 22 (04 473 0111) Fax: 04 494 1263. www.maritimenz.govt.nz For official information requests, please email Government.Services@maritimenz.govt.nz.

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

Breanne Dirk

From: Peter Brunt <Peter.Brunt@maritimenz.govt.nz>
Sent: Wednesday, 12 April 2023 8:45 am
To: Brent Johnston; Richard Cross; Brett Thomson; Johnny Crawford; Andrew Saunderson
Subject: Cabinet Paper Meeting on Friday

Hi Brent, Richard and Brett,

Prior to our meeting on Friday; below is our current draft thinking on a potential MNZ comment to go into the Funding Review Cab paper. We're sharing in advance because it sums up our position (and the elements we'd ideally see reflected in the paper) quite well.

Looking forward to the discussion.

Peter

Maritime New Zealand Comment (draft)

Maritime NZ's strong preference is to proceed with consultation on its funding review now. We have, with Te Manatu Waka, put in significant work to prepare the proposals; stakeholders are expecting the review and the broad shape of the proposals; and the sector is seeking early certainty on the levy rates that will apply from the start of 24/25. We believe that the review can be completed by 1 July 2024, if started now. We consider that CAA and Maritime NZ are in different positions and the decision for each should be taken independently, based on our different circumstances.

To prepare for its review, Maritime NZ has already undertaken an extensive efficiency and effectiveness review, Te Korowai. This was supported by independent external experts (Martin Jenkins). It involved significant engagement with representatives of levy payers on what regulatory service levels they are seeking from us.

We note the comment in the paper that Te Manatu Waka has been unable to fully assess the merits of our proposals or cost base, and would require external support to do so properly. We note that Te Manatu Waka was given multiple opportunities to engage with and scrutinise the results of Te Korowai, including in the period before work on the Funding Review was begun. We note that our proposals will get closer scrutiny from stakeholders when they are put out to consultation. We do not believe that a lack of capability or capacity in Te Manatu Waka to properly undertake its monitoring function should be a reason to delay a return to full cost recovery.

Peter Brunt (he/him) | Deputy Chief Executive, Regulatory Frameworks

Maritime New Zealand | Wellington

Nō te rere moana Aotearoa

s 9(2)(a)

W maritimenz.govt.nz



This email message and any accompanying attachments do not necessarily reflect the views of Maritime New Zealand and may contain information that is confidential and subject to legal privilege. If you are not the intended recipient, you must not use, disseminate, distribute or copy this email message or its attachments. If you have received this message in error, please notify the sender by email immediately, and erase all copies of this message and attachments. Thank you. Address: Maritime New Zealand, Level 11, 1 Grey Street, Wellington 6011. PO Box 25620, Wellington 6140 Tel: 0508 22 55 22 (04 473 0111) Fax: 04 494 1263. www.maritimenz.govt.nz For official information requests, please email Government.Services@maritimenz.govt.nz.



26 May 2023

OC230454

Hon Kiri Allan
Associate Minister of Transport

MEETING WITH MARITIME NEW ZEALAND DEPUTY CHIEF EXECUTIVES - 1 JUNE 2023

This meeting was subsequently cancelled.

Snapshot

You are meeting with the Maritime New Zealand (MNZ) Deputy Chief Executives Deb Despard and Andrew Saunderson on 1 June 2023. To support you in your meeting, Te Manatū Waka has provided suggested talking points in **Annex 1**.

Time and date	11.30am – 12.00pm, 1 June 2023
Venue	Executive Wing, 5.3R
Attendees	Deb Despard, Deputy Chief Executive Regulatory Operations, MNZ Andrew Saunderson, Deputy Chief Executive Organisational Strategy and Systems, MNZ
Officials attending	Brent Johnston, Deputy Chief Executive - System Performance & Governance
Agenda	1. MNZ Funding Review 2. Feedback on Statement of Performance Expectations 3. Update on support for vessels out of port areas
Talking points	Suggested talking points are in Annex 1

Contacts

Name	Telephone	First contact
Brent Johnston, Deputy Chief Executive - System Performance & Governance	s 9(2)(a)	✓
Harriet Shelton, Manager, Governance		
Johnny Crawford, Senior Advisor, Governance		

MEETING WITH MARITIME NEW ZEALAND DEPUTY CHIEF EXECUTIVES - 1 JUNE 2023

Key points

- You are meeting with Deb Despard and Andrew Saunderson, Deputy Chief Executives of MNZ on 1 June 2023.
- MNZ has said it will provide its meeting advice to your office on 26 May 2023, which will set out three proposed agenda items: its funding review, feedback on its draft SPE and an update on support for vessels out of port areas. Context for these topics is provided on **pages 3 – 4**.

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

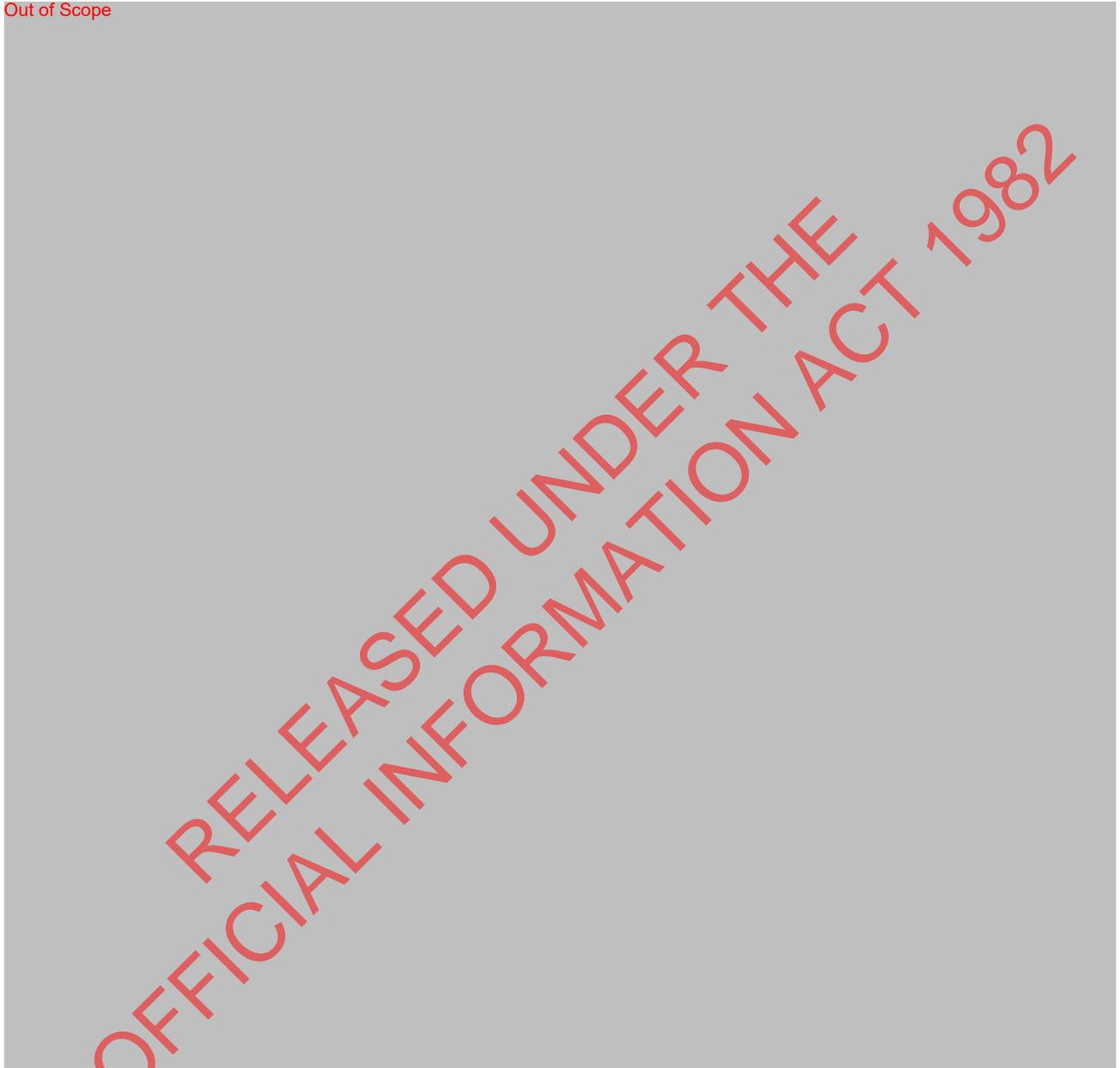
Item one: Funding Review

1. Earlier in May, you signalled that you would like MNZ to progress with its funding review. This follows a period in which the review had been paused to allow Te Manatū Waka to explore alternative options and consider cost-of-living challenges.
2. You are currently consulting your Ministerial colleagues on a Cabinet paper (OC230245 refers) being presented to the Cabinet Economic Development Committee (DEV) on 7 June 2023. This paper notes that you have asked MNZ to resume its funding review and seeks Cabinet's agreement to delegate approval of its consultation document to you and the Minister of Finance.
3. We understand that you and the Minister of Finance both support MNZ conducting its funding review as quickly as practicable, allowing it to implement any new levies by 1 July 2024. This will reduce the need for additional Crown funding past this point. To meet this deadline, there is a need to undertake this process more rapidly than usual with minimal contingency built into the timeline.
4. With this in mind, MNZ is currently working to the following assumptions:
 - The Minister of Finance and you will be able to approve its consultation document by 16 June 2023;
 - Public consultation will be able to begin by 19 June 2023;
 - A Cabinet paper, proposing a new funding model after consultation, will be able to go to DEV on 23 August 2023; and
 - Subsequent steps in the process, primarily related to undertaking the regulatory change and implementation will be able to happen following the General Election.
5. MNZ's intention to meet the 23 August 2023 DEV date will allow it to notify the sector of any changes to Maritime and Oil Pollution Levies prior to the General Election. This means that industry stakeholders will have sufficient time to work the levies into their assumptions prior to the new funding model coming into effect on 1 July 2024. If DEV does not consider the Cabinet paper until Cabinet is able to meet following the General Election, then MNZ does not consider the industry will have enough time to respond to any levy changes.
6. Te Manatū Waka supports the implementation of a new funding model for MNZ and agrees with the need to take all steps necessary to reduce the cost to the Crown after June 2024. We intend to provide the necessary oversight to the process and to support MNZ to meet its deadlines where possible. This will include leading steps of the process for which we are responsible, such as assembling a panel to review its cost-recovery impact statement (CRIS) and drafting Cabinet papers.
7. However, for the funding review process to retain its integrity, there needs to be a degree of flexibility. For example, timelines could slip if Ministers need more time to approve consultation documents, if material changes need to be made to MNZ's proposals following consultation, or if the CRIS panel requests significant amendments to its documentation. Some flexibility has been built in by setting the intention to go to DEV on 23 August, which allows for some slippage to the last DEV date of 30 August

if required. However there is still a chance that a significant change could require more time and therefore necessitate a DEV date after the General Election, for example, which would exacerbate the risk that the funding review does not meet its 30 June 2024 deadline.

8. Te Manatū Waka will continue to brief you throughout the process, including if there are any changes to MNZ's timeline and any risks or implications of changes.

Out of Scope



Annex 1: Talking Points

Item	Talking Points
Funding Review	<p>You may wish to:</p> <ul style="list-style-type: none">• acknowledge the ambitious timeframe to which MNZ is working in order for a new funding model to allow it to return to cost-recovery prior to 1 July 2024;• advise MNZ if you have any updates on the current Cabinet paper including any feedback resulting from Ministerial consultation;• indicate if you have any feedback on MNZ's proposed timeline for its funding review, including:<ul style="list-style-type: none">○ whether you and the Minister of Finance expect to be able to approve the document for public consultation prior to 19 June 2024○ whether you support a Cabinet paper detailing the new funding model going to DEV on 23 August 2023 (dependent on the successful completion of previous steps)○ whether you support MNZ announcing its new funding model to the sector once it has been approved by DEV (dependent on the successful completion of previous steps).

Out of Scope

RELEASED UNDER THE OIA ACT 1982
OFFICIAL INFORMATION

Te ripoata o te wiki mō te Minita o Te Manatū Waka | Weekly Report to the Minister of Transport

For the week ending 2 June 2023

4. Cabinet papers

Minister Allan		
Paper	Committee	Status
<p>Cabinet Approval of changes to Maritime Levy and Oil Pollution Levy</p> <p>This paper seeks Cabinet's agreement on changes to the Maritime Levy and Oil Pollution Levy following public consultation by Maritime New Zealand.</p> <p><i>Responsibility: Harriet Shelton, Manager, Governance</i></p>	<p>Cabinet Economic Development Committee (DEV). 23 August 2023.</p>	<p>Maritime NZ is preparing to begin consultation on levy changes.</p>



Te ripoata o te wiki mō te Minita o Te Manatū Waka | Weekly Report to the Minister of Transport

For the week ending 9 June 2023

4. Cabinet papers

Minister Allan		
Paper	Committee	Status
<p>Cabinet Approval of changes to Maritime Levy and Oil Pollution Levy</p> <p>This paper seeks Cabinet's agreement on changes to the Maritime Levy and Oil Pollution Levy following public consultation by Maritime New Zealand.</p> <p><i>Responsibility: Harriet Shelton, Manager, Governance</i></p>	<p>Cabinet Economic Development Committee (DEV). 23 August 2023.</p>	<p>Maritime NZ is preparing to begin consultation on levy changes.</p>



Te ripoata o te wiki mō te Minita o Te Manatū Waka | Weekly Report to the Minister of Transport

For the week ending 16 June 2023

4. Cabinet papers

Minister Allan		
Paper	Committee	Status
<p>Cabinet Approval of changes to Maritime Levy and Oil Pollution Levy</p> <p>This paper seeks Cabinet's agreement on changes to the Maritime Levy and Oil Pollution Levy following public consultation by Maritime New Zealand.</p> <p><i>Responsibility: Harriet Shelton, Manager, Governance</i></p>	<p>Cabinet Economic Development Committee (DEV). 23 August 2023.</p>	<p>Maritime NZ is preparing to begin consultation on levy changes.</p>



Te ripoata o te wiki mō te Minita o Te Manatū Waka | Weekly Report to the Minister of Transport

For the week ending 23 June 2023

4. Cabinet papers

Minister Allan		
Paper	Committee	Status
<p>Cabinet Approval of changes to Maritime Levy and Oil Pollution Levy</p> <p>This paper seeks Cabinet's agreement on changes to the Maritime Levy and Oil Pollution Levy following public consultation by Maritime New Zealand.</p> <p><i>Responsibility: Harriet Shelton, Manager, Governance</i></p>	<p>Cabinet Economic Development Committee (DEV). 30 August 2023.</p>	<p>Maritime NZ is preparing to begin consultation on levy changes.</p>



Te ripoata o te wiki mō te Minita o Te Manatū Waka | Weekly Report to the Minister of Transport

For the week ending 30 June 2023

4. Cabinet papers

Minister Allan		
Paper	Committee	Status
<p>Cabinet Approval of changes to Maritime Levy and Oil Pollution Levy</p> <p>This paper seeks Cabinet's agreement on changes to the Maritime Levy and Oil Pollution Levy following public consultation by Maritime New Zealand.</p> <p><i>Responsibility: Harriet Shelton, Manager, Governance</i></p>	<p>Cabinet Economic Development Committee (DEV). 30 August 2023.</p>	<p>Maritime NZ is preparing to begin consultation on levy changes.</p>



Te ripoata o te wiki mō te Minita o Te Manatū Waka | Weekly Report to the Minister of Transport

For the week ending 7 July 2023

4. Cabinet papers

Minister Allan		
Paper	Committee	Status
<p>Cabinet Approval of changes to Maritime Levy and Oil Pollution Levy</p> <p>This paper seeks Cabinet's agreement on changes to the Maritime Levy and Oil Pollution Levy following public consultation by Maritime New Zealand.</p> <p><i>Responsibility: Harriet Shelton, Manager, Governance</i></p>	<p>Cabinet Economic Development Committee (DEV). 30 August 2023.</p>	<p>Maritime NZ is preparing to begin consultation on levy changes.</p>

6. Transport Crown entity and state-owned entity (SOE) updates



Funding review delayed

Thank you to the Associate Minister of Transport and the Ministry for supporting the progress on the funding review. However, we understand that there have been delays to obtaining joint Ministerial approval to undertake public consultation that was anticipated to occur on 26 June 2023. While we are still hopeful that we could at least move to consultation prior to the election, this time window is closing and it is getting increasingly unlikely we will meet a 1 July 2024 timeline for completion of the funding review. Given lack of certainty around consultation on the review, and with no Letter of Support provided, we have not yet published our 2023/24 Statement of Performance Expectations (SPE). The reason for this is because without certainty of either, we would be insolvent on 1 July 2024 and would need to start to remove staff and services prior to 1 July 2024 and so could not meet the expectations in our SPE. To support us in managing through this issue, the Ministry is expediting the provision of a further Letter of Support for the 2024/25 financial year with Ministers, and we note a further bid for liquidity funding may be required in Budget 24. As soon as we have confirmation of either consultation or the Letter of Support, we will publish our SPE as we will have comfort we can both deliver on our expectations and that we remain a going concern as per s51 of the Crown Entities Act. We will continue to do all we can to support a return to full cost recovery.

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982



Te ripoata o te wiki mō te Minita o Te Manatū Waka | Weekly Report to the Minister of Transport

For the week ending 13 July 2023

3. Key priorities

Minister Allan	
Maritime New Zealand fees and funding review	
<p>On 10 July 2023, the Ministry received approval from the Minister of Finance and Associate Minister of Transport to begin public consultation on Maritime NZ's funding review (OC230474 refers). It intends to begin public consultation on 18 July 2023 for a four-week period. However, due to the delays to receiving the confirmation, it will now no longer have time to take its new funding model to the Cabinet Economic Development Committee prior to the election (previously, we intended to do so on 30 August 2023). We will continue to work with Maritime NZ on its funding review with the aim of a return to cost recovery by 1 July 2024, if practicable. However, the delays mean that the maritime sector will receive a much-shorter notice of any changes to levies. The truncated timeframe also creates a greater risk that Maritime NZ will be unable to complete its funding review on time, and that the Crown will need to provide further support through Budget 2024.</p> <p><i>Responsibility: Harriet Shelton, Manager, Governance</i></p>	<p>Next steps:</p> <p>Public consultation will begin on 18 July 2023. A revised timeline for completing the remainder of the funding review by 30 June 2024 is being prepared in collaboration with Maritime NZ.</p>



Te ripoata o te wiki mō te Minita o Te Manatū Waka | Weekly Report to the Minister of Transport

For the week ending 21 July 2023

6. Transport Crown entity and state-owned entity (SOE) updates



Funding Review consultation now live

Following Government approval, Maritime NZ has opened public consultation on proposed changes to Maritime Levies and Oil Pollution Levies. This is the first funding review in five years, as the Government agreed to delay the mid-point review due to COVID-19 impacts. To develop the proposed changes, we worked closely with the sector and looked closely at areas where additional levies funding will need to be invested between July 2024 and June 2030. The consultation is open until 16 August 2023. During this time, we will hold webinars to go over the proposals in the consultation document, provide stakeholders the opportunity to ask questions and encourage their submissions. Following the consultation, we will carefully review and analyse all submissions, then prepare advice and recommendations on levies changes before the end of 2023.



Te ripoata o te wiki mō te Minita o Te Manatū Waka | Weekly Report to the Minister of Transport

For the week ending 4 August 2023

6. Transport Crown entity and state-owned entity (SOE) updates



Maritime NZ Public Consultation Levies Funding

On 19 July 2023, Maritime NZ released a consultation document on its review of levies funding for 2024/25 – 2029/30. To date few submissions have been received, however, based on previous funding reviews we anticipate that the number of enquiries and submissions received will increase over the next two weeks and reach a high point close to the end of the consultation period.

Webinars covering the funding review consultation document are scheduled for 4 August 2023 and 7 August 2023. The Chief Executive/Director and members of the senior leadership team will be making a presentation to attendees on the content of the consultation document, and will include a Question and Answer segment.

The submissions period closes on 16 August 2023.

Further details on the funding review are contained within the Briefing to the Incoming Associate Minister, which is scheduled for sending in the week ending 3 August 2023.



Te ripoata o te wiki mō te Minita o Te Manatū Waka | Weekly Report to the Minister of Transport

For the week ending 18 August 2023

6. Transport Crown entity and state-owned entity (SOE) updates



Public Consultation on Maritime and Oil Pollution Levies

The public consultation on Maritime Levies and Oil Pollution Levies is now closed. The levies rates changes proposed in this funding review are consistent with a return to full cost recovery from 1 July 2024, as Cabinet has directed. Putting these changes in place from 1 July 2024 would remove the need for further Crown liquidity funding.

During the consultation, we held two webinars covering the proposals in the consultation document, and the recordings of these are on our website. We also shared the Frequently Asked Questions received from the webinars and email queries to ensure equitable access to the same information. We received approximately 43 submissions.

Our next steps will include analysing the submissions (including identifying themes and assessment of all feedback) and based on that, preparing final recommendations on regulatory changes. The Ministry will also participate in this process. Within the next few weeks we will meet with the Oil Pollution Advisory Committee (OPAC) on any recommended changes to the Oil Pollution Levies methodology and rates. Under the Maritime Transport Act there must be consultation with OPAC ahead of advising the Minister on the imposition of, and the rate or rates of oil pollution levies.

We will then prepare and present the Cost Recovery Impact Statement (CRIS) to the Regulatory Impact Assessment (RIA) panel, organised by the Ministry. This ensures the impact analysis meets the quality assurance criteria before a Cabinet paper is drafted. We expect to complete the CRIS process by the end of October 2023.



Te ripoata o te wiki mō te Minita o Te Manatū Waka | Weekly Report to the Minister of Transport

For the week ending 1 September 2023

6. Transport Crown entity and state-owned entity (SOE) updates



Next steps following consultation on Maritime and Oil Pollution Levies

The public consultation on our review of Maritime Levies and Oil Pollution Levies funding closed on 16 August 2023. The levies rates changes consulted on are consistent with a return to full cost recovery from 1 July 2024, as Cabinet has directed. Putting these changes in place from 1 July 2024 would remove the need for further Crown liquidity funding.

Last week we met with the Ministry to go through the submissions, identify themes and discuss our initial response to matters raised in relation to each of the proposals. We received a total of 40 submissions within the feedback deadline. Overall, there is strong support for the proposals, with those in full or partial support exceeding 90% on average. We were pleased to see the key industry organisation groups supporting the proposals like the Shipping Federation, New Zealand Maritime Transport Association and Port Chief Executives Group.

We have a meeting planned in September 2023 with the Oil Pollution Advisory Committee (OPAC), where we will seek their views on any changes to the Oil Pollution Levies methodology and rates we intend to recommend to the Minister. Under the Maritime Transport Act there must be consultation with OPAC ahead of recommending to the Minister the imposition of, and the rate or rates of oil pollution levies.

We will then finalise and present the Cost Recovery Impact Statement (CRIS) to the Regulatory Impact Assessment panel, organised by the Ministry. This ensures the impact analysis meets the quality assurance criteria before a Cabinet paper is drafted. We expect to complete the CRIS process by the end of October 2023.

IN CONFIDENCE



1 June 2023

OC230473

Hon Kiri Allan

Action required by:

Associate Minister of Transport

Wednesday, 7 June 2023

cc Hon Michael Wood

Minister of Transport

SUPPORTING THE ONGOING FINANCIAL SUSTAINABILITY OF MARITIME NEW ZEALAND AND CIVIL AVIATION AUTHORITY - SUPPORTING INFORMATION FOR CABINET PAPER

Purpose

Provide you with supporting information and talking points for your presentation of Cabinet paper *Supporting the ongoing financial sustainability of Maritime New Zealand and Civil Aviation Authority* (attached at Appendix One) at the Cabinet Economic Development Committee (DEV) on 7 June 2023.

Key points

- You have decided that resuming the Maritime New Zealand (**MNZ**) and Civil Aviation Authority (**the Authority**) funding reviews is the best way to minimise financial burden on the Crown. This will ensure that both Entities can return to cost recovery models at the earliest opportunity and be adequately resourced to fulfil their statutory responsibilities.
- You are presenting a Cabinet paper, *Supporting the ongoing financial sustainability of Maritime New Zealand and Civil Aviation Authority* to DEV on 7 May 2023. This paper notifies Cabinet of your decision to resume the funding reviews and seeks delegation for you and the Minister of Finance to approve the release of the Entities' consultation documents, subject to any editorial changes. This means both Entities will be able to begin consultation as quickly as possible.
- **MNZ** considers that it is ready to begin public consultation and its draft consultation document will be attached to the Cabinet paper as an Appendix. Although its timeline is ambitious, approval of this document immediately after you receive delegation would enable it to undertake public consultation prior to the pre-election period and complete its funding review by 1 July 2024. Te Manatū Waka will continue to provide the necessary oversight to the process, support MNZ to meet its deadlines where possible and brief you throughout the process.

- **Out of Scope**

IN CONFIDENCE

Out of Scope

- Respondents to consultation on the Cabinet paper supported a quick return to cost-recovery for both Entities. In particular, the Treasury noted that the costs incurred by the Crown from delaying the funding reviews any longer would outweigh any benefits from further reviewing the cost-of-living implications of levy increases. This was also the view of the Minister of Finance's office who supported the resumption to mitigate any commitment of Crown funding in Budget 2024.
- Te Manatū Waka did not receive substantial feedback on the Cabinet paper during Ministerial consultation.

Out of Scope

-

- The Cabinet paper and MNZ's consultation document are attached as **Appendix One**.
- Talking points for DEV are included in **Annex One**.

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

Recommendations

We recommend you:

- 1 **agree** to present Cabinet paper *Supporting the ongoing financial sustainability of Maritime New Zealand and Civil Aviation Authority* to the Cabinet Economic Development Committee on 7 June 2023 Yes / No
- 2 **note** that talking points have been provided to support you at this meeting
- 3 **refer** this briefing to Hon Grant Robertson, Minister of Finance Yes / No

Harriet Shelton
Manager – Governance

Hon Kiri Allan
Associate Minister of Transport

..... / /

..... / /

- Minister’s office to complete:**
- Approved Declined
 - Seen by Minister Not seen by Minister
 - Overtaken by events

Comments

Contacts

Name	Telephone	First contact
Brent Johnston, Acting Deputy Chief Executive – System Performance & Governance	s 9(2)(a)	
Harriet Shelton, Manager, Governance		✓

Annex One: Talking Points

The decision to restart the funding reviews was reached after consideration of cost-of-living implications:

- it was important to take stock of the potential cost-of-living implications of increasing maritime and aviation levies; and
- you are now satisfied that a quick return to financial sustainability for both Entities would be the most effective way to address this.

These implications will continue to be at the forefront of the process:

- while it is likely that the aviation and maritime industries will pass any costs onto consumers if levies are increased, this would be outweighed by
 - the impact of extending Crown support of the entities for longer than is necessary; and
 - the deterioration of services if the Entities are insufficiently funded, e.g., longer airport queues and ensuring vessels that visit New Zealand waters meet safety and security standards; however,
- you have been assured that **both Entities** have taken cost-of-living considerations into account in their funding reviews and will continue to do so.

During departmental consultation, respondents overwhelmingly supported resuming the funding reviews citing:

- the importance of managing stakeholder expectations;
- work that had taken place earlier to incorporate cost-of-living considerations into the funding reviews;
- the need to limit Crown funding sought by the Entities in Budget 2024; and
- the need to support the ability of each Entity to fulfil its role effectively.

You are seeking delegation to approve the consultation documents

- if the Minister of Finance and you are able to approve the consultation documents yourselves, it will support the quick completion of the funding reviews;
- this is particularly important as there are fewer Cabinet dates in the lead up to the General Election; and
- **MNZ** is ready to begin consultation with its consultation documentation already having been reviewed by a Cost Recovery Impact Statement (CRIS) panel.

There are a number of risks that will need to be managed during the process

- if there is any slippage to the timelines for **either Entity's** review, the Crown may need to provide support for longer or they may struggle to continue to deliver their core functions; alternatively
- if the process is too rushed and does not allow for sufficient flexibility following feedback, there is a chance that the new funding models will not adequately respond to cost-of-living concerns or may be challenged during the regulatory approval process; and
- if insufficient notice is given to the maritime or aviation sector of any levy changes, there may be a backlash from industry stakeholders; but
- all parties will be working to mitigating these risks by collaborating throughout the process, ensuring that appropriate measures are taken to retain its integrity and briefing you on any developments.

The Entities are still likely to require some financial support in 2024/25

- Although resuming the funding reviews will reduce the amount of funding the Crown will need to provide in the long-term, there will still likely be a need for some Crown funding in 2024/25;
- **MNZ** will only require additional Crown funding if it is unable to return to cost recovery by 30 June 2024;
 - in this case, it will likely require Crown funding of up to \$12.6m for the 12 months to July 2025 as it cannot increase levies partway through a financial year;

Out of Scope

- these figures will be in addition to Crown funding already provided to **both Entities**.

Te Manatū Waka and the Entities are working together to progress the funding reviews

- the Cabinet paper is not substantially different from that provided during Ministerial consultation but has been changed slightly to reflect the fact that **the Authority** will not be able to undertake public consultation before the General election;
- **both Entities** have already resumed work on their funding reviews to support completion as quickly as practicable;
- this would be supported by Cabinet giving you and the Minister of Finance delegation to approve consultation documents;
- **MNZ** will be able to begin public consultation immediately with the aim of implementing a new funding model by 30 June 2024; and

• Out of Scope



RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

IN CONFIDENCE

In Confidence

Office of the Associate Minister of Transport

Cabinet Economic Development Committee

Supporting the ongoing financial sustainability of Maritime New Zealand and Civil Aviation Authority**Proposal**

- 1 This paper seeks to communicate to Cabinet that I intend to request that Maritime New Zealand (MNZ) and Civil Aviation Authority (the Authority) restart their respective funding reviews immediately.

Relation to Government priorities

- 2 MNZ's funding review includes proposals related to Government commitments and decisions. These include a proposal to fund seafarer welfare services which was signalled as a priority for the Government in 2020. Another priority seeks funding in response to the Government's climate change response and Labour's Manifesto commitment to transition the country to a "clean, green, carbon neutral" position and improve New Zealand's natural environment.

3

Out of Scope

Executive Summary

- 4 Both MNZ and CAA have been reliant on Crown funding provided via the appropriation *Protection of Transport Sector Agency Core Functions* (the liquidity facility), which is scheduled to expire on 30 June 2024. Beyond that point, the Entities will need further funding, which can either be provided through increased levies on the aviation and maritime sectors, or through further Crown funding.
- 5 In early March 2023, I directed MNZ and the Authority to place preparation for public consultation on their funding reviews on hold. This was primarily to ensure that they had explored all alternate options and considered the cost-of-living implications before recommending levy increases. I have now come to the view that resuming the funding reviews is the best way forward to minimise the financial burden on the Crown and ensure that both Entities can return to cost recovery models and be adequately resourced to fulfil their statutory responsibilities.
- 6 While I am asking the Entities to resume the reviews immediately, I acknowledge that it will be difficult to meet the original timeframe of 1 July 2024. Timeframes are tight, and levy increases for the respective sectors will need to be communicated carefully to mitigate the risk that they are seen as inconsistent with the Government's focus on the cost-of-living. MNZ is confident that it will be able to complete its funding review by 1 July 2024, while the Authority has advised that its funding review would need to extend into 2024/25, with implementation likely to occur on 31 January 2025 at the earliest. Resuming the reviews is supported by Te Manatū Waka, the Treasury, MNZ and the Authority.

- 7 To address the risk that Crown support may be required into 2024/25, Budget 2023 recommendations for MNZ and the Authority sought agreement to provide Letters of Comfort to each Entity for this period. I expect these letters will ease any concerns about the Entities' ability to operate as going concerns beyond 30 June 2024.

Background

- 8 COVID-19 caused a significant reduction in activity levels in the aviation and maritime sectors leading to a sudden drop in revenue for MNZ and the Authority, both of whom had received the bulk of their revenue from levies on operators. In response, Cabinet agreed to establish a Crown liquidity facility to bridge the gap between forecast levy revenue and actual revenue. The liquidity facility enabled the Entities to continue to operate as going concerns. Cabinet also issued a moratorium on border transport agency funding reviews (CVD-20-MIN-0010 refers), which it subsequently lifted in 2021 (DEV-21-MIN-0192 refers).
- 9 The liquidity facility has been extended through Budget 2021, Budget 2022, and Budget 2023, with funding appropriated until 30 June 2024. The size of the liquidity facility for each Entity is based on moderate forecasts of sector recovery; if the aviation and maritime sectors continue to strengthen, the amount they will need to draw down to fund their core functions will reduce.
- 10 Prior to COVID-19, MNZ and the Authority would both typically operate on a three-year funding cycle, alternating 'mid-point' reviews with more fundamental reviews every six years. The most recent funding reviews concluded in 2016 for the Authority's regulatory function, and 2019 for both the Aviation Security Service (AvSec, the Authority's security service function) and MNZ.
- 11 Both Entities have experienced cost increases since the levies were last set, due to inflation, as well as costs associated with additional regulatory activity. In the Authority's case, costs have also been driven by increased security performance requirements such as non-passenger screening and emerging corrective actions derived from the recent ICAO Security Audit of New Zealand. While levy revenues for both Entities are gradually recovering, this revenue is not sufficient to cover costs and both Entities are reliant on Crown funding until their funding reviews are complete.

Both Entities are currently at the pre-consultation phase of their funding reviews

- 12 MNZ and the Authority are currently preparing to consult on proposals to increase levies through their respective funding reviews. The MNZ review is at the stage where consultation could commence as soon as its consultation document is approved.
- 13 The cost-of-living impacts of increased levies largely depend on commercial operators choosing to pass on costs to consumers. For example, higher maritime levies may result in greater freight costs for international shipping. Increases in aviation levies would have a more direct impact on consumers if airlines decided to pass them on in the form of higher airline ticket prices. These impacts need to be balanced against the cost to the Crown of any extension of funding and the risks and direct impact on the travelling public resulting from any functions being underfunded until full cost-recovery is possible.
- 14 Funding reviews require multiple rounds of Cabinet approval (for the proposals being put forward for consultation, the final charges, and the necessary changes to

regulations). The process would typically take at least nine months, however MNZ has noted that it believes it may be able to complete its funding review by 1 July 2024 if resumed immediately. The Authority has indicated that it will not be able to complete its funding review by this time.

Funding certainty is required for both Entities to be able to continue delivering services, meeting legislative requirements and complying with international obligations

- 15 The Entities have advised me that, without a guarantee of ongoing Crown support beyond the depletion of the liquidity facilities, their ability to operate as going concerns will be impacted. The going concern requirement, that Crown Entities should be able to remain in business for the foreseeable future, is part of the statutory requirements of the MNZ and Authority boards to operate in a financially responsible manner under section 51 of the Crown Entities Act.
- 16 Uncertainty about the future viability of the Entities would have significant implications for the New Zealand public. For example, if the Boards of the Entities conclude that they cannot assume they will have enough revenue beyond 30 June 2024 to cover their costs, they would need to reduce funding for their regulatory functions. There is a risk this could have tangible health, safety, and wellbeing implications, including for system users.
- 17 For MNZ, reduced funding could result in a degradation in the quality of vessels in New Zealand waters and a corresponding risk to the safety of workers and seafarers. If MNZ is unable to address (or continue to improve) its performance, it could significantly diminish confidence in the organisation and significantly increase the risk of regulatory failure.

Out of Scope

18

- 19 The funding gap, and the resulting uncertainty about the Entities' ability to operate as going concerns, need to be addressed through increased levies.

Resuming the funding reviews immediately will be the most straightforward way to address the funding gap

- 20 Once I direct the Entities to resume their funding reviews, MNZ, will be able to move forward with its existing processes, documentation, and assumptions. For the Authority, additional work will be needed to refine costs before consultation is able to begin. I have written to the Board outlining my expectations that it reconsiders its proposals to take into account the Government's focus on the cost of living and am awaiting a draft consultation document. Once the Entities can raise levies and close the funding gap, they will be able to return to full cost-recovery.

21 Following consultation, officials would need to analyse public submissions, conduct a Cost Recovery Impact Statement (CRIS) panel, seek agreement from Cabinet on the new charges and consequential amendments to regulations. It is important that this process is undertaken with integrity, allowing for adequate time to properly consider the feedback from industry, iwi, and sector stakeholders.

22 Because MNZ's draft consultation document has already been reviewed by a CRIS panel, it is still on track to complete its funding review by 1 July 2024. I have seen a draft of its consultation document and believe the time pressure of its remaining steps could be mitigated by delegating approval of it to me and the Minister of Finance, rather than resubmitting it for Cabinet approval. This would enable MNZ to progress quickly with consultation, complete it prior to the pre-election period and likely meet the 1 July 2024 deadline. I have attached the current draft of the consultation document as **Appendix 1**.

23

Out of Scope

24

I believe that potential savings of further delays would be outweighed by the cost to the Crown

25 It is my view that the potential savings of exploring further options for reducing costs would not justify the potential cost to the Crown.

26 Over the past few years, both Entities have taken steps to review their efficiency and effectiveness, reduce costs where possible and incorporate any findings in their funding review proposals. In the case of the Authority, it has undertaken seven reviews since 2019. Reviews for both Entities include:

26.1 As part of its 2018/19 funding review, MNZ undertook a fundamental review of its cost models and did a value for money exercise;

Out of Scope

27 This work sits alongside other reviews both Entities have taken into regulatory effectiveness over the last few years, specifically:

Out of Scope

- 27.2 Since 2021, MNZ has been undertaking a review of its regulatory effectiveness with Martin Jenkins acting as an external and independent advisor that has included some cost saving measures.
- 28 I also note that I asked Te Manatū Waka to explore the option of engaging an external party to undertake independent reviews of the Entities' However, I believe that any potential cost-savings resulting from this process would be outweighed by the additional Crown funding that would be required as this would necessitate delaying the resumption of the funding reviews.
- 29 In the past, the Ministers of Transport and Finance have provided Letters of Comfort to each Entity. These letters have acknowledged that the Government may need to provide financial support until the Entities are able to return to financial sustainability through levy increases. Most recently, Letters of Comfort were provided to each Entity on 8 September 2022, covering the 2022/23 and 2023/24 financial years.
- 30 The Budget 2023 recommendations for each Entity's liquidity funding bid include the following recommendation:
- agree that a Letter of Comfort be issued to the Board of [Entity], to be signed by the Minister of Transport, the Associate Minister of Transport and the Minister of Finance, to provide comfort to [Entity] to operate as a going concern for the 2024/25 period.*
- 31 I expect these letters will be sufficient to satisfy the going concern requirement and would also be a way to outline expectations of the Entities. These would include operating in a fiscally responsible manner, identifying opportunities to manage resources more efficiently, and ensuring that the functions of each Entity are aligned with their legislation and the Government's strategic objectives.

Financial Implications

Additional Crown support

- 32 By resuming the funding reviews immediately, the potential liability to the Crown will be minimised as much as practicable. However, I note that further Crown support for the Authority will be required until it completes its funding review. Moreover, although MNZ expects to return to full cost-recovery by 1 July 2024, there is still a risk that further Crown support will be required if there is any slippage in its timeline. This may mean an extension of the liquidity facility in Budget 2024 until the funding review is completed or another form of Crown support, such as a borrowing facility.
- 33 Without adequate support, MNZ and the Authority would need to quickly reduce costs, to meet their obligations under section 51 of the Crown Entities Act which requires them to operate in a financially sustainable manner.

MNZ's Crown Funding

- 34 The increases to levies that MNZ was preparing to consult on were the result of eight proposals: four related to existing functions, two in response to Government commitments and decisions and two related to a new method for calculating Oil Pollution Levies. This included a scaled option that would defer two of its proposals until 1 January 2026 and reduce the cost of a third proposal.
- 35 The proposed uplift in Maritime Levies revenue was an average of \$11.7m each year until 2026/27 (33.1% of current levies) and \$0.8m per year for Oil Pollution Levies

(8.9%). It is likely that a large proportion of these costs would ultimately be passed on to consumers. The MNZ consultation document has been attached as **Appendix 1**.

- 36 Based on the figures compiled by MNZ, if it is unable to return to full cost-recovery by 1 July 2024 and additional Crown support is required, it would likely be between \$10.4m and \$12.6m for the 12 months to July 2025 (i.e., the cost of the proposed levy increase for 2024/25). This is in addition to Crown funding provided to MNZ for other purposes which was \$12.9m for 2022/23, excluding the liquidity facility.
- 37 Although MNZ's funding review is closer to consultation than the Authority's, it has advised me that the way in which the charging of levies works would make the implementation of a new funding model part-way through a funding year highly administratively burdensome for both the regulator and the sector. On that basis, Crown support for only part of a year may be impractical. For this reason, it would be preferable for MNZ to return to full cost-recovery by 1 July 2024 and to take any steps necessary to avoid an additional year of Crown funding.

Out of Scope



Legislative Implications

- 43 There are no legislative implications associated with this Cabinet Paper.

Regulatory Impact Statement

- 44 The Treasury's Regulatory Impact Analysis team determined earlier this year that the proposal to release the MNZ consultation document was exempt from the requirement to provide a Stage 2 CRIS. The exemption was based on advice that the consultation document includes the key features of an interim Stage 2 CRIS.
- 45 The Regulatory Impact Analysis Quality Assurance panel at Te Manatū Waka has reviewed MNZ's analysis supporting the proposals set out in the consultation document and confirmed that the analysis conducted partially meets the Stage 2 CRIS requirements. A full Stage 2 CRIS will be completed at a later date to inform Cabinet's final decisions on this proposal once it returns from consultation.

Climate Implications of Policy Assessment

- 46 No climate implications have been identified.

Population Implications

- 47 The MNZ and the Authority funding reviews have not been actively progressed since March 2023, due to the Government's focus on the high cost-of-living and natural disasters, issues that disproportionately impact Māori, regional communities, children, and disabled people.

Human Rights

- 48 No human rights implications have been identified.

Consultation

- 49 MNZ, the Authority, the Treasury, Customs, Ministry for Primary Industries, Ministry for Business, Innovation and Employment, Ministry for the Environment, Ministry for Foreign Affairs and Trade, Te Puni Kōkiri, New Zealand Police and Worksafe New Zealand have been consulted on this draft Cabinet Paper. Comments have been reflected where appropriate. Respondents generally supported a quick return to cost-recovery for both Entities.
- 50 MNZ has indicated that its preference is to resume the funding review immediately, citing the work it has undertaken to prepare the proposals, stakeholder expectations and the need for sector certainty on any changes to levies. In its view, the work it has undertaken on its efficiency and effectiveness, along with the public consultation period will allow for a sufficient level of scrutiny of its cost models.

51 Out of Scope



- 52 The Treasury supports resuming the funding reviews to limit Crown funding required in Budget 2024 and to enable the Entities to get back to financial sustainability sooner. Any money pre-committed against the Budget 2024 operating allowance will limit future trade-offs across all priority areas (not just Transport). The Treasury also notes that the costs incurred by the Crown resulting from further delays would outweigh any benefits from further reviewing the cost-of-living implications of levy increases.

Communications and Proactive Release

- 53 I intend to release this Cabinet Paper proactively and in accordance with the Official Information Act 1982 within 30 business days of the public consultation process commencing.

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

Recommendations

The Associate Minister of Transport recommends that the Committee:

1. **Notes** that I intend to direct Maritime New Zealand to progress its funding reviews as quickly as practicable, with the objective of implementing changes to levies by 1 July 2024.
2. **Notes** that, based on Maritime New Zealand's current proposals, this would result in an increase of 33.1% to Maritime levies and 8.1% to Oil Pollution levies from 1 July 2024.
3. **Agrees** that the Associate Minister of Transport and Minister of Finance may approve the release of the *Maritime NZ Review of Levies Funding for 2024/25 – 2029/30* consultation document attached as **Appendix 1**, subject to any editorial changes to the draft consultation document to enable consultation to progress as quickly as possible.
4. **Out of Scope**
- 5.
- 6.
7. **Notes** that, as per Budget 2023 recommendations, Letters of Comfort will be issued to the Boards of each Entity, to be signed by the Minister of Transport, the Associate Minister of Transport and the Minister of Finance, to provide comfort that these Entities will be able to operate as going concerns for the 2024/25 period.

Authorised for lodgement

Hon Kiri Allan
Associate Minister of Transport

OFFICIAL INFORMATION ACT 1982
RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

IN CONFIDENCE

In Confidence

Office of the Associate Minister of Transport

Cabinet Economic Development Committee

Supporting the ongoing financial sustainability of Maritime New Zealand and Civil Aviation Authority**Proposal**

- 1 This paper seeks to communicate to Cabinet that I intend to request that Maritime New Zealand (MNZ) and Civil Aviation Authority (the Authority) restart their respective funding reviews immediately.

Relation to Government priorities

- 2 MNZ's funding review includes proposals related to Government commitments and decisions. These include a proposal to fund seafarer welfare services which was signalled as a priority for the Government in 2020. Another priority seeks funding in response to the Government's climate change response and Labour's Manifesto commitment to transition the country to a "clean, green, carbon neutral" position and improve New Zealand's natural environment.

- 3 Out of Scope

Executive Summary

- 4 Both MNZ and CAA have been reliant on Crown funding provided via the appropriation *Protection of Transport Sector Agency Core Functions* (the liquidity facility), which is scheduled to expire on 30 June 2024. Beyond that point, the Entities will need further funding, which can either be provided through increased levies on the aviation and maritime sectors, or through further Crown funding.
- 5 In early March 2023, I directed MNZ and the Authority to place preparation for public consultation on their funding reviews on hold. This was primarily to ensure that they had explored all alternate options and considered the cost-of-living implications before recommending levy increases. I have now come to the view that resuming the funding reviews is the best way forward to minimise the financial burden on the Crown and ensure that both Entities can return to cost recovery models and be adequately resourced to fulfil their statutory responsibilities.
- 6 While I am asking the Entities to resume the reviews immediately, I acknowledge that it will be difficult to meet the original timeframe of 1 July 2024. Timeframes are tight, and levy increases for the respective sectors will need to be communicated carefully to mitigate the risk that they are seen as inconsistent with the Government's focus on the cost-of-living. MNZ is confident that it will be able to complete its funding review by 1 July 2024, while the Authority has advised that its funding review would need to extend into 2024/25, with implementation likely to occur on 31 January 2025 at the earliest. Resuming the reviews is supported by Te Manatū Waka, the Treasury, MNZ and the Authority.

- 7 To address the risk that Crown support may be required into 2024/25, Budget 2023 recommendations for MNZ and the Authority sought agreement to provide Letters of Comfort to each Entity for this period. I expect these letters will ease any concerns about the Entities' ability to operate as going concerns beyond 30 June 2024.

Background

- 8 COVID-19 caused a significant reduction in activity levels in the aviation and maritime sectors leading to a sudden drop in revenue for MNZ and the Authority, both of whom had received the bulk of their revenue from levies on operators. In response, Cabinet agreed to establish a Crown liquidity facility to bridge the gap between forecast levy revenue and actual revenue. The liquidity facility enabled the Entities to continue to operate as going concerns. Cabinet also issued a moratorium on border transport agency funding reviews (CVD-20-MIN-0010 refers), which it subsequently lifted in 2021 (DEV-21-MIN-0192 refers).
- 9 The liquidity facility has been extended through Budget 2021, Budget 2022, and Budget 2023, with funding ~~currently~~ appropriated until 30 June 2024. The size of the liquidity facility for each Entity is based on moderate forecasts of sector recovery; if the aviation and maritime sectors continue to strengthen, the amount they will need to draw down to fund their core functions will reduce.
- 10 Prior to COVID-19, MNZ and the Authority would both typically operate on a three-year funding cycle, alternating 'mid-point' reviews with more fundamental reviews every six years. The most recent funding reviews concluded in 2016 for the Authority's regulatory function, and 2019 for both the Aviation Security Service (AvSec, the Authority's security service function) and MNZ.
- 11 Both Entities have experienced cost increases since the levies were last set, due to inflation, as well as costs associated with additional regulatory activity. In the Authority's case, costs have also been driven by increased security performance requirements such as non-passenger screening and emerging corrective actions derived from the recent ICAO Security Audit of New Zealand. While levy revenues for both Entities are gradually recovering, this revenue is not sufficient to cover costs and both Entities are reliant on Crown funding until their funding reviews are complete.

Both Entities are currently at the pre-consultation phase of their funding reviews

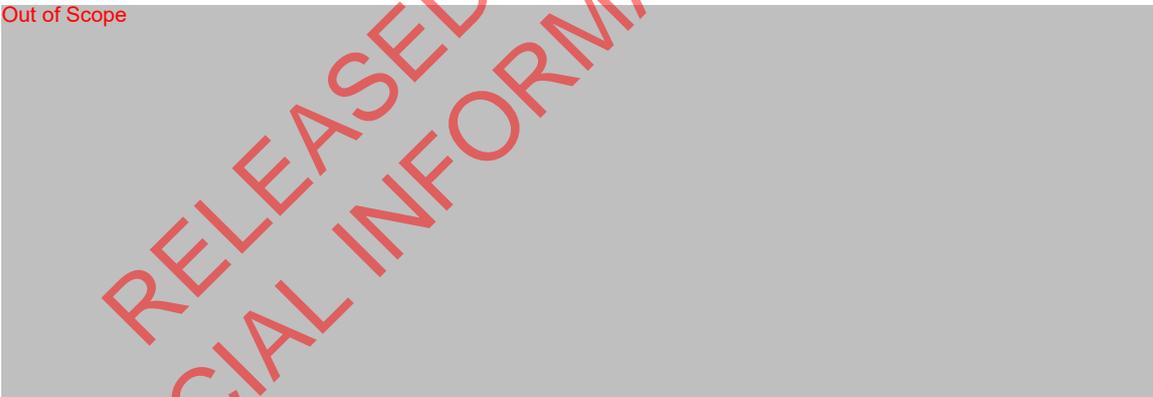
- 12 MNZ and the Authority are currently preparing to consult on proposals to increase levies through their respective funding reviews. The MNZ review is at the stage where consultation could commence as soon as its consultation document is approved.
- 13 The cost-of-living impacts of increased levies largely depend on commercial operators choosing to pass on costs to consumers. For example, higher maritime levies may result in greater freight costs for international shipping. Increases in aviation levies would have a more direct impact on consumers if airlines decided to pass them on in the form of higher airline ticket prices. These impacts need to be balanced against the cost to the Crown of any extension of funding and the risks and direct impact on the travelling public resulting from any functions being underfunded until full cost-recovery is possible.
- 14 Funding reviews require multiple rounds of Cabinet approval (for the proposals being put forward for consultation, the final charges, and the necessary changes to

regulations). The process would typically take at least nine months, however MNZ has noted that it believes it may be able to complete its funding review by 1 July 2024 if resumed immediately. The Authority has indicated that it will not be able to complete its funding review by this time.

Funding certainty is required for both Entities to be able to continue delivering services, meeting legislative requirements and complying with international obligations

- 15 The Entities have advised me that, without a guarantee of ongoing Crown support beyond the depletion of the liquidity facilities, their ability to operate as going concerns will be impacted. The going concern requirement, that Crown Entities should be able to remain in business for the foreseeable future, is part of the statutory requirements of the MNZ and Authority boards to operate in a financially responsible manner under section 51 of the Crown Entities Act.
- 16 Uncertainty about the future viability of the Entities would have significant implications for the New Zealand public. For example, if the Boards of the Entities conclude that they cannot assume they will have enough revenue beyond 30 June 2024 to cover their costs, they would need to reduce funding for their regulatory functions. There is a risk this could have tangible health, safety, and wellbeing implications, including for system users.
- 17 For MNZ, reduced funding could result in a degradation in the quality of vessels in New Zealand waters and a corresponding risk to the safety of workers and seafarers. If MNZ is unable to address (or continue to improve) its performance, it could significantly diminish confidence in the organisation and significantly increase the risk of regulatory failure.

18 Out of Scope



- 19 The funding gap, and the resulting uncertainty about the Entities' ability to operate as going concerns, need to be addressed through increased levies.

Resuming the funding reviews immediately will be the most straightforward way to address the funding gap

- 20 Once I direct the Entities to resume their funding reviews, MNZ, will be able to move forward with its existing processes, documentation, and assumptions. For the Authority, additional work will be needed to refine costs before consultation is able to begin. I have written to the Board outlining my expectations that it reconsiders its proposals to take into account the Government's focus on the cost of living and am awaiting a draft consultation document. Once the Entities can raise levies and close the funding gap, they will be able to return to full cost-recovery.

21 Following consultation, officials would need to analyse public submissions, conduct a Cost Recovery Impact Statement (CRIS) panel, seek agreement from Cabinet on the new charges and consequential amendments to regulations. It is important that this process is undertaken with integrity, allowing for adequate time to properly consider the feedback from industry, iwi, and sector stakeholders.

22 Because MNZ's draft consultation document has already been reviewed by a Cost Recovery Impact Statement CRIS panel, it is still on track to complete its funding review by 1 July 2024. I have seen a draft of its consultation document and believe the time pressure of its remaining steps could be mitigated by delegating approval of it to me and the Minister of Finance and me, rather than resubmitting it for Cabinet approval. This would enable MNZ to progress quickly with consultation, complete it prior to the pre-election period and likely meet the 1 July 2024 deadline. I have attached the current draft of the consultation document as Appendix 1.

23

Out of Scope

24

I believe that potential savings of further delays would be outweighed by the cost to the Crown

25 It is my view that the potential savings of exploring further options for reducing costs would not justify the potential cost to the Crown.

26 Over the past few years, both Entities have taken steps to review their efficiency and effectiveness, reduce costs where possible and incorporate any findings in their funding review proposals. In the case of the Authority, it has undertaken seven reviews since 2019. Reviews for both Entities include:

26.1 As part of its 2018/19 funding review, MNZ undertook a fundamental review of its cost models and did a value for money exercise;

26.2

Out of Scope

26.3

27 This work sits alongside other reviews both Entities have taken into regulatory effectiveness over the last few years, specifically:

27.1 *Out of Scope*

27.2 Since 2021, MNZ has been undertaking a review of its regulatory effectiveness with Martin Jenkins acting as an external and independent advisor that has included some cost saving measures.

28 I also note that I asked Te Manatū Waka to explore the option of engaging an external party to undertake independent reviews of the Entities' However, I believe that any potential cost-savings resulting from this process would be outweighed by the additional Crown funding that would be required as this would necessitate delaying the resumption of the funding reviews.

29 In the past, the Ministers of Transport and Finance have provided Letters of Comfort to each Entity. These letters have acknowledged that the Government may need to provide financial support until the Entities are able to return to financial sustainability through levy increases. Most recently, Letters of Comfort were provided to each Entity on 8 September 2022, covering the 2022/23 and 2023/24 financial years.

30 The Budget 2023 recommendations for each Entity's liquidity funding bid include the following recommendation:

agree that a Letter of Comfort be issued to the Board of [Entity], to be signed by the Minister of Transport, the Associate Minister of Transport and the Minister of Finance, to provide comfort to [Entity] to operate as a going concern for the 2024/25 period.

31 I expect these letters will be sufficient to satisfy the going concern requirement and would also be a way to outline expectations of the Entities. These would include operating in a fiscally responsible manner, identifying opportunities to manage resources more efficiently, and ensuring that the functions of each Entity are aligned with their legislation and the Government's strategic objectives.

Financial Implications

Additional Crown support

32 By resuming the funding reviews immediately, the potential liability to the Crown will be minimised as much as practicable. However, I note that further Crown support for the Authority will be required until it completes its funding review. Moreover, although MNZ expects to return to full cost-recovery by 1 July 2024, there is still a risk that further Crown support will be required if there is any slippage in its timeline. This may mean an extension of the liquidity facility in Budget 2024 until the funding review is completed or another form of Crown support, such as a borrowing facility.

33 Without adequate support, MNZ and the Authority would need to quickly reduce costs, to meet their obligations under section 51 of the Crown Entities Act which requires them to operate in a financially sustainable manner.

MNZ's Crown Funding

34 The increases to levies that MNZ was preparing to consult on were the result of eight proposals: four related to existing functions, two in response to Government

commitments and decisions and two related to a new method for calculating Oil Pollution Levies. This included a scaled option that would defer two of its proposals until 1 January 2026 and reduce the cost of a third proposal.

- 35 The proposed uplift in Maritime Levies revenue was an average of \$11.7m each year until 2026/27 (33.1% of current levies) and \$0.8m per year for Oil Pollution Levies (8.9%). It is likely that a large proportion of these costs would ultimately be passed on to consumers. The MNZ consultation document has been attached as **Appendix 1**.
- 36 Based on the figures compiled by MNZ, if it is unable to return to full cost-recovery by 1 July 2024 and additional Crown support is required, it would likely be between \$10.4m and \$12.6m for the 12 months to July 2025 (i.e., the cost of the proposed levy increase for 2024/25). This is in addition to Crown funding provided to MNZ for other purposes which was \$12.9m for 2022/23, excluding the liquidity facility.
- 37 Although MNZ's funding review is closer to consultation than the Authority's, it has advised me that the way in which the charging of levies works would make the implementation of a new funding model part-way through a funding year highly administratively burdensome for both the regulator and the sector. On that basis, Crown support for only part of a year may be impractical. For this reason, it would be preferable for MNZ to return to full cost-recovery by 1 July 2024 and to take any steps necessary to avoid an additional year of Crown funding.

Out of Scope

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

Out of Scope

Legislative Implications

43 There are no legislative implications associated with this Cabinet Paper.

Regulatory Impact Statement

44 The Treasury's Regulatory Impact Analysis team determined earlier this year that the proposal to release the MNZ consultation document was exempt from the requirement to provide a Stage 2 ~~Cost Recovery Impact Statement (CRIS)~~ CRIS. The exemption was based on advice that the consultation document includes the key features of an interim Stage 2 CRIS.

45 The Regulatory Impact Analysis Quality Assurance panel at Te Manatū Waka has reviewed MNZ's analysis supporting the proposals set out in the consultation document and confirmed that the analysis conducted partially meets the Stage 2 CRIS requirements. A full Stage 2 CRIS will be completed at a later date to inform Cabinet's final decisions on this proposal once it returns from consultation.

Climate Implications of Policy Assessment

46 No climate implications have been identified.

Population Implications

47 The MNZ and the Authority funding reviews have not been actively progressed since March 2023, due to the Government's focus on the high cost-of-living and natural disasters, issues that disproportionately impact Māori, regional communities, children, and disabled people.

Human Rights

48 No human rights implications have been identified.

Consultation

49 MNZ, the Authority, the Treasury, Customs, Ministry for Primary Industries, Ministry for Business, Innovation and Employment, Ministry for the Environment, Ministry for Foreign Affairs and Trade, Te Puni Kōkiri, New Zealand Police and Worksafe New Zealand have been consulted on this draft Cabinet Paper. Comments have been reflected where appropriate. Respondents generally supported a quick return to cost-recovery for both Entities.

50 MNZ has indicated that its preference is to resume the funding review immediately, citing the work it has undertaken to prepare the proposals, stakeholder expectations and the need for sector certainty on any changes to levies. In its view, the work it has undertaken on its efficiency and effectiveness, along with the public consultation period will allow for a sufficient level of scrutiny of its cost models.

51

Out of Scope

- 52 The Treasury supports resuming the funding reviews to limit Crown funding required in Budget 2024 and to enable the Entities to get back to financial sustainability sooner. Any money pre-committed against the Budget 2024 operating allowance will limit future trade-offs across all priority areas (not just Transport). The Treasury also notes that the costs incurred by the Crown resulting from further delays would outweigh any benefits from further reviewing the cost-of-living implications of levy increases.

Communications and Proactive Release

- 53 I intend to release this Cabinet Paper proactively and in accordance with the Official Information Act 1982 within 30 business days of the public consultation process commencing.

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

Recommendations

The Associate Minister of Transport recommends that the Committee:

1. **Notes** that I intend to direct Maritime New Zealand to progress its funding reviews as quickly as practicable, with the objective of implementing changes to levies by 1 July 2024.
2. **Notes** that, based on Maritime New Zealand's current proposals, this would result in an increase of 33.1% to Maritime levies and 8.1% to Oil Pollution levies from 1 July 2024.
3. **Agrees** that the Associate Minister of Transport and Minister of Finance may approve the release of the *Maritime NZ Review of Levies Funding for 2024/25 – 2029/30* consultation document attached as **Appendix 1**, subject to any editorial changes to the draft consultation document to enable consultation to progress as quickly as possible.
4. **Out of Scope**
- 5.
- 6.
7. **Notes** that, as per Budget 2023 recommendations, Letters of Comfort will be issued to the Boards of each Entity, to be signed by the Minister of Transport, the Associate Minister of Transport and the Minister of Finance, to provide comfort that these Entities will be able to operate as going concerns for the 2024/25 period.

Authorised for lodgement

Hon Kiri Allan
Associate Minister of Transport

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

CONSULTATION DOCUMENT

MARITIME NZ REVIEW OF LEVIES
FUNDING FOR 2024/25 – 2029/30

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

FOREWORD FROM THE AUTHORITY CHAIR AND THE DIRECTOR

This consultation document provides an opportunity for all people and organisations that receive the benefits of Maritime NZ's performance and fund the organisation to carry out its regulatory functions, to engage on potential changes to levies.

During COVID-19 in early 2020, we sought, and the Government agreed, to delay the anticipated Funding Review. The Government also over COVID has covered any gaps in Maritime Levies and Oil Pollution Levies revenue associated with decreases in activity through a Crown Multi-year appropriation. That funding has been provided in anticipation of this Funding Review and under expectations that from 1 July 2024, we will be back to full cost recovery.

Kirstie Hewlett, Maritime NZ's new CEO and Director, was welcomed in June 2021 and her first priority was to get a good understanding from industry around how Maritime NZ was performing as a regulator. Kirstie's engagement with a number of you, alongside other work we have undertaken, and an international audit, generated some key insights into what was working well and where improvements needed to be made. We listened, and through a whole of organisation strategy we have been working on the areas we collectively identified as regulatory risks or where regulatory services could be improved.

Over 2022 we developed the regulatory strategy Te Korowai o Kaitiakitanga (the Cloak of Stewardship) to address regulatory risks and improve regulatory services. As part of that work, we went through an organisational re-design to ensure we were operating as efficiently and effectively as we could, alongside looking for efficiencies in other areas, such as sharing property with other Government agencies in our satellite offices to save costs. We used the savings created by the new structure to start addressing issues concerning and affecting the maritime sector, including regulatory licensing delays and backlog, our need to focus more on deterring sub-standard ships on internal voyages arriving at our ports, and being more responsive (quicker and better) when we receive enquiries or notifications.

However, our internal efficiencies by themselves are insufficient to address some regulatory risks, or to deliver the service needed by the sector. There are just eight proposals for your consideration, and of those, the first four are focused on building on what we have done so far, addressing a narrow set of residual regulatory risks and making provision for further functional improvement. We recognise industry pressures and have focussed this Funding Review on critical risks and issues, and the minimum viable proposition to address them. Many of the proposals will not only have safety benefits but should improve smooth economic operation of the maritime sector.

Of the remaining four proposals, there are two that are in response to Government commitments and decisions. The first is a priority commitment made in 2020 to fund the provision of seafarer welfare services, and in 2021 a decision by Parliament that the commercial maritime sector should fund those services through Maritime Levies.

The second was implementation of a Government decision to sign up to what is known as MARPOL Annex VI – an international convention, now part of New Zealand legislation (Maritime Rules), containing a series of new requirements for the management of air pollution from ships. Maritime NZ is the administrator of the regime and there is an expectation from government that from 1 July 2024, the cost of that administration will be recovered through fees and Maritime Levies.

The last two proposals go respectively to a new method for calculating Oil Pollution Levies liability and to raising Oil Pollution Levies revenue to the level needed to deliver the New Zealand Marine Oil Spill Readiness and Response Strategy. That Strategy is very important to our preparedness for a major oil spill and being able to respond to it in a way that minimises the various harms such events can cause.

As this is a mid-point Funding Review, we have not looked at fees, or the hourly rate on which they are based. A full review of fees will be conducted at the next full Funding Review. This means (until at least the completion of the next Funding Review) the maritime sector is guaranteed of no fees increases.

We have been careful to keep this document to the minimum necessary to explain the proposals in full context and set out the implications of them. This may be sufficient for you to form a view, but if you want more information, there is a link at page 4 to a supporting document.

We encourage you to be part of this consultation process and look forward to receiving and considering your feedback.

CONTENTS

Foreword from the Authority Chair and the Director.....	2
Process for consultation and making submission.....	4
How to make a submission	4
PART 1	5
The purpose of this review.....	5
Overview and context	6
What we are trying to achieve	7
What we have done to date.....	9
Case study 1: Investment in our Certification capacity.....	10
Case study 2: Creating a new Maritime Inspections team.....	10
Case study 3: Establishing a centralised Notifications and Enquiries team	11
What more we need to do to deliver our regulatory strategy and address regulatory risks.....	11
What else we are required to attend to.....	11
PART 2	12
The proposals.....	12
Supporting the delivery of our Regulatory Strategy and managing regulatory risks.....	12
Proposal 1: Maintaining and enhancing regulatory operations capacity (Maritime Levies)	12
Proposal 2: Supporting the achievement of safety and marine protection outcomes at reduced cost (Maritime Levies).....	13
Proposal 3: Improving our performance in responding to notifications and regulatory licensing (Maritime Levies)	14
Proposal 4: Establishing a third party oversight capacity (Maritime Levies)	14
Recovering the cost of commitments made by government.....	15
Proposal 5: Sustaining funding for MARPOL Annex VI administration (Maritime Levies)	15
Proposal 6: Seafarer Welfare Services Funding (Maritime Levies)	16
Revising the Oil Pollution Levies allocation methodology and maintaining Marine Oil Spill Readiness and Response Capability.....	17
Proposal 7: Changing the Oil Pollution Levies allocation methodology	17
Proposal 8: Maintaining Marine Oil Spill Readiness and Response Capability (Oil Pollution Levies)	18
Financial and other implications	19
Sector impact scenarios	20
PART 3	21
Maritime NZ's intentions to seek additional Crown funding	21
Efficiency improvement initiatives.....	21

PROCESS FOR CONSULTATION AND MAKING SUBMISSION

HOW TO MAKE A SUBMISSION

This consultation document invites feedback on a set of proposals that if adopted would variously require additional Maritime Levies and Oil Pollution Levies funding; and that change the way liability for Oil Pollution Levies is calculated.

You can give us feedback on the proposals in this document by:

- e-mail to fundingreview@maritimenz.govt.nz
- ordinary post to, Funding Review, Maritime NZ PO Box 25620, Wellington 6146
- fax to (04) 494 8901
- filling the online form at www.maritimenz.govt.nz/funding

If you want clarification on any of the proposals, for the purpose of making a submission, please feel free to send your questions through to us by email at the address above.

We have sought to find the right balance between keeping the document to an approachable length and providing sufficient detail for readers to have a clear understanding of the basis for the proposals, their benefits and their implications. There is however further detail and contextual information and it is available on our website www.maritimenz.govt.nz/funding.

The deadline for making a submissions is **14 July 2023**.

We appreciate that making a submission takes time and doing so within a specific deadline on top of other commitments requires particular effort. In fairness to those who make that effort we will not be accepting or taking account of submissions received after the deadline.

Please note that it is our intention to prepare and publish a summary of submissions. This is for the purposes of transparency and assurance that all submissions have been considered. Submissions themselves will not be published but a list of submitters is intended for inclusion in the summary document. If there is any element of your submission that you do not want to be in the public domain please signal that when you make your submission.

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

THE PURPOSE OF THIS REVIEW

For regulatory agencies such as Maritime NZ Funding Reviews are about ensuring that sufficient funding is sustained across different sources to deliver core regulatory functions and do so in a way that reflects the regulatory strategy. For Maritime Levies this is a mid-point Funding Review and is focused on ensuring we can deliver regulatory functions effectively and minimise risks, and attend to new government driven funding-relating matters that have arisen since the last full Funding Review in 2018/19. Due to COVID impact and recovery related decisions taken by government to freeze public sector Funding Reviews in 2020 and 2021 in order to minimise fiscal pressures on levy payers, this review is occurring two years 'out of cycle'. It is also occurring in the context of the Crown having provided additional funding to Maritime NZ to support the organisation through COVID on the basis that from 1 July 2024 the purposes for which the funding has been provided will be recovered through Maritime Levies. For Oil Pollution Levies (OPL) this is a delayed full term Funding Review but we have made it part of this mid-point review to support an aligned and full view of both our levies funding sources. The OPL review focus is on ensuring levies rates are set at the right level to sustain the required revenue to deliver in full the New Zealand Marine Oil Spill Readiness and Response Strategy. A review of how Oil Pollution Levies are calculated (the methodology) has also been carried out and the outcome is reflected in this document.

The eight proposals set out in this document, if agreed by government consequent to this consultation, would be effective from 1 July 2024 and remain in effect up until July 2030 (pending changes or adjustments resulting from a full Funding Review in three years from now).

Our regulatory strategy, Te Korowai o Kaitiakitanga (the Cloak of Stewardship) sets out how we will deliver and perform our regulatory functions. It reflects what industry has told us about how we are performing and where we need to do better; it addresses regulatory risks; it sets out a way of working that is inclusive, engaged, communicative, professional, consistent, and responsive. That approach and the sector benefits it strives for, are the key drivers for the first four proposals set out in this document.

In 2020 the Government signalled the funding of seafarer welfare services as a clear priority. A change was made to the Maritime Transport Act to enable such funding to be generated through Maritime Levies and there is an expectation that this Funding Review is the process through which bridging finance provided by the Crown will be replaced, from July 2024, with funding through levies. We have therefore examined, and made a proposal in relation to the quantum of funding to be raised for this purpose and how we intend it to be managed and distributed for optimal value and efficiency.

Since the last Funding Review in 2018/19 Maritime NZ also has been given responsibility for the administration of a wide ranging set of new requirements under MARPOL Annex VI relating to the prevention of air pollution from ships. Government has committed to fund those administrative costs on an interim basis, but from July 2024 there is an expectation that the same will be recovered through a combination of fees (for certification related activity) and Maritime Levies. As part of this Funding Review we have therefore examined the ongoing cost of that administration and have made a proposal in relation to it for additional Maritime Levies funding.

This review has also looked at how to fully fund the delivery of New Zealand's Marine Oil Spill Readiness and Response Strategy (the Strategy), as endorsed by the Oil Pollution Advisory Committee (OPAC), which represents the views and interests of all Oil Pollution Levies paying sectors and key stakeholders. There have been very significant changes in the operating environment (closure of the refinery at Marsden Point, alterations to the types of oil imported and vessel activity levels and sailing patterns) and the time expiry of one element of the current OPL; together these have impacted the level of Oil Pollution Levies revenue that can be generated under the current methodology. This affects our ability to fully implement the Strategy. We have used this review as the opportunity to address the impacts of the significant changes and to propose a refreshed and revised levies calculation method, and applying that method, we have calculated and proposed new Oil Pollution Levies rates.

Maritime NZ's costs are partly recovered through fees. Specific fees and the hourly rate on which all fees are based were reviewed in the last full Funding Review in 2018/19 and set in regulations effective 1 July 2019. This being a mid-point review we have not looked again at specific fees or the hourly rate but will do so in the new full Funding Review in three years.

In order to be given effect all but one of the proposals in this document would require the recovery of additional costs through Maritime or Oil Pollution Levies. We make no assumptions as to what will be recommended or agreed following this consultation process, but it is important that in making the proposals we are explicit as to what the additional funding would be used for, the impact of increased levies on those who are liable, the authority we have to propose raising additional levies to effect the proposals and how cost recovery aligns with relevant guidelines and principles. This detail is set out in the attached document [Initial Cost Recovery Impact Information](#).

OVERVIEW AND CONTEXT

Funding Reviews occur on a cyclical basis and are a transparent mechanism to set out proposals for alignment of revenue from levies and fees with particularised costs. Ordinarily, and as was the case with the last full Funding Review in 2018/19, that alignment can be achieved only through increased levies revenue and relatedly, an increase in levies rates. That is again the case in this review where seven of the eight proposals have a levies increase implication. If levies increases are recommended to, and agreed by Cabinet consequential to this consultation, they would not take effect until 1 July 2024.

Section 51 of the Crown Entities Act (2004) requires Maritime NZ to operate in a financially responsible manner and to endeavour to ensure its long-term financial viability and operate as a successful going concern. Accordingly Maritime NZ holds reserves to support this. Levels of cash reserves are reported annually and as at 30 June 2022 were circa \$16.3m (MNZ \$10.5m and \$5.8m for Oil Pollution Fund). This Funding Review does not propose to increase the current reserves position through an increase in levies rates. The next full Funding Review would be the mechanism to 'correct' a significant over or under recovery of levies revenue.

Maritime NZ uses reserves to:

- Withstand short-term economic shocks and manage unforeseen border or port closures or industry changes which have significant impact on revenue streams
- Manage short term imbalances in revenue or expenditure flows
- Fund any significant litigation events that may occur
- In the case of response activities fund continued operations during long duration or complex search and rescue events, fund the necessary initial response costs of a Tier 3 spill or other maritime incident response.

Maritime NZ intends to review its cash reserves policy and that it will be published (or otherwise made available to interested parties) prior to the commencement of the next Funding Review.

The proposed uplift in Maritime Levies revenue is an average of \$11.7m each year for 2024/25 – 2026/27 which represents an increase in Maritime Levies rates of 33.1%. Of that potential increase, approx. 28% would be to cover the cost of commitments made by Government, approx. 42% to address regulatory risk issues and the balance of 29% to cover cost pressures.

The last proposal has the potential implication of an annual average of \$0.8m or 8.8% increase in Oil Pollution Levies revenue and rates (over the period 2024/25 – 2026/27). While for both levies types a significant proportion of the overall liability rests with foreign vessels and their activity in New Zealand waters (so their increase would be proportionately more), that does not detract from the fact that domestic operators could see an increase in levies payable.

The cost element is a reasonable focus for levies payers but we ask that attention is also paid to the benefits, some of which will, over time, offset the cost at an industry wide or individual level. In setting out the proposals we have been clear about potential costs and given a fair appraisal of benefits. In the event the proposals are adopted, as part of the next full Funding Review we are committed to reporting back on how they were effected and evidence of benefits.

Consequential to the 2018/19 Funding Review additional Maritime Levies revenue was generated to cover the cost of a set of specified activities. Consistent with a looking forward and reporting back approach we have set out below how that additional funding was applied and the benefits derived.

International engagement (\$1 million per annum from 2020/21): We have established a new International Engagement and Coordination team. This has brought a more strategic and proactive focus to our influencing strategy and participation in international maritime fora that are critical to New Zealand's shipping interests. As a consequence we have been able to participate in and have influence over a wider range of IMO initiatives, including ongoing work on international maritime

emissions, a variety of key safety issues, the international Maritime COVID response, seafarer welfare issues and other key issues for New Zealand.

Regulatory reform projects development and implementation (on average, \$1.2 million per annum from 2019/20): This funding has helped to ensure that our approach to implementing rules is fit for purpose and workable for operators; and that operators impacted by new or revised rules are supported with clear and updated guidance on what to do. We have also established a process to more consistently identify and prioritise regulatory reform activities to update our ageing ruleset; and have made a start in addressing some of the biggest priorities for reform through our 40 series project, which has focused on ship design, construction and equipment rules. We also established teams that are focused on the more effective end to end implementation of new rules, including a guidance team and a service design team. Together this enabled us to make progress on some of the problems in our rules that impact on operators as well as safety and environmental outcomes (to date this has included work on the 40 series, the development of rules to implement MARPOL, reform of navigational safety rules, pilot boarding arrangements and preparation for the implementation of the Cape Town Agreement. Areas of future focus are likely to include seafarer certification rules and MOSS).

Surveyor standards of performance (\$0.57 million per year for three years): The resourcing for updating the 2014 surveyor standards of performance has been integrated with the 40 series reform project, which is addressing ship design, construction and equipment rules. This ensures that the development of revised performance standards are part of and reflect a wider package of joined up and coherent rules. Work on the surveyor performance standards is well advanced.

Systemic Risk Activities (on average, \$2.68 million per year from 2019/20): Through the addition of a number of key technical, environmental and engagement roles we have increased our capacity to identify and attend to systemic risks *within* the recreational and commercial maritime sectors. It has also enabled us to strengthen our analytics, risk and intelligence function. This has allowed greater focus on outcomes-based interventions such as industry outreach activities, engagement/relationships, education, guidance and campaigns. During the COVID-19 pandemic this enabled Maritime NZ to play a vital role acting as the key interface between the maritime industry and government. This ensured that domestic operators and international shipping kept operating moving goods and people, while strengthening our partnerships along the way.

ICT systems and integration (on average, \$1.94 million per year from 2019/20): We have invested in our underlying technology and systems including growing capability and capacity with a strong focus on refreshing our digital infrastructure, applications and security. We have continued to integrate systems, move data from old to new platforms, and develop new functional capability. We have also made improvements to our regulatory management information systems which support core regulatory functions and compliance activities (e.g. exemptions, Safe Operating Plans, vessel data and seafarer certification). As a result an increasing number of manual regulatory processes are now undertaken digitally. Going forward this money will also assist us to develop technology to ensure there is a better front portal into Maritime NZ and better mobile notification technology.

Port and Harbour Marine Safety Code (on average, \$0.33 million per year from 2019/20): Through this funding Maritime NZ's input to, and support of, the Port and Harbour Marine Safety Code has been increased in the areas of technical, policy, guidance, education, data and research, communication, administration and strategy development. We participate in five safety management system peer reviews each year, and have led the development and review of various guidelines issued under the Code. This has included Key Principles for Marine Safety Risk Management; Aids to Navigation; and Good practice guidelines for hydrographic surveys in New Zealand ports and harbours.

Around \$2 million per annum additional Maritime Levies revenue was also agreed in the last Funding Review to cover cost pressures associated with Maritime NZ's administration of the Ballast Water Management Convention regulatory requirements, the provision of aids to navigation, maritime distress and safety communications, and general business cost pressures.

WHAT WE ARE TRYING TO ACHIEVE

Maritime NZ is a steward or guardian of the maritime domain. Our stewardship role is mandated under the Maritime Transport, Ship Registration, and Maritime Security Acts, across which our functions and powers are all about ensuring the offshore, coastal and inland waters of Aotearoa are safe, secure and clean. We are also designated under the Health and Safety at Work Act in relation to maritime activities and have stewardship responsibilities under the Public Service Act 2020

and the Crown Entities Act in terms of our capability as regulators, our systems and processes, retaining our institutional knowledge, and maintaining the legislation we administer.

All of these matters have fed in to and are reflected in our regulatory strategy Te Korowai o Kaitiakitanga which sets out our pathway to becoming an increasingly effective regulator. This means strong regulatory stewardship and being better able to support outcomes for the maritime sector (recreational and commercial), for the New Zealand public (because we are a Public Service entity), and for New Zealand (because having safe, secure and clean waters generates a range of social, cultural, economic and reputational benefits).

In 2021 Maritime NZ undertook a robust examination of how well we are delivering our various regulatory functions. This included internal workshops; conversations with industry organisations; looking at how other regulators perform 'like' functions; and reflection on how close we are to 'what good looks like' (as informed by what industry had told us, and by current thinking on good regulatory practice). That examination gave clear signals of gaps in our capability, capacity, systems, processes and culture; important insights into how these are affecting our performance and continued maturation as a regulator, and in some cases creating or contributing to risk. In 2022, an independent audit was undertaken of the extent to which New Zealand complies with its obligations under the various International Maritime Organisation (IMO) Conventions to which it is a Party, and the findings reinforced our earlier assessment, particularly in relation to our oversight of those we authorise to perform regulatory functions and some of our Port State Control work. Key areas highlighted were:

- Our investment in Flag and Port State Control inspections (and the quantum of activity it makes room for) has not in recent years been at a level sufficient to best manage the risks associated with sub-standard shipping. Over COVID the quality of vessels has declined as ships have been in demand and there has been less time for maintenance, COVID has also impacted on the ability on countries to undertake inspections. These issues have been raised by industry, the Port Health and Safety Leadership Group and other stakeholders as a growing concern. A 2022 IMO audit confirmed there were a number of matters in this area that need addressing. Concerns with safety of vessels seem justified with large numbers of deficiencies being found when inspections have occurred and that need to be rectified.
- We recognise that licensing application timeframes affect livelihoods, business continuity and employment, and that the quality of our internal systems for the processing of applications can affect licencing costs. Certificates or licences are a common requirement across the commercial maritime sector and an efficient and reliable licencing function is essential for the thousands of operators and seafarers requiring licencing services. Our Regulatory Licensing (Certification) team has for some time faced issues driven by a combination of increasing workloads, practice, process and workforce capacity and capability issues. This has resulted in backlogs and significant impacts on seafarers and operators. These issues have to be attended to in an enduring way.
- There are over 50 statutory notification requirements; they all ultimately serve a maritime safety or marine protection purpose and notifiers need to be confident that we are attending to notifications as necessary (this is particularly the case for notifications of incidents and accidents). Our systems for receiving and responding to enquiries are also important to being, and being seen to be, a supportive, assisting, professional and responsive regulator. Feedback has indicated that our arrangements and processes for receiving, triaging and responding to notifications and enquiries are in a number of areas compromising the timeliness, quality, consistency, and at times, the appropriateness of our responses; are making it harder for people to get easy access to information they need to comply with requirements, and are not enabling good sharing of insights on where and why harm is occurring.
- Through our work on Te Korowai, our engagement with stakeholders and discussions among staff we have identified (confirmed by a recent IMSAS audit) the need to take a more systematic and deliberate approach to third party oversight. There are 250 individuals and entities (third parties) who carry out regulatory activity in the maritime sector under a delegation, recognition or approval issued by the Director. In granting these permissions Maritime NZ is ultimately responsible for ensuring third parties are performing that activity to the standard necessary to support safety and marine protection outcomes and in a way that creates and maintains the confidence and trust of maritime operators. It is also important that operators can have confidence in the third parties performing roles in the system.

- Good regulatory practice is the right balance (based on information, intelligence, and data) of reactive and pro-active activity and about not relying only on regulatory requirements (and enforcement of the same) to achieve outcomes sought. In light of this, while recognising that compliance activity remains a valid part of our regulatory approach, we need to invest more in harm prevention, and pro-active activity to reduce risk and support the achievement of safe and clean outcomes for the commercial and recreational maritime sectors.
- Our front-line staff are the 'face' of Maritime NZ and the nature and quality of their work directly affects every maritime operator, seafarer, recreational boater or other person / entity that they interact with. With a specific quantum of staff available for work 'in the field' (audits, inspections, the delivery of harm prevention initiatives or compliance campaigns) it is critical that the regulatory effort is well planned and prioritised. We have identified that we do not have the mix of practice policy, practice tools and guidance needed to support best practice among our front-line staff and that our capacity to plan for and prioritise regulatory operations is less than what is required to do it consistently well. A lack of clearly explained and shared practice also makes it harder for sector participants to transparently understand why and how we approach our work, and how to hold us to account for how we operate.
- Every person who works or plays on our waters is variously subject to requirements under maritime rules and marine protection rules. The purpose of those rules is to support safe, clean and secure outcomes, but this is made harder to achieve when rules are outdated, no longer 'fit for purpose' or create unnecessary or disproportionate cost and effort. Unfit rules can also drive the need for exemptions and the process for obtaining these involves cost and effort for the maritime sector. This is an enduring issue and speeding up our rules reform programme is key to addressing it.

We looked closely at the basis for these issues and found them to be grounded in a combination of how we are internally organised; in the nature and quantum of resources we have available across several functional areas; some deficiencies in our regulatory processes; the absence of an operational policy and practice framework; information and intelligence limitations indicating the need for further investment in technology, and our organisational culture. In the round, all of these are affecting the calibre of our regulatory delivery in specific areas and some are having a material impact on the maritime sector.

WHAT WE HAVE DONE TO DATE

Having recognised that there needed to be changes across numerous elements of our organisation – how our staff and their effort is distributed, and the capability and capacity held in respect to particular functions, we went about making some necessary changes. This involved a combination of internal re-alignment of teams or functions, the disestablishment of some roles and the creation of new roles where necessary. The changes we made are as follows:

- We've invested more resources in our Certification (now called Regulatory Licensing) team to reduce application processing timeframes and improve our licencing performance more generally (see Case Study 1 below).
- We have created a separate Maritime Inspections team with a specific focus on port and flag State control so we can better oversight the standard of ships, shipping, and crew safety (See Case Study 2 below).
- We are putting in place the staff, processes and arrangements for the establishment of a small centralised Notifications and Enquiries team to improve our response processes and timeframes. (See Case Study 3 below).
- We have established a new Harm Prevention and Engagement team to support a strategic and pro-active approach to addressing the causes of harms in different parts of the maritime domain and to provide leadership on engagement practices and processes.
- We've improved our arrangements for big regulatory reform projects by converting a temporary and project specific team into a permanent Regulatory Reform Projects team. This is both an efficiency measure and an investment in building and maintaining our capacity to deliver significant regulatory reforms.

- We've enhanced our back end support capacity for front line staff, including more operational policy capacity and increased capacity to monitor their performance and plan their work. This means interactions with our front line staff are at a frequency appropriate to risk and of a nature that represents best value for the maritime sector.

Here are some case studies of changes we have made or are in the process of making.

CASE STUDY 1: INVESTMENT IN OUR CERTIFICATION CAPACITY

After a sustained period of increasing work volumes without any significant increase in resourcing, the Certification team (now Regulatory Licensing) was under immense pressure. There was a growing backlog of work with application process times well over the performance expectation of 20 working days and a significant backlog of unprinted certificates. Some of the issues causing the back-log were due to the temporary and fixed term nature of people working in the team, the capabilities hired, staff training and work flow and administrative processes. Some of the issues were exacerbated by COVID; in particular we lost many of the fixed term staff who had been relied on. Front end administration processes were failing to keep pace with the volume of work and this was affecting the end to end tracking of applications. All of the above were causing major concerns with the maritime industry and the number of justified complaints received was high.

The injection of additional resources enabled a restructure and stabilisation of the team. The printing backlog was eliminated in November 2022 and the average time taken to process applications reduced last year from 32 to 18 working days. A separate front end Workflow & Administration team was established with application and document management being significantly improved. Permanent staff have replaced those employed on a temporary basis and staff turnover has greatly reduced. Stakeholder complaints have also reduced significantly and we have received positive feedback on the material improvement in our regulatory licensing services.

CASE STUDY 2: CREATING A NEW MARITIME INSPECTIONS TEAM

New Zealand (through Maritime NZ) is a member of what is known as the Tokyo MOU. This is an organisation established in 1993 to set up an effective port State control inspections regime in the Asia-Pacific region. The purpose of the inspections is to eliminate substandard shipping and in doing so promote maritime safety, protect the marine environment and safeguard working and living conditions on ships. Being a member obliges New Zealand (Maritime NZ) to be part of a harmonised system of inspections of foreign flagged vessels entering our ports and our largest domestic vessels that operate outside our coastal limits. There is also a small number of New Zealand's largest ships that are covered by the International Convention for the Safety of Life at Sea (SOLAS) and as signatory to that convention there is an obligation on New Zealand (through Maritime NZ) to ensure those ships are being operated according to the required safety management system.

The introduction of the domestic Maritime Operator Safety System (MOSS) in 2014, covering over 1800 operators and 3500 vessels, brought all of the audit and compliance monitoring of those operations in house and this has continued to be a significant draw on our Maritime Officer resource. The level of resources available for port State control (PSC) and flag State control (FSC) inspections has also continued to be affected by those required for MOSS-related activity and for want of more resources we have not been able to 're-set' the level of PSC/FSC activity to the pre-2014 level. This has a potential impact on the standard of shipping in our waters and the Asia-Pacific region, and has been raised by industry as a growing concern.

In the second half of 2022, we therefore made a decision to create a dedicated PSC/FSC team made up of Inspectors with PSC/FSC expertise who are based at key shipping ports throughout New Zealand. To ensure the Inspectors can focus on inspections, a role was also created to conduct the risk profiling of visiting ships and the scheduling of inspections. Given their work is entirely port based there is efficiency in the Inspectors also being assigned harm prevention functions at ports. For efficiency gains the Inspections team will also lead on HSWA activity at ports (noting that that activity is not funded through Maritime Levies).

We are at the early stage of putting in place the new team, with a focus on priority inspections, the training of new staff, and the processes, operational policies and practice tools needed for optimal effectiveness and efficiency. Already, our renewed focus on PSC and FSC activity has shown that there are a number of ships with deficiencies coming to New Zealand and some that need to be detained which is re-enforcing the importance of the work.

CASE STUDY 3: ESTABLISHING A CENTRALISED NOTIFICATIONS AND ENQUIRIES TEAM

Maritime NZ receives over 5000 notifications and general enquiries each year and the timeliness and quality of our responses to the same is a reflection and measure of our efficiency and responsiveness as a regulatory agency. As part of a function by function examination of where we are now and 'what good looks like' we closely examined our arrangements for receiving, and processes for responding to, incoming notifications and enquiries.

We found that while for some types (for example oil spill notifications or enquiries about ship registration requirements) we have reliable and effective end to end systems that are meeting the reasonable expectations of us, for others, most critically, notifications of incidents and accidents, our arrangements were leading to variability in the timeliness and quality of our responses. Those arrangements included multiple points of entry, unclear lines of accountability and responsibility, and the absence of documented end to end processes. We also found that people were not always notifying when they should. In relation to answering of enquiries these are devolved across our frontline staff which takes them away from proactive work and we have no centralised way of knowing what our enquiries look like and what additional guidance and support we may need to provide to the sector to address them in a more efficient way.

To address the issues and improve our performance in an enduring way, we made the decision in the last third quarter of 2022 that we need to establish a small centralised team with the dedicated function of receiving, triaging, and processing incoming enquiries and notifications. In association, we are developing and embedding end to end processes for different notification and enquiry types. We are looking to put the new team in place through 2023 and will require funding to implement practice and process changes well.

WHAT MORE WE NEED TO DO TO DELIVER OUR REGULATORY STRATEGY AND ADDRESS REGULATORY RISKS

Some of the changes detailed above were made possible through efficiencies achieved through an organisational redesign. The redesign, which was fully effected over 2022, was focussed on altering the quantum, arrangement and distribution of staff to the extent reasonably necessary to effectively and efficiently address the functional delivery issues already identified. The redesign involved removing a management layer, staff re-deployment, and the disestablishment of some roles. We also undertook work to make greater efficiencies as outlined later in this document.

We received additional Working Safer Levies funding through a 2022 Budget Bid and this enabled us to pay for additional resources for HSWA related activity. This includes an element of our new harm prevention and engagement team, some additional regulatory practice resources, and additional investigations capacity. It also helped address inflationary pressures associated with our health and safety related regulatory function.

While we have made good progress in attending to specific gaps or deficits in the delivery of our functions, under our current funding levels (specifically, Maritime Levies) we cannot maintain and give full effect to some of the changes already made, and we cannot address some enduring regulatory risks at the causative rather than symptomatic level.

As some matters cannot be maintained or addressed within our current level of Maritime Levies funding we have developed four proposals for additional funding.

WHAT ELSE WE ARE REQUIRED TO ATTEND TO

There is a small group of other matters that we have been required to cover in this review. These derive from government commitments and decisions made since the last full Funding Review; and issues arising from the method we apply to the setting of OPL rates and (relatedly) our ability to give effect to the New Zealand Marine Oil Spill Readiness and Response Strategy. Additional proposals are grouped under these categories and are set out in Part 2 below.

PART 2

THE PROPOSALS

The proposals set out below, and the amount of additional levies revenue that we have estimated will be required to give effect to them, reflect the minimum viable capacity / revenue uplift needed to achieve or to maintain the improvements we need to make. For three of the proposals, the additional Maritime or Oil Pollution Levies revenue proposed aligns with what the Crown has to date provided either as liquidity funding or as part of the Budget bid process.

Recognising that levies payers (in particular domestic payers) are facing other cost increases, Maritime NZ has prepared a scaled down option for three of the proposals. Within the relevant proposals the scaled down option is signalled. The scaling down is necessarily limited to only some elements of the overall package for these reasons:

While the proposals reflect those matters that Maritime NZ must attend to, and as soon as possible, the first proposal goes to a matter for which there are current and significant issues. Having the minimum viable funding uplift to address substandard shipping through increased port State and flag State control capacity, and having that uplift as soon as possible (that is, from 1 July 2024) is critical to reducing or removing a manifest risk. For that reason, the proposal cannot be a candidate for scaling down.

Because of the additional costs it creates or the investment it can have the effect of wasting, a reduction or deferral of new funding sought is only an option where no previous investment has been made or where investment already made would not be impacted. There are only three proposals where a scaling down would not cause collateral impact. The proposals, the scaled option, and the impact of the scaling, are set out in the table below:

Scaled option package:	Impact on non-scaled rates over three years from 2024/25
Defer until 1 January 2026 Proposal 2: supporting the achievement of safety and marine protection outcomes at reduced cost.	-1.4% per year
Defer until 1 January 2026 Proposal 4: establishing a third party oversight capacity	-1.1% per year
Reduce by \$0.5m per annum Proposal 6: Seafarer Welfare Services funding	-1.4% per year

Maritime NZ is not unsympathetic to levies payers but considers that the relatively minor financial impact of the scaled option (for all but those with the highest levies liability) is significantly outweighed by the nature and potential scale of risks it leaves unattended. Within each relevant proposal we have set out that risk.

SUPPORTING THE DELIVERY OF OUR REGULATORY STRATEGY AND MANAGING REGULATORY RISKS

PROPOSAL 1: MAINTAINING AND ENHANCING REGULATORY OPERATIONS CAPACITY (MARITIME LEVIES)

As outlined in what we are trying to achieve (page 7) and in the case study above (page 10), we have built the foundations of a Maritime Inspections team, however we will need Maritime Levies funding to ensure the team has sufficient capacity to:

- be able to inspect all priority high risk ships leading to better safety, environmental and maritime labour outcomes
- inspect other vessels that our data and intelligence indicates are high risk (numbers would depend on how many vessels our intelligence signals are high risk)
- ensure we have the presence to act as a deterrent to sub-standard ships coming to New Zealand ports and harbours, this includes undertaking a specified number or percentage of random inspections each year
- meet our Tokyo MOU obligations
- build better holistic understanding and relationships with our flag State operators to deliver safety outcomes; and

- address some of the IMSAS audit recommendations in this area and have the effect of improved audit results in future.

Without a sustainable funding source the relevant positions will need to be funded through drawing resources away from another regulatory function which is simply moving the regulatory risks to another area.

The proposal is to raise Maritime Levies revenue by \$1.9m per annum from 1 July 2024 to fund the maintenance and expansion of the Maritime Inspections team.

PROPOSAL 2: SUPPORTING THE ACHIEVEMENT OF SAFETY AND MARINE PROTECTION OUTCOMES AT REDUCED COST (MARITIME LEVIES)

The only purpose of maritime and marine protection rules is to support safety and marine protection outcomes. There are thousands of Maritime and Marine Protection Rules and sub-rules and these variously apply to the construction, crewing, operation, and navigation of every domestic commercial vessel and recreational craft.

Where rules are specifically out of date (for instance, they require a piece of equipment no longer in production or that has been superseded) or are generally out of keeping with changes in industry practice or are more prescriptive than necessary, they do not serve their purpose and they create unnecessary cost for industry. That cost comes in the form of exemption application fees, an inability to innovate, and where exemptions from certain requirements are prohibited under rules, a compulsion to meet those requirements irrespective of their fitness.

We have made significant progress since our last Funding Review in establishing an annual regulatory reform programme that attends to priority rules amendments, and the creation of new rules where required. We are also in the process of reforming the 40 series (ship design, construction and equipment rules), which a big driver of exemption applications. But there remains a significant back log of outdated rules that do not support the achievement of safety and marine protection outcomes. Through sequencing and prioritisation we can gradually work through the full set of rules, but based on our current rules drafting, policy and technical capacity our progress will be unduly slow; and the level of misalignment with international norms and modern standards could grow.

Increased rules policy and drafting capacity and a dedicated technical rules resource will speed up the end to end process for rules amendments and support good standards in the development and drafting of technical rules. Further, dedicated technical capability within our regulatory policy team is more efficient than the current arrangement where requests for technical advice and support for rules development compete with other demands on our technical resources. Faster progress in regulatory reform, as will be supported by the proposed resources, will, over time, reduce costs and unnecessary compliance burden within the maritime community. We anticipate that the additional resources proposed will enable an expansion to the scale of our annual regulatory reform programme year on year (pending the complexity and scale of priority rules reviews and amendments required each year).

As the timeframe for working through all current rules extends beyond the timeframe for this Funding Review period (ending 2029/30), and as we cannot foreshadow what entirely new rules might be required within and beyond that time, the proposed levies uplift will be required on an ongoing basis.

The proposal is to raise Maritime Levies revenue by \$1.0m per annum from 1 July 2024 to increase our policy, rules drafting and technical advice capacity and make faster progress in regulatory reform.

The scaled down option is to delay by 18 months (that is, until 1 January 2026) any increase in Maritime Levies revenue for this purpose. This would result in a 1.4% reduction in levies increases each year for three years from 2024/25 but would extend the period of Maritime NZ's inability to keep up with the demand for rules reform with a consequential delay in removing the costs associated with unfit rules. It will delay our ability to do large reviews of rules like STCW and consideration of how we make rules more fit for purpose for smaller or different types of operator.

PROPOSAL 3: IMPROVING OUR PERFORMANCE IN RESPONDING TO NOTIFICATIONS AND REGULATORY LICENSING (MARITIME LEVIES)

As outlined in what we are trying to achieve (pages 7 and 8) and the case study (page 10) the decision to establish a centralised Notifications and Enquires (NET) team was made in 2022 on the basis of a critical need to improve our practice around receipt, triaging and responses to incoming enquiries and notifications. Through port health and safety and recreational safety work, we have also identified that people may not be notifying as much as they should. Notifications data is important as it shows where, and why, incidents may be occurring and helps us and the sector consider where to target our effort. Getting this part of our regulatory business working well is mission critical given the issues and risks arising from multiple entry points, response delays and gaps, unclear responsibilities and accountabilities, and inconsistency in triaging and response standards. We are in the early stages of building our NET function and will need levy support for it to be fully functional and effective. The team was established out of necessity but ahead of an assured on-going funding stream.

The benefits for industry as a whole will not be limited to a more responsive and reliable notifications and enquiries service. A functioning NET team will also result in:

- improved recording and analysis of notification and enquiries trends
- reliable insights into where industry guidance and education is needed
- capacity to make the necessary links between notifications and points of vulnerability in safety system or other rules requirements
- pro-active front line activity best aligned with attending to industry information and support needs, and risks and harms signalled in notification and enquiry trends.

We anticipate measurable qualitative improvement in the timeframes and consistency of responses (where relevant) to notifications, and enquiries.

As set out in the case study on page 10, Maritime NZ's regulatory licencing performance has suffered in recent years and until recently this has impacted the continuity of maritime operations, creating seafarer workforce issues and in some cases affecting the livelihood of individuals through delaying their entry into the commercial maritime sector.

A decision in 2022 to invest more and permanent regulatory decision making resources in the two teams performing certification functions and create a small workflow and administration team continues to make a significant difference to the quality of regulatory licencing services we provide.

Because of the urgent need for improvements, the investment decision was made ahead of an assured future. Unless the improvements can be sustained Maritime NZ will need to decrease staff and risk a reversion to pre and early 2022 performance issues.

Maritime NZ expects that from 2024/25 - 2029/30 additional fees revenue will cover some but not all of the cost of the increased regulatory licencing capacity. As the capacity uplift is not only in relation to individual certification applications processing (which is fee-able) but also to more general workflow, licencing practice, certification enquires response and administrative process improvements (that are of general benefit to all current and prospective licencing applicants) we consider it appropriate that the cost of the uplift is recovered partly through Maritime Levies.

The proposal is to raise Maritime Levies revenue by \$1.3m per annum from 1 July 2024 to fund the maintenance of the NET and to maintain increased regulatory licencing improvements.

PROPOSAL 4: ESTABLISHING A THIRD PARTY OVERSIGHT CAPACITY (MARITIME LEVIES)

Maritime NZ does not currently have the capacity to effectively monitor and support the performance of third parties. This creates a risk of regulatory failure. It creates a risk that operators are not receiving a consistent and effective service from third parties. It also means that third parties themselves do not receive consistent support and guidance from us as a regulator.

There are over 250 individuals and entities (third parties) authorised by Maritime NZ to perform regulatory functions such as ship surveys, inspections, the servicing of maritime products, approval of safety plans and seafarer examinations. The

maritime sector is highly exposed to third parties and it is essential that they perform their functions to the standard necessary to support the achievement of marine protection and safety outcomes within the maritime sector.

Events in other regulatory domains have shown how important it is for third parties to perform their functions to the standard expected: the Whakaari/White Island event and Waka Kotahi vehicle testing issue are cases in point. To date, Maritime NZ oversight of the performance of third parties has been predominantly reactive. Year on year there is some engagement with individual or 'classes' of third parties on specific issues and efforts have been made to address particular issues with specific third party regulators when they are brought to our attention.

But for want of resources Maritime NZ has not taken a 'stewardship' approach to this element of the maritime regulatory system: that is consistently maintaining oversight of third parties from point of entry to the system to their exit; monitoring their performance in between and ensuring they have the necessary tools and support to perform their functions. With a third party stewardship framework now developed we need a small team to lead its delivery.

A dedicated third party oversight capability will mean a deliberate and systematic assurance approach that will serve to maintain high third party performance standards and remove the risk of regulatory failure evidenced in other regulatory domains. The type of activity enabled by a third party team includes: monitoring and providing support to recognised surveyors; ensuring the entry control processes for third parties are sufficiently rigorous; identifying where more guidance and practice materials are needed in a particular cohort of third parties and supporting the development of the same; or undertaking monitoring of regional councils and harbourmasters performing functions under delegation from the Director. This team would be small, around four, and be made up of technical expertise, audit and operational policy.

The establishment of such a team also enables Maritime NZ to address in an enduring and visible way a critical finding from a 2022 IMSAS audit. The audit was for the purposes of assessing the extent to which New Zealand complies with its obligations set out in the various IMO instruments to which it is a Party. It found that there was no evidence of a Maritime NZ oversight programme for Recognised Organisations and their nominated surveyors.

Ahead of a third party team being established, and the detailed analysis required to ascertain the quantum and nature of oversight (and more broadly, stewardship) activity required, it is difficult to quantify the uplift in activity that will be required and enabled through the additional funding. However, if the proposal is effected, we will report on that activity as part of the full Funding Review in 2026/27.

The proposal is to fund, through a \$0.8m increase in Maritime Levies revenue from 1 July 2024, the establishment and maintenance of a small team to lead the delivery of the organisation's third party oversight activity.

The scaled down option is to delay by 18 months (that is, until 1 January 2026) any increase in Maritime Levies revenue for this purpose. This would result in a 1.1% reduction in levies increases each year for the three years from 2024/25 but would create a gap of almost three years between now and when the organisation would have any capacity to oversight third party regulators and attend to the regulatory system risk identified by sector participants around the need to ensure more consistent good performance, and support, for parties operating under a delegation or authorisation

RECOVERING THE COST OF COMMITMENTS MADE BY GOVERNMENT

PROPOSAL 5: SUSTAINING FUNDING FOR MARPOL ANNEX VI ADMINISTRATION (MARITIME LEVIES)

In 2021, as part of its commitment to reducing greenhouse gases, the Government signed what is known as MARPOL Annex VI, which sets out a regime for the prevention of air emissions from ships. When the government signs an international convention there is an obligation to give effect to it domestically. Maritime NZ is the administrator of Maritime Rules developed for the specific purpose of implementing the MARPOL Annex VI regime in New Zealand. The cost of that administration can in small part be recovered through fees (certification activity) but there are other elements that it is appropriate and necessary to cost recover through Maritime Levies. To date, our implementation and administration of the new requirements has been Crown funded, but on the assumption that from 1 July 2024 those costs will be recovered through Maritime Levies.

Administration of the MARPOL Annex VI regime includes Maritime NZ oversight of the taking and testing of fuel; an additional element within port and flag State control inspections and within audits of some domestic maritime operations; the provision of information and guidance to our domestic maritime sector; adjustments to our IT platform; a dedicated technical advisor; an additional legal and investigations capacity; ongoing training for our Maritime Officers and Inspectors; and because it is an international regime for which modifications will be raised in the IMO context, an ability to play an active part in those negotiations to ensure any changes sought are acceptable to New Zealand.

This is a significant and complex regulatory regime that is potentially applicable to the operation of hundreds of commercial and recreational craft. Maritime NZ needs to be best positioned to support the maritime sector in understanding and complying with the new requirements and enforcing the same where necessary.

A sustainable funding base ensures that Maritime NZ can give effect to the requirements as intended and as obliged under the relevant convention. Having the funding to administer MARPOL Annex VI also means New Zealand can play a credible and influencing role in climate-related negotiations at the International Maritime Organization (IMO).

The proposal is to raise Maritime Levies revenue by \$1.8m per annum from 1 July 2024 to fund Maritime NZ's administration of MARPOL Annex VI.

PROPOSAL 6: SEAFARER WELFARE SERVICES FUNDING (MARITIME LEVIES)

By way of background, seafarer welfare services in New Zealand were for many years funded from charitable sources, with local welfare organisations providing services for seafarers at ports, and the Seafarers' Welfare Board (SWB) (operating since 1964) fostering ways and means of caring for seafarers, and actively promoting cooperation between welfare providers. In 2021 (in part in response to the impact of COVID on the ability to raise funds through donations) a centralised Crown funding arrangement was put in place, with a set of specified services provided by the SWB under a contract with Maritime NZ.

In 2021, Parliament made a decision to amend the Maritime Levies provisions under the Maritime Transport Act to enable Maritime Levies to be raised and used to help meet the cost of seafarer welfare services. Current levies rates are not set at the level necessary to generate funding for this purpose.

As this goes to a new proposed use of Maritime Levies funding, further detail about that use is set out below. Seafarer welfare services would be available to the crew of all ships covered by the MLC, except the crew of domestic ships and New Zealand-operated ships under foreign flags (as New Zealand law and services apply). Foreign-flagged fishing vessels calling at New Zealand ports would be covered. MNZ proposes that the funding be applied to a set of services that help meet what is required under the MLC. These fall into the following broad categories – communications services (such as the provision of Wi-Fi and telecommunications); information services; ship visits; shopping (for those crew not able to leave ship) and money exchange; access and transport to welfare centres; transport services to and from town; and mental health, wellbeing and advocacy services.

The Government currently provides \$1.5m to contribute to the provision of welfare services (and meet MNZ costs in relation to the administration of that funding). We propose that the amount to be recovered from Maritime Levies for this same purpose should also be \$1.5m per annum.

MNZ has considered options for the best way to deliver services in a way that will see value for money. These include the status quo (MNZ funding SWB who coordinate and deliver many welfare services), an amended status quo with the SWB bulk funding port welfare groups according to an MNZ formula, an MNZ grants system, and MNZ delivery. The full options analysis is available in the attached document [Delivery options for Seafarer Welfare services](#).

The use of the grants model by MNZ enables tighter MNZ control over accountability, maintains an MLC-consistent role for the SWB, and allows local port welfare organisations to deliver services in a way appropriate to their port. The MNZ grants model is currently the preferred delivery model, but we welcome feedback on each of these models (and any others).

If this proposal is adopted the Crown will continue to meet its obligations under the Maritime Labour Convention in respect to the availability of seafarer welfare services and there will be a reliable funding source for their delivery. Seafarers working on the type of vessels noted above will continue to have access to these services and the provision of the same will have a positive impact on their ability to carry out their ship based duties effectively. This will contribute directly to the safety of

shipping conducted in New Zealand waters (and in the waters of other jurisdictions) with an associated reduction in the likelihood of accidents and marine pollution incidents.

The proposal is to raise an additional \$1.5m Maritime Levies revenue per annum from 1 July 2024 to fund a specified quantum of seafarer welfare services.

The scaled down option is to reduce levies revenue raised for this purpose to \$1 million per annum. This would result in a 1.4% reduction in levies increases each year in the three years from 2024/25. A reduction in funding for seafarer welfare services would require a scaling back of services irrespective of whether current demand is sustained or increases.

REVISING THE OIL POLLUTION LEVIES ALLOCATION METHODOLOGY AND MAINTAINING MARINE OIL SPILL READINESS AND RESPONSE CAPABILITY

PROPOSAL 7: CHANGING THE OIL POLLUTION LEVIES ALLOCATION METHODOLOGY

Oil Pollution Levies rates have previously been calculated through applying a complex methodology and model that is costly to apply and at future risk of unreliability as a basis on which the levies rates for different sectors are determined. The approach is heavily reliant on the use of historical national and international data from the recent past being representative of future activity.

Given the very significant changes that occurred during the COVID-19 pandemic, recent historical data will not be reliable going forward. In addition, there have been very significant changes in the operating environment that gives rise to the risks of a marine oil spill. One change with significant and on-going impacts is the closure of the Marsden Point refinery and its conversion to a refined hydrocarbon products facility. Specific impacts from this change already seen include:

- A major reduction in the import of heavy, crude oil into Marsden Point;
- Removal from the New Zealand coast of the domestic tankers previously used to ship the majority of refined products from Marsden Point around the New Zealand coast, and
- A large increase in foreign hydrocarbon product tankers coming to New Zealand to deliver refined products to multiple ports across New Zealand.

Other changes have also occurred and further developments are highly likely. As a result we face a double challenge: the existing methodology will not be reliable going forward and the change in the operating environment will drive major changes to the risk profile across the sectors.

As a result we have reviewed the OPL allocation methodology. The proposed new method for allocating relative levies liability by sector (and the basis for calculating OPL rates) is more efficient (cost effective), it takes less time and effort to generate the relevant data; is less vulnerable to unpredictable changes in shipping and oil carriage volumes, and is less complex than the extant methodology.

The methodology is based on that used for Maritime Levies which was developed and then implemented after detailed consultation as part of the 2018 Maritime NZ Funding Review. The methodology considers how much of the total levies required each vessel should be liable for, and is based on specific criteria to determine the *“value of what is placed at risk in the maritime system”*. In its truncated form, the principle is the ‘risk value’. For Maritime Levies the criteria are (people, freight and ships); for the OPL we propose to use “ships” – reflecting oil being used as bunker fuel - and “oil as cargo”. The ships criteria will use Gross Tonnage as a proxy for bunker fuel capacity (as in the current OPL methodology), and actual quantity of oil carried as cargo (as we have access to this data, and again this is as used in the current methodology).

Where the proposed methodology differs from that currently used is that we will be moving to “risk value” as opposed to an assessment of actual ‘risk’, which is generally understood as a combination of likelihood and consequence of harm. As detailed above we believe that the assessment of actual risk – as used in the Marine Oil Spill Risk Assessment – is no longer a credible or viable option. As well as being expensive, it is time consuming and particularly prone to significant errors given its reliance on historical data being an accurate proxy for the future.

Given the changes in the operating environment (oil type, activity volumes and traffic patterns etc.) it is to be expected that the risk profile and hence risk share across sectors will change significantly. Applying the proposed (Maritime Levies aligned) methodology we see the impacts of these changes with a reduction in the share of the OPL to be paid by the domestic sectors (reflecting the departure of domestic tankers from the New Zealand coast) and a consequent increase in the shares paid by foreign tankers (as we see large increases in the number of foreign tankers entering New Zealand waters). We also see a shift from the domestic passenger and cargo vessels (smaller vessels with less bunkers and less persistent oil as fuel) to foreign passenger and cargo (larger vessels with larger bunkers and more use of persistent oil as bunker fuel). These shifts are consistent with the concept of risk value if considering the impacts from larger volumes of oil as cargo and larger volumes of bunkers in larger vessels.

To support your consideration of the proposed new methodology we have attached the [Oil Pollution Levy Methodology Review](#).

PROPOSAL 8: MAINTAINING MARINE OIL SPILL READINESS AND RESPONSE CAPABILITY (OIL POLLUTION LEVIES)

The New Zealand Marine Oil Spill Readiness and Response Strategy reflects the required nature and scale of New Zealand's oil spill response preparedness, co-ordination, capability, and equipment. The development and five yearly review of the Strategy is a requirement under the Maritime Transport Act and is developed in consultation with the Oil Pollution Advisory Committee (OPAC - a statutorily appointed committee representing levy paying sectors, stake holding central government agencies and local government). The implementation plan for the Strategy is also developed in consultation with, and agreed to, by OPAC.

Delivering the Strategy (via the implementation plan) means all of the preparedness and response elements are covered and the harms of a significant marine oil spill can be at best removed, or at least minimised. The proposal, if effected, would mean a gap in the funding required to deliver the Strategy would be bridged.

The current OPL rates set out under the Oil Pollution Levies Order 2016 are now out-of-date; one element has expired and the activity types and levels that they were based on have changed. The Strategy and its associated Plan indicate the level of revenue needed but given the changes in the operating environment the current OPL is not raising the necessary revenue. Crown has funded the gap in revenue to date but Government has directed that full cost recovery should recommence from 1 July 2024 as is intended under the relevant provision of the Maritime Transport Act.

The proposal is to raise an additional \$0.8m Oil Pollution Levies revenue per annum from 1 July 2024 to generate the full quantum of funding needed to deliver the Strategy via the Plan.

FINANCIAL AND OTHER IMPLICATIONS

Tables 1 and 2 show the indicative changes to Maritime Levies rates and Oil Pollution Levies rates, if all levies related proposals are adopted. The Maritime Levies rates table does not include the scaled down option rate but this has been signalled as 3.9% less than the rate if no proposals were scaled (refer page 12). The rates shown are indicative only as any proposed changes to Maritime Levies or Oil Pollution Levies rates (as would be required if the proposals are adopted) are at first instance subject to feedback from this consultation. Also, any change in funding is subject to Ministerial approval before changes can proceed to Cabinet for agreement and then to the Governor General for Royal Assent.

TABLE 1: IMPACT ON MARITIME LEVIES RATES BY LEVIES PAYING SECTOR

Vessel category	Gross tonnage	Deadweight tonnage	Passenger capacity	Overall length
Foreign passenger	0.1004 0.1282	0.0082 0.0103	2.0248 2.5845	N/A
Foreign non passenger	0.1178 0.1504	0.0095 0.0121	N/A	N/A
NZ SOLAS	7.7931 9.9463	0.4607 0.5879	46.71 59.6161	N/A
NZ non-SOLAS (24m or more in length)	8.2197 10.4885	N/A	17.5403 22.3867	N/A
NZ non-SOLAS (less than 24m in length)	N/A	N/A	17.5403 22.3867	15.1746 19.5376

TABLE 2: IMPACT ON OIL POLLUTION LEVIES RATES BY LEVIES PAYING SECTOR

Vessel or oil site type	Oil Type	Current Base Levy	Proposed Levy	Basis of calculation
NZ vessels				
Passenger and cargo ships, harbour tugs and oil tanker bunker fuel	Bunker fuel	414.69 cents	173.95 cents	Per gross ton of the vessel (annual)
Tankers carrying oil as cargo	Persistent	29.96 cents	12.85 cents	Per tonne of oil carried as cargo
	Non Persistent	26.76 cents	7.56 cents	Per tonne of oil carried as cargo
Fishing vessels		73.56 cents	30.86 cents	Per gross ton of the vessel (annual)
Oil sites				
Offshore oil and gas (FPSO)	Persistent	\$858.66	\$82,055.19	Fixed Fee (annual)
Foreign vessels				
Passenger and cargo ships, harbour tugs and oil tanker bunker fuel	Bunker fuel	0.54 cents	2.63 cents	Per gross ton of the vessel (per port visit)
Tankers carrying oil as cargo	Persistent	36.14 cents	35.46 cents	Per tonne of oil carried as cargo
	Non Persistent	7.6 cents	20.86 cents	Per tonne of oil carried as cargo

SECTOR IMPACT SCENARIOS

TABLE 3: EXAMPLES OF IMPACT ON FOREIGN VESSEL LEVIES PAYING SECTOR

Vessel type Paid per port visit		FY25 Proposed Rate Maritime Levy	FY25 Proposed Rate Oil Pollution Levy	Proposed total Levies Increase
	International Oil Tanker (SOLAS) GT 25,000 PAX 0 DWT 45,000	\$4,303	\$658	\$1,453
	International Container Ship (SOLAS) GT 40,000 PAX 0 DWT 52,000	\$6,643	\$1,052	\$2,273
	International Cruise Vessel (SOLAS) GT 110,000 PAX 2500 DWT 15000	\$20,716	\$2,893	\$6,786

TABLE 4: EXAMPLES OF IMPACT ON DOMESTIC VESSEL LEVIES PAYING SECTOR

Vessel type Paid Annually		FY25 Proposed Rate Maritime Levy	FY25 Proposed Rate Oil Pollution Levy	Proposed total Levies Increase
	Domestic Passenger Ferry (SOLAS) GT 22,365 PAX 1,350 DWT 5,794	\$306,338	\$38,904	\$12,476
	Domestic Container Ship (SOLAS) GT 6000 PAX 0 DWT 10,000	\$65,557	\$10,437	-\$253
	Domestic Coastal Fishing Trawler (non-SOLAS) GT 529 PAX 0 DWT 0	\$5,548	\$163	\$974
	Domestic fishing Length 5.9 metres	\$115	NA	\$26
	Domestic non-passenger aquaculture vessel (mussel barge) GT 104	\$1,091	NA	\$236
	Domestic non-passenger barge GT 150	\$1,573	NA	\$340
	Domestic non-passenger Length 23.9 metres (including tugs)	\$467	NA	\$104
	Domestic non-passenger Length 8 metre workboat	\$156	NA	\$35
	Domestic Passenger Ferry (Non SOLAS) GT 280 PAX 300 DWT 0	\$3,608	\$487	\$107
	Domestic Charter Passenger Boat (Non SOLAS) Length 18 metres PAX 140 DWT 0	\$665	NA	\$146

Vessel type Paid Annually		FY25 Proposed Rate Maritime Levy	FY25 Proposed Rate Oil Pollution Levy	Proposed total Levies Increase
	Domestic Charter Passenger Boat (Non SOLAS) Length 8 metres PAX 14 DWT 0	\$179	NA	\$40
	Domestic Commercial Jet Boat Length 8.2 metres PAX 8 DWT 0	\$339	NA	\$75
	Domestic passenger Commercial dive boat Length 4.5 metres PAX 4	\$177	NA	\$39
	Domestic passenger 3.7 metre personal watercraft (jet ski/novel craft) PAX 1	\$95	NA	\$21

To assist you in understanding what the proposed increases could mean for your business Maritime NZ has produced a levies calculation tool that can be accessed [here](#).

PART 3

MARITIME NZ'S INTENTIONS TO SEEK ADDITIONAL CROWN FUNDING

Maritime NZ relies on on-going Crown funding to perform or deliver a range of activities. This includes its work on Maritime Security, Incident Readiness, Search and Rescue (SAR) and Maritime Safety Infrastructure (such as aids to navigation, distress radio and distress beacons). As these are public not private benefits the Crown has funded these activities consistent with transport sector funding principles and Treasury and OAG cost recovery guidance.

As a result, it will not be possible to fund these pressures through levies and Crown funding will need to be considered during the Funding Review period. These pressures include:

- Ensuring Maritime NZ has sufficient capacity to undertake its role in Maritime Security.
- Maintenance of sufficient capacity to respond to non-oil based maritime incidents and spills.
- Maintenance of infrastructure and provision of services provided by third parties that are essential for the distress beacon system and distress / safety communications.

Budget Bids in these areas will be put up in Budget processes, alongside a bid for implementation of the commitments made in the Emissions Reduction Plan, including the development of regulatory settings that can enable the use of low carbon technologies (which it is not reasonable for levy payers at large to fund).

EFFICIENCY IMPROVEMENT INITIATIVES

In the circumstance of making proposals that would, if effected, increase the rates for both Maritime and Oil Pollution Levies it is important that we set out what we have done to improve our efficiency and wherever possible, reduce our own costs. Our efficiency improvement initiatives and their effect are set out below.

Since the last Funding Review Maritime NZ has developed and is now executing an enterprise property strategy that is seeing deliberate and greater co-location of our smaller sites with other Government agencies in that place. Co-location has been focused on partner agencies such as Customs, Department of Conservation and Ministry for Primary Industries who have larger property footprints at our satellite locations and include Whangarei, Napier and New Plymouth. We are in the process of similar co-locations in Invercargill and Dunedin. We have also increased the operational efficiency of our Regional Hubs at

Auckland, Tauranga and Christchurch through more flexible working practices and now also have other key supporting staff based out of these regional hubs. We have generated greater efficiency in our National Head Office through flexible working practices and a modernised environment. The cumulative effect of these small shifts has seen reduced property and occupancy, and office support costs reduced from 4.35% in FY 2020 to a forecast 3.78% in FY2023 as a % of organisational running costs.

Over time we have continued to consolidate vendors and contracts across key cost categories making greater use of All of Government panels and syndicated contracts leveraging the buying power of Government. We have implemented a contract management system which is giving greater visibility of our activities and supporting more efficient practice. The full impact of this capability will be seen in out-years.

We have been reducing manual processes through greater investment in technology which has allowed us to de-commission some legacy platforms. It has also allowed greater cloud adoption generating efficiencies through increased access to data and information across Maritime NZ. Through this greater investment in upgraded information communication technology we are also making much more use of it as a substitute for travel, and as a key enabler of our work. The significant escalation of technology capability and adoption during the COVID environment was embraced by Maritime NZ. These efficiencies have seen our travel costs as a % of organisational running costs reduce from previous levels and we expect that it will continue into the future (reduced from 4.45% in FY 2019 to a forecast 2.9% in FY2023). The nature of our role and the work we do means there will continue to be a requirement to travel.

We have also embarked on our internal carbon reduction journey which has complementary objectives and is seeing us undertaking work to optimise and transition our vehicle fleet to more sustainable vehicle options. This will have a further efficiency impact once completed over the next three years.

The cumulative impact of these activities along with increased scale economies we have been able to reduce our overheads loading to 25%.

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

IN CONFIDENCE



4 August 2023

OC230681

Hon David Parker**Action required by:****Minister of Transport**

Monday, 14 August 2023

cc Hon Damien O'Connor

Associate Minister of Transport

PROACTIVE RELEASE OF MARITIME NEW ZEALAND AND CIVIL AVIATION AUTHORITY- SUPPORTING ONGOING FINANCIAL SUSTAINABILITY CABINET PAPER AND ASSOCIATED DOCUMENTS

Purpose

Seek your approval for Te Manatū Waka to proactively publish the Cabinet Paper *Maritime New Zealand and Civil Aviation Authority: Supporting Ongoing Financial Sustainability, Cabinet Minute*, and associated documents on its website.

Number of documents	7
Deadline	Monday 14 August 2023
Risks	Risks and mitigations are outlined in the briefing below.

IN CONFIDENCE

Recommendations

We recommend you:

	Minister of Transport	Associate Minister of Transport
1. approve the publication of seven documents with redactions as marked by Te Manatū Waka on its website by 14 August 2023	Yes / No	Yes / No
2. advise Te Manatū Waka if you consider that any information should be withheld from the material	Yes / No	Yes / No

Hon David Parker
Minister of Transport

..... / /



Harriet Shelton
Manager, Governance, Te Manatū Waka

04 / 08 / 2023

Hon Damien O'Connor
Associate Minister of Transport

..... / /

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

Minister's office to complete:
(Transport)

- Approved
- Declined
- Seen by Minister
- Not seen by Minister
- Overtaken by events

Comments:

Minister's office to complete:
(Associate Transport)

- Approved
- Declined
- Seen by Minister
- Not seen by Minister
- Overtaken by events

Comments:

Contacts

Name	Telephone	First contact
Harriet Shelton, Manager, Governance – Te Manatū Waka	s 9(2)(a)	
Johnny Crawford, Senior Adviser, Governance – Te Manatū Waka		✓

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

PROACTIVE RELEASE OF MARITIME NEW ZEALAND AND CIVIL AVIATION AUTHORITY- SUPPORTING ONGOING FINANCIAL SUSTAINABILITY

Background

- 1 On 12 June 2023 Cabinet agreed to the then Associate Minister of Transport taking steps to allow Maritime New Zealand (MNZ) and Civil Aviation Authority (CAA) to restart their respective funding reviews via *Supporting the ongoing financial sustainability of Maritime New Zealand and Civil Aviation Authority* (the Cabinet paper).
- 2 Cabinet Office circular CO 18(4) states that all Cabinet and Cabinet Committee papers and minutes must be proactively released and published online within 30 business days of final decisions being taken by Cabinet. This is the case “unless there is good reason not to publish”.
- 3 Te Manatū Waka considers that there was good reason not to publish the Cabinet paper, and associated documents, within 30 business days as MNZ had not yet been authorised to begin public consultation on its funding review.
- 4 Following the beginning of public consultation, Te Manatū Waka now proposes to publish the following documents on its website as soon as possible:
 - 4.1 OC230473 Maritime New Zealand and Civil Aviation Authority: Supporting Ongoing Financial Sustainability
 - 4.2 Consultation document – Maritime NZ Review of Levies Funding
 - 4.3 Cabinet Paper Maritime New Zealand and Civil Aviation Authority: Supporting Ongoing Financial Sustainability
 - 4.4 Cabinet Economic Development Committee Minute DEV-23-Min-0227
 - 4.5 Cabinet Minute CAB-0227.01 Minute
 - 4.6 Cabinet Minute DEV-23-MIN-0110 Minute
 - 4.7 Cabinet Minute DEV-23-SUB-0110 Summary.

Review

- 5 Te Manatū Waka has reviewed these documents and propose that some content is withheld, consistent as if the documents were being released in response to a Official Information Act 1982 (the Act) request, to:
 - 9(2)(a) protect the privacy of natural persons
 - 9(2)(f)(iv) maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials

9(2)(g)(i) maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any public service agency or organisation in the course of their duty.

6 **Annex 1** provides an overview of how we propose to apply the redactions to each document.

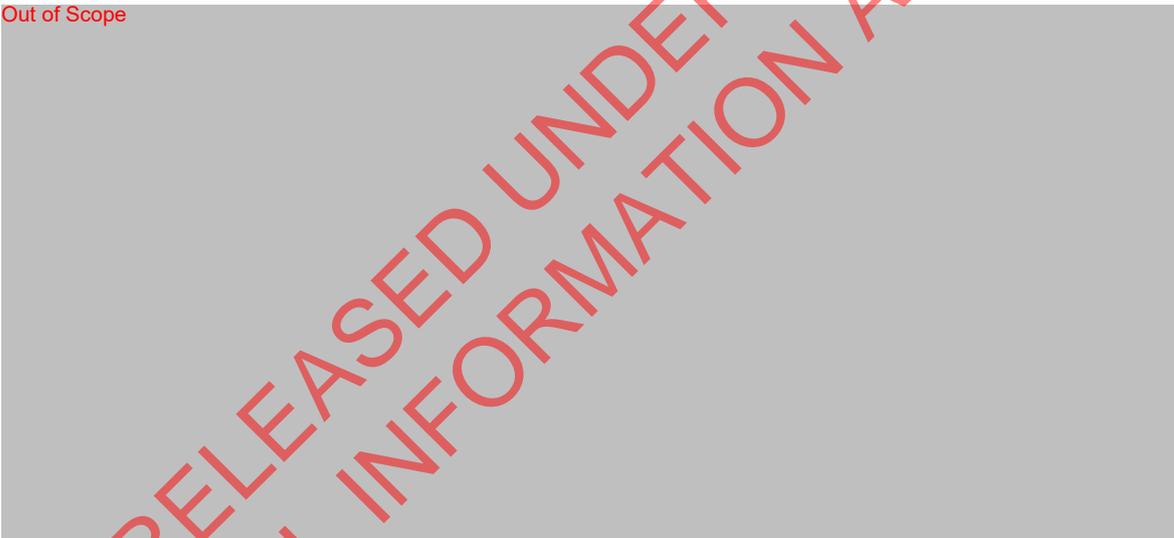
7 In proposing these redactions, we note that *Section 48 of the Act* – which protects Ministers and agencies from civil or criminal liability where information is released under the Act – does not apply to information that is proactively released.

Consultations undertaken

8 MNZ and CAA will be informed of the release of the documents once Ministers have agreed to the documents' release.

Risks and mitigations

9 Out of Scope



11 The risk is lower for MNZ as more information about its funding proposals is in the public domain as it has begun consultation. However, content that may be interpreted as pre-empting the outcome of the funding review including levies increases and future budget bids has been withheld.

12 Officials will work with Ministers' offices to respond to any media queries that arise from the release of these redacted materials.

Next steps

13 Once you have approved the release of the documents, Te Manatū Waka will publish them on its website.

Annexes

The following documents are attached to this briefing:

- Annex 1 Document Schedule
- Annex 2 Document One OC230473 Maritime New Zealand and Civil Aviation Authority: Supporting Ongoing Financial Sustainability
- Annex 3 Document Two Consultation document – Maritime NZ Review of Levies Funding
- Annex 4 Document Three Cabinet Paper Maritime New Zealand and Civil Aviation Authority: Supporting Ongoing Financial Sustainability
- Annex 5 Document Four Cabinet Economic Development Committee Minute DEV-23-Min-0227
- Annex 6 Document Five Cabinet Minute CAB-0227.01 Minute
- Annex 7 Document Six Cabinet Minute DEV-23-MIN-0110 Minute
- Annex 8 Document Seven Cabinet Minute DEV-23-SUB-0110 Summary

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

Annex 1 Document schedule

Doc #	Document title	Details
1	OC230473 Maritime New Zealand and Civil Aviation Authority: Supporting Ongoing Financial Sustainability	Some information is withheld under these sections of the Act: 9(2)(a) 9(2)(f)(iv) 9(2)(g)(i) <u>Consultations</u> MNZ and CAA were consulted on proposed redactions when this briefing was previously requested under the OIA.
2	Consultation document – Maritime NZ Review of Levies Funding	This document can be released in full as it is not materially different to the consultation document on which MNZ is now accepting submissions.
3	Cabinet Paper Maritime New Zealand and Civil Aviation Authority: Supporting Ongoing Financial Sustainability	Some information is withheld under these sections of the Act: 9(2)(f)(iv) 9(2)(g)(i)
4	Cabinet Economic Development Committee Minute DEV-23-Min-0227	This document may be released in full.
5	Cabinet Minute CAB-0227.01 Minute	Recommendation 5, which outlines possible Crown funding for CAA, is withheld under section 9(2)(f)(iv).
6	Cabinet Minute DEV-23-MIN-0110 Minute	Recommendation 5, which outlines possible Crown funding for CAA, is withheld under section 9(2)(f)(iv).
7	Cabinet Minute DEV-23-SUB-0110 Summary	Recommendation 5, which outlines possible Crown funding for CAA, is withheld under section 9(2)(f)(iv).

IN CONFIDENCE



1 June 2023

OC230473

Hon Kiri Allan**Action required by:****Associate Minister of Transport**

Wednesday, 7 June 2023

cc Hon Michael Wood

Minister of Transport

SUPPORTING THE ONGOING FINANCIAL SUSTAINABILITY OF MARITIME NEW ZEALAND AND CIVIL AVIATION AUTHORITY - SUPPORTING INFORMATION FOR CABINET PAPER

Purpose

Provide you with supporting information and talking points for your presentation of Cabinet paper *Supporting the ongoing financial sustainability of Maritime New Zealand and Civil Aviation Authority* (attached at Appendix One) at the Cabinet Economic Development Committee (DEV) on 7 June 2023.

Key points

- You have decided that resuming the Maritime New Zealand (**MNZ**) and Civil Aviation Authority (**the Authority**) funding reviews is the best way to minimise financial burden on the Crown. This will ensure that both Entities can return to cost recovery models at the earliest opportunity and be adequately resourced to fulfil their statutory responsibilities.
- You are presenting a Cabinet paper, *Supporting the ongoing financial sustainability of Maritime New Zealand and Civil Aviation Authority* to DEV on 7 May 2023. This paper notifies Cabinet of your decision to resume the funding reviews and seeks delegation for you and the Minister of Finance to approve the release of the Entities' consultation documents, subject to any editorial changes. This means both Entities will be able to begin consultation as quickly as possible.
- **MNZ** considers that it is ready to begin public consultation and its draft consultation document will be attached to the Cabinet paper as an Appendix. Although its timeline is ambitious, approval of this document immediately after you receive delegation would enable it to undertake public consultation prior to the pre-election period and complete its funding review by 1 July 2024. Te Manatū Waka will continue to provide the necessary oversight to the process, support MNZ to meet its deadlines where possible and brief you throughout the process.

- **Out of Scope**

IN CONFIDENCE

Out of Scope

- Respondents to consultation on the Cabinet paper supported a quick return to cost-recovery for both Entities. In particular, the Treasury noted that the costs incurred by the Crown from delaying the funding reviews any longer would outweigh any benefits from further reviewing the cost-of-living implications of levy increases. This was also the view of the Minister of Finance's office who supported the resumption to mitigate any commitment of Crown funding in Budget 2024.
- Te Manatū Waka did not receive substantial feedback on the Cabinet paper during Ministerial consultation.

Out of Scope

-

- The Cabinet paper and MNZ's consultation document are attached as **Appendix One**.
- Talking points for DEV are included in **Annex One**.

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

Recommendations

We recommend you:

- 1 **agree** to present Cabinet paper *Supporting the ongoing financial sustainability of Maritime New Zealand and Civil Aviation Authority* to the Cabinet Economic Development Committee on 7 June 2023 Yes / No
- 2 **note** that talking points have been provided to support you at this meeting
- 3 **refer** this briefing to Hon Grant Robertson, Minister of Finance Yes / No

Harriet Shelton
Manager – Governance

Hon Kiri Allan
Associate Minister of Transport

..... / /

..... / /

- Minister’s office to complete:**
- Approved Declined
 - Seen by Minister Not seen by Minister
 - Overtaken by events

Comments

Contacts

Name	Telephone	First contact
Brent Johnston, Acting Deputy Chief Executive – System Performance & Governance	s 9(2)(a)	
Harriet Shelton, Manager, Governance		✓

Annex One: Talking Points

The decision to restart the funding reviews was reached after consideration of cost-of-living implications:

- it was important to take stock of the potential cost-of-living implications of increasing maritime and aviation levies; and
- you are now satisfied that a quick return to financial sustainability for both Entities would be the most effective way to address this.

These implications will continue to be at the forefront of the process:

- s 9(2)(f)(iv)

- you have been assured that **both Entities** have taken cost-of-living considerations into account in their funding reviews and will continue to do so.

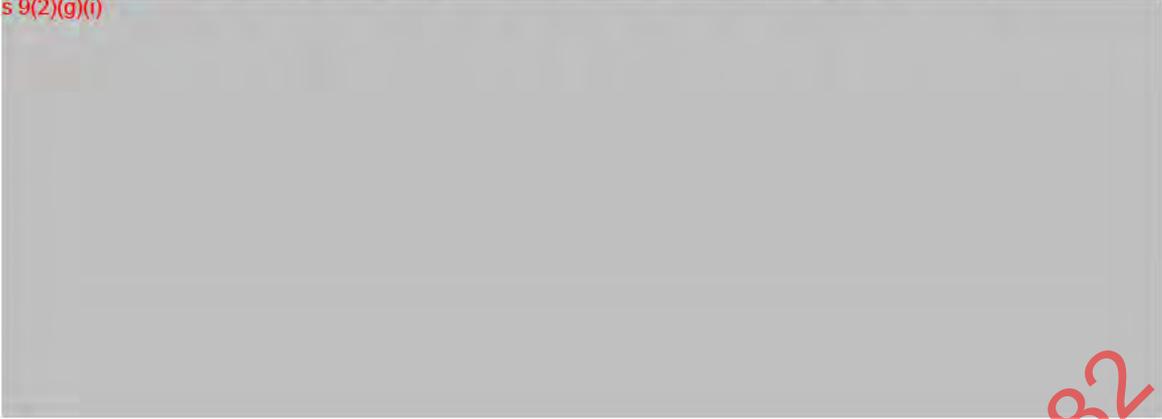
During departmental consultation, respondents overwhelmingly supported resuming the funding reviews citing:

- the importance of managing stakeholder expectations;
- work that had taken place earlier to incorporate cost-of-living considerations into the funding reviews;
- the need to limit Crown funding sought by the Entities in Budget 2024; and
- the need to support the ability of each Entity to fulfil its role effectively.

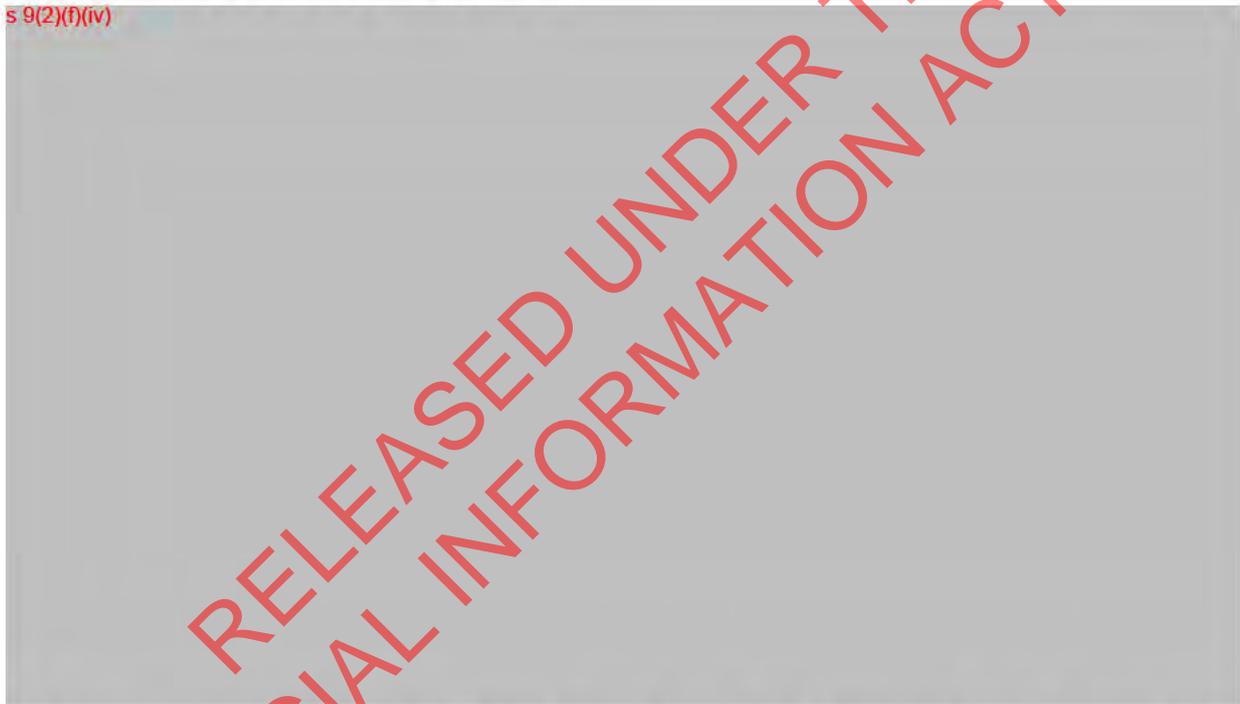
You are seeking delegation to approve the consultation documents

- if the Minister of Finance and you are able to approve the consultation documents yourselves, it will support the quick completion of the funding reviews;
- this is particularly important as there are fewer Cabinet dates in the lead up to the General Election; and
- **MNZ** is ready to begin consultation with its consultation documentation already having been reviewed by a Cost Recovery Impact Statement (CRIS) panel.

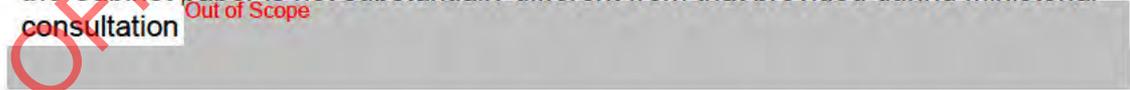
There are a number of risks that will need to be managed during the process

- s 9(2)(g)(i) 
- 
- 
- all parties will be working to mitigating these risks by collaborating throughout the process, ensuring that appropriate measures are taken to retain its integrity and briefing you on any developments.

s 9(2)(f)(iv)



Te Manatū Waka and the Entities are working together to progress the funding reviews

- the Cabinet paper is not substantially different from that provided during Ministerial consultation Out of Scope 
- **both Entities** have already resumed work on their funding reviews to support completion as quickly as practicable;
- this would be supported by Cabinet giving you and the Minister of Finance delegation to approve consultation documents;
- **MNZ** will be able to begin public consultation immediately with the aim of implementing a new funding model by 30 June 2024; and

• Out of Scope



RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

CONSULTATION DOCUMENT

MARITIME NZ REVIEW OF LEVIES
FUNDING FOR 2024/25 – 2029/30

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

FOREWORD FROM THE AUTHORITY CHAIR AND THE DIRECTOR

This consultation document provides an opportunity for all people and organisations that receive the benefits of Maritime NZ's performance and fund the organisation to carry out its regulatory functions, to engage on potential changes to levies.

During COVID-19 in early 2020, we sought, and the Government agreed, to delay the anticipated Funding Review. The Government also over COVID has covered any gaps in Maritime Levies and Oil Pollution Levies revenue associated with decreases in activity through a Crown Multi-year appropriation. That funding has been provided in anticipation of this Funding Review and under expectations that from 1 July 2024, we will be back to full cost recovery.

Kirstie Hewlett, Maritime NZ's new CEO and Director, was welcomed in June 2021 and her first priority was to get a good understanding from industry around how Maritime NZ was performing as a regulator. Kirstie's engagement with a number of you, alongside other work we have undertaken, and an international audit, generated some key insights into what was working well and where improvements needed to be made. We listened, and through a whole of organisation strategy we have been working on the areas we collectively identified as regulatory risks or where regulatory services could be improved.

Over 2022 we developed the regulatory strategy Te Korowai o Kaitiakitanga (the Cloak of Stewardship) to address regulatory risks and improve regulatory services. As part of that work, we went through an organisational re-design to ensure we were operating as efficiently and effectively as we could, alongside looking for efficiencies in other areas, such as sharing property with other Government agencies in our satellite offices to save costs. We used the savings created by the new structure to start addressing issues concerning and affecting the maritime sector, including regulatory licensing delays and backlog, our need to focus more on deterring sub-standard ships on internal voyages arriving at our ports, and being more responsive (quicker and better) when we receive enquiries or notifications.

However, our internal efficiencies by themselves are insufficient to address some regulatory risks, or to deliver the service needed by the sector. There are just eight proposals for your consideration, and of those, the first four are focused on building on what we have done so far, addressing a narrow set of residual regulatory risks and making provision for further functional improvement. We recognise industry pressures and have focussed this Funding Review on critical risks and issues, and the minimum viable proposition to address them. Many of the proposals will not only have safety benefits but should improve smooth economic operation of the maritime sector.

Of the remaining four proposals, there are two that are in response to Government commitments and decisions. The first is a priority commitment made in 2020 to fund the provision of seafarer welfare services, and in 2021 a decision by Parliament that the commercial maritime sector should fund those services through Maritime Levies.

The second was implementation of a Government decision to sign up to what is known as MARPOL Annex VI – an international convention, now part of New Zealand legislation (Maritime Rules), containing a series of new requirements for the management of air pollution from ships. Maritime NZ is the administrator of the regime and there is an expectation from government that from 1 July 2024, the cost of that administration will be recovered through fees and Maritime Levies.

The last two proposals go respectively to a new method for calculating Oil Pollution Levies liability and to raising Oil Pollution Levies revenue to the level needed to deliver the New Zealand Marine Oil Spill Readiness and Response Strategy. That Strategy is very important to our preparedness for a major oil spill and being able to respond to it in a way that minimises the various harms such events can cause.

As this is a mid-point Funding Review, we have not looked at fees, or the hourly rate on which they are based. A full review of fees will be conducted at the next full Funding Review. This means (until at least the completion of the next Funding Review) the maritime sector is guaranteed of no fees increases.

We have been careful to keep this document to the minimum necessary to explain the proposals in full context and set out the implications of them. This may be sufficient for you to form a view, but if you want more information, there is a link at page 4 to a supporting document.

We encourage you to be part of this consultation process and look forward to receiving and considering your feedback.

Jo Brosnahan, Chair Maritime NZ

Kirstie Hewlett, Director and Chief Executive Maritime NZ

CONTENTS

Foreword from the Authority Chair and the Director.....	2
Process for consultation and making submission.....	4
How to make a submission	4
PART 1	5
The purpose of this review.....	5
Overview and context	6
What we are trying to achieve	7
What we have done to date.....	9
Case study 1: Investment in our Certification capacity.....	10
Case study 2: Creating a new Maritime Inspections team.....	10
Case study 3: Establishing a centralised Notifications and Enquiries team	11
What more we need to do to deliver our regulatory strategy and address regulatory risks.....	11
What else we are required to attend to.....	11
PART 2	12
The proposals.....	12
Supporting the delivery of our Regulatory Strategy and managing regulatory risks.....	12
Proposal 1: Maintaining and enhancing regulatory operations capacity (Maritime Levies)	12
Proposal 2: Supporting the achievement of safety and marine protection outcomes at reduced cost (Maritime Levies).....	13
Proposal 3: Improving our performance in responding to notifications and regulatory licensing (Maritime Levies)	14
Proposal 4: Establishing a third party oversight capacity (Maritime Levies)	14
Recovering the cost of commitments made by government.....	15
Proposal 5: Sustaining funding for MARPOL Annex VI administration (Maritime Levies)	15
Proposal 6: Seafarer Welfare Services Funding (Maritime Levies)	16
Revising the Oil Pollution Levies allocation methodology and maintaining Marine Oil Spill Readiness and Response Capability	17
Proposal 7: Changing the Oil Pollution Levies allocation methodology	17
Proposal 8: Maintaining Marine Oil Spill Readiness and Response Capability (Oil Pollution Levies)	18
Financial and other implications	19
Sector impact scenarios	20
PART 3	21
Maritime NZ's intentions to seek additional Crown funding	21
Efficiency improvement initiatives.....	21

PROCESS FOR CONSULTATION AND MAKING SUBMISSION

HOW TO MAKE A SUBMISSION

This consultation document invites feedback on a set of proposals that if adopted would variously require additional Maritime Levies and Oil Pollution Levies funding; and that change the way liability for Oil Pollution Levies is calculated.

You can give us feedback on the proposals in this document by:

- e-mail to fundingreview@maritimenz.govt.nz
- ordinary post to, Funding Review, Maritime NZ PO Box 25620, Wellington 6146
- fax to (04) 494 8901
- filling the online form at www.maritimenz.govt.nz/funding

If you want clarification on any of the proposals, for the purpose of making a submission, please feel free to send your questions through to us by email at the address above.

We have sought to find the right balance between keeping the document to an approachable length and providing sufficient detail for readers to have a clear understanding of the basis for the proposals, their benefits and their implications. There is however further detail and contextual information and it is available on our website www.maritimenz.govt.nz/funding.

The deadline for making a submissions is **14 July 2023**.

We appreciate that making a submission takes time and doing so within a specific deadline on top of other commitments requires particular effort. In fairness to those who make that effort we will not be accepting or taking account of submissions received after the deadline.

Please note that it is our intention to prepare and publish a summary of submissions. This is for the purposes of transparency and assurance that all submissions have been considered. Submissions themselves will not be published but a list of submitters is intended for inclusion in the summary document. If there is any element of your submission that you do not want to be in the public domain please signal that when you make your submission.

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

THE PURPOSE OF THIS REVIEW

For regulatory agencies such as Maritime NZ Funding Reviews are about ensuring that sufficient funding is sustained across different sources to deliver core regulatory functions and do so in a way that reflects the regulatory strategy. For Maritime Levies this is a mid-point Funding Review and is focused on ensuring we can deliver regulatory functions effectively and minimise risks, and attend to new government driven funding-relating matters that have arisen since the last full Funding Review in 2018/19. Due to COVID impact and recovery related decisions taken by government to freeze public sector Funding Reviews in 2020 and 2021 in order to minimise fiscal pressures on levy payers, this review is occurring two years 'out of cycle'. It is also occurring in the context of the Crown having provided additional funding to Maritime NZ to support the organisation through COVID on the basis that from 1 July 2024 the purposes for which the funding has been provided will be recovered through Maritime Levies. For Oil Pollution Levies (OPL) this is a delayed full term Funding Review but we have made it part of this mid-point review to support an aligned and full view of both our levies funding sources. The OPL review focus is on ensuring levies rates are set at the right level to sustain the required revenue to deliver in full the New Zealand Marine Oil Spill Readiness and Response Strategy. A review of how Oil Pollution Levies are calculated (the methodology) has also been carried out and the outcome is reflected in this document.

The eight proposals set out in this document, if agreed by government consequent to this consultation, would be effective from 1 July 2024 and remain in effect up until July 2030 (pending changes or adjustments resulting from a full Funding Review in three years from now).

Our regulatory strategy, Te Korowai o Kaitiakitanga (the Cloak of Stewardship) sets out how we will deliver and perform our regulatory functions. It reflects what industry has told us about how we are performing and where we need to do better; it addresses regulatory risks; it sets out a way of working that is inclusive, engaged, communicative, professional, consistent, and responsive. That approach and the sector benefits it strives for, are the key drivers for the first four proposals set out in this document.

In 2020 the Government signalled the funding of seafarer welfare services as a clear priority. A change was made to the Maritime Transport Act to enable such funding to be generated through Maritime Levies and there is an expectation that this Funding Review is the process through which bridging finance provided by the Crown will be replaced, from July 2024, with funding through levies. We have therefore examined, and made a proposal in relation to the quantum of funding to be raised for this purpose and how we intend it to be managed and distributed for optimal value and efficiency.

Since the last Funding Review in 2018/19 Maritime NZ also has been given responsibility for the administration of a wide ranging set of new requirements under MARPOL Annex VI relating to the prevention of air pollution from ships. Government has committed to fund those administrative costs on an interim basis, but from July 2024 there is an expectation that the same will be recovered through a combination of fees (for certification related activity) and Maritime Levies. As part of this Funding Review we have therefore examined the ongoing cost of that administration and have made a proposal in relation to it for additional Maritime Levies funding.

This review has also looked at how to fully fund the delivery of New Zealand's Marine Oil Spill Readiness and Response Strategy (the Strategy), as endorsed by the Oil Pollution Advisory Committee (OPAC), which represents the views and interests of all Oil Pollution Levies paying sectors and key stakeholders. There have been very significant changes in the operating environment (closure of the refinery at Marsden Point, alterations to the types of oil imported and vessel activity levels and sailing patterns) and the time expiry of one element of the current OPL; together these have impacted the level of Oil Pollution Levies revenue that can be generated under the current methodology. This affects our ability to fully implement the Strategy. We have used this review as the opportunity to address the impacts of the significant changes and to propose a refreshed and revised levies calculation method, and applying that method, we have calculated and proposed new Oil Pollution Levies rates.

Maritime NZ's costs are partly recovered through fees. Specific fees and the hourly rate on which all fees are based were reviewed in the last full Funding Review in 2018/19 and set in regulations effective 1 July 2019. This being a mid-point review we have not looked again at specific fees or the hourly rate but will do so in the new full Funding Review in three years.

In order to be given effect all but one of the proposals in this document would require the recovery of additional costs through Maritime or Oil Pollution Levies. We make no assumptions as to what will be recommended or agreed following this consultation process, but it is important that in making the proposals we are explicit as to what the additional funding would be used for, the impact of increased levies on those who are liable, the authority we have to propose raising additional levies to effect the proposals and how cost recovery aligns with relevant guidelines and principles. This detail is set out in the attached document [Initial Cost Recovery Impact Information](#).

OVERVIEW AND CONTEXT

Funding Reviews occur on a cyclical basis and are a transparent mechanism to set out proposals for alignment of revenue from levies and fees with particularised costs. Ordinarily, and as was the case with the last full Funding Review in 2018/19, that alignment can be achieved only through increased levies revenue and relatedly, an increase in levies rates. That is again the case in this review where seven of the eight proposals have a levies increase implication. If levies increases are recommended to, and agreed by Cabinet consequential to this consultation, they would not take effect until 1 July 2024.

Section 51 of the Crown Entities Act (2004) requires Maritime NZ to operate in a financially responsible manner and to endeavour to ensure its long-term financial viability and operate as a successful going concern. Accordingly Maritime NZ holds reserves to support this. Levels of cash reserves are reported annually and as at 30 June 2022 were circa \$16.3m (MNZ \$10.5m and \$5.8m for Oil Pollution Fund). This Funding Review does not propose to increase the current reserves position through an increase in levies rates. The next full Funding Review would be the mechanism to 'correct' a significant over or under recovery of levies revenue.

Maritime NZ uses reserves to:

- Withstand short-term economic shocks and manage unforeseen border or port closures or industry changes which have significant impact on revenue streams
- Manage short term imbalances in revenue or expenditure flows
- Fund any significant litigation events that may occur
- In the case of response activities fund continued operations during long duration or complex search and rescue events, fund the necessary initial response costs of a Tier 3 spill or other maritime incident response.

Maritime NZ intends to review its cash reserves policy and that it will be published (or otherwise made available to interested parties) prior to the commencement of the next Funding Review.

The proposed uplift in Maritime Levies revenue is an average of \$11.7m each year for 2024/25 – 2026/27 which represents an increase in Maritime Levies rates of 33.1%. Of that potential increase, approx. 28% would be to cover the cost of commitments made by Government, approx. 42% to address regulatory risk issues and the balance of 29% to cover cost pressures.

The last proposal has the potential implication of an annual average of \$0.8m or 8.8% increase in Oil Pollution Levies revenue and rates (over the period 2024/25 – 2026/27). While for both levies types a significant proportion of the overall liability rests with foreign vessels and their activity in New Zealand waters (so their increase would be proportionately more), that does not detract from the fact that domestic operators could see an increase in levies payable.

The cost element is a reasonable focus for levies payers but we ask that attention is also paid to the benefits, some of which will, over time, offset the cost at an industry wide or individual level. In setting out the proposals we have been clear about potential costs and given a fair appraisal of benefits. In the event the proposals are adopted, as part of the next full Funding Review we are committed to reporting back on how they were effected and evidence of benefits.

Consequential to the 2018/19 Funding Review additional Maritime Levies revenue was generated to cover the cost of a set of specified activities. Consistent with a looking forward and reporting back approach we have set out below how that additional funding was applied and the benefits derived.

International engagement (\$1 million per annum from 2020/21): We have established a new International Engagement and Coordination team. This has brought a more strategic and proactive focus to our influencing strategy and participation in international maritime fora that are critical to New Zealand's shipping interests. As a consequence we have been able to participate in and have influence over a wider range of IMO initiatives, including ongoing work on international maritime

emissions, a variety of key safety issues, the international Maritime COVID response, seafarer welfare issues and other key issues for New Zealand.

Regulatory reform projects development and implementation (on average, \$1.2 million per annum from 2019/20): This funding has helped to ensure that our approach to implementing rules is fit for purpose and workable for operators; and that operators impacted by new or revised rules are supported with clear and updated guidance on what to do. We have also established a process to more consistently identify and prioritise regulatory reform activities to update our ageing ruleset; and have made a start in addressing some of the biggest priorities for reform through our 40 series project, which has focused on ship design, construction and equipment rules. We also established teams that are focused on the more effective end to end implementation of new rules, including a guidance team and a service design team. Together this enabled us to make progress on some of the problems in our rules that impact on operators as well as safety and environmental outcomes (to date this has included work on the 40 series, the development of rules to implement MARPOL, reform of navigational safety rules, pilot boarding arrangements and preparation for the implementation of the Cape Town Agreement. Areas of future focus are likely to include seafarer certification rules and MOSS).

Surveyor standards of performance (\$0.57 million per year for three years): The resourcing for updating the 2014 surveyor standards of performance has been integrated with the 40 series reform project, which is addressing ship design, construction and equipment rules. This ensures that the development of revised performance standards are part of and reflect a wider package of joined up and coherent rules. Work on the surveyor performance standards is well advanced.

Systemic Risk Activities (on average, \$2.68 million per year from 2019/20): Through the addition of a number of key technical, environmental and engagement roles we have increased our capacity to identify and attend to systemic risks *within* the recreational and commercial maritime sectors. It has also enabled us to strengthen our analytics, risk and intelligence function. This has allowed greater focus on outcomes-based interventions such as industry outreach activities, engagement/relationships, education, guidance and campaigns. During the COVID-19 pandemic this enabled Maritime NZ to play a vital role acting as the key interface between the maritime industry and government. This ensured that domestic operators and international shipping kept operating moving goods and people, while strengthening our partnerships along the way.

ICT systems and integration (on average, \$1.94 million per year from 2019/20): We have invested in our underlying technology and systems including growing capability and capacity with a strong focus on refreshing our digital infrastructure, applications and security. We have continued to integrate systems, move data from old to new platforms, and develop new functional capability. We have also made improvements to our regulatory management information systems which support core regulatory functions and compliance activities (e.g. exemptions, Safe Operating Plans, vessel data and seafarer certification). As a result an increasing number of manual regulatory processes are now undertaken digitally. Going forward this money will also assist us to develop technology to ensure there is a better front portal into Maritime NZ and better mobile notification technology.

Port and Harbour Marine Safety Code (on average, \$0.33 million per year from 2019/20): Through this funding Maritime NZ's input to, and support of, the Port and Harbour Marine Safety Code has been increased in the areas of technical, policy, guidance, education, data and research, communication, administration and strategy development. We participate in five safety management system peer reviews each year, and have led the development and review of various guidelines issued under the Code. This has included Key Principles for Marine Safety Risk Management; Aids to Navigation; and Good practice guidelines for hydrographic surveys in New Zealand ports and harbours.

Around \$2 million per annum additional Maritime Levies revenue was also agreed in the last Funding Review to cover cost pressures associated with Maritime NZ's administration of the Ballast Water Management Convention regulatory requirements, the provision of aids to navigation, maritime distress and safety communications, and general business cost pressures.

WHAT WE ARE TRYING TO ACHIEVE

Maritime NZ is a steward or guardian of the maritime domain. Our stewardship role is mandated under the Maritime Transport, Ship Registration, and Maritime Security Acts, across which our functions and powers are all about ensuring the offshore, coastal and inland waters of Aotearoa are safe, secure and clean. We are also designated under the Health and Safety at Work Act in relation to maritime activities and have stewardship responsibilities under the Public Service Act 2020

and the Crown Entities Act in terms of our capability as regulators, our systems and processes, retaining our institutional knowledge, and maintaining the legislation we administer.

All of these matters have fed in to and are reflected in our regulatory strategy Te Korowai o Kaitiakitanga which sets out our pathway to becoming an increasingly effective regulator. This means strong regulatory stewardship and being better able to support outcomes for the maritime sector (recreational and commercial), for the New Zealand public (because we are a Public Service entity), and for New Zealand (because having safe, secure and clean waters generates a range of social, cultural, economic and reputational benefits).

In 2021 Maritime NZ undertook a robust examination of how well we are delivering our various regulatory functions. This included internal workshops; conversations with industry organisations; looking at how other regulators perform 'like' functions; and reflection on how close we are to 'what good looks like' (as informed by what industry had told us, and by current thinking on good regulatory practice). That examination gave clear signals of gaps in our capability, capacity, systems, processes and culture; important insights into how these are affecting our performance and continued maturation as a regulator, and in some cases creating or contributing to risk. In 2022, an independent audit was undertaken of the extent to which New Zealand complies with its obligations under the various International Maritime Organisation (IMO) Conventions to which it is a Party, and the findings reinforced our earlier assessment, particularly in relation to our oversight of those we authorise to perform regulatory functions and some of our Port State Control work. Key areas highlighted were:

- Our investment in Flag and Port State Control inspections (and the quantum of activity it makes room for) has not in recent years been at a level sufficient to best manage the risks associated with sub-standard shipping. Over COVID the quality of vessels has declined as ships have been in demand and there has been less time for maintenance, COVID has also impacted on the ability on countries to undertake inspections. These issues have been raised by industry, the Port Health and Safety Leadership Group and other stakeholders as a growing concern. A 2022 IMO audit confirmed there were a number of matters in this area that need addressing. Concerns with safety of vessels seem justified with large numbers of deficiencies being found when inspections have occurred and that need to be rectified.
- We recognise that licensing application timeframes affect livelihoods, business continuity and employment, and that the quality of our internal systems for the processing of applications can affect licencing costs. Certificates or licences are a common requirement across the commercial maritime sector and an efficient and reliable licencing function is essential for the thousands of operators and seafarers requiring licensing services. Our Regulatory Licensing (Certification) team has for some time faced issues driven by a combination of increasing workloads, practice, process and workforce capacity and capability issues. This has resulted in backlogs and significant impacts on seafarers and operators. These issues have to be attended to in an enduring way.
- There are over 50 statutory notification requirements; they all ultimately serve a maritime safety or marine protection purpose and notifiers need to be confident that we are attending to notifications as necessary (this is particularly the case for notifications of incidents and accidents). Our systems for receiving and responding to enquiries are also important to being, and being seen to be, a supportive, assisting, professional and responsive regulator. Feedback has indicated that our arrangements and processes for receiving, triaging and responding to notifications and enquiries are in a number of areas compromising the timeliness, quality, consistency, and at times, the appropriateness of our responses; are making it harder for people to get easy access to information they need to comply with requirements, and are not enabling good sharing of insights on where and why harm is occurring.
- Through our work on Te Korowai, our engagement with stakeholders and discussions among staff we have identified (confirmed by a recent IMSAS audit) the need to take a more systematic and deliberate approach to third party oversight. There are 250 individuals and entities (third parties) who carry out regulatory activity in the maritime sector under a delegation, recognition or approval issued by the Director. In granting these permissions Maritime NZ is ultimately responsible for ensuring third parties are performing that activity to the standard necessary to support safety and marine protection outcomes and in a way that creates and maintains the confidence and trust of maritime operators. It is also important that operators can have confidence in the third parties performing roles in the system.

- Good regulatory practice is the right balance (based on information, intelligence, and data) of reactive and pro-active activity and about not relying only on regulatory requirements (and enforcement of the same) to achieve outcomes sought. In light of this, while recognising that compliance activity remains a valid part of our regulatory approach, we need to invest more in harm prevention, and pro-active activity to reduce risk and support the achievement of safe and clean outcomes for the commercial and recreational maritime sectors.
- Our front-line staff are the 'face' of Maritime NZ and the nature and quality of their work directly affects every maritime operator, seafarer, recreational boater or other person / entity that they interact with. With a specific quantum of staff available for work 'in the field' (audits, inspections, the delivery of harm prevention initiatives or compliance campaigns) it is critical that the regulatory effort is well planned and prioritised. We have identified that we do not have the mix of practice policy, practice tools and guidance needed to support best practice among our front-line staff and that our capacity to plan for and prioritise regulatory operations is less than what is required to do it consistently well. A lack of clearly explained and shared practice also makes it harder for sector participants to transparently understand why and how we approach our work, and how to hold us to account for how we operate.
- Every person who works or plays on our waters is variously subject to requirements under maritime rules and marine protection rules. The purpose of those rules is to support safe, clean and secure outcomes, but this is made harder to achieve when rules are outdated, no longer 'fit for purpose' or create unnecessary or disproportionate cost and effort. Unfit rules can also drive the need for exemptions and the process for obtaining these involves cost and effort for the maritime sector. This is an enduring issue and speeding up our rules reform programme is key to addressing it.

We looked closely at the basis for these issues and found them to be grounded in a combination of how we are internally organised; in the nature and quantum of resources we have available across several functional areas; some deficiencies in our regulatory processes; the absence of an operational policy and practice framework; information and intelligence limitations indicating the need for further investment in technology, and our organisational culture. In the round, all of these are affecting the calibre of our regulatory delivery in specific areas and some are having a material impact on the maritime sector.

WHAT WE HAVE DONE TO DATE

Having recognised that there needed to be changes across numerous elements of our organisation – how our staff and their effort is distributed, and the capability and capacity held in respect to particular functions, we went about making some necessary changes. This involved a combination of internal re-alignment of teams or functions, the disestablishment of some roles and the creation of new roles where necessary. The changes we made are as follows:

- We've invested more resources in our Certification (now called Regulatory Licensing) team to reduce application processing timeframes and improve our licencing performance more generally (see Case Study 1 below).
- We have created a separate Maritime Inspections team with a specific focus on port and flag State control so we can better oversight the standard of ships, shipping, and crew safety (See Case Study 2 below).
- We are putting in place the staff, processes and arrangements for the establishment of a small centralised Notifications and Enquiries team to improve our response processes and timeframes. (See Case Study 3 below).
- We have established a new Harm Prevention and Engagement team to support a strategic and pro-active approach to addressing the causes of harms in different parts of the maritime domain and to provide leadership on engagement practices and processes.
- We've improved our arrangements for big regulatory reform projects by converting a temporary and project specific team into a permanent Regulatory Reform Projects team. This is both an efficiency measure and an investment in building and maintaining our capacity to deliver significant regulatory reforms.

- We've enhanced our back end support capacity for front line staff, including more operational policy capacity and increased capacity to monitor their performance and plan their work. This means interactions with our front line staff are at a frequency appropriate to risk and of a nature that represents best value for the maritime sector.

Here are some case studies of changes we have made or are in the process of making.

CASE STUDY 1: INVESTMENT IN OUR CERTIFICATION CAPACITY

After a sustained period of increasing work volumes without any significant increase in resourcing, the Certification team (now Regulatory Licensing) was under immense pressure. There was a growing backlog of work with application process times well over the performance expectation of 20 working days and a significant backlog of unprinted certificates. Some of the issues causing the back-log were due to the temporary and fixed term nature of people working in the team, the capabilities hired, staff training and work flow and administrative processes. Some of the issues were exacerbated by COVID; in particular we lost many of the fixed term staff who had been relied on. Front end administration processes were failing to keep pace with the volume of work and this was affecting the end to end tracking of applications. All of the above were causing major concerns with the maritime industry and the number of justified complaints received was high.

The injection of additional resources enabled a restructure and stabilisation of the team. The printing backlog was eliminated in November 2022 and the average time taken to process applications reduced last year from 32 to 18 working days. A separate front end Workflow & Administration team was established with application and document management being significantly improved. Permanent staff have replaced those employed on a temporary basis and staff turnover has greatly reduced. Stakeholder complaints have also reduced significantly and we have received positive feedback on the material improvement in our regulatory licensing services.

CASE STUDY 2: CREATING A NEW MARITIME INSPECTIONS TEAM

New Zealand (through Maritime NZ) is a member of what is known as the Tokyo MOU. This is an organisation established in 1993 to set up an effective port State control inspections regime in the Asia-Pacific region. The purpose of the inspections is to eliminate substandard shipping and in doing so promote maritime safety, protect the marine environment and safeguard working and living conditions on ships. Being a member obliges New Zealand (Maritime NZ) to be part of a harmonised system of inspections of foreign flagged vessels entering our ports and our largest domestic vessels that operate outside our coastal limits. There is also a small number of New Zealand's largest ships that are covered by the International Convention for the Safety of Life at Sea (SOLAS) and as signatory to that convention there is an obligation on New Zealand (through Maritime NZ) to ensure those ships are being operated according to the required safety management system.

The introduction of the domestic Maritime Operator Safety System (MOSS) in 2014, covering over 1800 operators and 3500 vessels, brought all of the audit and compliance monitoring of those operations in house and this has continued to be a significant draw on our Maritime Officer resource. The level of resources available for port State control (PSC) and flag State control (FSC) inspections has also continued to be affected by those required for MOSS-related activity and for want of more resources we have not been able to 're-set' the level of PSC/FSC activity to the pre-2014 level. This has a potential impact on the standard of shipping in our waters and the Asia-Pacific region, and has been raised by industry as a growing concern.

In the second half of 2022, we therefore made a decision to create a dedicated PSC/FSC team made up of Inspectors with PSC/FSC expertise who are based at key shipping ports throughout New Zealand. To ensure the Inspectors can focus on inspections, a role was also created to conduct the risk profiling of visiting ships and the scheduling of inspections. Given their work is entirely port based there is efficiency in the Inspectors also being assigned harm prevention functions at ports. For efficiency gains the Inspections team will also lead on HSWA activity at ports (noting that that activity is not funded through Maritime Levies).

We are at the early stage of putting in place the new team, with a focus on priority inspections, the training of new staff, and the processes, operational policies and practice tools needed for optimal effectiveness and efficiency. Already, our renewed focus on PSC and FSC activity has shown that there are a number of ships with deficiencies coming to New Zealand and some that need to be detained which is re-enforcing the importance of the work.

CASE STUDY 3: ESTABLISHING A CENTRALISED NOTIFICATIONS AND ENQUIRIES TEAM

Maritime NZ receives over 5000 notifications and general enquiries each year and the timeliness and quality of our responses to the same is a reflection and measure of our efficiency and responsiveness as a regulatory agency. As part of a function by function examination of where we are now and 'what good looks like' we closely examined our arrangements for receiving, and processes for responding to, incoming notifications and enquiries.

We found that while for some types (for example oil spill notifications or enquiries about ship registration requirements) we have reliable and effective end to end systems that are meeting the reasonable expectations of us, for others, most critically, notifications of incidents and accidents, our arrangements were leading to variability in the timeliness and quality of our responses. Those arrangements included multiple points of entry, unclear lines of accountability and responsibility, and the absence of documented end to end processes. We also found that people were not always notifying when they should. In relation to answering of enquiries these are devolved across our frontline staff which takes them away from proactive work and we have no centralised way of knowing what our enquiries look like and what additional guidance and support we may need to provide to the sector to address them in a more efficient way.

To address the issues and improve our performance in an enduring way, we made the decision in the last third quarter of 2022 that we need to establish a small centralised team with the dedicated function of receiving, triaging, and processing incoming enquiries and notifications. In association, we are developing and embedding end to end processes for different notification and enquiry types. We are looking to put the new team in place through 2023 and will require funding to implement practice and process changes well.

WHAT MORE WE NEED TO DO TO DELIVER OUR REGULATORY STRATEGY AND ADDRESS REGULATORY RISKS

Some of the changes detailed above were made possible through efficiencies achieved through an organisational redesign. The redesign, which was fully effected over 2022, was focussed on altering the quantum, arrangement and distribution of staff to the extent reasonably necessary to effectively and efficiently address the functional delivery issues already identified. The redesign involved removing a management layer, staff re-deployment, and the disestablishment of some roles. We also undertook work to make greater efficiencies as outlined later in this document.

We received additional Working Safer Levies funding through a 2022 Budget Bid and this enabled us to pay for additional resources for HSWA related activity. This includes an element of our new harm prevention and engagement team, some additional regulatory practice resources, and additional investigations capacity. It also helped address inflationary pressures associated with our health and safety related regulatory function.

While we have made good progress in attending to specific gaps or deficits in the delivery of our functions, under our current funding levels (specifically, Maritime Levies) we cannot maintain and give full effect to some of the changes already made, and we cannot address some enduring regulatory risks at the causative rather than symptomatic level.

As some matters cannot be maintained or addressed within our current level of Maritime Levies funding we have developed four proposals for additional funding.

WHAT ELSE WE ARE REQUIRED TO ATTEND TO

There is a small group of other matters that we have been required to cover in this review. These derive from government commitments and decisions made since the last full Funding Review; and issues arising from the method we apply to the setting of OPL rates and (relatedly) our ability to give effect to the New Zealand Marine Oil Spill Readiness and Response Strategy. Additional proposals are grouped under these categories and are set out in Part 2 below.

PART 2

THE PROPOSALS

The proposals set out below, and the amount of additional levies revenue that we have estimated will be required to give effect to them, reflect the minimum viable capacity / revenue uplift needed to achieve or to maintain the improvements we need to make. For three of the proposals, the additional Maritime or Oil Pollution Levies revenue proposed aligns with what the Crown has to date provided either as liquidity funding or as part of the Budget bid process.

Recognising that levies payers (in particular domestic payers) are facing other cost increases, Maritime NZ has prepared a scaled down option for three of the proposals. Within the relevant proposals the scaled down option is signalled. The scaling down is necessarily limited to only some elements of the overall package for these reasons:

While the proposals reflect those matters that Maritime NZ must attend to, and as soon as possible, the first proposal goes to a matter for which there are current and significant issues. Having the minimum viable funding uplift to address substandard shipping through increased port State and flag State control capacity, and having that uplift as soon as possible (that is, from 1 July 2024) is critical to reducing or removing a manifest risk. For that reason, the proposal cannot be a candidate for scaling down.

Because of the additional costs it creates or the investment it can have the effect of wasting, a reduction or deferral of new funding sought is only an option where no previous investment has been made or where investment already made would not be impacted. There are only three proposals where a scaling down would not cause collateral impact. The proposals, the scaled option, and the impact of the scaling, are set out in the table below:

Scaled option package:	Impact on non-scaled rates over three years from 2024/25
Defer until 1 January 2026 Proposal 2: supporting the achievement of safety and marine protection outcomes at reduced cost.	-1.4% per year
Defer until 1 January 2026 Proposal 4: establishing a third party oversight capacity	-1.1% per year
Reduce by \$0.5m per annum Proposal 6: Seafarer Welfare Services funding	-1.4% per year

Maritime NZ is not unsympathetic to levies payers but considers that the relatively minor financial impact of the scaled option (for all but those with the highest levies liability) is significantly outweighed by the nature and potential scale of risks it leaves unattended. Within each relevant proposal we have set out that risk.

SUPPORTING THE DELIVERY OF OUR REGULATORY STRATEGY AND MANAGING REGULATORY RISKS

PROPOSAL 1: MAINTAINING AND ENHANCING REGULATORY OPERATIONS CAPACITY (MARITIME LEVIES)

As outlined in what we are trying to achieve (page 7) and in the case study above (page 10), we have built the foundations of a Maritime Inspections team, however we will need Maritime Levies funding to ensure the team has sufficient capacity to:

- be able to inspect all priority high risk ships leading to better safety, environmental and maritime labour outcomes
- inspect other vessels that our data and intelligence indicates are high risk (numbers would depend on how many vessels our intelligence signals are high risk)
- ensure we have the presence to act as a deterrent to sub-standard ships coming to New Zealand ports and harbours, this includes undertaking a specified number or percentage of random inspections each year
- meet our Tokyo MOU obligations
- build better holistic understanding and relationships with our flag State operators to deliver safety outcomes; and

- address some of the IMSAS audit recommendations in this area and have the effect of improved audit results in future.

Without a sustainable funding source the relevant positions will need to be funded through drawing resources away from another regulatory function which is simply moving the regulatory risks to another area.

The proposal is to raise Maritime Levies revenue by \$1.9m per annum from 1 July 2024 to fund the maintenance and expansion of the Maritime Inspections team.

PROPOSAL 2: SUPPORTING THE ACHIEVEMENT OF SAFETY AND MARINE PROTECTION OUTCOMES AT REDUCED COST (MARITIME LEVIES)

The only purpose of maritime and marine protection rules is to support safety and marine protection outcomes. There are thousands of Maritime and Marine Protection Rules and sub-rules and these variously apply to the construction, crewing, operation, and navigation of every domestic commercial vessel and recreational craft.

Where rules are specifically out of date (for instance, they require a piece of equipment no longer in production or that has been superseded) or are generally out of keeping with changes in industry practice or are more prescriptive than necessary, they do not serve their purpose and they create unnecessary cost for industry. That cost comes in the form of exemption application fees, an inability to innovate, and where exemptions from certain requirements are prohibited under rules, a compulsion to meet those requirements irrespective of their fitness.

We have made significant progress since our last Funding Review in establishing an annual regulatory reform programme that attends to priority rules amendments, and the creation of new rules where required. We are also in the process of reforming the 40 series (ship design, construction and equipment rules), which a big driver of exemption applications. But there remains a significant back log of outdated rules that do not support the achievement of safety and marine protection outcomes. Through sequencing and prioritisation we can gradually work through the full set of rules, but based on our current rules drafting, policy and technical capacity our progress will be unduly slow; and the level of misalignment with international norms and modern standards could grow.

Increased rules policy and drafting capacity and a dedicated technical rules resource will speed up the end to end process for rules amendments and support good standards in the development and drafting of technical rules. Further, dedicated technical capability within our regulatory policy team is more efficient than the current arrangement where requests for technical advice and support for rules development compete with other demands on our technical resources. Faster progress in regulatory reform, as will be supported by the proposed resources, will, over time, reduce costs and unnecessary compliance burden within the maritime community. We anticipate that the additional resources proposed will enable an expansion to the scale of our annual regulatory reform programme year on year (pending the complexity and scale of priority rules reviews and amendments required each year).

As the timeframe for working through all current rules extends beyond the timeframe for this Funding Review period (ending 2029/30), and as we cannot foreshadow what entirely new rules might be required within and beyond that time, the proposed levies uplift will be required on an ongoing basis.

The proposal is to raise Maritime Levies revenue by \$1.0m per annum from 1 July 2024 to increase our policy, rules drafting and technical advice capacity and make faster progress in regulatory reform.

The scaled down option is to delay by 18 months (that is, until 1 January 2026) any increase in Maritime Levies revenue for this purpose. This would result in a 1.4% reduction in levies increases each year for three years from 2024/25 but would extend the period of Maritime NZ's inability to keep up with the demand for rules reform with a consequential delay in removing the costs associated with unfit rules. It will delay our ability to do large reviews of rules like STCW and consideration of how we make rules more fit for purpose for smaller or different types of operator.

PROPOSAL 3: IMPROVING OUR PERFORMANCE IN RESPONDING TO NOTIFICATIONS AND REGULATORY LICENSING (MARITIME LEVIES)

As outlined in what we are trying to achieve (pages 7 and 8) and the case study (page 10) the decision to establish a centralised Notifications and Enquires (NET) team was made in 2022 on the basis of a critical need to improve our practice around receipt, triaging and responses to incoming enquiries and notifications. Through port health and safety and recreational safety work, we have also identified that people may not be notifying as much as they should. Notifications data is important as it shows where, and why, incidents may be occurring and helps us and the sector consider where to target our effort. Getting this part of our regulatory business working well is mission critical given the issues and risks arising from multiple entry points, response delays and gaps, unclear responsibilities and accountabilities, and inconsistency in triaging and response standards. We are in the early stages of building our NET function and will need levy support for it to be fully functional and effective. The team was established out of necessity but ahead of an assured on-going funding stream.

The benefits for industry as a whole will not be limited to a more responsive and reliable notifications and enquiries service. A functioning NET team will also result in:

- improved recording and analysis of notification and enquiries trends
- reliable insights into where industry guidance and education is needed
- capacity to make the necessary links between notifications and points of vulnerability in safety system or other rules requirements
- pro-active front line activity best aligned with attending to industry information and support needs, and risks and harms signalled in notification and enquiry trends.

We anticipate measurable qualitative improvement in the timeframes and consistency of responses (where relevant) to notifications, and enquiries.

As set out in the case study on page 10, Maritime NZ's regulatory licencing performance has suffered in recent years and until recently this has impacted the continuity of maritime operations, creating seafarer workforce issues and in some cases affecting the livelihood of individuals through delaying their entry into the commercial maritime sector.

A decision in 2022 to invest more and permanent regulatory decision making resources in the two teams performing certification functions and create a small workflow and administration team continues to make a significant difference to the quality of regulatory licencing services we provide.

Because of the urgent need for improvements, the investment decision was made ahead of an assured future. Unless the improvements can be sustained Maritime NZ will need to decrease staff and risk a reversion to pre and early 2022 performance issues.

Maritime NZ expects that from 2024/25 - 2029/30 additional fees revenue will cover some but not all of the cost of the increased regulatory licencing capacity. As the capacity uplift is not only in relation to individual certification applications processing (which is fee-able) but also to more general workflow, licencing practice, certification enquires response and administrative process improvements (that are of general benefit to all current and prospective licencing applicants) we consider it appropriate that the cost of the uplift is recovered partly through Maritime Levies.

The proposal is to raise Maritime Levies revenue by \$1.3m per annum from 1 July 2024 to fund the maintenance of the NET and to maintain increased regulatory licencing improvements.

PROPOSAL 4: ESTABLISHING A THIRD PARTY OVERSIGHT CAPACITY (MARITIME LEVIES)

Maritime NZ does not currently have the capacity to effectively monitor and support the performance of third parties. This creates a risk of regulatory failure. It creates a risk that operators are not receiving a consistent and effective service from third parties. It also means that third parties themselves do not receive consistent support and guidance from us as a regulator.

There are over 250 individuals and entities (third parties) authorised by Maritime NZ to perform regulatory functions such as ship surveys, inspections, the servicing of maritime products, approval of safety plans and seafarer examinations. The

maritime sector is highly exposed to third parties and it is essential that they perform their functions to the standard necessary to support the achievement of marine protection and safety outcomes within the maritime sector.

Events in other regulatory domains have shown how important it is for third parties to perform their functions to the standard expected: the Whakaari/White Island event and Waka Kotahi vehicle testing issue are cases in point. To date, Maritime NZ oversight of the performance of third parties has been predominantly reactive. Year on year there is some engagement with individual or 'classes' of third parties on specific issues and efforts have been made to address particular issues with specific third party regulators when they are brought to our attention.

But for want of resources Maritime NZ has not taken a 'stewardship' approach to this element of the maritime regulatory system: that is consistently maintaining oversight of third parties from point of entry to the system to their exit; monitoring their performance in between and ensuring they have the necessary tools and support to perform their functions. With a third party stewardship framework now developed we need a small team to lead its delivery.

A dedicated third party oversight capability will mean a deliberate and systematic assurance approach that will serve to maintain high third party performance standards and remove the risk of regulatory failure evidenced in other regulatory domains. The type of activity enabled by a third party team includes: monitoring and providing support to recognised surveyors; ensuring the entry control processes for third parties are sufficiently rigorous; identifying where more guidance and practice materials are needed in a particular cohort of third parties and supporting the development of the same; or undertaking monitoring of regional councils and harbourmasters performing functions under delegation from the Director. This team would be small, around four, and be made up of technical expertise, audit and operational policy.

The establishment of such a team also enables Maritime NZ to address in an enduring and visible way a critical finding from a 2022 IMSAS audit. The audit was for the purposes of assessing the extent to which New Zealand complies with its obligations set out in the various IMO instruments to which it is a Party. It found that there was no evidence of a Maritime NZ oversight programme for Recognised Organisations and their nominated surveyors.

Ahead of a third party team being established, and the detailed analysis required to ascertain the quantum and nature of oversight (and more broadly, stewardship) activity required, it is difficult to quantify the uplift in activity that will be required and enabled through the additional funding. However, if the proposal is effected, we will report on that activity as part of the full Funding Review in 2026/27.

The proposal is to fund, through a \$0.8m increase in Maritime Levies revenue from 1 July 2024, the establishment and maintenance of a small team to lead the delivery of the organisation's third party oversight activity.

The scaled down option is to delay by 18 months (that is, until 1 January 2026) any increase in Maritime Levies revenue for this purpose. This would result in a 1.1% reduction in levies increases each year for the three years from 2024/25 but would create a gap of almost three years between now and when the organisation would have any capacity to oversight third party regulators and attend to the regulatory system risk identified by sector participants around the need to ensure more consistent good performance, and support, for parties operating under a delegation or authorisation

RECOVERING THE COST OF COMMITMENTS MADE BY GOVERNMENT

PROPOSAL 5: SUSTAINING FUNDING FOR MARPOL ANNEX VI ADMINISTRATION (MARITIME LEVIES)

In 2021, as part of its commitment to reducing greenhouse gases, the Government signed what is known as MARPOL Annex VI, which sets out a regime for the prevention of air emissions from ships. When the government signs an international convention there is an obligation to give effect to it domestically. Maritime NZ is the administrator of Maritime Rules developed for the specific purpose of implementing the MARPOL Annex VI regime in New Zealand. The cost of that administration can in small part be recovered through fees (certification activity) but there are other elements that it is appropriate and necessary to cost recover through Maritime Levies. To date, our implementation and administration of the new requirements has been Crown funded, but on the assumption that from 1 July 2024 those costs will be recovered through Maritime Levies.

Administration of the MARPOL Annex VI regime includes Maritime NZ oversight of the taking and testing of fuel; an additional element within port and flag State control inspections and within audits of some domestic maritime operations; the provision of information and guidance to our domestic maritime sector; adjustments to our IT platform; a dedicated technical advisor; an additional legal and investigations capacity; ongoing training for our Maritime Officers and Inspectors; and because it is an international regime for which modifications will be raised in the IMO context, an ability to play an active part in those negotiations to ensure any changes sought are acceptable to New Zealand.

This is a significant and complex regulatory regime that is potentially applicable to the operation of hundreds of commercial and recreational craft. Maritime NZ needs to be best positioned to support the maritime sector in understanding and complying with the new requirements and enforcing the same where necessary.

A sustainable funding base ensures that Maritime NZ can give effect to the requirements as intended and as obliged under the relevant convention. Having the funding to administer MARPOL Annex VI also means New Zealand can play a credible and influencing role in climate-related negotiations at the International Maritime Organization (IMO).

The proposal is to raise Maritime Levies revenue by \$1.8m per annum from 1 July 2024 to fund Maritime NZ's administration of MARPOL Annex VI.

PROPOSAL 6: SEAFARER WELFARE SERVICES FUNDING (MARITIME LEVIES)

By way of background, seafarer welfare services in New Zealand were for many years funded from charitable sources, with local welfare organisations providing services for seafarers at ports, and the Seafarers' Welfare Board (SWB) (operating since 1964) fostering ways and means of caring for seafarers, and actively promoting cooperation between welfare providers. In 2021 (in part in response to the impact of COVID on the ability to raise funds through donations) a centralised Crown funding arrangement was put in place, with a set of specified services provided by the SWB under a contract with Maritime NZ.

In 2021, Parliament made a decision to amend the Maritime Levies provisions under the Maritime Transport Act to enable Maritime Levies to be raised and used to help meet the cost of seafarer welfare services. Current levies rates are not set at the level necessary to generate funding for this purpose.

As this goes to a new proposed use of Maritime Levies funding, further detail about that use is set out below. Seafarer welfare services would be available to the crew of all ships covered by the MLC, except the crew of domestic ships and New Zealand-operated ships under foreign flags (as New Zealand law and services apply). Foreign-flagged fishing vessels calling at New Zealand ports would be covered. MNZ proposes that the funding be applied to a set of services that help meet what is required under the MLC. These fall into the following broad categories – communications services (such as the provision of Wi-Fi and telecommunications); information services; ship visits; shopping (for those crew not able to leave ship) and money exchange; access and transport to welfare centres; transport services to and from town; and mental health, wellbeing and advocacy services.

The Government currently provides \$1.5m to contribute to the provision of welfare services (and meet MNZ costs in relation to the administration of that funding). We propose that the amount to be recovered from Maritime Levies for this same purpose should also be \$1.5m per annum.

MNZ has considered options for the best way to deliver services in a way that will see value for money. These include the status quo (MNZ funding SWB who coordinate and deliver many welfare services), an amended status quo with the SWB bulk funding port welfare groups according to an MNZ formula, an MNZ grants system, and MNZ delivery. The full options analysis is available in the attached document [Delivery options for Seafarer Welfare services](#).

The use of the grants model by MNZ enables tighter MNZ control over accountability, maintains an MLC-consistent role for the SWB, and allows local port welfare organisations to deliver services in a way appropriate to their port. The MNZ grants model is currently the preferred delivery model, but we welcome feedback on each of these models (and any others).

If this proposal is adopted the Crown will continue to meet its obligations under the Maritime Labour Convention in respect to the availability of seafarer welfare services and there will be a reliable funding source for their delivery. Seafarers working on the type of vessels noted above will continue to have access to these services and the provision of the same will have a positive impact on their ability to carry out their ship based duties effectively. This will contribute directly to the safety of

shipping conducted in New Zealand waters (and in the waters of other jurisdictions) with an associated reduction in the likelihood of accidents and marine pollution incidents.

The proposal is to raise an additional \$1.5m Maritime Levies revenue per annum from 1 July 2024 to fund a specified quantum of seafarer welfare services.

The scaled down option is to reduce levies revenue raised for this purpose to \$1 million per annum. This would result in a 1.4% reduction in levies increases each year in the three years from 2024/25. A reduction in funding for seafarer welfare services would require a scaling back of services irrespective of whether current demand is sustained or increases.

REVISING THE OIL POLLUTION LEVIES ALLOCATION METHODOLOGY AND MAINTAINING MARINE OIL SPILL READINESS AND RESPONSE CAPABILITY

PROPOSAL 7: CHANGING THE OIL POLLUTION LEVIES ALLOCATION METHODOLOGY

Oil Pollution Levies rates have previously been calculated through applying a complex methodology and model that is costly to apply and at future risk of unreliability as a basis on which the levies rates for different sectors are determined. The approach is heavily reliant on the use of historical national and international data from the recent past being representative of future activity.

Given the very significant changes that occurred during the COVID-19 pandemic, recent historical data will not be reliable going forward. In addition, there have been very significant changes in the operating environment that gives rise to the risks of a marine oil spill. One change with significant and on-going impacts is the closure of the Marsden Point refinery and its conversion to a refined hydrocarbon products facility. Specific impacts from this change already seen include:

- A major reduction in the import of heavy, crude oil into Marsden Point;
- Removal from the New Zealand coast of the domestic tankers previously used to ship the majority of refined products from Marsden Point around the New Zealand coast, and
- A large increase in foreign hydrocarbon product tankers coming to New Zealand to deliver refined products to multiple ports across New Zealand.

Other changes have also occurred and further developments are highly likely. As a result we face a double challenge: the existing methodology will not be reliable going forward and the change in the operating environment will drive major changes to the risk profile across the sectors.

As a result we have reviewed the OPL allocation methodology. The proposed new method for allocating relative levies liability by sector (and the basis for calculating OPL rates) is more efficient (cost effective), it takes less time and effort to generate the relevant data; is less vulnerable to unpredictable changes in shipping and oil carriage volumes, and is less complex than the extant methodology.

The methodology is based on that used for Maritime Levies which was developed and then implemented after detailed consultation as part of the 2018 Maritime NZ Funding Review. The methodology considers how much of the total levies required each vessel should be liable for, and is based on specific criteria to determine the *“value of what is placed at risk in the maritime system”*. In its truncated form, the principle is the ‘risk value’. For Maritime Levies the criteria are (people, freight and ships); for the OPL we propose to use “ships” – reflecting oil being used as bunker fuel - and “oil as cargo”. The ships criteria will use Gross Tonnage as a proxy for bunker fuel capacity (as in the current OPL methodology), and actual quantity of oil carried as cargo (as we have access to this data, and again this is as used in the current methodology).

Where the proposed methodology differs from that currently used is that we will be moving to “risk value” as opposed to an assessment of actual ‘risk’, which is generally understood as a combination of likelihood and consequence of harm. As detailed above we believe that the assessment of actual risk – as used in the Marine Oil Spill Risk Assessment – is no longer a credible or viable option. As well as being expensive, it is time consuming and particularly prone to significant errors given its reliance on historical data being an accurate proxy for the future.

Given the changes in the operating environment (oil type, activity volumes and traffic patterns etc.) it is to be expected that the risk profile and hence risk share across sectors will change significantly. Applying the proposed (Maritime Levies aligned) methodology we see the impacts of these changes with a reduction in the share of the OPL to be paid by the domestic sectors (reflecting the departure of domestic tankers from the New Zealand coast) and a consequent increase in the shares paid by foreign tankers (as we see large increases in the number of foreign tankers entering New Zealand waters). We also see a shift from the domestic passenger and cargo vessels (smaller vessels with less bunkers and less persistent oil as fuel) to foreign passenger and cargo (larger vessels with larger bunkers and more use of persistent oil as bunker fuel). These shifts are consistent with the concept of risk value if considering the impacts from larger volumes of oil as cargo and larger volumes of bunkers in larger vessels.

To support your consideration of the proposed new methodology we have attached the [Oil Pollution Levy Methodology Review](#).

PROPOSAL 8: MAINTAINING MARINE OIL SPILL READINESS AND RESPONSE CAPABILITY (OIL POLLUTION LEVIES)

The New Zealand Marine Oil Spill Readiness and Response Strategy reflects the required nature and scale of New Zealand's oil spill response preparedness, co-ordination, capability, and equipment. The development and five yearly review of the Strategy is a requirement under the Maritime Transport Act and is developed in consultation with the Oil Pollution Advisory Committee (OPAC - a statutorily appointed committee representing levy paying sectors, stake holding central government agencies and local government). The implementation plan for the Strategy is also developed in consultation with, and agreed to, by OPAC.

Delivering the Strategy (via the implementation plan) means all of the preparedness and response elements are covered and the harms of a significant marine oil spill can be at best removed, or at least minimised. The proposal, if effected, would mean a gap in the funding required to deliver the Strategy would be bridged.

The current OPL rates set out under the Oil Pollution Levies Order 2016 are now out-of-date; one element has expired and the activity types and levels that they were based on have changed. The Strategy and its associated Plan indicate the level of revenue needed but given the changes in the operating environment the current OPL is not raising the necessary revenue. Crown has funded the gap in revenue to date but Government has directed that full cost recovery should recommence from 1 July 2024 as is intended under the relevant provision of the Maritime Transport Act.

The proposal is to raise an additional \$0.8m Oil Pollution Levies revenue per annum from 1 July 2024 to generate the full quantum of funding needed to deliver the Strategy via the Plan.

FINANCIAL AND OTHER IMPLICATIONS

Tables 1 and 2 show the indicative changes to Maritime Levies rates and Oil Pollution Levies rates, if all levies related proposals are adopted. The Maritime Levies rates table does not include the scaled down option rate but this has been signalled as 3.9% less than the rate if no proposals were scaled (refer page 12). The rates shown are indicative only as any proposed changes to Maritime Levies or Oil Pollution Levies rates (as would be required if the proposals are adopted) are at first instance subject to feedback from this consultation. Also, any change in funding is subject to Ministerial approval before changes can proceed to Cabinet for agreement and then to the Governor General for Royal Assent.

TABLE 1: IMPACT ON MARITIME LEVIES RATES BY LEVIES PAYING SECTOR

Vessel category	Gross tonnage	Deadweight tonnage	Passenger capacity	Overall length
Foreign passenger	0.1004 0.1282	0.0082 0.0103	2.0248 2.5845	N/A
Foreign non passenger	0.1178 0.1504	0.0095 0.0121	N/A	N/A
NZ SOLAS	7.7931 9.9463	0.4607 0.5879	46.71 59.6161	N/A
NZ non-SOLAS (24m or more in length)	8.2197 10.4885	N/A	17.5403 22.3867	N/A
NZ non-SOLAS (less than 24m in length)	N/A	N/A	17.5403 22.3867	15.1746 19.5376

TABLE 2: IMPACT ON OIL POLLUTION LEVIES RATES BY LEVIES PAYING SECTOR

Vessel or oil site type	Oil Type	Current Base Levy	Proposed Levy	Basis of calculation
NZ vessels				
Passenger and cargo ships, harbour tugs and oil tanker bunker fuel	Bunker fuel	414.69 cents	173.95 cents	Per gross ton of the vessel (annual)
Tankers carrying oil as cargo	Persistent	29.96 cents	12.85 cents	Per tonne of oil carried as cargo
	Non Persistent	26.76 cents	7.56 cents	Per tonne of oil carried as cargo
Fishing vessels		73.56 cents	30.86 cents	Per gross ton of the vessel (annual)
Oil sites				
Offshore oil and gas (FPSO)	Persistent	\$858.66	\$82,055.19	Fixed Fee (annual)
Foreign vessels				
Passenger and cargo ships, harbour tugs and oil tanker bunker fuel	Bunker fuel	0.54 cents	2.63 cents	Per gross ton of the vessel (per port visit)
Tankers carrying oil as cargo	Persistent	36.14 cents	35.46 cents	Per tonne of oil carried as cargo
	Non Persistent	7.6 cents	20.86 cents	Per tonne of oil carried as cargo

SECTOR IMPACT SCENARIOS

TABLE 3: EXAMPLES OF IMPACT ON FOREIGN VESSEL LEVIES PAYING SECTOR

Vessel type Paid per port visit		FY25 Proposed Rate Maritime Levy	FY25 Proposed Rate Oil Pollution Levy	Proposed total Levies Increase
	International Oil Tanker (SOLAS) GT 25,000 PAX 0 DWT 45,000	\$4,303	\$658	\$1,453
	International Container Ship (SOLAS) GT 40,000 PAX 0 DWT 52,000	\$6,643	\$1,052	\$2,273
	International Cruise Vessel (SOLAS) GT 110,000 PAX 2500 DWT 15000	\$20,716	\$2,893	\$6,786

TABLE 4: EXAMPLES OF IMPACT ON DOMESTIC VESSEL LEVIES PAYING SECTOR

Vessel type Paid Annually		FY25 Proposed Rate Maritime Levy	FY25 Proposed Rate Oil Pollution Levy	Proposed total Levies Increase
	Domestic Passenger Ferry (SOLAS) GT 22,365 PAX 1,350 DWT 5,794	\$306,338	\$38,904	\$12,476
	Domestic Container Ship (SOLAS) GT 6000 PAX 0 DWT 10,000	\$65,557	\$10,437	-\$253
	Domestic Coastal Fishing Trawler (non-SOLAS) GT 529 PAX 0 DWT 0	\$5,548	\$163	\$974
	Domestic fishing Length 5.9 metres	\$115	NA	\$26
	Domestic non-passenger aquaculture vessel (mussel barge) GT 104	\$1,091	NA	\$236
	Domestic non-passenger barge GT 150	\$1,573	NA	\$340
	Domestic non-passenger Length 23.9 metres (including tugs)	\$467	NA	\$104
	Domestic non-passenger Length 8 metre workboat	\$156	NA	\$35
	Domestic Passenger Ferry (Non SOLAS) GT 280 PAX 300 DWT 0	\$3,608	\$487	\$107
	Domestic Charter Passenger Boat (Non SOLAS) Length 18 metres PAX 140 DWT 0	\$665	NA	\$146

Vessel type Paid Annually		FY25 Proposed Rate Maritime Levy	FY25 Proposed Rate Oil Pollution Levy	Proposed total Levies Increase
	Domestic Charter Passenger Boat (Non SOLAS) Length 8 metres PAX 14 DWT 0	\$179	NA	\$40
	Domestic Commercial Jet Boat Length 8.2 metres PAX 8 DWT 0	\$339	NA	\$75
	Domestic passenger Commercial dive boat Length 4.5 metres PAX 4	\$177	NA	\$39
	Domestic passenger 3.7 metre personal watercraft (jet ski/novel craft) PAX 1	\$95	NA	\$21

To assist you in understanding what the proposed increases could mean for your business Maritime NZ has produced a levies calculation tool that can be accessed [here](#).

PART 3

MARITIME NZ'S INTENTIONS TO SEEK ADDITIONAL CROWN FUNDING

Maritime NZ relies on on-going Crown funding to perform or deliver a range of activities. This includes its work on Maritime Security, Incident Readiness, Search and Rescue (SAR) and Maritime Safety Infrastructure (such as aids to navigation, distress radio and distress beacons). As these are public not private benefits the Crown has funded these activities consistent with transport sector funding principles and Treasury and OAG cost recovery guidance.

As a result, it will not be possible to fund these pressures through levies and Crown funding will need to be considered during the Funding Review period. These pressures include:

- Ensuring Maritime NZ has sufficient capacity to undertake its role in Maritime Security.
- Maintenance of sufficient capacity to respond to non-oil based maritime incidents and spills.
- Maintenance of infrastructure and provision of services provided by third parties that are essential for the distress beacon system and distress / safety communications.

Budget Bids in these areas will be put up in Budget processes, alongside a bid for implementation of the commitments made in the Emissions Reduction Plan, including the development of regulatory settings that can enable the use of low carbon technologies (which it is not reasonable for levy payers at large to fund).

EFFICIENCY IMPROVEMENT INITIATIVES

In the circumstance of making proposals that would, if effected, increase the rates for both Maritime and Oil Pollution Levies it is important that we set out what we have done to improve our efficiency and wherever possible, reduce our own costs. Our efficiency improvement initiatives and their effect are set out below.

Since the last Funding Review Maritime NZ has developed and is now executing an enterprise property strategy that is seeing deliberate and greater co-location of our smaller sites with other Government agencies in that place. Co-location has been focused on partner agencies such as Customs, Department of Conservation and Ministry for Primary Industries who have larger property footprints at our satellite locations and include Whangarei, Napier and New Plymouth. We are in the process of similar co-locations in Invercargill and Dunedin. We have also increased the operational efficiency of our Regional Hubs at

Auckland, Tauranga and Christchurch through more flexible working practices and now also have other key supporting staff based out of these regional hubs. We have generated greater efficiency in our National Head Office through flexible working practices and a modernised environment. The cumulative effect of these small shifts has seen reduced property and occupancy, and office support costs reduced from 4.35% in FY 2020 to a forecast 3.78% in FY2023 as a % of organisational running costs.

Over time we have continued to consolidate vendors and contracts across key cost categories making greater use of All of Government panels and syndicated contracts leveraging the buying power of Government. We have implemented a contract management system which is giving greater visibility of our activities and supporting more efficient practice. The full impact of this capability will be seen in out-years.

We have been reducing manual processes through greater investment in technology which has allowed us to de-commission some legacy platforms. It has also allowed greater cloud adoption generating efficiencies through increased access to data and information across Maritime NZ. Through this greater investment in upgraded information communication technology we are also making much more use of it as a substitute for travel, and as a key enabler of our work. The significant escalation of technology capability and adoption during the COVID environment was embraced by Maritime NZ. These efficiencies have seen our travel costs as a % of organisational running costs reduce from previous levels and we expect that it will continue into the future (reduced from 4.45% in FY 2019 to a forecast 2.9% in FY2023). The nature of our role and the work we do means there will continue to be a requirement to travel.

We have also embarked on our internal carbon reduction journey which has complementary objectives and is seeing us undertaking work to optimise and transition our vehicle fleet to more sustainable vehicle options. This will have a further efficiency impact once completed over the next three years.

The cumulative impact of these activities along with increased scale economies we have been able to reduce our overheads loading to 25%.

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982



Cabinet

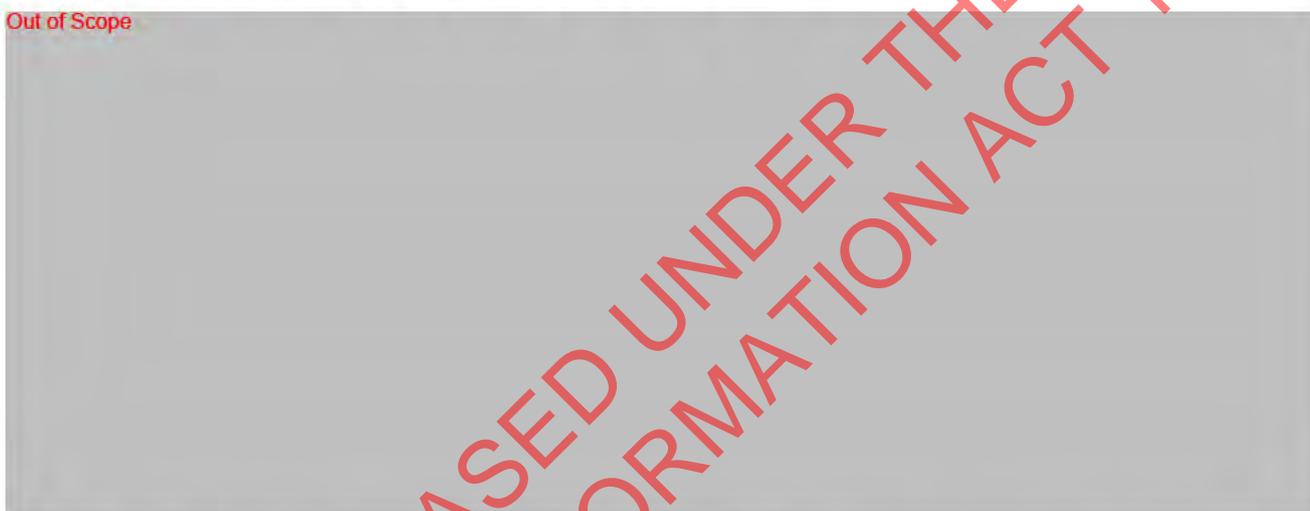
Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Report of the Cabinet Economic Development Committee: Period Ended 9 June 2023

On 12 June 2023, Cabinet made the following decisions on the work of the Cabinet Economic Development Committee for the period ended 9 June 2023:

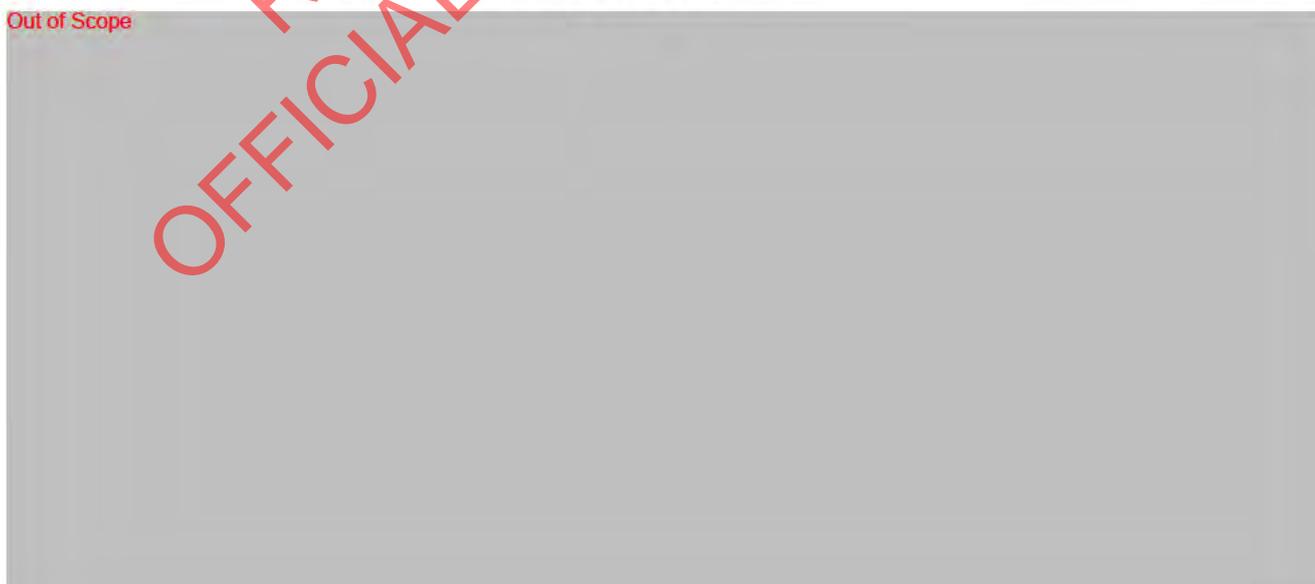
Out of Scope



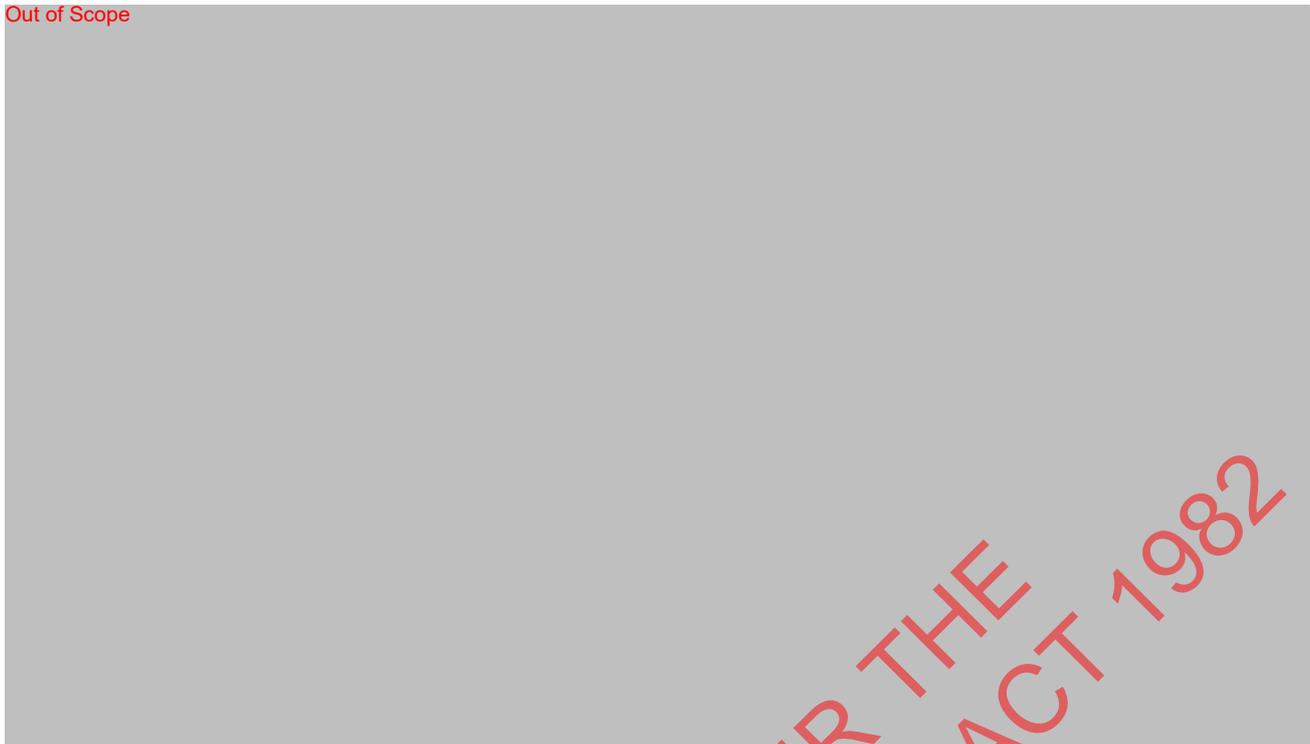
DEV-23-MIN-0110 **Maritime New Zealand and Civil Aviation**
Authority: Supporting Ongoing Financial Sustainability
Portfolio: Associate Transport

Separate minute:
CAB-23-MIN-0227.01

Out of Scope



Out of Scope



Rachel Hayward
Secretary of the Cabinet

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982



Cabinet

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Maritime New Zealand and Civil Aviation Authority: Supporting Ongoing Financial Sustainability

Portfolio Associate Transport

On 12 June 2023, following reference from the Cabinet Economic Development Committee, Cabinet:

- 1 **noted** that the Associate Minister of Transport intends to direct Maritime New Zealand to progress its funding review as quickly as practicable, with the objective of implementing changes to levies by 1 July 2024;
- 2 **noted** that, based on Maritime New Zealand's current proposals, this would result in an increase of 33.1 percent to Maritime levies and 8.1 percent to Oil Pollution levies, from 1 July 2024;
- 3 **authorised** the Associate Minister of Transport and the Minister of Finance to approve the release of the *Maritime NZ Review of Levies Funding for 2024/25 – 2029/30* (the consultation document), attached as Appendix 1 to the paper under DEV-23-SUB-0110, subject to any minor or editorial changes that may be required to enable consultation to progress as quickly as possible;

4

Out of Scope

5

6

- 7 **noted** that, as per Budget 2023 recommendations, Letters of Comfort will be issued to the Boards of each entity, to be signed by the Minister of Transport, the Associate Minister of Transport and the Minister of Finance, to provide comfort that these entities will be able to operate as going concerns for the 2024/25 period.

Rachel Hayward
Secretary of the Cabinet

Secretary's Note: This minute replaces DEV-23-MIN-0110. Cabinet agreed to amend paragraph 6.

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982



Cabinet Economic Development Committee

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Maritime New Zealand and Civil Aviation Authority: Supporting Ongoing Financial Sustainability

Portfolio Associate Transport

On 7 June 2023, the Cabinet Economic Development Committee:

- 1 **noted** that the Associate Minister of Transport intends to direct Maritime New Zealand to progress its funding review as quickly as practicable, with the objective of implementing changes to levies by 1 July 2024;
- 2 **noted** that, based on Maritime New Zealand's current proposals, this would result in an increase of 33.1 percent to Maritime levies and 8.1 percent to Oil Pollution levies, from 1 July 2024;
- 3 **authorised** the Associate Minister of Transport and the Minister of Finance to approve the release of the *Maritime NZ Review of Levies Funding for 2024/25 – 2029/30* (the consultation document), attached as Appendix 1 to the paper under DEV-23-SUB-0110, subject to any minor or editorial changes that may be required to enable consultation to progress as quickly as possible;
- 4 **Out of Scope**
- 5
- 6
- 7 **noted** that, as per Budget 2023 recommendations, Letters of Comfort will be issued to the Boards of each entity, to be signed by the Minister of Transport, the Associate Minister of Transport and the Minister of Finance, to provide comfort that these entities will be able to operate as going concerns for the 2024/25 period.

Janine Harvey
Committee Secretary

Present: (see over)

Present:

Hon Grant Robertson (Chair)
Hon Michael Wood
Hon Dr Ayesha Verrall
Hon Willie Jackson
Hon Kiri Allan
Hon David Parker
Hon Peeni Henare
Hon Priyanca Radhakrishnan
Hon Dr Duncan Webb
Hon Dr Deborah Russell
Hon Rachel Brooking
Hon Jo Luxton

Officials present from:

Office of the Prime Minister
Officials Committee for DEV

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982



Cabinet Economic Development Committee

Summary

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Maritime New Zealand and Civil Aviation Authority: Supporting Ongoing Financial Sustainability

Portfolio	Associate Transport
Purpose	This paper notes that the Associate Minister of Transport intends to request that Maritime New Zealand (MNZ) and the Civil Aviation Authority (CAA) restart their respective funding reviews immediately.
Previous Decisions	On 20 October 2021, DEV agreed to lift the moratorium on undertaking funding reviews for the MNZ and CAA, and agreed that Letters of Comfort be issued to the Boards of the two entities, to be signed by the Ministers of Transport and Finance [DEV-21-MIN-0192].
Proposal	<p>The liquidity facility for the MNZ and CAA is scheduled to expire on 30 June 2024. Beyond that point, the entities will need further funding. This could be provided through increased levies or through further Crown funding.</p> <p>The funding reviews for the MNZ and CAA were put on hold in March 2023 to ensure that all alternative options had been explored and cost-of-living implications considered. It is now proposed that these funding reviews be resumed immediately.</p> <p>Authority is sought for the Minister of Finance and Associate Minister of Transport to approve the release of consultation documents for the maritime and civil aviation funding reviews. The current draft consultation document for the Maritime funding review is in Appendix 1; a consultation document for the Civil Aviation sector is being prepared.</p> <p>It will be difficult to meet the 1 July 2024 timeframe, and therefore Crown support may be required into 2024/25. Letters of Comfort will be issued to the Boards of each entity, to be signed by the Minister of Finance, Minister of Transport and Associate Minister of Transport, to provide comfort that the entities will be able to operate as going concerns for the 2024/25 period.</p>
Impact Analysis	Not required.
Financial Implications	Financial implications are discussed on pages 5-6 .
Legislative Implications	None.

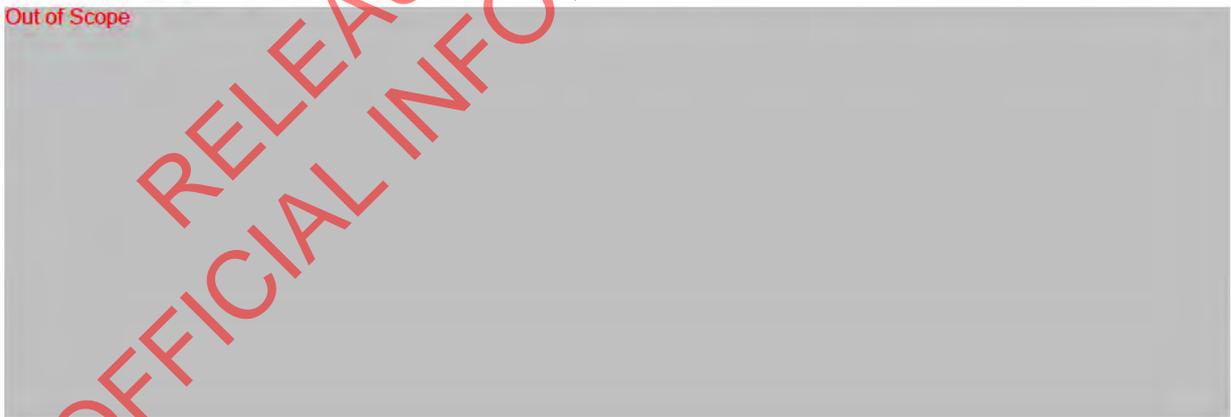
- Timing Matters** The funding reviews will be undertaken as soon as possible, with the objective of implementing changes to levies by 31 January 2025.
- Communications** Authority is sought for the Minister of Finance and the Associate Minister of Transport to approve the release of the consultation documents.
- Consultation** Paper prepared by Transport. MBIE, MfE, Treasury, MFAT, TPK, Police, MPI, MNZ, CAA and WorkSafe NZ were consulted.

The Associate Minister of Transport indicates that DEV Ministers were consulted.

The Associate Minister of Transport recommends that the Committee:

- 1 note that the Associate Minister of Transport intends to direct Maritime New Zealand to progress its funding review as quickly as practicable, with the objective of implementing changes to levies by 1 July 2024;
- 2 note that, based on Maritime New Zealand’s current proposals, this would result in an increase of 33.1 percent to Maritime levies and 8.1 percent to Oil Pollution levies, from 1 July 2024;
- 3 authorise the Associate Minister of Transport and the Minister of Finance to approve the release of the *Maritime NZ Review of Levies Funding for 2024/25 – 2029/30* (the consultation document), attached as Appendix 1 to the paper under DEV-23-SUB-0110, subject to any minor or editorial changes that may be required to enable consultation to progress as quickly as possible.

Out of Scope



- 7 notes that, as per Budget 2023 recommendations, Letters of Comfort will be issued to the Boards of each entity, to be signed by the Minister of Transport, the Associate Minister of Transport and the Minister of Finance, to provide comfort that these entities will be able to operate as going concerns for the 2024/25 period.

Janine Harvey
Committee Secretary

Hard-copy distribution:
Cabinet Economic Development Committee

From: [Robyn Wong](#)
To: [RIA Coordinator MoT](#)
Cc: [Johnny Crawford](#); [Emma Petrenas](#); [Len Starling](#); [Roger Brown](#); ["Julia Harker"](#); [Louise Dooley](#)
Subject: MNZ revised CRIS for RIA panel
Date: Friday, 13 October 2023 4:01:29 pm
Attachments: [image001.png](#)
[Cost Recovery Impact Information Stage 2 \(CRIS2\).DOCX](#)

Kia ora Holly,

Please find attached our revised CRIS. We have addressed your feedback below. I have not attached Appendix 8 again as there are no changes to this.

Please let me know if you have any questions.

Ngā mihi
 Robyn
 Strategic Business Analyst
 s 9(2)(a)

From: Robyn Wong
Sent: Friday, 13 October 2023 1:37 pm
To: RIA Coordinator MoT <RIACordMOT@transport.govt.nz>; Louise Dooley <Louise.Dooley@maritimenz.govt.nz>
Cc: Johnny Crawford <J.Crawford@transport.govt.nz>; Emma Petrenas <E.Petrenas@transport.govt.nz>; Len Starling <L.Starling@transport.govt.nz>; BrownR <r.brown@transport.govt.nz>; Julia Harker <Julia.Harker@nzta.govt.nz>
Subject: RE: EXTERNAL: RE: MNZ CRIS - panel written feedback

Kia ora Holly,

I'm sorry, I thought I had replied earlier to this. We're endeavouring to get a revised CRIS to you before close of play today.

Ngā mihi
 Robyn
 Strategic Business Analyst
 s 9(2)(a)

From: RIA Coordinator MoT <RIACordMOT@transport.govt.nz>
Sent: Tuesday, 10 October 2023 3:24 pm
To: Robyn Wong <Robyn.Wong@maritimenz.govt.nz>; Louise Dooley <Louise.Dooley@maritimenz.govt.nz>
Cc: Johnny Crawford <J.Crawford@transport.govt.nz>; Emma Petrenas <E.Petrenas@transport.govt.nz>; Len Starling <L.Starling@transport.govt.nz>; BrownR <r.brown@transport.govt.nz>; Julia Harker <Julia.Harker@nzta.govt.nz>
Subject: EXTERNAL: RE: MNZ CRIS - panel written feedback

CAUTION: This email originated from outside of the organization. Do not click links or open attachments unless you recognize the sender and know the content is safe.

Kia ora,

As discussed, please find attached the panel's written feedback.

Based on the feedback provided in this document and at yesterday's meeting, MNZ do you have a rough idea of when the updated CRIS document will be ready for the panel to review?

Ngā mihi

Holly

Holly Jameson (she/her)

Kaitohutohu, Ngā Momo Neke me ngā take Haumaruru | Adviser - Mobility and Safety
Te Manatū Waka Ministry of Transport

s 9(2)(a)

E: h.jameson@transport.govt.nz | transport.govt.nz



From: RIA Coordinator MoT <RIACordMOT@transport.govt.nz>

Sent: Monday, October 9, 2023 3:06 PM

To: Robyn.Wong@maritimenz.govt.nz; Louise Dooley <Louise.Dooley@maritimenz.govt.nz>; Len Starling <L.Starling@transport.govt.nz>; Julia Harker <Julia.Harker@nzta.govt.nz>; Roger Brown <r.brown@transport.govt.nz>

Cc: Johnny Crawford <J.Crawford@transport.govt.nz>; Emma Petrenas <E.Petrenas@transport.govt.nz>

Subject: MNZ CRIS - meeting summary

Kia ora koutou,

Thanks for attending today's RIA panel discussion of the Maritime NZ Funding Review CRIS.

Overall, the panel was pleased with the document and indicated that the report was currently sitting at a partially meets rating. The panel acknowledged the significant amount of work required to progress the review to this point and viewed the document as containing the necessary content and analysis. Recommend changes were largely editorial in nature.

During the discussion, the following key areas of improvement were identified:

- The intervention logic table. In its current form, this table has a lot of information to digest at once. The panel suggested enhancing readability by using subheadings and separating the table into a problem table and an analysis table.
- Plain language. The panel suggested condensing and simplifying long and wordy sentences where possible. The MNZ comms team would provide a useful fresh pair of eyes for proofreading the document and supporting plain language.
- Disclosure statement. It would be useful to model this section closely off the treasury templates so that it reads less like another executive summary.
- Monitoring and evaluation section. It would be useful to provide a bit more detail in this section, perhaps by referring to relevant existing measures MNZ reports on or where to

find more information on this.

- Paragraph numbers would support readability.
- Consultation. It would be useful to refer back to the relevant table to help ministers know where to look if they don't have time to review the entire document.
- Cost recovery principles and objectives. The principles and objectives should be clearly identified and listed as per the Treasury guidelines.

Following today's meeting, the panel have also pulled together a brief exemplar for suggested changes to the intervention logic table ahead of the rest of the written feedback:

Current wording	Potential rewording/restructuring
<ul style="list-style-type: none"> • Over the last 18 months we have had five vessels which had had significant engine failures and mechanical issues that could have led to a significant catastrophic event to people and the environment i.e. Achilles Bulker, Maersk Nadi, La Richardais, Shilling and Kaitaki. In the five years before, while vessels had maintenance issues, only one, the Funing, involved serious loss of engine propulsion, loss of rudder or other significant maintenance issues of the type seen in these incidents. We have also not seen this number of vessels, with the scale of these types of issues, all at one time, for many years beyond that. • These incidents require significant support from our maritime inspectors not just in the management of the incident itself (issuing of conditions, advice and inspection), but in follow up audits and support for any investigations. The increasing numbers of these incidents is one indicator of the increasing state of maintenance issues with ships on our coast. 	<p>Increase in vessel failures with potential to cause significant events</p> <ul style="list-style-type: none"> • Since [date], five vessels have had significant engine failures and mechanical issues that could have caused a catastrophic event – Achilles Bulker, Maersk Nadi, La Richardais, Shilling and Kaitaki. • We have not seen this number of significant vessel issues before, with only one over the previous five years (the Funing). • This increase in incidents reflects growing maintenance issues with ships on our coast. • Responding to these incidents requires significant support from our maritime inspectors, including incident management, audits and investigation support. <p>Increased detentions</p> <p>...</p> <p>Increased maintenance deficiencies and follow-up inspections</p> <p>...</p> <p>etc</p>

Written panel feedback based on our discussion today will be provided by the end of Tuesday 10 October. Once this has been provided, MNZ have indicated that they will be able to give an estimate of when the revised CRIS will be ready for the panel to review.

In the meantime, always happy to answer any questions and let me know if there is anything further I can help with.

Nāku noa, nā

Holly

Holly Jameson (she/her)

Kaitohutohu, Ngā Momo Neke me ngā take Haumarū | Adviser - Mobility and Safety

Te Manatū Waka Ministry of Transport

s 9(2)(a)

E: h.jameson@transport.govt.nz | transport.govt.nz



MINISTRY OF TRANSPORT

Wellington (Head Office) | Ground Floor, 3 Queens Wharf | PO Box 3175 | Wellington 6011 | NEW ZEALAND | Tel: +64 4 439 9000 |

Auckland | NZ Government Auckland Policy Office | 45 Queen Street | PO Box 106288 | Auckland City | Auckland 1143 | NEW ZEALAND | Tel: +64 4 439 9000 |

Disclaimer: This email is only intended to be read by the named recipient. It may contain information which is confidential, proprietary or the subject of legal privilege. If you are not the intended recipient you must delete this email and may not use any information contained in it. Legal privilege is not waived because you have read this email.

Please consider the environment before printing this email.

This email message and any accompanying attachments do not necessarily reflect the views of Maritime New Zealand and may contain information that is confidential and subject to legal privilege. If you are not the intended recipient, you must not use, disseminate, distribute or copy this email message or its attachments. If you have received this message in error, please notify the sender by email immediately, and erase all copies of this message and attachments. Thank you. Address: Maritime New Zealand, Level 11, 1 Grey Street, Wellington 6011. PO Box 25620, Wellington 6140 Tel: 0508 22 55 22 (04 473 0111) Fax: 04 494 1263. www.maritimenz.govt.nz For official information requests, please email Government.Services@maritimenz.govt.nz.

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

Cost recovery impact statement

Maritime NZ Review of
Levies funding for
2024/25 – 2029/30

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982



This Cost Recovery Impact Statement (CRIS) has been prepared by Maritime New Zealand as part of its Review of Levies Funding for 2024-2030. It is based on Treasury's Stage 2 Cost Recovery Impact Statement template which is designed specifically for proposals seeking agreement on changes to cost recovery levels. The changes sought are to the amount of Maritime Levies and Oil Pollution Levies recoverable from levies payers from 1 July 2024 until 30 June 2030. If the changes are agreed Maritime NZ will be able to operate on a full cost recovery basis over that period.

The CRIS provides an analysis of proposals for additional levies funding that have been developed by Maritime NZ as the least cost means to:

- attend to identified regulatory risks arising from Maritime NZs current capacity;
- continue to meet maritime related commitments made by Government since Maritime Levies rates were last set in 2018/19;
- ensure the methodology for allocating sector risk share and liability for Oil Pollution Levies is fit for purpose given significant changes in the maritime operating environment;
- ensure Oil Pollution Levies revenue is sufficient to deliver New Zealand's Marine Oil Spill Readiness and Response Strategy; and
- factor in cost pressures forecast across the full range of services and activities funded by Maritime Levies into the Maritime Levies related proposals.

Key gaps

There are no gaps noted in the analysis undertaken on the formation of the proposals, their impact on levies payers, and the consequences if they are not given effect.

Assumptions

The level of additional Maritime and Oil Pollution Levies revenue achievable through revised levies rates is modelled on the assumption of a full return to pre-COVID maritime activity levels by 1 July 2024.

Under the status quo, none of the proposals (with the exception of the OPL methodology proposal) can be effected. The implications of the status quo option are set out in Table 1.

In developing and costing the proposals Maritime NZ looked closely at whether a scaled down option for each would be feasible to consult on alongside the 'full' proposals. We applied a set of principles to identifying which proposals could *potentially* be effected with less funding or could be delayed. Of the eight proposals there were three where a scaled down option would not create existing investment waste or exacerbate the risk of regulatory failure (although they would prolong addressing potential regulatory failure).

Dependencies

There are no dependencies on the analysis set out in the CRIS.

Constraints, caveats or uncertainties concerning the analysis

The analysis is not constrained, there are no caveats to it and no uncertainties impacting the reliability of it.

Time constraints

Since 2021 the Crown has provided liquidity funding to Maritime NZ to meet levies revenue gaps arising from a delayed funding review, changes to the oil operating environment, COVID related reductions in maritime activity, and the cost of implementing two Government commitments made after Maritime NZ's last funding review in 2018/19. The funding was provided on the expectation that Maritime NZ will move to full cost recovery from 1 July 2024. This can only be achieved if the proposals set out in this CRIS are agreed.

Further work required before any decisions could be implemented

If the recommendation to adopt the proposals is agreed, the process for regulatory amendment will need to be followed. This includes the drafting of amendments to the Maritime Levies Regulations 2016 and the Maritime Transport (Oil Pollution Levies) Order 2016.

An initial version CRIS was originally published on 17 July 2023 as part of the public consultation on the proposals. It was updated following public consultation and finalised after feedback from the Te Manatu Waka Regulatory Impact Assessment Panel.

Prepared by: Louise Dooley, Policy Lead Maritime NZ Levies Funding Review

Signature

13 October 2023
Date

CONTENTS

New Agency Disclosure Statement.....	2
Executive Summary	4
Status quo.....	5
Cost Recovery Principles and Objectives	13
Policy rationale - proposals align to current policy	14
The level of the proposed fee and its cost components (cost recovery model).....	17
Forecast revenue	17
Costing the activity.....	17
Impact analysis	20
Impact of the proposed levies increases.....	20
Impacts/risks on the regulator	20
Expected effects on demand for services	20
Reasonableness of levies rates arising from the proposals	21
Consultation.....	22
Scaled options	24
Conclusions and recommendations.....	26
Implementation plan.....	26
Monitoring and evaluation.....	27
Review	29
Appendices	30
Appendix 1: Current versus proposed Maritime Levies factors.....	30
Appendix 2: Examples of current versus proposed Maritime Levies for indicative foreign vessels.....	30
Appendix 3: Examples of current versus proposed Maritime Levies for indicative domestic vessels.....	30
Appendix 4: Current versus proposed Oil Pollution risk allocation.....	31
Appendix 5: Current versus proposed Oil Pollution Levies rates	31
Appendix 6: Examples of Foreign vessels paying both Maritime and Oil Pollution levies.....	32
Appendix 7: Examples of Domestic vessels paying both Maritime and Oil Pollution levies	32
Appendix 8: Summary and analysis of submissions	33
List of tables	
Table 1: The status quo and problem being addressed.....	6
Table 2: Evidence to support the problem, proposed intervention and expected outcomes and benefits.....	8
Table 3: Statutory authority and alignment to cost recovery guidelines and principles	16
Table 4: Proposed Maritime Levies revenue (\$m)	17
Table 5: Proposed Oil Pollution Levies revenue (\$m).....	17
Table 6: Cost components of proposals.....	17
Table 7: Supporting evidence to costs	18
Table 8: Submitter quotes in support of proposals.....	23
Table 9: Submitter quotes: do not support or partial support	24
Table 10: Scaled options	25
Table 11: Submitter quotes: do not support scaling options	25
Table 12: Proposed measures	28

Executive Summary

- 1 Maritime New Zealand (Maritime NZ) administers a variety of national regulatory and response functions under primary legislation. One of those Acts, the Maritime Transport Act, includes the authority for regulations to be made for the imposition of Maritime Levies and Oil Pollution Levies (OPL).
- 2 The revenue from Maritime Levies funds services relate to the safety of shipping and a range of other services provided, and regulatory services or activities undertaken by Maritime NZ. Oil Pollution Levies fund a range of activities, and equipment required, related to preparing for and responding to marine oil spills. Combined, Maritime and Oil Pollution Levies revenue represents a significant proportion of Maritime NZ's total funding and is critical to the organisation being able to meet its statutory obligations and effectively perform many of its regulatory functions.
- 3 Every six years Maritime NZ undertakes a full funding review, and a mid-point review at year three of the six year cycle. The review of both levies was delayed by the Government following the COVID pandemic leading to a significant downturn in commercial activity (particularly the number of foreign cargo and cruise ships coming into New Zealand ports). The delay of the mid-point funding review scheduled for 2021/22 has led to a revenue hole from rising cost pressures across a range of services and activities that are Maritime Levies funded and that Maritime NZ could not address without reducing critical services.
- 4 Changes in the operating environment also impacted the amount of Oil Pollution Levy revenue that the existing levies rates were modelled to generate.
- 5 Maritime NZ has also been required to give effect to two maritime related commitments made by the Government since our last Funding Review in 2018/19.
- 6 The Crown has provided liquidity funding to meet the revenue gaps across both levies arising from cost pressures due to a delayed funding review, changes to the oil operating environment, and implementation of Government commitments but under an expectation that this funding review would be the mechanism through which Maritime NZ will return to full cost recovery from 1 July 2024.
- 7 Over the last two years Maritime NZ has undertaken a review of itself, in conjunction with the sector. This has resulted in changes to organisational design and improvements to processes, practice and systems to ensure it is positioned for the future and to be as efficient and effective as it can be.
- 8 Four critical regulatory risks were identified in conjunction with the sector which cannot be addressed through internal improvements. These critical risk areas are impacting on safety, but also efficient and effective operation of the maritime sector itself. Four of the proposals in this funding review are about attending to these risks through an uplift in Maritime Levies revenue. These received significant support from submitters which effectively confirmed the large majority of the sector recognises these critical risk areas and is comfortable with paying more to Maritime NZ to address them.
- 9 Two of the proposals relating to MARPOL Annex VI and Seafarer Welfare funding are about shifting from Crown to Maritime Levies the cost of meeting two Government commitments made since the last funding review. These proposals are consistent with the Crown's expectations and commitment that Maritime Levies will fund those commitments from 1 July 2024.
- 10 Two proposals relate to a proposed new allocation methodology for those sectors with OPL liability, and an increase in levies rates to restore OPL revenue to the level needed for previously agreed oil pollution readiness and response capability.
- 11 None of the scaled down options consulted on received more than minimal comment or support from submitters. This feedback, together with the issues and risks the scaled down options would create if chosen over the full proposals, gives reasonable cause to reject a scaled down version of the three relevant proposals.
- 12 For the six proposals requiring an increase in Maritime Levies, these collectively require an on average increase of \$11.7m each year for 2024/25–2026/27, achieved through a 33.1% increase in levies rates. Of that increase, approximately 42% would be to address the regulatory risk issues; 29% would be to cover the cost of commitments made by Government, and the remaining 29% would cover cost pressures.
- 13 The proposal to restore Oil Pollution Levies revenue would require an annual average of \$0.8m levies revenue increase achieved through an average 8.8% increase in levies rates.

Status quo

- 14 A description of the status quo activity and why it is undertaken is set out in Table 1, along with the problem being addressed.
- 15 Table 2 provides evidence to support the problem, the proposed intervention and expected outcomes and benefits.
- 16 Table 3 sets out the statutory authority to charge, and the alignment to cost recovery guidelines and principles.
- 17 All of the cost recovery proposals attend to matters that cannot be addressed within the amount of Maritime and Oil Pollution Levies that can be generated at current levy rates.
- 18 Since the last funding review in 2018/19, Maritime NZ has achieved a number of efficiencies which have enabled us to address or begin to address some urgent regulatory risk matters in the absence of a funding review.
- 19 Under the status quo, none of the proposals (with the exception of the OPL methodology proposal) can be effected.
- 20 The required capability to deliver the Marine Oil Spill Readiness and Response Strategy has been developed under the previous six-year OPL cycle (ending 1 July 2022). The suspension of formal funding reviews has resulted in an interim period where the revenue raised by the OPL has fallen short due to activity changes and the expiry on 1 July 2022 of the Capability Levy element.
- 21 Government has provided additional funding to ensure the continued delivery of the Strategy and the maintenance of capability. The OPL proposal (Proposal 8) seeks to establish a revised OPL that takes into account changes in activity levels and types and removes the requirement for top-up funding from Government.

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

Table 1: The status quo and problem being addressed

Status quo	The problem being addressed
<ul style="list-style-type: none"> • Maritime NZ undertakes Port State Control (PSC) and Flag State Control inspections of foreign and domestic ships on behalf of the government in accordance with various international agreements and as a member of the Tokyo MOU. <ul style="list-style-type: none"> ○ International and domestic ships need to comply with international and domestic approved standards. ○ These inspections aim to ensure the safety of the marine environment and the welfare of seafarers. These inspections are one of the first lines of defence that support prevention of ships getting in trouble in our waters and requiring rescue, and they are key to mitigating the risk that equipment on them does not harm or kill those working with them. ○ Inspections of vessels need to be undertaken by qualified Port and Flag State control inspectors. ○ Poor-quality ships with deficiencies in safety and environmental standards could lead to collision or grounding events which have catastrophic safety, environmental and economic impacts. ○ We are not inspecting priority one, high risk vessels¹ in operation. ○ We have built the foundations of a Maritime Inspections team. ○ We need Maritime Levies funding to ensure the team has sufficient capacity. ○ We cannot move other resource to this area as inspectors are required to have large ship experience, and it would then create a safety risk in another area. 	<ul style="list-style-type: none"> • An increasing number of poor quality ships are coming to, or operating in NZ waters. <ul style="list-style-type: none"> ○ Evidenced by increases in notifications and ships inspected with high numbers of deficiencies in safety and environmental standards, and requiring detention. These relate to issues with vessels, equipment or procedures which in some cases could lead to events like: <ul style="list-style-type: none"> - navigational issues with ships colliding or running aground with catastrophic impacts on safety and the environment (for example we have had three large ship near collisions and groundings, and two ships that have lost engine power and were lucky they were not sufficiently close to the coast and there was emergency towage capability near which enabled them to be towed to port, in the last few months alone); - increasing serious injuries and near misses for stevedores or others working on the vessels from New Zealand and crew on-board the vessel. For example, stevedores and pilots using ship equipment that can malfunction causing injuries or potential fatalities (e.g. increases in notifications of poor quality pilot ladders, identification of poor quality, lifting cranes, people falling through floors and a stevedore falling overboard recently leaning on faulty handrails); - environmental issues with waste, emissions and other discharges bad for people's health and the environment; and - breaches of maritime labour conventions around provisions and pay. • A large number of deficiencies and more detentions are disrupting supply chains. <ul style="list-style-type: none"> - The detention of vessels including ships taking up valuable berth space at ports, can have significant disruption on supply chains and the costs of moving imports and exports and thus impacts the economy and cost of living. Countries that have rigorous inspection regimes are less likely to be sent poor quality vessels in the first place and not face this type of disruption. • We do not have enough inspector capacity. <ul style="list-style-type: none"> ○ We currently have a small maritime inspections team with people who are experienced in large ships and have been trained in the relevant conventions. ○ The current number of inspectors is insufficient to inspect the highest risk ships in our waters and deter sub-standard ships coming to New Zealand. ○ Poor quality vessels are resource intensive as it can require significant work following up on resolution of deficiencies, responding to events, and supporting investigations. This can take our small pool of inspectors out of other critical inspections for some time and requires significant input from other parts of Maritime NZ. This impacts the capacity of staff involved to undertake other critical or core work. ○ The number and scale of issues is increasing fatigue risks for the small team of inspectors who are working long hours. • Lack of capacity also means it is harder for inspectors to get the required training. <ul style="list-style-type: none"> ○ Inspectors need to keep up with international conventions, and more junior inspectors need to get trained in the full range of vessels, otherwise limiting the types of vessels some inspectors can inspect. ○ There are gaps currently in practice and systems to support Maritime Inspectors to do their job effectively, which requires not only inspector expertise and availability to develop practice but also regulatory practice support. • We are not fulfilling our international Tokyo MOU obligations. <ul style="list-style-type: none"> ○ The Tokyo MOU is based on all parties playing their role in inspecting the highest risk ships to ensure safe operation of the maritime domain.
<ul style="list-style-type: none"> • Maritime NZ stewards the maritime regulatory system, which is formalised under an annual regulatory reform programme developed in consultation with Te Manatū Waka and signed off by the Minister of Transport. <ul style="list-style-type: none"> ○ There are thousands of maritime and marine protection rules. These need to be maintained, reviewed and in many instances, revised to support the achievement of safety and marine protection outcomes. ○ The annual regulatory reform programme attends to priority rules amendments, and the creation of new rules where required. ○ Operating under the existing regulatory reform resources means industry will bear the cost of maritime and marine protection rules that are not fit for purpose, over a longer timeframe. ○ Maritime NZ's existing regulatory reform capacity is funded in part through Crown funding through an annual appropriation received via Te Manatū Waka and in part by Maritime Levies. 	<ul style="list-style-type: none"> • High demand, slow progress, and increasing misalignment. <ul style="list-style-type: none"> ○ Current regulatory policy resource cannot keep up with regulatory demand. ○ Through sequencing and prioritisation we can gradually work through the critical changes to rules needed, but based on our current rules drafting, policy and technical capacity our progress will be unduly slow; and the level of misalignment with international norms and modern standards will grow. • Lack of capacity to address priorities. <ul style="list-style-type: none"> ○ We do not have sufficient technical policy and drafting resources, creating a bottle neck, thus the volume and speed of reform activity is constrained ○ Difficult to address critical safety and environment rule issues and to deliver Government rule priorities in a timely way. ○ For example, rules around pilotage require urgent review. • Creating cost for industry. <ul style="list-style-type: none"> ○ Outdated rules including a number that are not fit for purpose, drive the need for fee-able exemption applications and create other unnecessary compliance costs for industry. ○ For example, the complexity of certification rules are creating unnecessary cost and also contributing to workforce issues in the sector. • Lack of funding to address the issues. <ul style="list-style-type: none"> ○ The amount of Rules funding from the Crown has not increased over time, so the actual value has decreased with inflationary pressures. Te Manatū Waka has signalled that its contribution will not increase in the foreseeable future, so funding to address the issues will not come from the Crown. ○ The additional regulatory reform resources needed cannot be cost recovered from current Maritime Levies revenue as this will create other functional delivery and performance issues.
<ul style="list-style-type: none"> • Regulatory licencing is a core and well established Maritime NZ function and is essential to ensuring the fitness of participants in the maritime system, a maritime workforce, and the availability of an appropriately skilled cohort of third parties to perform regulatory functions. <ul style="list-style-type: none"> ○ Under the MTA and a number of maritime and marine protection rules, Maritime NZ must be notified by maritime operators on a variety of matters and events. It is essential that Maritime NZ can respond to them as appropriate. Maritime NZ is also under an obligation, as a matter of good regulatory practice, to respond promptly and helpfully, to enquiries received. ○ Notification and enquiry management was a key issue identified by stakeholders as part of an organisation review (Te Korowai). 	<ul style="list-style-type: none"> • Increased operators in the system. <ul style="list-style-type: none"> ○ The number of seafarer and operator applications have increased over time. This has led to a significant delay in the processing of licencing applications and a growing applications back log impacting the seafarer workforce and the effective and efficient operation of the maritime transport sector. • A decentralised and non-systematised approach. <ul style="list-style-type: none"> ○ Mixed notification of incidents, inconsistency and inefficiencies in responses, and at times failure to respond in a timely way to safety incidents. ○ This compromises safety outcomes but also can result in scenes not being released in a timely way impacting on businesses. ○ A lack of education around notification responsibilities and difficulty in identifying where further education or changes in guidance are needed to help people comply.

¹ High risk vessels are: priority one high risk vessels that are identified as vessels with real safety and other concerns we have undertaken to inspect as part of international agreements and to play our role in international supply chains; and vessels that may come directly from some other jurisdictions, that do not undertake inspections or that belong to administrations that do not publish results of inspections (e.g. pacific countries and China) that we have safety or other concerns with.

Status quo	The problem being addressed
<ul style="list-style-type: none"> In 2022 a decision was made to create a centralised notifications and response team (NET) and establish a workflow and administration team to address the current problems and deliver better outcomes. The teams were established through temporary reprioritisation and using discretionary funding made available, which enabled it to deal with immediate cost pressures. 	<ul style="list-style-type: none"> Inefficient Regulatory licencing systems. <ul style="list-style-type: none"> Delays in processing applications can impact seafarers who rely on having a current license to have a job and livelihood. Delays in processing operator applications can impact on the operators business and efficient operation of the sector more broadly. Insufficient capacity and appropriate capability in the certification team. <ul style="list-style-type: none"> Given the urgency of addressing this issue some of the Multi-Year Appropriation (MYA) has been used to provide capacity and capability which has seen significant timeliness and quality gains. However, if this funding is not maintained via the levy adjustment with the removal of the MYA, progress will go backwards and backlogs will return. Lack of funding to address capacity and capability. <ul style="list-style-type: none"> Some initial baseline resource was found through savings through the re-organisation, however additional funding from Maritime Levies is needed for the NET team to be fully functional and sustainable. Maritime NZ cannot fund this through re-prioritisation of levies expenditure, as it would result in reduced effort in other functional areas with ensuing risks and consequences.
<ul style="list-style-type: none"> The maritime sector is highly exposed to third party regulators and it is essential that they perform their functions to the standard necessary to support the achievement of marine protection and safety outcomes within the maritime sector. <ul style="list-style-type: none"> There are currently hundreds of third party regulators performing functions in the maritime domain and due to current capacity Maritime NZ undertakes performance oversight activity largely in reaction to identified risks or issues. A more pro-active and systematic approach to third party oversight is the most efficient and effective way to address concerns raised by industry about consistency and quality in the performance of third party regulators. A third party regulator stewardship framework was developed and approved in 2022 to consistently maintain oversight of third parties from point of entry to the system to their exit; monitor their performance in between and ensure they have the necessary tools and support to perform their functions. The implementation of the framework can be most effectively and efficiently achieved through a centralised approach involving staff with experience and capability in third party regulatory oversight 	<ul style="list-style-type: none"> Lack of a consistent or systematic approach. <ul style="list-style-type: none"> The consequences of regulators not appropriately overseeing third parties who have been authorised to perform regulatory functions have recently been exposed in other domestic regulatory failures. There is engagement with specific groups of third parties, such as surveyors; and efforts have been made to address particular issues with specific third party regulators when they are brought to our attention. The level of engagement is not the same across all types of third parties or targeted in a proactive and systematic manner across all third parties. This means that we do not have a comprehensive view across their performance and have a diminished ability to intervene before issues arise. Operators regularly report that the service they receive from third parties is not consistent. Insufficient capacity to effectively monitor and support the performance of third parties. <ul style="list-style-type: none"> Creates a risk of regulatory failure arising from third parties not undertaking functions effectively. Operators are not receiving a consistent service from third parties, raising compliance, transaction and other related costs for them. Third parties do not receive consistent support and guidance from us (some groups receive significant support, others much less). Ineffective third party monitoring raises the risk of un-level playing field. Lack of funding to establish a third party regulatory oversight team. <ul style="list-style-type: none"> Maritime NZ cannot recover the cost of a third party regulatory oversight team from forecast Maritime Levies revenue at existing levies rates. The option of using Maritime Levies funding that is needed for the delivery of other regulatory functions is not desirable or sustainable, and will have knock-on effects and compromise delivery of other levy-funded activities (with associated risks arising).
<ul style="list-style-type: none"> In 2019 the New Zealand government became signatory to MARPOL Annex VI. This is part of an international convention and sets out a regime for the prevention of air pollution from ships. <ul style="list-style-type: none"> This is a significant and complex regulatory regime that is applicable to the operation of hundreds of commercial and recreational craft. Since it was signed by the Minister of Transport in 2021, Maritime NZ has been responsible for administering Maritime Rules (Rules Part 199: Prevention of Air Pollution from Ships) that sets out the regulatory system New Zealand committed to. The current Government funded Maritime NZ to implement MARPOL Annex VI and provided a Letter of Support that signalled ongoing implementation costs should be sought as part of a funding review from levy payers. 	<ul style="list-style-type: none"> Government expects this to be Maritime Levies funded. <ul style="list-style-type: none"> Government funding has been provided on an understanding that through this funding review, cost recovery will shift from Crown funding to Maritime Levies from 1 July 2024. If additional Levies are not raised for this purpose and if the Government discontinues its funding, New Zealand will not be able to implement MARPOL Annex IV requirements on relevant vessels operating in New Zealand waters. The cost of this administration can in small part be recovered through fees (certification activity) but there are other elements that can only be cost recovered through Maritime Levies. Maritime NZ needs to be best positioned to support the maritime sector in understanding and complying with the new requirements, and enforcing the same where necessary.
<ul style="list-style-type: none"> Since 1 March 2017, New Zealand has had obligations under the Maritime Labour Convention (MLC) which establishes minimum working and living standards for all seafarers, and sets obligations for seafarer welfare services. <ul style="list-style-type: none"> Seafarer welfare in New Zealand was for many years funded from charitable sources, with delivery of welfare services being through local port welfare organisations and more recently coordinated through the Seafarer Welfare Board (SWB). The COVID-19 pandemic affected both the type of services that could be provided to seafarers, and sources of charitable funding. Since 2021 Maritime NZ has received Crown funding to support the commitment made by Government in respect to the provision of seafarer welfare services. In 2021 Parliament amended the Maritime Transport Act (MTA) to include "the facilitation, or support for, seafarer welfare services." This expressly provided for the use of Maritime Levies to fund the provision of seafarer welfare services. 	<ul style="list-style-type: none"> Government expects this to be Maritime Levies funded. <ul style="list-style-type: none"> Funding for seafarer welfare supports New Zealand compliance with obligations under the MLC. Without this funding there would be poorer seafarer welfare conditions, impacting safety of shipping conducted in New Zealand waters (and in the waters of other jurisdictions), and a greater risk of accidents and marine pollution incidents. The regulated rates for Maritime Levies are not set at the level needed to generate funding for this purpose.
<ul style="list-style-type: none"> Oil Pollution Levies rates have for several decades been calculated using the MOSRA methodology using historical data. <ul style="list-style-type: none"> Given the very significant changes that occurred during the COVID-19 pandemic, recent historical data will not be reliable going forward. There have been very significant changes in the operating environment that gives rise to the risks of a marine oil spill. Maritime NZ's administration of the new methodology would not require any change to its existing internal administrative arrangements. 	<ul style="list-style-type: none"> Current Oil Pollution Levies methodology is no longer fit for purpose. <ul style="list-style-type: none"> OPL rates are calculated through applying a complex methodology which is costly to apply, time consuming and particularly prone to significant errors. This model is likely to be an unreliable basis to determine levies rates for different sectors in the future. The approach is heavily reliant on using national and international data from the recent past as representative of future activity. This assessment of actual risk is no longer a credible or a viable option. Changes have occurred in the operating environment which drives major changes to the risk profile across the sector. Retaining the existing OPL allocation model will mean inconsistent or unfair application of levy rates across payers, leading to potential negative industry feedback and potential regulations review committee complaints, as previously occurred prior to the last funding review.

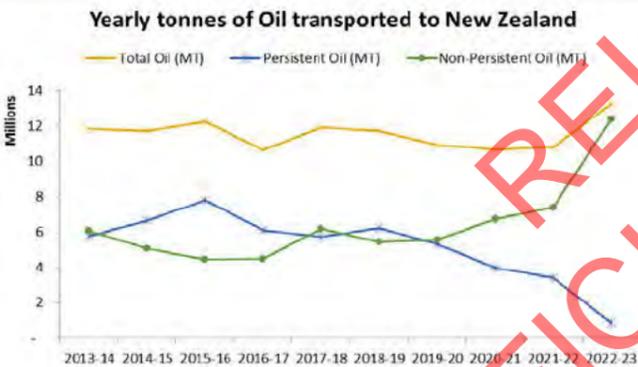
Status quo	The problem being addressed
<ul style="list-style-type: none"> Over the last 6 years there has been significant spend by the sector to develop up a set of capabilities and assets needed for an initial oil pollution marine response under previous strategies and plans. <ul style="list-style-type: none"> The New Zealand Marine Oil Spill Readiness and Response Strategy reflects the required nature and scale of New Zealand's oil spill response preparedness, coordination, capability, and equipment. The development and five yearly review of the Strategy is a requirement under the Maritime Transport Act, and is developed in consultation with the Oil Pollution Advisory Committee (OPAC). OPAC is a statutorily appointed committee representing levy paying sectors, relevant central government agencies and local government. The implementation plan for the Strategy is also developed in consultation with, and agreed to, by OPAC. Delivering the Strategy (via the implementation plan) means all of the preparedness and response elements are covered and the harms of a significant marine oil spill can be at best removed, or at least minimised. The Crown has funded the gap in revenue to date, but Government has directed that full cost recovery should recommence from 1 July 2024. 	<ul style="list-style-type: none"> It would be difficult to retain marine oil pollution readiness and response capabilities that have been built up over a number of years and paid for by the sector. There is a shortfall in forecast OPL revenue. <ul style="list-style-type: none"> Shortfall of funding required to deliver the Marine Oil Spill Readiness and Response Strategy (through the Strategy Implementation Plan). This shortfall arises from the impacts of COVID-19, and the closure of the Marsden Point Refinery (and its transition to a storage facility) which has resulted in changes in vessel activity, volumes of oil, and the type of oil being carried (see above). The current OPL rates set out under the Oil Pollution Levies Order 2016 are now out-of-date. <ul style="list-style-type: none"> One element, the Capability Levy, was time-bound to the previous six-year OPL period (2016-2022) and expired on 30 June 2023. This needs to be replaced in order to sustain the capability endorsed and developed during that time. Capability will be eroded. <ul style="list-style-type: none"> Reduced revenue (estimated between 25% and 40%) will not allow Maritime NZ to continue to maintain the required and endorsed level of capability. There would need to be very substantial reductions in capability with consequent major increase in impacts from any marine oil spills – environmental damage, economic damage and severe reputational damage. Capability built and delivered and sunk costs in the previous 6 years (2016 – 2022) would be substantially eroded.

Table 2: Evidence to support the problem, proposed intervention and expected outcomes and benefits

Problem	Evidence and data to support the problem	Proposed intervention	Expected outcome/s and benefits
An increasing number of poor-quality ships with deficiencies in safety and environmental standards	<ul style="list-style-type: none"> Increased vessel failures with the potential to have significant impact. <ul style="list-style-type: none"> Over the last 18 months five vessels have had significant engine failures and mechanical issues that could have led to a significant catastrophic event to people and the environment - Achilles Bulker, Maersk Nadi, La Richardais, Shilling and Kaitaki. We have not seen this number of significant vessel issues before, with only one over the previous five years (the Funing with serious loss of engine propulsion). Responding to these incidents requires significant support from our maritime inspectors including incident management (issuing of conditions, advice and inspection) and follow up audits and investigation support. Increased numbers of detentions. <ul style="list-style-type: none"> Over 2022/23 we detained 11 vessels, which is more than the previous three years combined. We note two of these vessels in 2022/23 were New Zealand flagged vessels. Increased number of deficiencies and follow up inspections. <ul style="list-style-type: none"> We are seeing higher numbers of deficiencies and higher follow up inspections required. 25% of inspections done were follow up inspections in the three years prior to 2022/23. In 2022/23 36% required follow-up inspections. Increased number of New Zealand flagged vessels and ISM audits required. <ul style="list-style-type: none"> We have had to carry out additional ISM inspections this year because of issues with the maintenance of vessels. One ISM audit had to be suspended due to the condition of the ship. The number of vessels has increased the number of audits and work required from us as a regulator. Identified as serious issue by external parties. <ul style="list-style-type: none"> Unions, stevedores, port operators, other government agencies and pilots; Port Health and Safety Leadership Group; The IMSAS audit found gaps in practice; and United States Coastguard who undertakes a more regular programme of port state control inspections are not seeing the same vessels of poor quality in their waters. Quote from Tokyo MOU 2022 Report: <p><i>“Concerns have been raised by a number of the Tokyo MOU Authorities that there are increasing ship incidents due to lack of effective maintenance of main engines and power generation systems including poor implementation of planned maintenance. This situation poses serious risks to safety of ships and the marine environment. In response, the Tokyo MOU Authorities have increased focus on planned maintenance during inspections. It is noted that, as the result, there is a significant increase of ISM detentions and RO responsible detentions. Tokyo MOU would like to bring the matter to the attention of the industry to increase awareness and to reinforce the circle of responsibility so as to improve the situation.”</i></p> 	<ul style="list-style-type: none"> Increase the number of inspectors, and fund some additional practice and training support for these inspectors to: <ul style="list-style-type: none"> inspect vessels that our data and intelligence indicates are high risk (we have estimated based on Tokyo MOU Priority one vessels, other vessels that evidence shows are high risk, and a small number of vessels to provide a preventative effect or for training purposes); ensure we have the presence to act as a deterrent to sub-standard ships coming to New Zealand ports and harbours, including undertaking a small specified number or percentage of random inspections each year; meet our Tokyo MOU obligations by inspecting priority one vessels; address health and safety and fatigue issues of our workforce and enable on-going necessary training; build better holistic understanding and relationships with our flag State operators to deliver safety outcomes; and address some of the IMO Member State Audit Scheme (IMSAS) audit recommendations and have the effect of improved audit results in future. <p>COUNTERFACTUAL</p> <ul style="list-style-type: none"> More risk of catastrophic harm events with large fatalities, poor environmental outcomes and cost, and the potential for more individual serious injuries and fatalities. Will not address the areas requiring action identified by unions, stevedores, Port operators, other government agencies and pilots, as well as the Port Health and Safety Leadership Group. On-going worker fatigue issues, difficulty to find time for training, IMSAS recommendations unlikely to be addressed and practice changes made, impacting on quality of audits and inspections. On-going high levels of disruption to supply chains and pressures on Port berths impacting on costs and timeliness of imports and exports. Increasing lack of confidence in the regulator and Government for not addressing what the sector sees as a critical safety risk and which have supported a cost increase to address. Not reflecting industry concerns and no indication that industry opposes a levies uplift for this purpose could be seen as an act of bad faith. This could materially impact the willingness of industry to engage with Maritime NZ or work with us on harm prevention or other key 'on the ground' initiatives. <p>STAKEHOLDER FEEDBACK</p> <ul style="list-style-type: none"> There was strong support for the proposal (30 of 31 respondents fully or partially supported it), and the comments made in supporting submissions reinforce previous sector feedback; indicate this is of critical importance to the maritime sector. <p><i>The ability of MNZ to have sufficient maritime expertise to effectively ensure that ships arriving in NZ waters comply with the minimum international safety and environmental standards ensures the protection of NZ waters, and it's tangata whenua. Strong inspection and response to sub-standard or high risk ships is important to protect port operations and environmental concerns. As well as reducing the demand for rescue or support services.</i></p> <p><i>The Shipping Federation supports the need to ensure international and domestic ships (both cruise and cargo) comply with international and domestic approved standards.</i></p> <p><i>This is a worthy initiative and one that supports a safe national maritime network.</i></p> 	<p>Maritime NZ identifies and deals effectively with substandard shipping.</p> <p>Maintains New Zealand's commitment to the Tokyo MOU to undertake Port State Control and Flag State Control activities.</p> <p>Maritime New Zealand staff are healthy and safe, well-trained, and supported by the tools needed to carry out their role.</p> <p>BENEFITS</p> <p>Reduces the risk of catastrophic safety and environmental harm and other smaller one off injuries and fatalities resulting from poor quality ship equipment.</p> <p>Reduces disruption to importers, exporters and port operators, and thus the supply chain and the costs of moving goods.</p> <p>Ensures effective and efficient operation of international shipping.</p> <p>Quality of inspections and audits increases and therefore other safe and clean outcomes.</p>
Management of Maritime	<ul style="list-style-type: none"> There are currently around 700 issues (the number of which is constantly growing) identified with existing Maritime Rules, the majority of which relate to ship design / equipment, and certification of 	<ul style="list-style-type: none"> A four FTE increase in rules policy, policy implementation design, and rules drafting capacity and a dedicated technical rules resource will speed up rules amendments and support good standards in the development and drafting of technical 	Maritime NZ speeds up the delivery of regulatory reform

Problem	Evidence and data to support the problem	Proposed intervention	Expected outcome/s and benefits
and Marine Protection Rules	<p>vessel operations or personnel and seafarer licencing; as a result of which operators require a range of exemptions to operate, at a cost to them as well as the regulator. In the 2021/22 Financial Year there were 379 exemption applications, and up to end January 2023 there were 140.</p> <ul style="list-style-type: none"> There are currently around 20 FTE directly supporting the regulatory reform programme across a range of policy, drafting, technical or implementation design roles. These roles are primarily focussed on rules work but also undertake wider legislation or regulatory policy work as needed that may be led by other agencies; but which significantly impacts the Maritime domain (such as emissions policy, immigration settings etc.) This has not been sufficient to deal with an increasingly out of date and at times unworkable rules and regulation. In this context, the proposal would see a roughly 25% increase in capacity. This would be a significant uplift in capacity, whilst still being a realistic increment targeted on some specific tasks. Specifically, based on experience with the rules programme to date, we have estimated that this number of FTE would be enough to enable us to start to make progress on the larger significant reform priorities that need to be advanced but are currently unaddressed, in particular SeaCert. SeaCert is causing a number of issues with the efficient operation of the sector and impacting on the ability of the sector to address workforce pressures. Through work done with the sector under the Minister of Transport, urgent changes to SeaCert were identified as a critical response needed to the shortages and to meet the future workforce needs of the sector. This resource would be enough to allow us to start to make progress on these reform priorities without compromising the pace of other important significant reform work (such as 40 series), our ability to keep up with new matters emerging from IMO that need to be inscribed into NZ rules, or our ability to continue to make smaller technical fixes as needed on a rolling basis to fix urgent issues (through a new 'omnibus' approach). 	<p>rules. Dedicated technical capability will be more efficient than the current arrangement, where requests for technical advice and support for rules development compete with other demands on our already at capacity technical resources. Over time, faster progress in regulatory reform will reduce costs and unnecessary compliance burden within the maritime community, as well as improve safe and clean outcomes. The additional resources will enable the regulatory reform programme to better keep up with the pace at which change in international rules emerge from the IMO and new issues around workability are identified with the operation of domestic rules. It will also enable us to address seafarer licencing issues more quickly.</p> <ul style="list-style-type: none"> As the timeframe for working through all current rules extends beyond the timeframe for this Funding Review period (ending 2029/30), and as we cannot foreshadow what entirely new rules might be required within and beyond that time, the proposed levies uplift will be required on an ongoing basis. The additional resource would also enable Maritime NZ to start work on the policy settings needed for the regulation of new technologies and fuels, some of which are potentially on the verge of commercial feasibility. <p>COUNTERFACTUAL</p> <ul style="list-style-type: none"> Issues with the rules will grow faster than our ability to address them and New Zealand will fall further behind on consistency with international standards. Industry will bear the cost of maritime and marine protection rules that are not fit for purpose, over a longer timeframe; with a significant risk that cost will grow further. We will not be able to address key Rule changes to align our SeaCert Rules better with education provision, remove barriers, and provide fairer recognition preventing mitigation of workforce issues now and into the future. It will be even more difficult for us to respond to the regulatory system demands of new technologies which are seeking entry into the system now. Not increasing rules reform capacity as proposed, and as clearly supported by affected parties, could undermine confidence in Maritime NZ and government. The timeframe for the removal of unnecessary costs created by outdated rules will be extended. Rather than seek exemptions from outdated rules, the maritime sector may be perversely motivated to operate in breach of requirements – having lost confidence that Maritime NZ will ever have the capacity to manage and maintain the rules it administers. <p>STAKEHOLDER FEEDBACK</p> <ul style="list-style-type: none"> Feedback on the proposal as consulted indicated high support for it and an understanding of the criticality of an increased and nimble regulatory reform capacity. Specifically: <ul style="list-style-type: none"> <i>We support Maritime NZ increasing its levies to fund this increased workload</i> <i>To ensure maritime and protection rules are fit-for-purpose there needs to be a more efficient review and drafting process that enables shorter timeframes for regulatory reform</i> <i>... As we and others in the wider maritime sector have raised with MNZ, a number of these rules are unnecessary or inconsistent,</i> <i>The shipping industry globally is governed by rules and related policy and technical advice. New Zealand needs to keep up to date</i> 	<p>activity as part of stewarding the maritime regulatory system.</p> <p>BENEFITS</p> <ul style="list-style-type: none"> Reduces cost for the maritime industry of having to apply for exemptions and comply with unnecessary regulatory burden. Ensures delivery of better safety, clean and security outcomes from regulation. Supports Maritime NZ to enable safe innovation in some areas rather than the regulatory regime inhibiting innovation. Enables better alignment between the certification rules and maritime training and effective recognition of skills, mitigating some of the issues with workforce shortages.
Responding to notifications and regulatory licencing	<ul style="list-style-type: none"> Stakeholders raised issues (through Te Korowai phase one): <ul style="list-style-type: none"> people were often unclear about their notification obligations; it was not always easy to notify Maritime NZ; that often people did not understand how notifications were triaged and responded to; and that it was unclear where investigations were in the process and whether they were completed. it was also considered important that notifications were responded to in a timely way given the need to hold the scene and the immediate potential for harm in some circumstances. A very recent survey of external stakeholders experiences in dealing with Maritime NZ confirmed the critical need for Maritime NZ to improve its performance in this area. Overall the feedback suggested stakeholders experience frustration in trying to notify online, and having notified, nil or inconsistent responses. In respect to enquiries, respondents indicated concern about the time it takes Maritime NZ to respond, most specifically to enquiries about certifications and registrations for seafarers. Specific experiences included: <ul style="list-style-type: none"> delayed responses to commercially time critical enquiries; not receiving a response after making multiple accident and incident notifications; and difficulty navigating Maritime NZ's website and online search engines when looking for information (such as might obviate the need to make an enquiry). Over the last year the workflow and administration team has made a significant and positive impact on regulatory licencing functionality: <ul style="list-style-type: none"> reduced the average application processing timeframes from 38 to 29 days; reduced the gap between certificates received and certificates processed, and there is no backlog being generated; 	<ul style="list-style-type: none"> As part of our re-organisation review we freed up a small resource through disestablishing and re-deploying roles to create a centralised notification and enquiries team but it requires a couple of FTE to make it fully functional. The funding in the discussion document covers this couple of FTE as well as a small amount of funding for systems, processes, and easier notification on our website. This will make notifying easier (less time and effort), support us to triage and respond to scenes effectively, help educate people on notifications requirements, enable people to see where notifications and investigations are in the process more easily. It will also support more efficient and timely responses to enquiries coming into Maritime NZ and enable us to work out where we may need to develop more guidance and education to support compliance. We propose to maintain the resource invested in the licensing function. This will maintain progress made and also enable us to address future workloads. <p>COUNTERFACTUAL</p> <ul style="list-style-type: none"> Unless the improvements can be sustained, Maritime NZ will need to decrease staff and risk reverting to pre and early 2022 performance issues, with a likelihood backlogs would become worse given maritime transport operator certificate renewals. Fee revenue will not fully cover this cost. Notification and enquiry management issues identified by stakeholders will not be addressed. None of the benefits of a centralised team and processes will be fully realisable. Compliance with notification obligations will be further dis-incentivised in light of an opportunity to improve our response functionality not being taken. Maritime Officers will continue to be the conduit for enquiries, taking them away from their core front line functions. The workflow and administration team will need to be disestablished and the gains made by our investment will be gradually lost. 	<p>Maritime NZ improves the efficiency and effectiveness of notifications and licensing processes.</p> <p>BENEFITS</p> <ul style="list-style-type: none"> Delivers better safety outcomes as people understand why they need to notify and notification is easy enabling Maritime NZ to respond to critical notifications and support safety outcomes. Maritime NZ is better able to respond to areas where there is not good understanding of why and how to comply through provision of advice, guidance and education. Regulatory services are provided in a more efficient and timely way which reduces costs and disruption to the sector. Those seeking a licence get higher quality advice reducing

Problem	Evidence and data to support the problem	Proposed intervention	Expected outcome/s and benefits
	<ul style="list-style-type: none"> ○ increased the number of seafarer applications processed by 23% (from 2,391 to 2,934). 71% of Seafarer applications are being processed within 20 working days (an improvement from 52% from July 2022); and ○ increased the number of operator applications processed by 6% (from 421 to 446). 65% of Operator applications are being processed within 20 working days (an improvement from 20% from July 2022). 	<ul style="list-style-type: none"> • We will go backwards in terms of licencing functionality and potentially get worse with a large number of Maritime Transport Operator Certificates due for renewal from June 2024 and MARPOL certificates to process. • Fee revenue from forecast increased regulatory licencing will not fully recover the cost of the workflow and administration team and there would be no legitimate way to bridge the revenue gap. • Submissions on this proposal were predominantly in support of it (19 of 27), with a further four submissions expressing partial support. Both elements of the proposal arose from industry concerns and stakeholders have already experienced benefits from investment made. Not adopting the proposal will undermine industry confidence that Maritime NZ is committed to improving its performance in these areas. 	inconsistency of advice and need for re-work.
Lack of a consistent or systematic approach to third party oversight	<ul style="list-style-type: none"> • Over almost 30 years, Maritime NZ has authorised over 250 third parties to variously perform 23 different regulatory functions such as ship surveys, inspections, the servicing of maritime products, approval of safety plans and seafarer examinations. • Events in other regulatory domains have shown how important it is for delegated third parties to perform their functions to the standard expected: the Whakaari/White Island event and Waka Kotahi vehicle testing issue are cases in point. • A critical finding from a 2022 IMSAS audit found that improvements could be made to Maritime NZ oversight of Recognised Organisations and their nominated surveyors. The audit was for the purposes of assessing the extent to which New Zealand complies with its obligations set out in the various IMO instruments to which it is a party. • TAIC has also made a number of recent recommendations needed for improvement to Maritime NZ's third party monitoring as part of high profile cases like Enchanter and I-catcher. • Feedback from the maritime sector has been that they are concerned with the robustness and consistency of third party monitoring. • Ahead of a third party team being established, and the detailed analysis required to ascertain the amount and nature of oversight (and more broadly, stewardship) activity required, it is difficult to quantify the uplift in activity that will be enabled through the additional funding. However, if the proposal is effected, we will report on that activity as part of the next full Funding Review. 	<ul style="list-style-type: none"> • A small team of four FTE to apply and implement the framework to ensure appropriate supervision of third parties and reduce the risk of third party regulatory failure. • A dedicated third party oversight capability will mean a deliberate and systematic assurance approach that will serve to maintain high third party performance standards and reduce the risk of regulatory failure evidenced in other regulatory domains. • The team will be made up of technical expertise, audit and operational policy. <p>The type of activity enabled by a third party team includes:</p> <ul style="list-style-type: none"> ○ considering what enhanced monitoring of third parties would look like; ○ providing support to recognised surveyors and other third parties; ○ ensuring the entry control processes for third parties are sufficiently rigorous; ○ identifying where more guidance and practice materials are needed in a particular cohort of third parties and supporting the development of the same; ○ addressing the IMSAS recommendations; and ○ undertaking monitoring of regional councils and harbourmasters performing functions under delegation from the Maritime NZ Director. <p>COUNTERFACTUAL</p> <ul style="list-style-type: none"> • A risk that a significant harm-causing regulatory failure will occur involving the large number of third-party entities who are not currently being robustly monitored, but who have a key role in the Maritime system. • Maritime NZ will be forced to maintain its current approach to third party oversight, which is ad hoc, largely reactive, and issues focussed. • Those regulated in whole or in part by third parties, and who have raised concerns, will perceive Maritime NZ as not committed to addressing them. • The ad hoc and reactive approach is not cost effective or strategic. Without this investment Maritime NZ will continue to not be able to realise the efficiencies of a planned and coordinated oversight approach. • Criticism from IMSAS that Maritime NZ has failed to attend to a critical finding from the 2022 audit. <p>STAKEHOLDER FEEDBACK</p> <ul style="list-style-type: none"> • The proposal was well supported by those who submitted on it (24 of 27 submissions were in full or partial support), with comments such as: <ul style="list-style-type: none"> <i>It is hard to undertake an oversight role without resources such as staff to do the work.</i> <i>Good governance requires that the regulator monitors the performance of third-party regulators, and has clearly defined pathways for addressing or remedying any deficiencies should they be found.</i> <i>A robust system to ensure the commercial bodies that are offering statutory survey and certification processes are effective is the only way to ensure that all operators are maintaining a high standard.</i> <i>In light of such support and the risks the proposal attends to, it would be difficult to justify not giving effect to it.</i> 	<p>Maritime NZ provides more robust oversight over the parties delegated or approved to carry out key parts of the maritime regulatory system.</p> <p>BENEFITS</p> <p>Improves marine protection and safety outcomes within the maritime sector.</p> <p>Greater reassurance to the sector around the quality of third party advice and that there is a level playing field.</p> <p>Be in a position to address critical IMSAS findings and avoid future audits identifying the same oversight gaps.</p>
Government expects MARPOL Annex VI to be Maritime Levies funded	<ul style="list-style-type: none"> • To date, the general administrative costs of the regime including audits and inspections, and certification activity have been covered by Crown funding. Associated regulatory activity is cost recovered through fees. Should funding cease so would Maritime NZ's implementation of the regime. 	<ul style="list-style-type: none"> • In administering the MARPOL Annex VI regime Maritime NZ has provided: <ul style="list-style-type: none"> ○ oversight of the taking and testing of fuel; ○ an additional element within port and flag State control inspections and within audits of some domestic maritime operations; ○ information and guidance to our domestic maritime sector; ○ an adjusted IT platform; ○ additional resources of a dedicated technical advisor and additional legal and investigations capacity; ○ ongoing training for our Maritime Officers and Inspectors; and ○ the opportunity to play an active part in IMO negotiations so any changes sought are acceptable to New Zealand and can play a credible and influencing role in climate-related negotiations. <p>COUNTERFACTUAL</p>	<p>Maritime NZ can give effect to the requirements as intended and as obliged under the International Convention for the Prevention of Pollution from Ships (MARPOL).</p> <p>BENEFIT</p> <p>Reduces harmful ship emissions and improve air quality around our ports and harbours.</p>

Problem	Evidence and data to support the problem	Proposed intervention	Expected outcome/s and benefits
		<ul style="list-style-type: none"> If funding is not received then Maritime NZ will not be able to continue to implement, and meet the obligations of MARPOL Annex VI. New Zealand will be in a position where the sector will need to comply with regulatory obligations the regulator has no way of enforcing. There will be reputational damage to Maritime NZ and New Zealand more broadly. In addition, if New Zealand does not properly implement Annex VI now, the New Zealand shipping industry will fall further behind the world in controlling air pollution and greenhouse gas emissions from ships and the future gap will be harder for industry and the regulators to fill. In the 26 submissions received on this proposal 20 were in support of it and a further three were in partial support; given this level of stakeholder buy in, (as well as the very clear expectations of government) it would be difficult to justify not effecting the proposal. Either the Crown would need to continue its funding of this function, or Maritime NZ could not perform it. If the latter, New Zealand would be in breach of MARPOL Annex IV and would lose credibility and reputation as an IMO member. 	
Government expects Seafarer Welfare to be Maritime Levies funded	<ul style="list-style-type: none"> This proposal does not go to addressing a problem but to ensuring a continuation of financial support for the provision of seafarer welfare services, which was put in place on an interim basis in 2021 (pending this funding review). The amendment to the Maritime Levies provision in the Maritime Transport Act clearly signalled government and Parliamentary support for seafarer welfare services to be funded through Maritime Levies. There is an expectation that Maritime Levies funding will be adjusted through this funding review. The absence of Maritime Levies funding for such purpose would create one of two issues: <ul style="list-style-type: none"> A discontinuation of support with the resulting impacts on seafarer welfare and as a potential consequence the safety of shipping; or The need for continued Crown support in order for New Zealand to not risk breaching the MLC. 	<ul style="list-style-type: none"> Maritime NZ proposes that additional maritime levies funding is generated and applied to a set of services that help meet what is required under the MLC. These fall into the following broad categories: <ul style="list-style-type: none"> communications services (such as the provision of Wi-Fi and telecommunications); information services; ship visits; shopping (for those crew not able to leave ship) and money exchange; access and transport to welfare centres; transport services to and from town; and mental health, wellbeing and advocacy services. <p>COUNTERFACTUAL</p> <ul style="list-style-type: none"> These high demand services may or may not be delivered by volunteers so the removal of the current support would not guarantee a continuation of the services. Supply chain risks arise from the impacts on crew (given New Zealand is geographically isolated). In the absence of continued Crown funding, New Zealand would risk breaching its obligations under the Maritime Labour Convention. 	<p>Maritime NZ can support effective delivery of the Maritime Labour Convention (MLC).</p> <p>Seafarers can access necessary facilities and services in ports so can better deal with the challenges of their jobs at sea.</p> <p>BENEFIT</p> <p>Improves the health, safety and wellbeing of seafarers with further benefits of encouraging longer term safe participation of people in international shipping.</p>
Current Oil Pollution Levies methodology is no longer fit for purpose	<ul style="list-style-type: none"> One change with significant and on-going impacts is the closure of the Marsden Point refinery and its conversion to a refined hydrocarbon products facility. Specific impacts from this change already seen include: <ul style="list-style-type: none"> a major reduction in the import of heavy, crude oil into Marsden Point; two domestic tankers previously used to ship the majority of refined products from Marsden Point around the New Zealand coast left the country in FY2022; and a large increase in foreign hydrocarbon product tankers coming to New Zealand to deliver refined products. These are smaller tankers (25,000 GT, 40,000 DWT) going directly to multiple ports across New Zealand.  <ul style="list-style-type: none"> A change in the oil coming to New Zealand requires a change in the way the readiness and response activity is funded. The same capabilities are needed whether persistent or non-persistent oil is carried so we need a way to fund the regime. 	<ul style="list-style-type: none"> A new OPL allocation methodology² which: <ul style="list-style-type: none"> takes less time and effort to generate the relevant data; is less vulnerable to unpredictable changes in shipping and oil carriage volumes; and is less complex than the current methodology. The methodology is based on that used for Maritime Levies which was developed and implemented after the 2018 Funding Review. The new methodology will also ensure that we are able to effectively retain the readiness and response capability required to respond to marine oil pollution response. <p>COUNTERFACTUAL</p> <ul style="list-style-type: none"> The existing methodology could be applied to a revised risk share allocation but it would artificially re-distribute risk previously allocated to a sector no longer operating (domestic tankers). This would be unfair and inconsistent with the "actual risk" assessment on which the existing methodology is based. The current methodology is expensive (fresh risk assessments every three years) and that expense reduces funding available for preparedness and response activity. The Oil Pollution Advisory Committee (appointed by the Minister of Transport to provide advice to the MNZ Authority on OPL matters) unanimously supports their adoption of a new methodology; as did the majority of those who made a submission on this proposal. 	<p>Maritime NZ uses a more efficient (cost effective) and effective methodology for allocating relative levies liability by sector.</p> <p>BENEFIT</p> <p>Reduces the cost of operating the OPL and supports adequate readiness and response capability</p>
Shortfall in forecast OPL revenue	<ul style="list-style-type: none"> One change with significant and on-going impacts is the closure of the Marsden Point refinery and its conversion to a refined hydrocarbon products facility. Specific impacts from this change already seen include: 	<ul style="list-style-type: none"> The funding shortfall is bridged so that we can deliver the Strategy and associated implementation plan. <p>COUNTERFACTUAL</p>	<p>Maintains New Zealand's oil spill response preparedness, coordination, capability, and</p>

² The methodology considers how much of the total required levies each vessel should be liable for, and is based on specific criteria to determine the "value of what is placed at risk in the maritime system". The principle is the 'risk value'. For Maritime Levies the criteria are people, freight and ships; for the OPL we propose to use "ships" – reflecting oil being used as bunker fuel - and "oil as cargo". The ships criteria will use Gross Tonnage as a proxy for bunker fuel capacity (as in the current OPL methodology), and actual quantity of oil carried as cargo (as we have access to this data, and again this is as used in the current methodology). The proposed methodology moves to "risk value" as opposed to an assessment of actual 'risk', which is generally understood as a combination of likelihood and consequence of harm.

Problem	Evidence and data to support the problem	Proposed intervention	Expected outcome/s and benefits
	<ul style="list-style-type: none"> ○ a major reduction in the import of heavy, crude oil into Marsden Point; ○ removal from the New Zealand coast of the domestic tankers previously used to ship the majority of refined products from Marsden Point around the New Zealand coast; and ○ a large increase in foreign hydrocarbon product tankers coming to New Zealand to deliver refined products to multiple ports across New Zealand. 	<ul style="list-style-type: none"> • Reduction in Marine Oil Spill Readiness and Response Capability and deterioration of assets over time. • First strike capability (to ensure an initial response ahead of contracted or agreed international support) will be compromised. • The state of preparedness will be negatively impacted. • The full range of equipment for the full range of oil spill scenarios will not be available. • Our ability to build and maintain the relationships critical to international support will be diminished (IMO attendance and other international travel will need to be reduced). 	<p>equipment to minimise the harms of a significant marine oil spill.</p> <p>BENEFIT</p> <p>Maintains readiness and preparedness to respond to marine oil spills both regionally and nationally.</p>

RELEASED UNDER THE
 OFFICIAL INFORMATION ACT 1982

Cost Recovery Principles and Objectives

- 22 The Treasury Guidelines for Setting Charges in the public service; the Officer of the Auditor General's Good Practice Guide on setting and administering fees and levies for cost recovery; and the Transport Regulatory system funding principles apply to and have guided the proposal to recover identified costs through Maritime and Oil Pollution Levies.
- 23 The cost recovery principles set out under the OAG Guidelines, and on which the Transport regulatory system funding principles are based, are set out below with a brief summary of how the cost recovery proposal aligns to them. Alignment of principles (as relevant) by proposal is elaborated at Table 3.
- 24 Legal Authority:
- A public entity must have legal authority to charge a fee and must operate within the scope of the empowering provision. Through regulations made under sections 191 and 333 of the Maritime Transport Act, Maritime New Zealand is authorised to charge levies on a specified basis to recover the costs of activities specified under those sections.
- 25 Efficiency:
- The user charge should be no higher than necessary to produce a good or service to the desired level of quality. The design of the charge should incentivise efficiency i.e. keeping costs down and the quality of the service high. The proposed increases in Maritime and Oil Pollution Levies revenue (achieved through changes to regulated levies rates) reflect the least cost option to achieve the outcomes sought through the proposals.
- 26 Equity (also described as fairness):
- The user charge is being paid by the appropriate people. The recovery of costs through Maritime and Oil Pollution Levies reflects consideration of risk exacerbators and beneficiaries.
- 27 Justifiability:
- the costs recovered through fees or levies reasonably relate to the good and services the fees or levies are charged for. The cost recovery proposition is to generate and use levies for the identified activities.
- 28 Transparency:
- a public organisation is accountable to Parliament and the public and needs transparent processes for setting and managing fees or levies. Maritime NZ has followed an open and transparent consultation process in relation to the activities for which cost recovery is sought, the cost of the activities, and the levies rates changes required.
- 29 Under Maritime NZ's current cost recovery policy (which is guided by the principles set out above), activity such as ship registration, regulatory licencing, certification and audit and inspection activity that occurs in circumstances specified under the Maritime (Charges) Regulations³ is cost recovered through fees charged to the individual service recipient.
- 30 In respect of regulatory licencing and certification (except seafarer licencing), the administrative effort common to all licencing applications is cost recovered through a fixed fee of \$368 (reflecting 1.5 hours effort) with the balance of costs associated with each application recovered through Maritime Levies. This split between fees and levies cost recovery reflects a policy decision made in the last full funding review (2018/19), which was based on a case made out (and supported by industry) that seafarer certification has both private and club good elements. Individual seafarers directly benefit from being licenced but the commercial maritime sector as a whole benefits from having a sufficient cohort of licenced persons to crew vessels involved in commercial maritime operations. There was a further argument that full cost recovery through fees would have the perverse effect of discouraging people from renewing or upgrading their qualifications in an industry that experiences constant skill shortages.
- 31 The last full funding review also resulted in a policy decision to shift the cost recovery of audit and inspection activity (with some specific exceptions) from fees to Maritime Levies. The case was made that the extant cost recovery

³ Audits and inspections conducted as a follow-up to an initial inspection are charged to the operator at an hourly rate. Marine Protection related Inspections and audits and inspections of vessels located outside New Zealand are also charged directly to the owner or operator at the regulated hourly rate of \$245.

policy (all maritime audit and inspection costs falling to the recipient operator through fees) did not align with how the same activity is cost recovered by other regulators and reflected a transactional (private good) rather than system view (club good) of audit and inspection activity.

- 32 As well as the cost of audits and inspections and part of seafarer licencing costs, Maritime Levies can be and are used⁴ to fund a range of services provided, and regulatory services undertaken by Maritime NZ in the performance or exercise of functions, powers and duties under the Maritime Transport Act. These services, which are essential to the general maintenance of the maritime regulatory system, have the characteristics of club goods⁵, and the need for which is created by those who own, operate, maintain or work on vessels in New Zealand waters, are as follows:
- The provision and maintenance of aids to navigation
 - Regulatory reform activity – rules development and implementation
 - The provision of maritime safety information
 - Distress and safety radio services
 - Prosecution activity
 - General compliance and regulatory operations activity
 - International engagement
 - The provision and maintenance of Maritime NZ's information and technology systems
 - Technical, advisory, research, intelligence, planning and sector engagement activity
 - The development of education, guidance, and operational policy and practice tools
- 33 With respect to marine oil spill pollution preparedness and response activity, until the COVID-19 pandemic and its associated impacts, this had been entirely cost recovered through Oil Pollution Levies. The authority for the generation of Oil Pollution Levies funding and its use for such purpose is set out under s331 of the Maritime Transport Act.
- 34 The rates for Maritime Levies and Oil Pollution Levies are respectively set out under the Maritime Levies Regulations 2016 and the Oil Pollution Levies Order 2019. Information about levies rates (and the basis on which levies are calculated) is available on the Maritime NZ website.

Policy rationale - proposals align to current policy

- 35 This funding review has established that the policy embedded at the last review has been assessed as meeting the principles and objectives of the review in so far as all existing activities are concerned other than those covered by proposals 3, 5 and 6.
- **Proposal 3: Improving our performance in responding to notifications and regulatory licencing** includes a proposition that some of the cost of an enhanced regulatory licencing functionality should be recovered through Maritime Levies. This is consistent with, and is an extension of, the current cost recovery policy for seafarer licencing activity (i.e. cost recovered through a combination of fees and Maritime Levies). The proposal does not have implications for any particular fees or the hourly rate on which fees are based under the Maritime (Charges) Regulations, the Ship Registration (Fees) Regulations, and the Maritime Security (Charges) Regulations.
 - **Proposal 5: Sustaining funding for MARPOL Annex IV administration** is that the cost of administering the MARPOL Annex VI regime for prevention of air pollution from ships, which the Government acceded in 2019, should be recovered through Maritime Levies. To date, that cost has been met by the Crown (due to the timing of the funding review) but on the clear understanding that this funding review would be the mechanism through which a shift to Maritime Levies cost recovery would occur. Using Maritime Levies for such a purpose is consistent with the use of levies for the administration of obligations under other maritime-related conventions but use for this particular MARPOL Annex is a new proposition.
 - **Proposal 6: Seafarer Welfare Services funding** is that Parliament's 2021 decision to amend the Maritime Transport Act's Maritime Levies provisions to enable Maritime Levies to fund the provision of seafarer welfare services, should be applied. Since that decision the Crown has provided funding (due to

⁴ S191 of the Maritime Transport Act 1994 sets out the specific and general purposes for which Maritime Levies may be used.

⁵ A club good is defined as a good where people can be excluded from its benefits at a low cost but its use by one person does not detract from its use by another person. Refer: The Treasury: Guidelines for Setting Charges in the Public Sector.

the timing of the funding review) but on the understanding that this funding review would be the mechanism through which a shift to Maritime Levies funding would occur. This is a new use for Maritime Levies.

- 36 The balance of the proposals (excluding Proposal 7, which does not have a cost recovery element) reflect a continuation of cost recovery for activities already funded through Maritime or Oil Pollution Levies, but at the higher indicative level necessary to cover the cost of the proposals.
- 37 While noting that the proposals largely continue current and established cost recovery policy, the table below sets out (by proposal) the policy rationale, the statutory authority and how each aligns to Treasury's *'Guidelines for Setting Charges in the Public Sector'*, the Office of the Auditor General (OAG) guidelines, and the Transport Regulatory System Funding Principles.
- 38 As the following is relevant to all of the proposals that it is proposed be cost recovered through additional Maritime Levies revenue, it is set out below rather than repeated for each proposal in the table below.
- 39 The cost recovery principle of equity or fairness goes to a charge (or recovery of cost) being paid by the appropriate people and raises the question of whether the risk exacerbator and/or the beneficiary should pay for the good or service.
- 40 The proposals concern the recovery of costs for a range of services (activities) that are more or less used by, applied to, or relevant to, different payers of Maritime Levies. In one case (Proposal 6: seafarer welfare services) the direct beneficiaries will almost exclusively be the operators and crew of foreign ships; in another, (Proposal 1: maintaining and enhancing regulatory operations capacity) only the operators of foreign vessels and the small group of New Zealand's largest commercial ships (albeit a group with high levies liability relative to other domestic payers) will receive the services for which cost recovery is sought. In another, (Proposal 3: Improving our performance in responding to notifications and processing licensing applications) the element relating to regulatory licencing has less relevance (excluding seafarer certification) to the operators of foreign vessels than to domestic vessel operators.
- 41 Maritime Levies are payable by all foreign and domestic commercial vessels operating in New Zealand waters and entering New Zealand ports. Under the Maritime Levies liability allocation methodology all levies payers pay for all activities funded by levies (it is not a beneficiary or user pays model) as all levy payers bring risk to the system and create the need for a regulator. The 'all pay for all' model, (but where liability is proportionate to risk brought to the system⁶) is more efficient than a model that attempts to differentiate liability according to the extent to which an individual or sector uses or benefits from a particular activity. All levies payers are in some way or another 'users' of the maritime regulatory system and they collectively create the need for it and share in the advantages of it. On that basis, they collectively pay and they individually pay more or pay less according to the risk they create.

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

⁶ The Maritime Levies allocation methodology uses vessel length, passenger capacity, Gross tonnage and Dead weight tonnage as proxies for risk and the larger a vessel, and the more passengers it can carry the more risk and the higher the levies liability.

Table 3: Statutory authority and alignment to cost recovery guidelines and principles

Proposal	Alignment to relevant guidelines and/or transport sector funding principles
<p>Section 191(2)(b) of the Maritime Transport Act 191 Maritime Levies (2) Maritime Levies may provide funding for any or all of the following purposes: (b) any services provided, or any regulatory services or activities undertaken, by the Authority, the Director, or the Crown in the performance or exercise of functions, duties, or powers under this Act</p>	
<p>Proposal 1: Building our capacity to identify and deal effectively with substandard shipping</p>	<p>The proposal is to fund sufficient capacity for the Maritime Inspections team, as well as training and practice needed to support the team, which undertakes regulatory monitoring, compliance and enforcement activity in relation to foreign commercial ships and domestic SOLAS vessels. The funding will enable the team to undertake sufficient inspection activity to meet international obligations and to target high risk activity that may harm people and the environment. Under the Transport Regulatory System Funding Principles 2018 (refer page 8) such 'system oversight and repair' activity (at the agency-specific level) is "more likely to be a club good" and as such is appropriate to be funded through Maritime Levies. Adding further support to the 'club good' nature of these activities is the fact that all such activity is currently Maritime Levies funded.</p>
<p>Proposal 2: Improving management of Maritime and Marine Protection Rules</p>	<p>The proposal is to fund additional resources in Maritime NZ's regulatory design team to speed up the development and drafting of maritime and marine protection rules. Under the regulatory transport system funding principles such activity is a club good with the 'participant group' as the funding source (refer page 8). Maritime Levies are collected from the 'participant group'. Under the Treasury Guidelines for Setting Charges in the Public Sector (2017) it is noted that a common way to charge for the 'use' of a club good is a levy applied to a group of users. Maritime Levies are applied to commercial maritime operators on grounds that they create the need for the regulatory system – of which maritime and marine protection rules are a central part.</p>
<p>Proposal 3: Improving our performance in responding to notifications and regulatory licencing</p>	<p>The proposal is to use additional Maritime Levies to fund the maintenance of a centralised notifications and enquiries response team and to maintain additional capacity and capability (particularly around workflow, and administration) in the regulatory licencing team. These two elements of the proposal are quite different and will be covered separately. In respect to the notifications and enquiries team, they will be receiving and responding to legally required notifications and to enquiries received largely (but not exclusively) from participants in the maritime system. The need for the function is largely created by those participants and there is an efficient mechanism (Maritime Levies) to recover the costs from the participant group. Charging for responding to individual enquiries would be impracticable and inefficient and would act as a disincentive to participants seeking advice or information about regulatory requirements. Notifications about incidents and accidents (the largest notification type) are mandatory and there is no basis on which a person meeting that requirement could or should be charged for it. In fact doing so would disincentivise notifications at first instance. The Transport Regulatory System Funding Principles support the funding of an enquiries and notifications response function by Maritime Levies payers as a participant group. Specifically, that the method of funding should support, and at least not conflict with, the objectives of the regulatory system. Maintaining the regulatory licencing capability and capacity uplift is both a private and club good. Individual licencing applicants will benefit from a shorter turnaround time (noting that the quantum of effort required to process their applications (which remain fee-able) will not change). But industry as a whole also benefits through more time efficient crew certification and operator licencing. Intendent new operators will be able to enter the system more quickly, and operators relying on certified staff will not be faced with operating disruptions caused by delayed seafarer licencing. In the 2018/19 Funding Review, a policy decision was made to split the cost of seafarer licencing between fees and levies in recognition that industry as a whole benefits from having a sufficient and competent seafarer workforce. The regulatory licencing uplift proposal is based on the same rationale.</p>
<p>Proposal 4: Supporting effective oversight of those outside of Maritime NZ who undertake critical regulatory functions</p>	<p>The proposal is to use additional Maritime Levies to fund the establishment of a team within Maritime NZ with a specific third party oversight function. This is 'system oversight and repair': stewardship and monitoring of an important element of the maritime regulatory system. Given a significant number of third parties are acting under a delegation, that is, 'standing in the shoes' of the Director, the standard of their performance has particular relevance and importance. Under the Transport Regulatory System Funding Principles such activity is a club good that is appropriate to fund through participant group funding (Maritime Levies). Under the Treasury guidelines this activity does not have private or public good characteristics and aligns closest to the club good definition. Currently, with the exception of audits that may be undertaken of recognised or approved third party regulators activity (and which are chargeable as a fee), the oversight activity that is occurring as part of general system oversight and (where required, repair) is cost recovered through Maritime Levies. There is also a good argument that, rather like full cost recover seafarer licencing fees, cost recovery here could be counterproductive. The proposal is to consolidate and enhance third party oversight activity, and in having dedicated staff focussed only on third party regulators the activity will be carried out more efficiently.</p>
<p>Proposal 5: Supporting the administration MARPOL Annex VI</p>	<p>The proposal is to use additional Maritime Levies to sustain funding (provided to date by the Crown) for the administration of MARPOL VI regulations for the prevention of pollution by emissions from ships, to which the Government acceded in 2019. This includes additional legal, technical, compliance and investigations staff, staff training, and industry education and information services. Licencing activity associated with the regime requirements will be recovered through fees. Under the Transport Regulatory System Funding Principles, regulatory delivery, education and information, and rules implementation are club goods and should be funded by the participant group. Under the Treasury guidelines these activities and services also meet the characteristics of a club good. The participant group as a whole, rather than individual vessel owners and operators, benefit from this activity and the general public are excluded from the benefits arising from it.</p>
<p>Section 191(2)(c) of the Maritime Transport Act 1994. 191 Maritime Levies (2) Maritime Levies may provide funding for any or all of the following purposes (c) the facilitation of, or support for, seafarer welfare services.</p>	
<p>Proposal 6: Supporting the provision of Seafarer Welfare services</p>	<p>The use of Maritime Levies for the funding of seafarer welfare services was a decision made by Parliament when it voted in support of the s191 amendment. Seafarer welfare services are closest to 'education and information functions' in the functions list set out in the Transport Regulatory System Funding principles, and these are a club good with 'participant group' as the funding source. Foreign vessel owners and operators benefit from the provision of shore-based welfare services that support the welfare of seafarers that serve on their ships, while on the other side of the equation costs incurred for the provision of seafarer welfare services can be the direct result of the conduct of a ship owner or operator. Hence it follows that this group collectively meet the relevant costs in their capacity as a club of beneficiaries and exacerbators.</p>
<p>The development and (at least) five yearly review of the New Zealand Marine Oil Spill Readiness and Response Strategy is a requirement under s283 of the Maritime Transport Act. The Strategy Implementation Plan 2022 – which sets out the activities (operating and capital including personnel) that will be undertaken - aligns with the purposes for which the New Zealand Oil Pollution Fund (made up of OPL contributions) can be applied. The purposes for which the Oil Pollution Fund can be applied are set out under s331 of the Maritime Transport Act and include: (a) to meet the costs of the Oil Pollution Advisory Committee; (b) to purchase plant, equipment, or any other thing to make preparations for, or to implement, or assist in implementing, any responses to marine oil spills; (c) to meet the reasonable costs of the Authority (including the costs incurred by the Director and the National On-Scene Commander) in controlling, dispersing, and cleaning up any marine oil spill; (ca) to meet the costs of services associated with planning and responses for marine oil spills that are services provided under a contract or arrangement with the Authority or the Director; (d) (ii) taking measures to avoid marine oil spills.</p>	
<p>Proposal 8: Maintaining Marine Oil Spill Readiness and Response Capability</p>	<p>The proposal is to establish revised Oil Pollution Levies to continue to implement the Strategy via the plan. Oil Pollution Levies are an efficient and well established mechanism for recovering the cost of preparing for and having the training, equipment and arrangements needed to respond to significant marine oil spills in both the oversight and assurance role and in an operational response role should the party causing the marine oil spill fail to meet their response obligations and/or be unable to deliver an appropriate response given the scale of the event. Those who are liable for Oil Pollution Levies operate the largest ships fuelled by oil and/or carrying oil as cargo (24 metres or more and over 100 gross tonnes) or own oil production, storage, and transfer facilities or infrastructure. They are the main marine oil spill risk exacerbators, and under the Transport Regulatory System Funding Principles costs should be allocated primarily according to who creates and exacerbates the risks in the system.</p>

Note: there is no specific statutory authority, nor authority required in respect to setting the methodology applied to calculating levies rates that are prescribed under regulations for Proposal 7: Revising the Oil Pollution Levies allocation methodology. The proposal recommends that the methodology is aligned to that of the Maritime Levies. This would provide consistency, and a better understanding with lower implementation costs for payers.

The level of the proposed fee and its cost components (cost recovery model)

Forecast revenue

42 Table 3 and Table 4 below show the proposed revenue from the Maritime and the Oil Pollution Levies, if all levies related proposals are adopted.

Table 4: Proposed Maritime Levies revenue (\$m)

Baseline	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
35.4	45.7	46.7	49.0	51.2	53.6	55.8

Table 5: Proposed Oil Pollution Levies revenue (\$m)

Baseline	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
8.7m ⁷	9.2	9.5	9.8	10.1	10.4	10.8

Costing the activity

43 Table 5 details the cost components of the proposals.

44 If all proposals are adopted this would result in an average uplift of \$10.7m per annum in maritime levy revenue (approximately 33.1%) for the 3 year period 2024/25- 2026/27. Of that increase, approximately 42% would be to address the regulatory risk issues (through proposals one to four); 29% would be to cover the cost of commitments made by Government (through proposals five and six), and the remaining 29% would cover normal inflationary cost pressures in areas of work covered by the levy.

45 For the OPL, the proposal would restore levies revenue to that required to deliver the required capability that is currently being delivered by the current OPL plus government top-up funding – so removing the cost to government and returning to a full-cost recovery model. The proposal would result in an average annual uplift of \$0.8m (from the 2023/24 baseline) in Oil Pollution Levies over the same period; an 8.8% average annual increase over 3 years.

Table 6: Cost components of proposals

Proposal	FTE	Personnel \$m	Operating \$m	Total \$m	
Proposals that offer more/higher quality of existing service and maintain the way costs are apportioned					
1	Building our capacity to identify and deal effectively with substandard shipping	9	1.3	0.6	1.9
2	Improving management of Maritime and Marine Protection Rules	5	0.7	0.3	1.0
3	Improving our performance in responding to notifications and regulatory licencing	5.75	0.9	0.3	1.2
Proposals that offer new service/output and recover costs from beneficiaries through well-established cost recovery method					
4	Supporting effective oversight of those outside of Maritime NZ who undertake critical regulatory functions	4	0.6	0.2	0.8
5	Supporting the administration MARPOL Annex VI	4	0.5	1.3	1.8
6	Supporting the provision of Seafarer Welfare services	1	0.15	1.35	1.5
Address cost pressures and maintain the way those costs are apportioned					
	Maritime levy related cost pressures		1.6	0.5	2.1
	Maritime Levies	28.75			10.4
Proposals that maintain an existing service and change the way those costs are apportioned					
8	Maintaining Marine Oil Spill Readiness and Response Capability	N/A	0.06	0.37	0.4
	Maritime Levies & Oil Pollution Levies				10.8

⁷ Target revenue – taken from Strategy Implementation Plan 2022-2028 at December 2022 Appendix 1, page 30.

Table 7: Supporting evidence to costs

Proposal	Rationale for cost and what purchasing	Further evidence to support the investment (also refer to Table 1 for evidence to support the problem definition)
Proposals that offer more/higher quality of existing service and maintain the way costs are apportioned		
<p>Proposal 1: Building our capacity to identify and deal effectively with substandard shipping</p>	<ul style="list-style-type: none"> Increased resources to: undertake Port State Control (PSC) activity at the level necessary to inspect all priority high risk ships; undertake sufficient regular inspections to support deterrence of the arrival of sub-standard ships; and manage effectively any poor quality vessels that do arrive. The funding looks to add new maritime inspectors, plus resourcing for training and practice support to address the risks identified. With current resources, and the additional resource from the funding review sought, we would have a manager, one principal inspector, a scheduling and insights advisor, and 10-11 maritime inspectors to enable Maritime NZ's to achieve sufficient regulatory outcomes in the large ship area. A team of this size and make up will mean Maritime NZ can inspect Priority 1 vessels (both to comply with our Tokyo MOU agreement obligations and attend to high risk vessels); undertake some minimal sub-standing shipping deterrence activity; inspect other vessels we have assessed as high risk; support inspections to occur when we find a ship with extensive issues which may require more intensive resource; and enable staff to undertake training and provide expertise for practice. The funding will also enable a practice resource. Operating costs include motor vehicles for Port State Officers to do their role. 	<ul style="list-style-type: none"> In FY2022 161 PSC inspections were undertaken on the 1070 foreign vessels visiting New Zealand ports, some ships with identified deficiencies had multiple inspections, so it is not 161 ships that were inspected. This does not enable us to inspect priority 1/high risk vessels; the inspection of other vessels that our intelligence signals are high risk; and a small number of random inspections that are critical as a deterrent to poor quality vessels being sent to New Zealand. 100% of domestic SOLAS vessels were inspected on schedule, however, the domestic fleet is aging and maintenance issues are requiring more inspections and intensive work we are finding hard to manage. The mix of Priority 1 and other high risk vessels identified may change; as too might the mix of vessels (for example more Cruise ships) and this will impact both the need for more inspections and the number of additional inspections that can be undertaken. For example, a Cruise ship can take 5-7 days to inspect and require 4 inspectors; a less complex and smaller scale inspection takes between 2-3 days; and if a vessel is detained or specific compliance action is required an inspector may be fully engaged for several weeks on matters arising from a single inspection. As a case in point, a number of inspectors have been fully engaged for two weeks on just two vessels with issues in our coastal waters. But assuming the inspections capacity uplift will roughly align to an inspection number uplift, this could see an increase of inspections from 161 to 320 or more with the full team in place, and more time to work intensively with some vessels holding a number of deficiencies, and to allow our inspectors to undertake the necessary learning and development to keep up with changes to international conventions and to continually improve the practice involved.
<p>Proposal 2: Improving management of Maritime and Marine Protection Rules</p>	<ul style="list-style-type: none"> Increased resources to deliver Maritime NZ's annual regulatory (rules) reform programme and speed up regulatory reform activity. Additional 5 FTE: <ul style="list-style-type: none"> 3 FTE as extra drafting, technical and implementation design resource to significantly reduce bottlenecks in making changes to the most complex and impactful rules reforms we already know we need to address; based on the existing rules programme; known future issues; and historical pace at which new issues emerge from the rules programme and IMO. 2 FTE for regulatory policy capacity to ensure we can keep pace of the stream of issues emerging from the rules programme and IMO: progressing a larger number of medium (at least one) and smaller changes and speeding up processes around large or very large changes. Enables more consistent, timely and accurate incorporation of IMO rules changes. Alongside investment above, would ensure that we address existing issues at least as fast as new issues emerge, so our backlog of issues does not grow faster than our ability to address them; based historical pace at which new issues emerge from the rules programme and IMO. Would enable us to progress critical work on certification/licensing Rules to support addressing workforce shortages in sector over short to medium term and to deal with some of the more urgent new technologies coming in for approval. 	<ul style="list-style-type: none"> The rules programme is agreed with the Minister and Ministry and made up of: identified problems with current rules; political priorities for new rules; and incorporation of new international requirements from IMO. It incorporates policy, drafting and support for planning implementation. New issues and requirements for changes constantly arise. Current resources can progress 2 big or very big rules reform, as well as 2-4 medium issues and a small but variable number (depending on complexity) of smaller issues at once. For example, in the last 12 month period this has included rules work on 40 series as a 'very big' reform; MARPOL VI as a 'big' reform; work on recreational boating rules and rules to implement the Cape Town agreement as 'medium' reforms; and a wider variety of smaller rules or connected issues, such a pilot ladders, STCW issues or watch-keeping. Current resources are not sufficient to keep pace with pace of issues emerging. There are currently around 700 issues on our (non exhaustive and continuously evolving) register of issues with existing rules. There are a number of significant (very large, large or medium) issues we are not currently able to start work on, including issues relating to Seafarer Certification rules, pilotage rules and MOSS settings; and we have fallen behind on the incorporation of international rule changes, which is also problematic for industry and a source of criticism for NZ from IMO. There are also some immediate new technologies seeking approval we need to consider or we will prevent safe take up of new technologies
<p>Proposal 3: Improving our performance in responding to notifications and regulatory licencing</p>	<ul style="list-style-type: none"> Staff for the centralised notifications and response team (NET) to more efficiently deliver regulatory notification and enquiries functions, and to continue progress made on timeliness and quality of the certification administration team. 5.75 FTE to: <ul style="list-style-type: none"> triage and respond to scenes effectively educate people on notifications requirements enable people to see where notifications and investigations are in the process more easily support more efficient and timely responses to enquiries coming into Maritime NZ enable us to work out where we may need to develop more guidance and education to support compliance 	<ul style="list-style-type: none"> Of the 5.75, 2.75 FTE, will form the NET team. In confirming the required size and make-up of the NET Maritime NZ undertook a detailed analysis of the nature, scale and complexity of incoming enquiries and notifications and the quantum of effort likely to be required in their receipt, triage and response. We also factored in other elements of the NET function; recording and analysis of notification and enquiry trends, and providing insights into where guidance and education is needed. The balance of 3 FTE represents the proportion of the regulatory licencing workflow and administration team that we propose is cost recovered through Maritime Levies. Accounting for the uplift in fees revenue anticipated as a consequence of MOSS certification renewal activity and MARPOL Annex IV certification activity (around \$400k per annum averaged over the six years from 2024/25), the cost of a 3 FTE positions is the shortfall. The workflow and administration team is already in effect and has been instrumental in removing an administrative backlog, and reducing application processing timeframes from 38 to 29 working days, but this money will not be available when the Multi-Year Appropriation is completed.
Proposals that offer new service/output and recover costs from beneficiaries through well-established cost recovery method		
<p>Proposal 4: Supporting effective oversight of those outside of Maritime NZ who undertake critical regulatory functions</p>	<ul style="list-style-type: none"> New resources to provide oversight of third parties performing regulatory functions to reduce the risk of third party regulatory failure. This will improve our understanding of the key risks posed by third parties undertaking regulatory functions and take a consistent, risk-based, approach to monitoring the performance of third parties undertaking regulatory functions. A new team of 4 FTE will: <ul style="list-style-type: none"> Establish basic tools to oversee important (and high risk) regulatory functions that have been delegated to Third Parties including a monitoring and oversight of some of the highest risk arrangements. Complete service design work to develop and implement a consistent approach to oversight of third parties under existing and any new regulatory design. The team would report to an existing manager. It would be made up of a principal advisor, senior level technical advisor, an operational policy advisor, and a trained auditor. This mix of competencies ensures there is expertise across all elements of the framework. 	<ul style="list-style-type: none"> There are 250 individuals and entities performing around 23 regulatory functions and exercising regulatory powers under a delegation, recognition or approval granted by Maritime NZ. We have built the size and composition of the proposed team around the skills and nature of effort needed to effectively roll out the third party regulators stewardship framework. The establishment of a dedicated small team is necessary to ensure the framework's application and delivery. Having such a resource also means subject matter expertise would be built, documented and sustained.

Proposal	Rationale for cost and what purchasing	Further evidence to support the investment (also refer to Table 1 for evidence to support the problem definition)
<p>Proposal 5: Supporting the administration MARPOL Annex VI</p>	<ul style="list-style-type: none"> Maintaining the current 4 FTE to administer MARPOL Annex VI is made up of two and a half FTE frontline staff, one technical specialist and half an FTE senior solicitor. The implementation resourcing for MARPOL Annex VI maintains functions to test fuel from ship bunkers and develop new surveys as well as extensions to existing functions such as ship certification. A small amount of cost will be recovered through direct charges to the maritime sector for certification activities subject to pending changes to the Maritime (Charges) Regulations 2014. Implementation of new legal requirements - some requirements in the marine protection rules must be complied with from the date the rules come into force in 2022, some later in 2022 and some from 1 January 2023. Operating costs for fuel sampling and testing services are approx. \$900k. This detail was submitted to Treasury for Budget 2022 on which liquidity funding was provided for this amount until a funding review could recover the funding from levy payers. 	<ul style="list-style-type: none"> The government committed to acceding to MARPOL Annex VI by the end of 2021 and the marine protection rules came into force three months later, as is required by the MARPOL convention. This initiative maintains the implementation of regulation of air pollution from ships to Maritime NZ which was put in place as a new function by the Government in 2021.
<p>Proposal 6: Supporting the provision of Seafarer Welfare services</p>	<ul style="list-style-type: none"> Resources to provide seafarer welfare services in New Zealand: <ul style="list-style-type: none"> \$1.2m contract funding resource to support the coordination and provision of counselling and pastoral support in the larger ports across New Zealand including a sum for the provision of facilities and supplies. \$0.3m Maritime NZ expertise to support, provide oversight and monitor the SWB contract Funding to Seafarers Welfare Board (SWB) of Aotearoa to ensure: <ul style="list-style-type: none"> Seafarers have access to shore-based welfare facilities and services; a technically competent person is available at each facility. promote the development of welfare boards to regularly review facilities; Monitor quality of delivery of services This detail was submitted to Treasury for Budget 2022 on which liquidity funding was provided for this amount until it could be recovered from a funding review. 	<ul style="list-style-type: none"> Funding seafarer welfare service support, through Maritime Levies, ensures a policy decision made by government in 2021 continues to be effected. The legislation was amended as agreed by Parliament in that same year to ensure Maritime Levies could be used to fund seafarer welfare services. While COVID-19 highlighted issues with the then limited provision of seafarer welfare services in NZ, and was the context in which Crown funding commenced, the demand for, and benefits of such services have not diminished in the post-pandemic environment. Continued investment supports compliance with the MLC and reduces the risks that may arise where seafarers, as a critical element of shipping operations, do not have their welfare and well-being needs met. Poor seafarer welfare conditions can impact the safety of shipping conducted in New Zealand waters (and in the waters of other jurisdictions), and generate a greater risk of accidents and marine pollution incidents.
<p>Address cost pressures and maintain the way those costs are apportioned</p>		
<p>Maritime levy related cost pressures</p>	<ul style="list-style-type: none"> Costs (such as existing staff salaries, including as a result of the PSPA, property rates etc) have increased for core Maritime Levies funded regulatory functions since the last funding review in 2018/19 to maintain the current level of capability (currently covered by Crown funding). This has currently been met by the provision of Crown Liquidity funding during shortfall of levy funding. 	<ul style="list-style-type: none"> Maritime NZ face ongoing inflationary cost pressures via rising salary and operating costs. These have been modelled at 3% salaries and wages and 3.3% for other operating costs as guided by Treasury. We note we have already obtained a number of efficiencies as part of our Te Korowai work, our overheads are low for a Government agency, and from 2024/25 our consultants and contractors are only a small percentage of our operating costs and well before pre-COVID levels.
<p>Proposals that maintain an existing service and change the way those costs are apportioned</p>		
<p>Proposal 8: Maintaining Marine Oil Spill Readiness and Response Capability</p>	<ul style="list-style-type: none"> Develop, sustain and evolve capabilities so that New Zealand can respond to, and provide an effective and efficient response to, marine oil spills. Training, exercises, organisation, people and equipment costs as per the Strategy Implementation plan 2022-2028. The programme has been highly successful, increasing overall capability and ensuring that assets are fit-for-purpose, of a manageable age and that the overall asset management programme going forward will be sustainable at a reduced level of capital spend (as reflected in the Strategy Implementation Plan - SIP). The consequence of this successful capability uplift is that the costs to sustain capability have risen over time. Together with inflation, contract indexation and other time driven cost increases the total overall per annum OPL revenue requirement going forward does not reduce even though the Plan has been completed. Rather a comparable level of overall funding is required going forward to sustain the capability build over time. 	<ul style="list-style-type: none"> At the last OPL Review (2015/16) Government agreed to a very significant increase in Marine Oil Spill Readiness and Response Capability with a major asset replacement and upgrade programme, additional training capacity and increased operational spending. This programme was described in detail in the Capability Plan (the Plan) and funded by one element of the levy – the Capability Levy. Originally a three year Plan, Government directed its delivery over a six year period and the Capability Levy element of the levies was time-bound to this period.

OFFICIAL INFORMATION 982

Impact analysis

Impact of the proposed levies increases

- 46 The impact of the proposed levies increases differs markedly between domestic and foreign vessels, and there is wide variation in impact (both upward and downward in dollar terms) across the different domestic sectors with levies liability. However few domestic vessels are liable for both levies; those with dual liability will all see a reduction in OPL liability; and 81% of domestic vessels have a low base (annual levies liability of \$500 or less) to which Maritime Levies increases would add.
- 47 The most material impact of the proposals, in terms of levies liability increases across both levies types would fall to foreign vessels. This is due to three factors:
- o foreign vessels operating commercially in New Zealand waters are the largest of ships and already have the highest Maritime Levies liability, so any percentage increase in levies rates reflects a higher actual increase in levies payable;
 - o all foreign vessels pay both levies on a per port visit basis (unlike domestic vessels for which levies are payable annually), so any increase in liability is not experienced as a single higher payment each year;
 - o the proposed new OPL allocation methodology shifts risk (and therefore liability) more towards foreign vessels resulting in increased OPL rates for foreign vessels and decreased rates for domestic.
- 48 As domestic vessels pay levies annually they pay only once for each rateable risk proxy. For example, under the Maritime Levies the passenger capacity of a vessel would be levied (as proposed) at \$22.38 per 'seat'. That same seat may be filled hundreds of times over the levies year but is levied just once. All domestic vessel operators liable for Oil Pollution Levies will, under the OPL proposals, pay less from 1 July 2024, even with the proposed \$0.8m levies uplift, as their rates drop significantly.
- 49 The single domestic sector for which higher Oil Pollution Levies would be payable (as proposed) is the FPSO sector. There is currently one operating FPSO and under the proposed new allocation methodology its risk share goes from 0.02% to 0.9% of the total risk. This translates (factoring in the proposed \$0.8m OPL revenue uplift) to an \$81,000 OPL liability increase off a current base of \$858. Given the scale of the FPSO operation (handling 45,000 barrels of oil per day), this increase is not considered material nor difficult to accommodate in per unit prices.
- 50 There are currently 3,215 domestic vessels liable for Maritime Levies, and of those 150 are also liable for Oil Pollution Levies. In the 2022/23 financial year 1,181 foreign ships visited one or more New Zealand ports, with the average number of port visits being 5 per vessel.
- 51 Refer to Appendix 1 to compare the proposed Maritime Levies factors to the current.

Impacts/risks on the regulator

- 52 The proposed increases in Maritime Levies and Oil Pollution Levies revenue would not create any risks for Maritime NZ; on the contrary, it would ensure identified regulatory risks could be addressed; the risk of not fulfilling Government commitments avoided; current funding holes from the deferred funding review and redundancies that would occur impacting services avoided, and the inability to deliver on a statutorily required national Oil Spill Response Strategy remedied.
- 53 Impacts on Maritime NZ of increased levies revenue would be actually and prospectively beneficial. In being able to address regulatory risks identified by, and affecting the maritime sector, we can anticipate increased confidence in our organisation among stakeholders and regulated parties, especially given the regulatory risks were identified by stakeholders and the large proportion who have supported increases in their levies to fund them. This will have a positive impact on compliance behaviour, engagement and the openness of the sector to minimise harm.

Expected effects on demand for services

- 54 We expect the effects of increased levies liability to be minimal, if at all, on demand for services provided through foreign or domestic vessel operations. For foreign vessels levies increases can be built in to freight or passenger charges, and given the scale of freight and passengers carried, the per unit increase needed to cover additional levies costs would not be significant. The increase in Maritime Levies liability for domestic vessels can also be factored into passenger fees and charges or freight costs over the financial year for which levies are payable.

Reasonableness of levies rates arising from the proposals

- 55 There are two dimensions to consideration of reasonableness. The first is relative reasonableness, that is, whether the proposed levies increases would result in new rates that are reasonable relative to equivalent levies in other jurisdictions. The second dimension is reasonableness for those who are liable for levies.
- 56 In respect to equivalent levies in other jurisdictions there are no meaningful comparisons. This is because no two comparable⁸ jurisdictions have the same reliance on levies relative to other funding sources, have exactly the same levies frameworks, or have levies that are paid on the same basis or by the same type of liable parties. Further, the number of leviable parties across jurisdictions materially affects levies rates: the more payers, the lower the rate per payer.
- 57 New Zealand, for example, has around 3,215 domestic ships (including fishing vessels) with Maritime Levies liability while Australia has 31,000 leviable commercial vessels but does not levy its fishing vessels. Further, just 38% of the Australian Maritime Safety Authority's cost recovery is through levies (the balance being Crown funded) while Maritime NZ's reliance on Maritime Levies is considerably higher (currently 63% of our total funding).
- 58 Canada's maritime regulator receives 96% of its funding via the Crown, and the very small remaining portion recovered through levies is recovered from both commercial and domestic vessel operators. Singapore's maritime regulator recovers all costs through four different levies applied variously to both commercial and domestic operators.
- 59 On the basis of the above, the reasonableness of levies liability for a vessel operating in New Zealand cannot meaningfully be measured against the liability of an equivalent vessel operating in any comparable jurisdiction.
- 60 Maritime NZ commissioned an independent economic research company to undertake research into levies in other jurisdictions and this supports our analysis in respect to the limitations of comparability. The International and domestic levy comparisons report is on our website: www.maritimenz.govt.nz/funding
- 61 With respect to the reasonableness of potentially new and higher Maritime Levies rates, Maritime NZ has made proposals only as necessary to:
- address identified regulatory risk;
 - attend to concerns raised by industry about the elements of Maritime NZ's performance that have a negative impact on safety and environment outcomes, and also may be disrupting the efficient and effective operation of the maritime sector with impacts on the broader New Zealand economy;
 - cost recover for activities that Maritime NZ needs to undertake or facilitate as a consequence of Government decisions.
- 62 Maritime NZ therefore considers that it has no choice but to advance the proposals, which, if adopted, will result in higher Maritime Levies.
- 63 The Maritime Levies methodology does not factor in ability to pay. However, we have given full consideration to the impact of increased Maritime Levies on different parts of the sector and different types of operation. We also note that not making the changes can also impact on the economic operation of the levy payers and sector. Our analysis is covered in the two sections below. Materially, it finds that the very largest domestic operators (who will see proportionately the highest increase in liability) operate at a scale where that increase can be absorbed or covered through a minimal per unit charge increase. For example, a very large passenger ship making an average of 4 trips a day, and on each voyage carrying an average of 250 people has 365,000 passenger units across which to spread increased levies revenue every year. For a much smaller operator, for example a 104 gross tonne aquaculture vessel (mussel barge) would incur an increased levy of \$236 per year, equivalent to 64 cents per day. Further examples are set out in Appendix 2 and Appendix 3.
- 64 For Oil Pollution Levies, we have set out the impact by vessel type – Refer Appendix 4 and Appendix 5. All vessels subject to Oil Pollution Levies (vessels of over 100 gross tons and 24 metres in length) are subject to Maritime Levies. Approximately 150 domestic vessels are liable for both levies (refer to Appendix 6 and Appendix 7 for examples). As the increase in Oil Pollution Levies is relatively less than the increase in Maritime Levies, the volume and scale of activity conducted by these vessels means there is capacity to absorb the extra cost through a small increase per unit (cost per freight or passenger unit).

⁸ Comparable in that these have developed regulatory frameworks that are given effect through legitimate law making processes and there is accountability for the level of charges.

- 65 The reasonableness for those who are liable for levies should also take into account willingness to pay. Given there is large support for the proposals (see Consultation section below), then the sector is indicating a willingness to pay for the benefits they and the system will receive from the levy adjustment.
- 66 The increased levies rates, if effected, will come into force in July 2024. Pending when decisions on this Funding Review are made, and if the levies increases are agreed as proposed, there could be up to six months' notice of the increases to levies payers, or less than one months' notice.

Consultation

- 67 On 19 July 2023 Maritime NZ released a consultation document (CD) on the review of Maritime NZ levies funding for 2024/25 to 2029/30. The public consultation period ran for four weeks.
- 68 The CD was released along with four supporting documents: an initial cost recovery impact analysis; the external economic advice used to prepare a revised (and subsequently proposed) Oil Pollution Levies methodology; an analysis of options for the delivery of seafarer welfare services funding, and an independently produced report setting out international and domestic levy comparisons. This ensured that the information available to those wanting to make a submission on any of the eight proposals was sufficient to support a well-informed position.
- 69 The submissions period closed at 5 pm on 16 August 2023. A total of 40 submissions were received through a mix of a designated funding review email channel (13), through submission of an online response form (26) and by standard mail (1).
- 70 An email enquiry facility was offered to all stakeholders and the public during the consultation period to enable questions and requests for clarification to be addressed directly. We received written enquires from ten interested parties.
- 71 Maritime NZ also held two public webinars during the consultation period. These were open to any interested party and were for the purpose of the Director and the senior leaders of the Funding Review to present on the proposals and respond to any questions arising. Four questions raised during the webinars were answered during the live sessions and expanded on in the Frequently Asked Questions published on our website. Recordings of the webinars were also made available on our website.
- 72 Not part of the funding review consultation process, Maritime NZ also engaged with the Oil Pollution Advisory Committee (OPAC) on what it intended to propose to the Minister post public consultation as per section 334 of the Maritime Transport Act. OPAC supported the Oil Pollution levies methodology and the rates for the Oil pollution levies.

Our submissions analysis

- 73 There was an average support rate of 80% across all of the proposals. Many of the key maritime representative bodies submitted on the review and key representative industry bodies - the New Zealand Shipping Federation, Marine Transport Association and Port Chief Executives supported the proposals.
- 74 No matters were raised in the few opposing submissions that gave grounds for the removal or reduction of any of the proposals. There was limited opposition to the proposed increases in levies and this was significantly outweighed by the support for the activity increased levies revenue would enable and the benefits achievable for the maritime sector.
- 75 There were no themes identified across the submissions as a whole or within submissions made on any particular proposal but two submitters from the cruise industry made the same opposing submission on all of the proposals. It being to delay any maritime levies or OPL revenue uplift until 2025/26 on grounds that their ticket pricing for the 2024/25 cruise season is already advertised, tickets have been sold, and it is not possible to revise the pricing model to accommodate what for the sector would be a relatively large overall levies liability increase from 1 July 2024.
- 76 This issue is not particular to this funding review, given in all previous reviews consultation on proposed levies increases has never occurred over a year ahead of when it was proposed those increases would take effect. Nor have funding reviews previously proposed levies increases to take effect at such distance from the consultation timeframe.
- 77 It was anticipated that submissions on the proposals would be predominantly favourable given half of them specifically attend to concerns and issues raised by industry; most domestic levies payers would not see a significant increase in maritime levies rates; all domestic levies payers liable for oil pollution levies will see a

reduction in levies rates; and those most impacted by levies rates increases operate at a scale where these can be absorbed into freight or passenger ticket prices.

- 78 A copy of the full submissions analysis is in Appendix 8.
- 79 Relevant quotes have been included in Table 1 in support of the problems identified. For completeness, Table 8 lists all submitter quotes in support of a proposal and Table 9 lists all submitter quotes that either do not support or partially supports a proposal and where comments were provided.

Table 8: Submitter quotes in support of proposals

Proposal	Submitter quotes
Support for Proposal 1: Building our capacity to identify and deal effectively with substandard shipping	<ul style="list-style-type: none"> The ability of MNZ to have sufficient maritime expertise to effectively ensure that ships arriving in NZ waters comply with the minimum international safety and environmental standards ensures the protection of NZ waters, and it's tangata whenua [2] NZ continues to experience an increasing number of sub-standard ships plying the international and domestic trades, to improve safety and environmental risks in ports and around the coast an increased regime of inspection and compliance is crucial [8] Strong inspection and response to sub-standard or high risk ships is important to protect port operations and environmental concerns. As well as reducing the demand for rescue or support services [22] Intentions and good policy are only as effective as our ability to monitor and enforce compliance. The consequences of an accident in this sector are significant, and many accidents we have seen both in NZ and around the world are not a result of lack of regulation, but a lack of adherence to those regulations [27] The Shipping Federation supports the need to ensure international and domestic ships (both cruise and cargo) comply with international and domestic approved standards. We note there are clear indicators of increased workload on MNZ inspection teams, that support the need to increase training and capability [33] This is a worthy initiative and one that supports a safe national maritime network [10]
Support for Proposal 2: Improving management of Maritime and Marine Protection Rules	<ul style="list-style-type: none"> We recognise that the regulatory and compliance burden has increased over the last decade and continues to do so. We support Maritime NZ increasing its levies to fund this increased workload required by the policy department [6] To ensure maritime and protection rules are fit-for-purpose there needs to be a more efficient review and drafting process that enables shorter timeframes for regulatory reform [8] ...supports the need to progress a review and reform of maritime and marine protection rules. As we and others in the wider maritime sector have raised with MNZ, a number of these rules are unnecessary or inconsistent, and some are applied in such a way as to cause unnecessary compliance and/or cost. A programme of reform should be commenced with urgency [33] The sector is not static. The ability of Maritime NZ to respond to needed changes in policy quickly needs to go hand in hand with the capacity to make that response in an informed way [27] The shipping industry globally is governed by rules and related policy and technical advice. New Zealand needs to keep up to date [28]
Support for Proposal 3: Improving our performance in responding to notifications and regulatory licensing	<ul style="list-style-type: none"> We believe it is crucial that licencing capacity is adequately funded [5] Better event notification and enquiries handling will further assist MNZ to deliver on the improved partnership they are developing across the port sector [7] There is a need to ensure the NET function is not only achieved but is effective so as to ensure a reliable and response service to the sector [8] This has the ability to reduce frustration and delays throughout the industry [22] A logical move, nothing more frustrating than having to wait on slow responses [28] Regulatory functions need to be adequately funded if they are to be effective [36]
Support for Proposal 4: Maintaining oversight of those outside of Maritime NZ who undertake critical regulatory functions	<ul style="list-style-type: none"> A robust system to ensure the commercial bodies that are offering statutory survey and certification processes are effective is the only way to ensure that all operators are maintaining a high standard [2] We often see some very low standards of inspections carried by, for example, MNZ approved medical practitioners. There are numerous examples of this, so greater oversight by MNZ will only be beneficial [6] The need of resources to apply appropriate supervision of third parties [15] It is hard to undertake an oversight role without resources such as staff to do the work [28] Good governance requires that the regulator monitors the performance of third-party regulators, and has clearly defined pathways for addressing or remedying any deficiencies should they be found [33] Regulatory functions need to be adequately funded if they are to be effective [36]

Proposal	Submitter quotes
Support for Proposal 5: Supporting the administration of MARPOL Annex VI	<ul style="list-style-type: none"> • <i>If we sign into these agreements then we must abide by them [1]</i> • <i>The new requirements will require significant oversight, additional inspections, audits and approvals, and so funding should be sought for this [6]</i> • <i>As New Zealand aspires to a low carbon supply this work by MNZ is critical to achieving that aspiration [7]</i> • <i>MARPOL is an important set of directives to avoid pollution [9]</i> • <i>A sustainable funding base ensures that Maritime NZ can give effect to the requirements as intended and as obliged under the convention [15]</i> • <i>As New Zealand has now signed up to MARPOL Annex VI, the resulting administration requirements should be funded [28]</i>
Support for Proposal 6: Supporting the provision of seafarer welfare services	<ul style="list-style-type: none"> • <i>NZ is dependent on reliable shipping, domestically and internationally and the safety of these vessels, their cargoes and crews is dependent on the crews being safe and able to concentrate on their roles [39]</i> • <i>We fully endorse proposal 6 and believe that a scaled down option would be inconsistent with meeting the requirements set by MLC 2006 [32]</i> • <i>The reason we support what would essentially be a continuation of the current levels of funding nationally is because we have seen what having employed Ships Welfare Officers on ships can achieve for seafarer welfare [36]</i> • <i>Because of the funding received, and the professional approach with which it has been utilised, the welfare of seafarers has directly benefited. As such The Mission to Seafarers Oceania & Pacific Region fully endorses proposal 6 [31]</i>
Support for Proposal 8: Supporting marine oil spill readiness and response	<ul style="list-style-type: none"> • <i>A significant uncontrolled oil spill would be catastrophic to our ecology. A well-resourced response strategy is critical to protecting NZ unique ecology [7]</i> • <i>It is a must that the gap in the current funding is bridged to enable MNZ to deliver the strategy [8]</i> • <i>Costs are rising year by year. We need to keep up with equipment and manpower [9]</i> • <i>Keeping the Oil Spill readiness and response up to date is a no brainer [28]</i> • <i>The current OPL is not raising the revenue required... additional funding is required...and this shortfall needs to be addressed [33]</i>

Table 9: Submitter quotes: do not support or partial support

Proposal	Submitter quotes
Do not support or partial support for Proposal 7: Revising the Oil Pollution Levies allocation methodology	<ul style="list-style-type: none"> • <i>CLIA does not support the proposed changes to the Oil Pollution Levies allocation methodology. We believe the modified status quo model (option 1 as proposed in the Sapere review) provides continuity and certainty until a full review of the Strategy and MOSRA can be carried out [24]</i> • <i>Carnival Australia believes the modified status quo model provides greater continuity and stability if it is to be introduced in FY2024-25.</i> • <i>It must be noted that this model scored strongly in the Sapere review, with particular focus on the equitable sharing of the additional cost burden.</i> • <i>The proposed changes recommended by MNZ are wholesale in nature and would be better suited to be investigated in the process of a full review of the Strategy and MOSRA [25]</i> • <i>Only if this money is spent at the coal face and not administration office work [11]</i>

Scaled options

- 80 The eight proposals, along with the additional levies revenue we have estimated will be required to achieve them, reflect the minimum viable capacity / revenue uplift that is needed to achieve or maintain the improvements identified.
- 81 For three of the proposals (proposals 5 ,6 and 8), the additional revenue proposed aligns with what the Crown has provided due to the levies shortfall arising from COVID-19. Without sustained funding, recent gains made will be lost.
- 82 Recognising that levies payers (in particular domestic payers) are also facing other cost increases, Maritime NZ prepared a scaled down option for three of the proposals. Within the relevant proposals the scaled down option was signalled.

- 83 The scaling down was only limited to some elements of the overall package for these reasons:
- While the proposals reflect those matters that Maritime NZ must attend to, and as soon as possible, the first proposal goes to a matter for which there are current and significant issues. Having the minimum viable funding uplift to address substandard shipping through increased port State and flag State control capacity, and having that uplift as soon as possible (that is, from 1 July 2024) is critical to reducing or removing a manifest risk. For that reason, the proposal cannot be a candidate for scaling down.
 - Because of the additional costs it creates or the investment it can have the effect of wasting, a reduction or deferral of new funding sought is only an option where no previous investment has been made or where investment already made would not be impacted. There are only three proposals where a scaling down would not cause collateral impact.

84 The proposals, the scaled option, and the impact of the scaling, are set out in the Table 10.

Table 10: Scaled options

Proposal	Scaling	Impact on non-scaled rates over three years from 2024/25
Proposal 2: Improving management of Maritime and Marine Protection Rules	defer until 1 January 2026	-1.4% per year
Proposal 4: Maintaining oversight of those outside of Maritime NZ who undertake critical regulatory functions	defer until 1 January 2026	-1.1% per year
Proposal 6: Supporting the provision of seafarer welfare services	reduce by \$0.5m per annum	-1.4% per year

- 85 Maritime NZ considers that the financial impact of the scaled option (for all but those with the highest levies liability) is significantly outweighed by the nature and potential scale of risks it leaves unattended.
- 86 For Proposal 2, a further delay in addressing the identified issue would simply extend (and potentially exacerbate) Maritime NZ's inability to keep up with the demand for rule reform. It would also result in a delay in removing the costs industry is facing as a consequence of unfit rules. Those costs, for example having to apply for exemptions, well outweigh the reduced levies liability under the delayed option.
- 87 For proposal 4, further delay in being positioned to systematically and deliberately provide oversight of third party regulators would extend and potentially increase the risks of poorly performing third parties. The potential costs of a regulatory failure to the system and potentially to individual operators or particular sectors, would far out-weigh the reduced levies liability under the delayed option.
- 88 Adopting the scaled down option for Proposal 6 would necessitate a scaling back of welfare services available to seafarers. It would not mean the Government had resiled from its commitment to support such services, but a 33% decrease in current funding would materially affect the number and nature of services identified as core to seafarer welfare.
- 89 There was limited feedback on the scaled options in submissions made on the consultation document. For those who did comment: three of the 27 who submitted on proposals 2; three of 27 who submitted on proposal 4; and seven of 40 who expressed a view on proposal 6; there was not full support of it. In respect to proposal 4, four of the seven submitters strongly opposed it and of the other three, who were in partial support, one supported it only if the full proposal was not adopted.
- 90 The low level of feedback (refer Table 11) and within that, the limited support, suggests that the scaled options do not appeal to stakeholders. Also, given the high level of support for the full proposals, we read the submissions in the round to have largely rejected a scaling down of the three relevant proposals.

Table 11: Submitter quotes: do not support scaling options

Proposal	Submitter quotes
Do not support scaling of Proposal 4	• <i>We do not believe that all the additional resource required for this team would actually be in place by 1 July 2024, therefore delaying this until 2026, would assist in keeping the levy increase to a minimum [40]</i>

Conclusions and recommendations

- 91 Maritime NZ recommends that Cabinet:
- a. Agree to the eight proposals.
 - b. Do not agree to the scaled down option for proposals two, four and six.
 - c. Agree to amending the Maritime Levies Regulations 2016 to recover an average target revenue of \$47.1m a year for 2024/25–2026/27 and an average target revenue of \$53.5m a year for 2027/28–2029/30.
 - d. Agree to amending the Maritime Transport (Oil Pollution Levies) Order 2016 to recover an average target revenue of \$9.5m a year for 2024/25–2026/27 and an average target revenue of \$10.4m a year for 2027/28–2029/30.

Implementation plan

- 92 All but one of the proposals concern funding for activities that are already in effect or are in the process of being implemented under established plans.
- 93 **Proposal 1: maintaining and expanding Maritime NZ's Maritime Inspections Team.** This team is already operational and its expansion (which would involve the recruitment of new staff) would be managed as part of the organisation's already functioning HR activity.
- 94 **Proposal 2: increasing Maritime NZ's policy, rules drafting and technical advice capability.** A small expansion to an already operational policy team will not require an implementation plan. The recruitment of five new staff and their integration into the existing team would be managed as part of the organisation's business as usual HR activity.
- 95 **Proposal 3: the Notifications and Enquiries Team** for which additional funding is sought is already well into the building stage due to work done over 2022 and 2023 to date on systems, processes, and transition planning. Establishment of the NET and the detail of its functional design is already well advanced and an implementation plan is effectively already in train.
- 96 The additional funding proposed for **Maritime NZ's regulatory licencing team** will go toward supporting and maintaining improvements already made within an already established function. An implementation plan is therefore not necessary.
- 97 **Proposal 5: funding to support the administration of MARPOL Annex VI.** Maritime NZ is already administering the regulatory system required to give effect to MARPOL Annex VI. The system was effected through Crown funding in the absence of the required Maritime Levies revenue and the proposal if agreed, would simply change the funding source for this activity from Crown to Maritime Levies. No new or additional administration activity is planned beyond that already being undertaken.
- 98 **Proposal 6: Maritime NZ currently receives Crown funding to support the provision of seafarer welfare services** and since 2021 has been administering a distribution system for that funding to service providers. The MNZ effort required to administer the funding and the role of MNZ in the provision of seafarer welfare services, will not change so the proposal, if adopted, will not necessitate any implementation planning or effort.
- 99 **Proposal 7: a new methodology for OPL risk allocation.** The new methodology, if adopted, will not require any implementation effort. It will replace the existing methodology but will not require additional or different administration processes or steps. An implementation plan is therefore not required.
- 100 **Proposal 8: additional OPL revenue to support the continued delivery of the NZ Marine Oil Spill Readiness and Response Strategy.** The Strategy Implementation Plan (SIP) is already in effect and if the proposal is adopted it will mean that same plan can continue to be effected. Current planning would have the revised OPL rates coming into effect from 1 July 2024 and funding the Year 3 (and onwards) activities of the SIP.
- 101 The single proposal for which an implementation plan is required is **Proposal 4: establishing a small team to lead the delivery of third party regulator oversight activity.** In 2022 Maritime NZ developed and agreed to a Third Party Stewardship Strategy and this, along with a Third Party Oversight Decision Matrix will form the 'roadmap' for the proposed new team's planning, and the nature and sequencing of activities it will lead. In terms of recruiting

the members of the small team, this would be managed as a business as usual HR activity. There are no perceived risks arising from this approach to forming and effecting the proposed oversight function.

- 102 None of the proposals create new compliance costs; impact on existing regulations (beyond the need to revise levies rates under regulations); or (in relation to the only proposal relevant to enforcement (Proposal 1)) require the development of a new or revised enforcement strategy.
- 103 If we had certainty of funding earlier than 1 July 2024 we would begin recruitment as early as possible for any new roles. Maritime NZ has a good employer brand and has been able to fill roles quickly over the last couple of years so we believe spend could start occurring early in the financial year.
- 104 None of the proposals create new compliance costs; impact on existing regulations (beyond the need to revise levies rates under regulations); or (in relation to the only proposal relevant to enforcement (Proposal 1)) require the development of a new or revised enforcement strategy. In fact the proposals are intended in many areas to reduce compliance costs.
- 105 If we had certainty of funding earlier than 1 July 2024 we would begin recruitment as early as possible for any new roles. Maritime NZ has a good employer brand and has been able to fill roles quickly over the last couple of years so we believe spend could start occurring early in the financial year.

Monitoring and evaluation

- 106 Regular monitoring of Maritime NZ's performance is undertaken by Te Manatū Waka as the monitoring agency for transport sector agencies.
- 107 As the delivery of third party oversight is the only new activity proposed, Maritime NZ intends to develop a measure aligned to the Third Party Regulatory Stewardship framework that show progress in monitoring and verifying the plans of prioritised (and highest risk) entities to prevent harm.
- 108 For the other proposals we are already measuring performance in these areas in our current Statement of Performance Expectations or we propose a variation of these measures shown in Table 12. Noting that individual proposals are relatively small amounts of funding.

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

Table 12: Proposed measures

Proposal	Outputs	Measure	Performance standard
Proposal 1: Maintaining and expanding Maritime NZ's Maritime Inspections Team	Inspection and Audit (Output 2.3)	Output 2.3.1 The percentage of ships inspected that were assessed as meeting Maritime NZ's Port State Control ship selection criteria. Provided as context: Number of Port State Control inspections completed Number of ship detentions Number of follow-up visits	>=90%
	Port State and Flag State Control inspections.	Output 2.3.2 The percentage of scheduled inspections of active New Zealand Flag State ships completed. Provided as context: Number of follow-up visits.	100%
Proposal 2: Increasing Maritime NZ's policy, rules drafting and technical advice capability	Operational maritime policy advice (Output 1.1)	Output 1.1.2 The percentage of the transport regulatory programmes completed subject to variations agreed with Te Manatū Waka	100%
Proposal 3: Improving our performance in responding to notifications and regulatory licensing	Certification and registration (Output 2.2)	Output 2.2.1 The percentage of applications for maritime documents, marine protection documents, statutory certificates and permits processed within 20 working days measured from receipt of a complete application to a decision being made. Provided as context: The number of applications for maritime documents, marine protection documents, statutory certificates and permits received. The number of applications for maritime documents, marine protection documents, statutory certificates and permits processed. The average number of working days for a decision to be made on seafarer certificate application.	>=70%
	Certification and registration administration and management.	Provided as context: The number of notifications received.	
Proposal 5: Funding to support the administration of MARPOL Annex VI	Inspection and Audit (Output 2.3)	The percentage of active Maritime Operator Safety System operators are audited as scheduled under the Maritime Transport Act 1994. This audit includes an assessment under the Health and Safety at Work Act 2015 and Marine protection rules (particularly Parts 120: Discharge of Oil, 122: Marine Protection Products - Oil, 170: Garbage, and 199: Prevention of Air Pollution from Ships); and Resource Management (Marine Pollution) Regulations.	>=80%
	Inspection, monitoring and audit of domestic commercial operators, facilities, products, services, documents and delegations, and requiring compliance with these documents and delegations.	The Maritime Inspections Team has the ability to undertake fuel testing of foreign vessels as part of a port state control inspection. A testing schedule has been agreed to with MBIE. Fuel testing is undertaken as per Maritime NZ's agreed fuel testing schedule. A variance of x is allowable.	
Proposal 6: Funding to support the provision of seafarer welfare services	Information, education and engagement (Output 5.1)	The percentage of Seafarer welfare funding allocated to services which meet those required by the Maritime Labour Convention.	
Proposal 7: a new methodology for OPL risk allocation	Marine pollution readiness and response (Output 3.2)	Implementation of the new methodology in the revised Oil Pollution Levies rates on 1 July 2024.	N/A
Proposal 8: additional OPL revenue to support the continued delivery of the NZ Marine Oil Spill Readiness and Response Strategy	Marine pollution readiness and response (Output 3.2)	The percentage of regional (19) and national (3) equipment stockpiles where equipment maintenance has been conducted within the past 12 months.	100%
		The number of National Response Team field oil spill response exercises conducted annually. The percentage of regional councils that undertake two oil spill exercises annually. The average annual rating by National Response Team field oil spill response exercise participants of their level of competence in a response from post-exercise survey.	1 >+95% 6 out of 10

109 Maritime NZ undertakes a full funding review every six years with a midpoint review at year three of that next six year period. The last full funding review was in 2018/19, with changes to levies and fees taking effect on 1 July 2019. If agreed as recommended, changes to maritime and oil pollution levies proposed in this mid-point review will take effect on 1 July 2024. Covid impacts and the consequential decision of Government to delay public sector funding reviews means that the timing for the outcomes of this mid-point review are out of sync with the established full and mid-point review cycle.

110 Notwithstanding, under the current Transport Sector funding review programme Maritime NZ is scheduled to undertake a full funding review within three years of 1 July 2024.

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

APPENDICES

Appendix 1: Current versus proposed Maritime Levies factors

Bolded numbers represent proposed factors

Vessel	Gross tonnage	Deadweight tonnage	Passenger capacity	Overall length
Foreign passenger	0.1004 0.1282	0.0082 0.0105	2.0248 2.5839	N/A
Foreign non passenger	0.1178 0.1504	0.0095 0.0121	N/A	N/A
NZ SOLAS	7.7931 9.9449	0.4607 0.5879	46.71 59.6072	N/A
NZ non-SOLAS (24m or more in length)	8.2197 10.4870	N/A	17.5403 22.3834	N/A
NZ non-SOLAS (less than 24m in length)	N/A	N/A	17.5403 22.3834	15.1746 19.5347

Appendix 2: Examples of current versus proposed Maritime Levies for indicative foreign vessels

Vessel type Paid per port visit		FY23 current rates	FY25 proposed rates	Variance from FY23 to FY25
	International Oil Tanker (SOLAS) GT 25,000 PAX 0 DWT 45,000	\$3,373	\$4,305	\$932
	International Container Ship (SOLAS) GT 40,000 PAX 0 DWT 52,000	\$5,206	\$6,645	\$1,439
	International Cruise Vessel (SOLAS) GT 110,000 PAX 2500 DWT 15000	\$16,229	\$20,719	\$4,490

Appendix 3: Examples of current versus proposed Maritime Levies for indicative domestic vessels

Vessel type Paid Annually		FY23 current rates	FY25 proposed rates	Variance from FY23 to FY25
	Domestic Passenger Ferry (SOLAS) GT 22,365 PAX 1,350 DWT 5,794	\$240,020	\$306,294	\$66,274
	Domestic Container Ship (SOLAS) GT 6000 PAX 0 DWT 10,000	\$51,366	\$65,548	\$14,182
	Domestic Coastal Fishing Trawler (non-SOLAS) GT 529 PAX 0 DWT 0	\$4,348	\$5,548	\$1,200
	Domestic fishing Length 5.9 metres	\$90	\$115	\$25
	Domestic non-passenger aquaculture vessel (mussel barge) GT 104	\$855	\$1,091	\$236
	Domestic non-passenger barge GT 150	\$1,233	\$1,573	\$340
	Domestic non-passenger Length 23.9 metres (including tugs)	\$363	\$467	\$104
	Domestic non-passenger Length 8 metre workboat	\$121	\$156	\$35
	Domestic Passenger Ferry (Non SOLAS) GT 280 PAX 300 DWT 0	\$7,564	\$9,651	\$2,087

Vessel type Paid Annually		FY23 current rates	FY25 proposed rates	Variance from FY23 to FY25
	Domestic Charter Passenger Boat (Non SOLAS) Length 18 metres PAX 140 DWT 0	\$2,729	\$3,485	\$756
	Domestic Charter Passenger Boat (Non SOLAS) Length 8 metres PAX 14 DWT 0	\$367	\$470	\$103
	Domestic Commercial Jet Boat Length 8.2 metres PAX 8 DWT 0	\$265	\$339	\$74
	Domestic passenger Commercial dive boat Length 4.5 metres PAX 4	\$138	\$177	\$39
	Domestic passenger 3.7 metre personal watercraft (jet ski/novel craft) PAX 1	\$74	\$95	\$21

Appendix 4: Current versus proposed Oil Pollution risk allocation

	Vessel or oil site type	Oil Type	Current share	Proposed share
Domestic	Passenger, cargo, and tanker bunker fuel	Bunker fuel	16.7%	3.6%
	Oil tankers carrying oil as cargo	Persistent	3.1%	0.1%
		Non Persistent	8.3%	0.0%
	Fishing		1.1%	0.2%
Foreign	Passenger, cargo, and tanker bunker fuel	Bunker fuel	26.8%	67.9%
	Oil tankers carrying oil as cargo	Persistent	34.9%	1.6%
		Non Persistent	9.2%	25.6%
	Offshore oil & gas (FPSO)	Persistent	0.02%	0.9%
			100.0%	100.0%

Appendix 5: Current versus proposed Oil Pollution Levies rates

Vessel or oil site type	Basis of calculation	Oil Type	Current Levy	Proposed Levy	\$ Change	% Change
NZ vessels						
Passenger and cargo ships, harbour tugs and oil tanker bunker fuel	Per gross tonne of the vessel (annual)	Bunker fuel	414.69 cents	173.95 cents	-240.74 cents	-58%
Tankers carrying oil as cargo	Per tonne of oil carried as cargo	Persistent	29.96 cents	12.85 cents	-17.11 cents	-57%
		Non Persistent	26.76 cents	7.56 cents	-19.2 cents	-72%
Fishing vessels	Per gross ton of the vessel (annual)		73.56 cents	30.86 cents	-42.7 cents	-58%
Oil sites						
Offshore oil and gas (FPSO)	Fixed Fee (annual)	Persistent	\$858.66	\$82,055.19	\$81,196.53	9456%
Foreign vessels						
Passenger and cargo ships, harbour tugs and oil tanker bunker fuel	Per gross ton of the vessel (per port visit)	Bunker fuel	0.54 cents	2.63 cents	2.09 cents	387%
Tankers carrying oil as cargo	Per tonne of oil carried as cargo	Persistent	36.14 cents	35.46 cents	-.68 cents	-2%
		Non Persistent	7.6 cents	20.86 cents	13.26 cents	174%

Appendix 6: Examples of Foreign vessels paying both Maritime and Oil Pollution levies

Vessel type Paid per port visit		FY25 Proposed Maritime Levy	FY25 Proposed Oil Pollution Levy	Proposed total Levies Increase
	International Oil Tanker (SOLAS) GT 25,000 PAX 0 DWT 45,000	\$4,305	\$658	\$1,455
	International Container Ship (SOLAS) GT 40,000 PAX 0 DWT 52,000	\$6,645	\$1,052	\$2,275
	International Cruise Vessel (SOLAS) GT 110,000 PAX 2500 DWT 15000	\$20,719	\$2,893	\$6,789

Appendix 7: Examples of Domestic vessels paying both Maritime and Oil Pollution levies

Vessel type Paid Annually		FY25 Proposed Maritime Levy	FY25 Proposed Oil Pollution Levy	Proposed total Levies Increase
	Domestic Passenger Ferry (SOLAS) GT 22,365 PAX 1,350 DWT 5,794	\$306,294	\$38,904	\$12,432
	Domestic Container Ship (SOLAS) GT 6000 PAX 0 DWT 10,000	\$65,548	\$10,437	-\$262
	Domestic Coastal Fishing Trawler (non-SOLAS) GT 529 PAX 0 DWT 0	\$5,548	\$163	\$974
	Domestic fishing Length 5.9 metres	\$115	NA	\$26
	Domestic non-passenger aquaculture vessel (mussel barge) GT 104	\$1,091	NA	\$236
	Domestic non-passenger barge GT 150	\$1,573	NA	\$340
	Domestic non-passenger Length 23.9 metres (including tugs)	\$467	NA	\$104
	Domestic non-passenger Length 8 metre workboat	\$156	NA	\$35
	Domestic Passenger Ferry (Non SOLAS) GT 280 PAX 300 DWT 0	\$9,651	\$487	\$1,414
	Domestic Charter Passenger Boat (Non SOLAS) Length 18 metres PAX 140 DWT 0	\$3,485	NA	\$757
	Domestic Charter Passenger Boat (Non SOLAS) Length 8 metres PAX 14 DWT 0	\$470	NA	\$103
	Domestic Commercial Jet Boat Length 8.2 metres PAX 8 DWT 0	\$339	NA	\$74
	Domestic passenger Commercial dive boat Length 4.5 metres PAX 4	\$177	NA	\$39
	Domestic passenger 3.7 metre personal watercraft (jet ski/novel craft) PAX 1	\$95	NA	\$21

Appendix 8: Summary and analysis of submissions

Refused under section 18(d) as is publicly available on Maritime NZ's website here: <https://www.maritimenz.govt.nz/media/ygwelssk/d24-22233-cabinet-paper-appendix-4-summary-of-submissions.pdf>

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982



Weekly Report to the Minister of Transport

For the week ending 1 December 2023

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

2. Updates on 100-Day Plan

100 Day Plan updates

Maritime New Zealand and Civil Aviation Authority funding reviews

We will provide you with a briefing next week on the proposed process and timelines for progressing the Maritime New Zealand and Civil Aviation Authority funding reviews, which need to progress in order to reduce their reliance on Crown funding.

Responsibility: David Wood, DCE Investment & Monitoring Group

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982



MINISTRY OF TRANSPORT
TE MANATŪ WAKA

Weekly Report to the Minister of Transport

For the week ending 8 December 2023

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

3. Upcoming briefings

Briefings to Minister Brown – Other Priorities	Due date
<p>Maritime New Zealand funding review</p> <p>We have briefed you on the Civil Aviation Authority (CAA) funding review and have prepared a briefing on the Maritime New Zealand (MNZ) funding review. The MNZ funding review is further advanced than the CAA review. If the fees and levies proposed by MNZ are approved by Cabinet in the new year, then MNZ will not require Crown liquidity support in the 2024/25 financial year.</p> <p><i>Responsibility: David Wood, DCE Investment & Monitoring Group</i></p>	<p>Week ending 15 December 2023.</p>

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982



MINISTRY OF TRANSPORT
TE MANATŪ WAKA

Weekly Report to the Minister of Transport

For the week ending 22 December 2023

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

2. Recommended summer reading list

Proposed briefing name	Synopsis	Reason for provision	Deadline for Minister
Approval of Proposed Increases to the Maritime and Oil Pollution Levies	This paper seeks Cabinet's approval of changes to the Maritime and Oil Pollution Levies from 1 July 2024.	This will require going to Cabinet as soon as possible in the new year.	Friday 12 January 2024.

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982



MINISTRY OF TRANSPORT
TE MANATŪ WAKA

Weekly Report to the Minister of Transport

For the week ending 12 January 2024

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

5. Cabinet papers

Committees	
Cabinet Business Committee (CBC)	
(Date TBC)	<p>Approval of Proposed Increases to the Maritime and Oil Pollution Levies</p> <p>This paper seeks approval to changes to the Maritime and Oil Pollution Levies from 1 July 2024.</p> <p><i>Responsibility: David Wood, DCE, Investment & Monitoring Group</i></p>

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982



MINISTRY OF TRANSPORT
TE MANATŪ WAKA

Weekly Report to the Minister of Transport

For the week ending 19 January 2024

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

5. Cabinet papers

Committees	
Cabinet Business Committee (CBC)	
(Date TBC)	<p>Approval of Proposed Increases to the Maritime and Oil Pollution Levies</p> <p>This paper seeks approval to changes to the Maritime and Oil Pollution Levies from 1 July 2024.</p> <p><i>Responsibility: David Wood, DCE, Investment & Monitoring Group</i></p>

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982



MINISTRY OF TRANSPORT
TE MANATŪ WAKA

Weekly Report to the Minister of Transport

For the week ending 26 January 2024

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

7. Associate Minister of Transport

Cabinet papers

Committees	
Cabinet Business Committee (CBC)	
(Date TBC)	<p>Approval of Proposed Increases to the Maritime and Oil Pollution Levies</p> <p>This paper seeks approval to changes to the Maritime and Oil Pollution Levies from 1 July 2024.</p> <p>Responsibility: David Wood, DCE, Investment & Monitoring Group</p>

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982



MINISTRY OF TRANSPORT
TE MANATŪ WAKA

Weekly Report to the Minister of Transport

For the week ending 2 February 2024

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

7. Associate Minister of Transport

Cabinet papers

Committees	
Cabinet Economic Policy Committee (ECO)	
28 February TBC	<p>Approval of proposed increases to the Maritime and Oil Pollution Levies</p> <p>This paper seeks approval for changes to the Maritime and Oil Pollution Levies from 1 July 2024.</p> <p>Responsibility: David Wood, DCE, Investment & Monitoring Group</p>

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982



MINISTRY OF TRANSPORT
TE MANATŪ WAKA

Weekly Report to the Minister of Transport

For the week ending 9 February 2024

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

7. Associate Minister of Transport

Cabinet papers

Committees	
Cabinet Economic Policy Committee (ECO)	
28 February TBC	<p>Approval of proposed increases to the Maritime and Oil Pollution Levies</p> <p>This paper seeks approval for changes to the Maritime and Oil Pollution Levies from 1 July 2024.</p> <p>Responsibility: David Wood, DCE, Investment & Monitoring Group</p>

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982



MINISTRY OF TRANSPORT
TE MANATŪ WAKA

Weekly Report to the Minister of Transport

For the week ending 16 February 2024

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

7. Associate Minister of Transport

Cabinet papers

Committees	
Cabinet Economic Policy Committee (ECO)	
28 February TBC	<p>Approval of proposed increases to the Maritime and Oil Pollution Levies</p> <p>This paper seeks approval for changes to the Maritime and Oil Pollution Levies from 1 July 2024.</p> <p>Responsibility: David Wood, DCE, Investment & Monitoring Group</p>

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982



MINISTRY OF TRANSPORT
TE MANATŪ WAKA

Weekly Report to the Minister of Transport

For the week ending 23 February 2024

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

8. Associate Minister of Transport

Cabinet papers

Committees	
Cabinet Economic Policy Committee (ECO)	
28 February 2024	<p>Approval of proposed increases to the Maritime and Oil Pollution Levies</p> <p>This paper seeks approval for changes to the Maritime and Oil Pollution Levies from 1 July 2024.</p> <p>Responsibility: David Wood, DCE, Investment & Monitoring Group</p>

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982



MINISTRY OF TRANSPORT
TE MANATŪ WAKA

Weekly Report to the Minister of Transport

For the week ending 8 March 2024

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

8. Associate Minister of Transport

Cabinet papers

Committees	
Cabinet Legislation Committee (LEG)	
23 May 2024	<p>Approval of legislative changes required for Maritime and Oil Pollution Levies changes</p> <p>This paper seeks approval for legislative changes required for increases to the Maritime and Oil Pollution Levies from 1 July 2024.</p> <p>Responsibility: David Wood, DCE, Investment & Monitoring Group</p>

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982



MINISTRY OF TRANSPORT
TE MANATŪ WAKA

Weekly Report to the Minister of Transport

For the week ending 15 March 2024

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

8. Associate Minister of Transport

Cabinet papers

Committees	
Cabinet	
18 March 2024	<p>Maritime and Oil Pollution Levies: Proposed Increases</p> <p>This paper seeks approval for changes to the Maritime and Oil Pollution Levies from 1 July 2024.</p> <p><i>Responsibility: David Wood, DCE, Investment & Monitoring Group</i></p>

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

Associate Minister of Transport
Weekly Report week commencing
18 March 2024

Associate Minister's comments:

4. Upcoming Cabinet papers:

Committees	
Cabinet Economic Policy Committee	
27 March 2024	Maritime and Oil Pollution Levies: Proposed increases This paper seeks approval for changes to the Maritime and Oil Pollution Levies from 1 July 2024
Cabinet Legislation Committee	
23 May 2024	Maritime and Oil Pollution Levies: Proposed increases This paper seeks approval of legislative amendments to give effect to policy decisions agreed to at ECO (see above).



Transport Portfolio Weekly Report

Week commencing 18 March 2024

Recipient

HON SIMEON BROWN
MINISTER OF TRANSPORT

Copy the report to Hon Matthew Doocoy as Associate Minister of Transport

Minister's comments:

5. Other upcoming Ministry of Transport Cabinet papers

Cabinet Paper: Maritime and Oil Pollution Levies: Proposed increases

Progress Update: This paper had previously been lodged by the Associate Minister but is going back to ECO after Cabinet asked for some amendments. As the Associate Minister is away, this paper is being taken by you.

To Minister: Already with Minister
To lodge: 21 March 2024
To Committee: 27 March 2024 (ECO)



Transport Portfolio Weekly Report

Week commencing 25 March 2024

Recipient

HON SIMEON BROWN
MINISTER OF TRANSPORT

Copy the report to Hon Matthew Doocoy as
Associate Minister of Transport

Minister's comments:

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

Actions from transport officials meeting

Meeting with the Ministry of Transport (the Ministry) Monday 25 March 2024	Due date
Maritime and Oil Pollution Levies: Proposed Increases <ul style="list-style-type: none"> Officials to update speaking points/background advice that covers implication if levy change does not proceed. Also ensure speaking points provide clear justification for current levy proposal. 	Complete

4. Upcoming Minister of Transport meetings

Meeting Date	Meeting	Details
2 April 2024 4.00 – 4.15pm	Maritime fee and funding review	Briefing Due: With Minister Officials Attending: Audrey Sonerson, Chief Executive Richard Cross, Director Investment and Monitoring Group Chris Jones, Principal Advisor Crown Entity Monitoring

5. Other upcoming Ministry of Transport Cabinet papers

Cabinet Paper: Maritime and Oil Pollution Levies: Proposed increases	
Progress Update: We submitted advice to Ministers Brown and Doocey on Friday 28 March to inform a meeting with Hon Jones on 2 April. This meeting will consider options for addressing concerns raised by the Cabinet Economic Policy Committee on the proposed increase in Maritime and Oil Pollution Levies, and agree next steps for the Cabinet Paper.	To Minister: With Minister To lodge: TBC To Committee: TBC



Transport Portfolio Weekly Report

Week commencing 2 April 2024

Recipient

HON SIMEON BROWN
MINISTER OF TRANSPORT

Copy the report to Hon Matthew Doocey as Associate Minister of Transport

Minister's comments:

5. Other upcoming Ministry of Transport Cabinet papers

Cabinet Paper: Maritime and Oil Pollution Levies: Proposed increases	
<p>Progress Update: We submitted advice to Ministers Brown and Doocey on Friday 28 March, which informed a meeting with Hon Jones on 2 April. Agreement was reached at the meeting on the adjustments required to the Oil Pollution Levies.</p>	<p>To Minister: With Minister Doocey To lodge: Lodged 4 April 2024 To Committee: 11 April 2024 (ECO)</p>

Associate Minister of Transport

Weekly Report week commencing

29 April 2024

Associate Minister's comments:

Upcoming Cabinet papers

Committees	
Cabinet Legislation Committee	
23 May 2024	<p>Approval of legislative changes required for Maritime and Oil Pollution Levies changes</p> <p>This paper seeks authorisation for submissions to the Executive Council of the Maritime Levies Amendment Regulations 2024 and the Maritime Transport (Oil Pollution Levies) Amendment Order 2024, together referred to as the Amendment Regulations.</p>



Funding review

As Cabinet has now approved Maritime NZ's funding review, we are starting engagement with the sector to communicate the changes.

We intend to write to stakeholders by the end of this week, including Marine Transport Association, Shipping Federation, Federation of Commercial Fisherman, Seafarer Welfare Board, Port Chief Executives Group, and NZ Cruise Association. Director Kirstie Hewlett will phone OMV General Manager, Henrik Mosser. Kirstie will also share funding review information in her keynote speech at the Marine Transport Association Conference, Thursday 2 May, and continue to engage with the sector over coming weeks and months. We will also inform all submitter of the outcomes.

Maritime NZ has also reviewed the Funding Review Cabinet papers in consultation with the Ministry of Transport and, in a briefing to Minister Doocey, we have suggested some redactions and requested an early release of the papers. This request is so that information within the papers can be included for publication on our website and in stakeholder communications. It is important that stakeholders know where the levy review has ended up so that they can plan into next year.



12 December 2023

OC231026

Hon Simeon Brown
Minister of Transport

Action required by:
Tuesday, 19 December 2023

MARITIME NEW ZEALAND FUNDING REVIEW

Purpose

To brief you on the Maritime New Zealand (MNZ) funding review, in advance of your meeting with the Chair and Chief Executive of MNZ on Tuesday 19 December 2023.

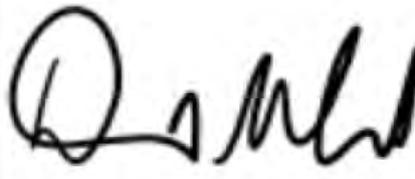
Key points

- Since the onset of COVID-19 in 2020, it has been necessary for Crown liquidity funding of \$62 million to be provided to support MNZ's core functions. At the time, the Government also suspended reviews proposing increases to Maritime and Oil Pollution Levies.
- MNZ's funding review is now well advanced, and you have an important role in seeking Cabinet approval of proposal to change the levies, and the consequential approval of amendments to regulations to give effect to changes.
- In June 2023, Cabinet agreed that MNZ should publicly consult on eight levy proposals, which it subsequently carried out from July to August 2023.
- Following public consultation, MNZ refined its proposals and developed a Stage Two Cost Recovery Impact Statement (CRIS) that has, in turn, been reviewed by the Ministry's Regulatory Impact Assessment (RIA) panel.
- MNZ intends to seek, through you, Cabinet's approval of the proposed changes to levies in early 2024.
- The Ministry supports the principle of MNZ returning to financial sustainability following the years of COVID-19 when MNZ's revenue was constrained.
- Further Crown liquidity support may be required for MNZ if the funding review is not implemented by 1 July 2024.
- We intend to deliver a draft Cabinet paper and supporting information for your consideration over the summer break.

Recommendations

We recommend that you:

1	<p>note that Maritime New Zealand has prepared and consulted on eight levy proposals that will allow it to return to cost recovery from 1 July 2024.</p>	
2	<p>note the Ministry will provide you with a draft Cabinet paper and supporting information on the funding review for your consideration over the summer break.</p>	

	
<p>David Wood Deputy Chief Executive Investment and Monitoring / /</p>	<p>Hon Simeon Brown Minister of Transport / /</p>

- Minister's office to complete:**
- Approved
 - Declined
 - Seen by Minister
 - Not seen by Minister
 - Overtaken by events

Comments

Contacts

Name	Telephone	First contact
David Wood, Deputy Chief Executive, Investment and Monitoring Group	s 9(2)(a)	
Harriet Shelton, Manager, Crown Entity Monitoring		✓
Johnny Crawford, Senior Adviser, Crown Entity Monitoring		

OFFICIAL INFORMATION ACT 1982

MARITIME NEW ZEALAND FUNDING REVIEW

MNZ is likely to be reliant on Crown funding until it completes its funding review

- 1 Since COVID-19, Maritime New Zealand (MNZ) has received additional Crown funding to operate as a going concern and continue delivering services for New Zealanders. Reduced maritime activity, primarily resulting from border closures, caused a sharp drop in MNZ's revenue. Before the pandemic, MNZ funded 62% of its functions from fees, levies and charges.
- 2 Prior to the pandemic, MNZ would typically operate on a three-year funding cycle, with alternating 'mid-point' reviews of its levies, and more fundamental reviews of the funding structure every six years.
- 3 MNZ's funding review had been due for completion in 2020. Funding reviews generally take 18-24 months and comprise three key stages:
 - developing proposals for public consultation,
 - post-consultation refinement and approval of proposals; and
 - implementing changes to regulations.
- 4 Public transparency and scrutiny are important to ensure proposals are fit-for-purpose. Public consultation has legal standing in the funding review process¹.
- 5 MNZ has experienced cost increases, due to inflation and additional regulatory activity that is required to remain compliant with international standards, since the levies were last set. MNZ implemented its last full funding review in 2019.
- 6 A return to cost-recovery is widely supported by stakeholders, including the Ministry and the Treasury. In June 2023, the Associate Minister of Transport and Minister of Finance jointly approved MNZ publicly consulting on its proposals.

MNZ is planning to seek your approval of its proposals prior to Cabinet consideration in early 2024

- 7 MNZ has completed public consultation on eight proposed changes to its levies. This includes six proposals related to Maritime Levies and two related to Oil Pollution Levies. The public submissions signalled a high level of support for the activities for which additional levies will be required, with 80% of submissions in favour of the proposals.
- 8 The proposals set out in **Annex One** would require an increase in Maritime Levies of 33.1% and Oil Pollution Levies of 8.8% on average. If all proposals are adopted, this will result in an average uplift of \$11.7 million per annum in levies revenue for the three-year period 2024/25 to 2026/27. While this is significant in percentage terms, most of the levy increases will be borne by foreign vessels during their activity in New

¹ For example, in June 2021 the PPTA successfully challenged an increase in fees by the Teaching Council on the grounds of failure to consult.

Zealand waters. How the levies will impact different types of vessels is set out in **Annex Two**, noting that this is an illustrative rather than comprehensive list.

- 9 Following analysis of submissions, MNZ drafted a Stage-Two CRIS which has been given a 'meets' rating by the Ministry's RIA panel.
- 10 You now have the opportunity to either support the proposed increases, make minor adjustments, or reconsider them in their entirety. Regardless of when you are able to meet MNZ, the Ministry intends to provide a draft Cabinet paper and associated documents for your consideration by the end of December, so you can consider them before taking proposals to Cabinet in early 2024.
- 11 Implementation of the proposed changes will require amendment to the Maritime Levies Regulations 2016 and the Oil Pollution Levies Order 2016. This amendment will need to be approved by the Cabinet Legislation Committee in the first half of the 2024 calendar year.
- 12 MNZ will be able to implement its new funding model by 1 July 2024 if the timelines in **Annex Three** are met. If this timetable is achieved, MNZ estimates approximately \$14 million from its liquidity facility can be returned.

Delays to the funding review would create risk for MNZ and the Crown

- 13 The major benefit of returning MNZ to full cost recovery is fiscal. If the timeline outlined in the **Annex Three** is not met, then MNZ advises that Crown liquidity support of approximately \$1.5 million per month will be required to maintain service levels for any delay beyond 1 July 2024. Alternatively, if there is a delay without additional financial support, service levels may have to be reduced.
- 14 New Zealand is heavily reliant on the maritime sector for its trade, 99.7% of which is carried by sea by volume (and 81.0% by value). If MNZ has insufficient funding, there is a risk of degradation in the quality of vessels in New Zealand waters and a corresponding risk to the environment, safety of workers and seafarers. If MNZ is unable to address (or continue to improve) its performance, it could diminish confidence in the organisation, increase the risk of regulatory failure and, at worst, potentially harm our economy by discouraging ships from entering New Zealand waters.
- 15 Given your focus on reducing baseline funding, an expeditious completion of the funding review is recommended to avoid the need for any further liquidity support for MNZ, and which would have the added benefit of ensuring costs revert to the sector that creates them.

ANNEX ONE – SUMMARY OF FUNDING REVIEW PROPOSALS

Activity requiring additional maritime levies	Increase (\$m) in first year
<p>1. Managing the risks of substandard shipping through maintaining and enhancing regulatory operations (port and flag state control). This proposal seeks to address the declining quality of vessels over the past few years and the resulting impacts on safety, the environment and productivity. It will increase the number of Maritime inspectors to effectively inspect the highest-risk ships coming into New Zealand waters.</p>	1.9
<p>2. Reducing sector costs and enabling innovation by updating outdated Maritime and Marine Protection Rules. This proposal seeks to increase resourcing for its regulatory reform programme to make and amend maritime rules. Many of the current rules are outdated, unable to keep up with technological changes and require the sector to apply and pay for exemptions.</p>	1.0
<p>3. Improving performance in responding to notifications and maintain critical improvements in the process of licensing applications. This proposal seeks to continue recent work to improve the timeliness and quality of licensing for seafarers and operators. Backlogs in the licensing application process have resulted in frustration and costs for the sector since COVID-19 but MNZ's performance has begun to improve in recent quarters.</p>	1.2
<p>4. Effectively overseeing third party regulators. This proposal would fund the establishment of a small team to lead support and improve third-party oversight activity, something that MNZ has been limited in its ability to do in the past. This would enable MNZ to be more proactive, significantly reduce the risk of regulatory failure, and support safety and maritime protection outcomes.</p>	0.8
<p>5. Maintain the administration of MARPOL Annex VI. This proposal would cover the cost of administering MARPOL Annex VI, part of an international convention that sets out a regime for the prevention of air pollution from ships to which New Zealand is a signatory.</p>	1.8
<p>6. Continue to support the provision of seafarer welfare services. This proposal would fund the facilitation, or support for, seafarer welfare services in line with New Zealand's obligations under the Maritime Labour Convention. This is something that MNZ has been able to use levies for since 2021 but which the Crown has subsidised due to levies rates not accounting for this cost.</p>	1.5
Maritime levy related cost pressures	2.1
Maritime Levies	10.4
Activity requiring additional oil pollution levies	
<p>7. Amend the OPL allocation methodology. This proposal would apply a more straightforward levy allocation model to the OPL that aligns with the approach used for the Maritime Levy. This proposal would make it easier to retain oil pollution readiness and response capabilities that have been built up over years and paid for by the sector.</p>	-
<p>8. Maintain marine oil spill preparedness and response capability. This proposal would address inflationary cost pressures to maintain MNZ's Oil Pollution Response capabilities.</p>	0.4
TOTAL COST OF PROPOSALS	10.8

ANNEX TWO – ILLUSTRATIVE EXAMPLES OF LEVY IMPACTS

VESSEL TYPE All levies are ANNUAL unless stated as PER PORT CALL		FY25 Proposed Rate Maritime Levy	FY25 Proposed Rate Oil Pollution Levy	Proposed total Levies Increase
	International Oil Tanker (SOLAS ²) GT 25,000 PAX 0 PER PORT CALL DWT 45,000	\$4,303	\$658	\$1,453
	International Container Ship (SOLAS) PER PORT CALL GT 40,000 PAX 0 DWT 52,000	\$6,643	\$1,052	\$2,273
	International Cruise Vessel (SOLAS) PER PORT CALL GT 110,000 PAX 2500 DWT 15000	\$20,716	\$2,893	\$6,786
	Domestic Passenger Ferry (SOLAS) GT 22,365 PAX 1,350 DWT 5,794	\$306,338	\$38,904	\$12,476
	Domestic Container Ship (SOLAS) GT 6000 PAX 0 DWT 10,000	\$65,557	\$10,437	-\$253
	Domestic Coastal Fishing Trawler (non-SOLAS) GT 529 PAX 0 DWT 0	\$5,548	\$163	\$974
	Domestic fishing Length 5.9 metres	\$115	NA	\$26
	Domestic non-passenger aquaculture vessel (mussel barge) GT 104	\$1,091	NA	\$236
	Domestic non-passenger barge GT 150	\$1,573	NA	\$340
	Domestic non-passenger Length 23.9 metres (including tugs)	\$467	NA	\$104
	Domestic non-passenger Length 8 metre workboat	\$156	NA	\$35
	Domestic Passenger Ferry (Non SOLAS) GT 280 PAX 300 DWT 0	\$3,608	\$487	\$107

² A small number of New Zealand's largest ships that are covered by the International Convention for the Safety of Life at Sea (SOLAS)

BUDGET SENSITIVE

VESSEL TYPE All levies are ANNUAL unless stated as PER PORT CALL		FY25 Proposed Rate Maritime Levy	FY25 Proposed Rate Oil Pollution Levy	Proposed total Levies Increase
	Domestic Charter Passenger Boat (Non SOLAS) Length 18 metres PAX 140 DWT 0	\$665	NA	\$146
	Domestic Charter Passenger Boat (Non SOLAS) Length 8 metres PAX 14 DWT 0	\$179	NA	\$40
	Domestic Commercial Jet Boat Length 8.2 metres PAX 8 DWT 0	\$339	NA	\$75
	Domestic passenger Commercial dive boat Length 4.5 metres PAX 4	\$177	NA	\$39
	Domestic passenger 3.7 metre personal watercraft (jet ski/novel craft) PAX 1	\$95	NA	\$21

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

ANNEX THREE – TIMELINE OF UPCOMING DECISIONS FOR THE MNZ FUNDING REVIEW

Indicative Timing	Event	Action Required
Stage One – Cabinet approval to publicly consult on proposals (Completed)		
Stage Two – Cabinet approval of MNZ levy proposals		
Dec 2023	Meet with the Chair and Chief Executive of MNZ.	Discuss the proposed Levy increases
Dec 2023 (summer bag)	Draft Cabinet paper and supporting documents to approve new levies	Consultation with your Ministerial colleagues
Feb 2024	Updated Cabinet paper provided to you incorporating consultation	Lodge with the Cabinet office
TBC - Feb 2024	Cabinet Committee considers paper	Present the paper to Cabinet
TBC – March 2024	Drafting instructions to Parliamentary Council Office (PCO)	PCO to draft regulations
TBC – April 2024	Departmental Consultation	1 week for Departmental Consultation
TBC – April 2024	Ministerial Consultation	1 week for Ministerial Consultation
Stage Three – Cabinet approval of changes to regulations		
9 May 2024	Cabinet Legislation Committee (LEG) paper submitted to Minister for submission to Cabinet	Lodge with the Cabinet office
15 May 2024	LEG considers paper	
20 May 2024	Cabinet / Executive Council	Cabinet confirms LEG decision. Governor General signs regulations in Executive Council
23 May 2024	Gazette date	The regulations must be notified in the New Zealand Gazette at least 28 days before coming into force
1 July 2024	New funding model comes into effect	
MNZ implements changes to levies		

IN CONFIDENCE



20 December 2023

OC230985

Hon Simeon Brown
Minister of Transport

Action required by:
Friday, 12 January 2024

OC230985 APPROVAL OF PROPOSED INCREASES TO THE MARITIME AND OIL POLLUTION LEVIES

Key points

- A draft Cabinet Business Committee paper seeking approval of proposed increases to the Maritime and Oil Pollution Levies as part of the Maritime NZ funding review is attached as Annex One for your consideration.
- Maritime NZ has undertaken public consultation on the proposed changes, and the Ministry has completed departmental consultation on the paper. Both processes demonstrate there is support for the new levies and the proposals they will fund.
- You have the opportunity to either support the proposed increases, make minor adjustments, or reconsider them in their entirety.
- The current timeline assumes the paper will be lodged with the appropriate Cabinet Committee in February 2024, but you also have the option to lodge the paper in January 2024.

A handwritten signature in black ink, appearing to read "D Wood", is positioned above a horizontal line.

David Wood
Deputy Chief Executive – Investment and
Monitoring

Hon Simeon Brown
Minister of Transport

..... / /

IN CONFIDENCE

IN CONFIDENCE

ANNEX ONE

Office of the Minister of Transport

Cabinet Business Committee

Approval of Proposed Increases to the Maritime and Oil Pollution Levies**Proposal**

- 1 This paper seeks approval to changes to the Maritime and Oil Pollution Levies from 1 July 2024.

Relation to Government Priorities

- 2 Supporting these proposals will help the maritime sector avoid unnecessary supply chain disruptions, reduce regulatory costs, promote innovation and mitigate significant environmental damage or harm to people from maritime incidents. For this reason, it directly relates to the Government's emphasis on lifting economic growth.
- 3 It will also ensure that Maritime NZ can return to cost recovery, consistent with the Government's focus on treating taxpayers' money with respect.

Executive Summary

- 4 Maritime NZ is the regulator for maritime and port safety, security and the environment. It is also responsible for coordinating broader search and rescue activities, maintaining marine oil pollution readiness and response capabilities, running maritime distress radio and aides to maritime navigation.
- 5 Maritime NZ's funding for frontline regulatory services is largely paid for by maritime operators via the Maritime Levy. Its oil pollution readiness and response activity is funded by the Oil Pollution Levy (OPL) paid by ships carrying oil around New Zealand.
- 6 When the Government closed New Zealand's borders in response to COVID-19, there was a reduction in activity levels in the maritime sector, including the cessation of cruise. This led to a corresponding reduction in levies revenue for Maritime NZ. This revenue shortfall was exacerbated by changes in the way oil is moved around the coast, cost pressures and the introduction of new Government initiatives for Maritime NZ to implement.
- 7 Cabinet issued a moratorium on border transport agency funding reviews in response to COVID 19, which was lifted in 2021. Due to the moratorium, there has not been a way of addressing the levies shortfall since the Maritime Levy and the OPL were reviewed in 2018/19.
- 8 Prior to the resumption of the current funding review, Maritime NZ undertook an efficiency and effectiveness review, which included engagement with the sector. This review assessed the efficiency and effectiveness of the organisation and highlighted critical issues around performance that stakeholders wanted to be addressed. These issues relate to:
 - insufficient inspections of poor-quality ships around New Zealand's coast;

IN CONFIDENCE

- outdated rules causing cost and complexity for the sector and inhibiting innovation;
- inefficient regulatory services impacting on operation of the sector; and
- third parties carrying out delegated regulatory responsibilities having limited oversight resulting in issues with competition, costs and the quality of their service.

9 Between 19 July and 16 August 2023, Maritime NZ publicly consulted on proposed levies increases. Each proposal received the support of 80% or more submitters including support from the key maritime industry bodies. In my view, the opposing submissions did not provide sufficient justification to remove or reduce any of the proposals.

10 Levies increases are supported by the Ministry of Transport (the Ministry), The Treasury and other sector stakeholders. It will minimise the financial burden on the Crown and ensure that Maritime NZ is adequately resourced to fulfil its statutory responsibilities.

Background

11 Maritime NZ's core business is funded from multiple sources. In line with cost recovery principles in the transport sector, the bulk of funding for relevant activities comes from levies on maritime operators. Its oil pollution readiness and response activity is funded by OPL paid by large ships carrying oil around the coast of New Zealand.

12 Prior to COVID-19, Maritime NZ would typically operate on a three-year funding cycle, alternating 'mid-point' reviews with more fundamental reviews every six years. The most recent funding reviews concluded in 2018/2019 and the next review was scheduled to be completed in 2021/22 but was deferred due to a moratorium being placed on transport agency funding reviews.

13 The closure of borders led to a reduction in activity levels in the maritime sector (for example cruise ships) and a corresponding reduction in levies revenue. Since 2020, to cover the gap between forecast levies revenue and actual revenue Cabinet agreed to provide additional Crown funding. This funding, via the multi-year appropriation *Protection of Transport Sector Agency Core Functions* (liquidity facility), is scheduled to expire on 30 June 2024. Beyond that point, Maritime NZ will face a funding gap, which will lead to a large reduction in frontline services. This gap can either be addressed through increased levies on the maritime sector, or through further Crown funding.

14 On 15 August 2023, to address the risk that Crown support may be required into 2024/25, the previous Government provided Maritime NZ with a Letter of Comfort to enable its Board to continue to operate on a going concern basis until 30 June 2025. The best way to provide that comfort beyond 30 June 2024 will be to support Maritime NZ to return to cost recovery through levies revenue.

15 While revenue has since recovered, it is not sufficient to cover costs and Maritime NZ has been reliant on the liquidity facility. The shortfall has been driven by:

- the closure of Marsden Point Oil Refinery changing the way oil moves around the coast and who pays, meaning the OPL was not fit for purpose;

- the Government introducing two new initiatives: MARPOL Annex VI (controlling emissions from ships) and the seafarer welfare fund, together costing \$3.3 million; and
- inflationary cost pressures such as staff, maritime safety infrastructure and services.

16 Maritime NZ is seeking to recover the shortfall from levies and not to rely on Crown liquidity funding from 1 July 2024.

Maritime NZ has been working to ensure its efficiency, effectiveness and productivity

17 To ensure that any future levies rate increases are made on the basis that Maritime NZ is efficient and effective, it has undertaken a review of itself over the past two years, supported by an external party. The review was undertaken in collaboration with the sector to understand stakeholder issues. It focused on what Maritime NZ needed to do to deliver better outcomes and more efficient and effective regulatory services.

18 This review has resulted in changes to organisational design and improvements to processes, practice, and systems. It has, ensured overhead costs are at an appropriate level (25 - 28%) and removed unnecessary management and administrative layers. It also disestablished roles (64) and re-deployed staff (33) to re-prioritise effort to where it was needed to achieve outcomes. As a part of the review, Maritime NZ will reduce its spend on contractors and consultants to 9% of operating expenditure by 1 July 2024.

19 Maritime NZ has been working closely with the Ministry to identify where it can reduce its total baseline expenditure. Returning to cost recovery through the funding review will remove reliance on Crown funding for levies revenue shortfalls.

Maritime NZ's funding review includes eight proposals requiring increases to the maritime and oil pollution levies

20 On 9 June 2023, joint Ministers agreed to the release of a consultation document recommending eight proposals funded by increases to the Maritime Levy and OPL. With these proposals, Maritime NZ will continue undertaking its statutory functions without incurring a funding gap that requires it to reduce its regulatory activities, impeding efficient and effective operation of the sector. It addresses the compound effects of inflationary cost pressures, system changes and new and increased regulatory activity since the levies were last increased. Refer to the Cost Recovery Impact Statement (CRIS) in **Appendix One** for more context.

Proposal 1. Managing the risks of substandard shipping through maintaining and enhancing regulatory operations (port and flag state control)

21 Maritime inspectors audit ships operating around our coast (including those involved in live-animal export) for compliance with safety and marine protection requirements. These activities jointly mitigate the risk of catastrophic maritime incidents and the consequent impact on safety, the environment and economy, and minimise the potential of harm for New Zealanders working with ships when alongside ports. Countries that have rigorous inspection regimes are less likely to receive poor quality vessels.

22 The quality of vessels operating around the coast has declined in the last few years. Six large ships have had near groundings or lost engine propulsion over the last two

years (compared with only one vessel in the preceding five years). Over the last year, Maritime NZ has had to detain more vessels than the previous three years combined, and the detention of vessels is taking up valuable berth space at ports. There are increasing serious injuries and risks of fatalities for those working on the vessels. This can cause significant disruption to supply chains and increased costs to move imports and exports, which are passed onto consumers and adversely impact the economy.

- 23 Maritime NZ's small inspections team is currently insufficient to inspect the riskiest ships in our waters. Sufficient inspection of high-risk ships is a critical issue identified by ports, stevedores, marine pilots, unions, regional councils and harbourmasters. Maritime NZ wants to increase the Maritime Levy to recruit a small number of additional frontline maritime inspectors to inspect all high-risk vessels. This will also enable a small number of random inspections each year to deter sub-standard ships. Twenty-five submitters supported this proposal, five partially supported and one opposed it. Some submitters wanted more inspectors than proposed.

Proposal 2. Reducing sector costs and enabling innovation by updating outdated Maritime and Marine Protection Rules

- 24 Maritime NZ has a small team that makes and amends maritime rules with the cost shared between Crown funding and the Maritime Levy. Over the last 25 years, there have been over 70 Maritime and Marine Protection Rules created with thousands of individual provisions. Many of these rules are outdated, requiring the sector to apply and pay for exemptions to continue operating. The current rules also do not easily enable innovation. This is becoming ever more problematic as new technologies, such as electric vessels, autonomous vessels, and wing-in-ground craft are being commercialised.
- 25 Work on these issues is delivered through a regulatory reform programme. But the availability of policy, drafting and technical advice is affecting the speed at which progress can be made. Maritime NZ proposes to increase the Maritime Levy to fund additional resources to remove or update outdated and costly maritime rules. Twenty-three submitters supported this proposal, four partially supported it, and three opposed it.

Proposal 3. Improving performance in responding to notifications and maintaining critical improvements in the process of licensing applications

- 26 All commercial seafarers and operators must be licensed to operate, ensuring the fitness of participants in the maritime system. An increased number of seafarer and operator applications has led to significant delays in the processing of licensing applications. This has been exacerbated by issues related to capacity and capability and rules, impacting on the effective and efficient operation of the maritime transport sector.
- 27 Liquidity funding was used to improve licensing capacity and capability. This has seen significant timeliness and quality gains. Over the last financial year, 67% of seafarer and operator applications were processed within 20 working days (an improvement of 52% and 20% respectively). Maritime NZ proposes to increase the Maritime Levy to retain and improve on the progress made. If this licencing capability is not maintained when liquidity funding ends, the gains will be lost and backlogs will return, bringing frustration and cost for maritime operators and seafarers.

- 28 Maritime operators are required to notify Maritime NZ about a variety of matters and events. It is essential that Maritime NZ can respond in a timely and appropriate way to these notifications and enquiries. Lack of focused capacity in this area has led to inconsistent or delayed responses to safety incidents. To address these issues, Maritime NZ has used baseline savings to create a small, centralised Notifications and Enquiries team. Maritime NZ proposes to increase the Maritime Levy to provide a small amount of additional capacity (two FTE) to allow this team to be fully functional.
- 29 Nineteen submitters supported this proposal, four partially supported it, and four opposed it.

Proposal 4. Providing effective oversight to third party regulators

- 30 There are hundreds of third-party regulators performing delegated regulatory functions in the maritime domain. Due to capacity constraints, Maritime NZ does not have a comprehensive view of their performance and is limited in its ability to intervene before issues arise. We have seen a range of regulatory failures in the broader New Zealand regulatory system over the last few years due to ineffective third-party oversight. The Transport Accident Investigation Commission and the International Maritime Organization have both raised risks in this area.
- 31 Maritime NZ proposes to increase the Maritime Levy to establish a team of four people to lead, support and improve third-party oversight activity. This will enable Maritime NZ to be more proactive, reducing risk of regulatory failure and supporting safety and maritime protection outcomes. It will help to ensure costs are reasonable and services are high-quality (both issues raised by stakeholders). Twenty submitters supported this proposal, four partially supported it and three opposed it.

Proposal 5. Maintaining the administration of MARPOL Annex VI

- 32 In 2019, the New Zealand government became signatory to MARPOL Annex VI, part of an international convention that sets out a regime for the prevention of air pollution from ships. Due to the delay in the funding review, the cost of administering MARPOL Annex VI has been met by the Crown to date. However, the intent was that the funding review would enable a shift to cost recovery through the Maritime Levy.
- 33 Maritime NZ proposes increasing the Maritime Levy to cover the cost of administering MARPOL Annex VI. Twenty submitters supported this proposal, three partially supported it, and three opposed it.

Proposal 6. Continuing to support the provision of seafarer welfare services

- 34 Since 1 March 2017, New Zealand has had obligations under the Maritime Labour Convention. This establishes minimum working and living standards for all seafarers and sets obligations for seafarer welfare services. In recognition of these obligations, in 2021 Parliament amended the Maritime Transport Act to enable the Maritime Levy to be used for seafarer welfare services. The Maritime Levy rates set in 2018/19 did not account for this cost, and Maritime NZ has needed Crown funding to support the external delivery of these services, receiving \$1.5 million to date.
- 35 Maritime NZ proposes increasing the Maritime Levy to cover the costs to provide seafarer welfare services. Thirty-three submitters supported this proposal, three partially supported it, and four opposed it. Many submitters sought more funding.

Proposal 7. Amending the OPL allocation methodology

- 36 The share of OPL paid by each stakeholder is allocated through a 'likelihood and consequence' model, based on assumptions about the operating environment in New Zealand. The model is costly to apply, time consuming and prone to significant errors. With the change in the type of fuel that moves around New Zealand following the closure of Marsden Refinery, the current levy allocation model is no longer fit-for-purpose. If the methodology is not revisited it will be difficult to retain marine oil pollution readiness and response capabilities.
- 37 Maritime NZ proposes to implement a revised allocation methodology that aligns with the approach used for the Maritime Levy. This is well understood by industry. The revised methodology is simpler, less costly to implement and will ensure a fairer allocation across the sector. The Oil Pollution Advisory Committee (OPAC) supports the change to the model. OPAC includes statutorily appointed representatives from across all sectors with OPL liability as well as iwi, central government agencies and local government. Twenty-three submitters supported this proposal, three partially supported it, and two opposed it.

Proposal 8. Maintaining marine oil spill preparedness and response capability

- 38 Since the Rena incident in 2011, Maritime NZ has built its capability to manage oil spills, should they occur. This has included developing capabilities, relationships and contracts with international actors needed to address a major oil spill.
- 39 Maintaining this capability requires a small increase in OPL due to cost pressures. OPAC supports this increase. If this increase is not progressed it will put at risk the ability to respond effectively to incidents. The capability investment made by the sector and built over the last few years would be diminished. Twenty-two submitters supported this proposal, three partially supported it, and three opposed it.

A thorough public consultation process has taken place

- 40 Maritime NZ undertook public consultation over a four-week period between 19 July and 16 August 2023. Alongside the consultation document, it published its initial CRIS, an international and domestic comparison of levies, and an analysis of options for the oil pollution allocation methodology. Consultation was supported by two public webinars. An email inbox enabled stakeholders and the public to ask questions during the process. All levy payers were alerted about the review by letter.
- 41 In total, Maritime NZ received 40 submissions on its proposals. Although this is relatively low in absolute terms, the webinar attendance, website views, downloads of the consultation document and number of submissions were consistent with past Maritime NZ funding reviews. Some industry bodies consulted with their members to develop a single submission. Submitters included a representative range of sector stakeholders including port operators, commercial vessel owners and operators, the cruise industry and seafarer welfare organisations.
- 42 Given many of the issues were identified by the sector itself, there was broad support for the proposals and levy increases, both by levy payers and beneficiaries. Key industry bodies like the Marine Transport Association, the Port Chief Executive Group, and NZ Shipping Federation supported the proposals along with Regional Councils and harbourmasters.
- 43 Submitters from the cruise sector supported the proposals but suggested a one-year delay to increasing levies to factor them into their business operating model. I

acknowledge their reasoning for preferring a delay, but the three-year cycle of funding reviews means it's difficult to provide stakeholders with more than one year's notice of levies increases. It would also require Crown funding of Maritime NZ for another 12 months. I note that the consultation process means that stakeholders have had notice of the likely timing and quantum of levies increases for 2024/25.

- 44 Where submitters opposed proposals, the reasons often related to disagreement with the levy construct and questions around whether some services were public goods that should be paid for by the Crown. I am comfortable that the proposals are consistent with best practice for cost recovery and follow the guidelines released by the Treasury and Office of the Auditor General for funding club goods. This is because the parties participating in the sector are the ones creating risk and the levies account for this risk. Other than the proposed change to the OPL model, this was not a review of the entire levy model.
- 45 As required under s334 of the Maritime Transport Act, Maritime NZ consulted with OPAC on its intended recommendations to me as Minister responsible for OPL rates and methodology. OPAC unanimously supports an increase in OPL revenue, and the associated levies rates changes required. The new risk allocation methodology is also fully supported.
- 46 The proposed levies increases are relatively non-controversial. Many in the sector appear willing to pay more to see delivery of activity that will reduce costs, support productivity, and improve safety. I am satisfied that there has been an adequate level of awareness and public engagement.

Final Recommended Proposals from Consultation

- 47 The Minister of Finance and I have considered the feedback received during the consultation process and advice from officials and agree that ...
- 48 I note that the consultation included options to scale three proposals. Specifically, this would have meant delaying implementation of Proposals 2 and 4 and reducing the funding for Proposal 6. Few submitters expressed support for these options and most that did, did so in the context of an overall opposition to levies increases. Most submitters wanted to see the proposed changes occur as quickly as possible.
- 49 On the whole, there was support for the funding review and each of the proposals, noting that consultation highlighted minor areas of opposition from some groups to specific changes. There is no indication that any groups will oppose charges following implementation. There will be concern if the proposals do not go ahead, given the impact it will have on the sector.
- 50 Increasing these levies from 1 July 2024 means MNZ will not need liquidity funding beyond 1 July 2024, releasing up to \$14m for other government priorities in 2024/25. The changes will be announced as soon as possible, to allow maritime operators as much time as possible to plan and manage costs.

Future Funding Reviews

- 51 The funding review is aimed at ensuring Maritime NZ is sustainably funded for the range of regulatory and response activities and functions required under current legislation, between 2024 and 2030. This includes the levels of the Maritime Levy and OPL as well as the OPL methodology.

- 52 MNZ intends to maintain a regular review cycle going forward to address funding needs and ensure that cost recovery settings remain appropriate, relevant, and sustainable. This is likely to involve the completion of a full funding review within three years of 1 July 2024.

Implementation

- 53 If approved by Cabinet, the Ministry will prepare drafting instructions for the Parliamentary Counsel Office (PCO) to make changes to the relevant regulations. subject to Cabinet authorisation through the Legislation Committee, the (amendment) regulations will be made in the Executive Council and notified in the New Zealand Gazette with the new fees and charges targeted to take effect from 1 July 2024.
- 54 In recognition of the various stakeholders that will be affected by the new fees and charges, Maritime NZ intends to announce the proposed changes as soon as Cabinet has agreed to them, and work closely with the sector on their implementation. It also intends to begin recruiting for any new roles as soon as it has this certainty.
- 55 The Maritime NZ Board will maintain oversight of the implementation of changes. The Ministry will provide performance advice to the Minister through its Crown Entity monitoring function. Maritime NZ has proposed several performance measures for its proposals, including existing measures where activity will continue. I expect it to report on these measures through its public accountability documents (Statement of Performance Expectations and Annual Report). This could include a measure of the sector's satisfaction with the proposals. Refer to the CRIS in **Appendix One** for a list of these measures.

Risks

- 56 Should levies changes not be in place by 1 July 2024, Maritime NZ will request Crown funding to cover costs that would otherwise be recovered from the sector.
- 57 In the absence of the levy changes or compensating Crown funding, baseline savings will need to be made by reducing levy-funded frontline services by around 18%. This would impact licensing timeliness and quality, oil response assets and capabilities, and the quality of frontline regulatory activities. It will also increase safety risk. The Seafarer Welfare Fund would end, impacting compliance with international labour conventions. This is likely to result in concern from the sector (most of whom support the funding review), and erode confidence in the maritime regulator.

Financial Implications

- 58 The proposals require additional Maritime Levy revenue of \$11.7 million on average per annum. This equates to a 33.1% increase in Maritime Levy rates over the three years from 2024/25. The proposals also require additional OPL of \$0.8 million on average per annum. This is an 8.8% increase in levies rates over the same period.
- 59 Agreeing to these proposals will have a positive fiscal impact on the Crown's accounts. If implemented by July 2024, Maritime NZ is expected to be able to return up to \$14 million to the Crown from the liquidity facility and remove future requirements for liquidity funding.
- 60 The financial impact of the proposals depends on the type of vessel (weight, length and passenger capacity), and whether they operate domestically or internationally. However, I expect the impact on the sector to be small for a number of reasons:

- Approximately 90% of cost of the proposed increased levies revenue is expected to be paid by operators of foreign vessels. These vessels tend to be much larger and are levied on a per-port visit basis whereas domestic vessels pay levies annually.
- Overall, 81% of smaller domestic vessels pay annual levies of \$500 or less and will see an annual increase from between somewhere of \$21 to \$150.
- A few larger domestic vessels are liable for both levies and, due to the change in the model for the OPL, will see a large drop in their rates which will largely off-set increases in the Maritime Levy.
- The only domestic sector for which the OPL would be higher is in the offshore oil and gas sector. Under the proposed methodology, its risk share goes from 0.02% to 0.9%. This translates to an \$81,000 OPL liability increase from the current base of \$858 for a particular operator (who did not submit or raise issues). Given the scale of the operation (45,000 barrels per day), this reflects the risk and required response to a potential incident. The increase is not considered material nor difficult to accommodate in per-unit prices. The offshore oil and gas sector is represented on OPAC which supports the changes to the OPL model and levies.

Legislative Implications

- 61 Changes to the Maritime Levies Regulations 2016 and the Maritime Transport (Oil Pollution Levies) Order 2016 will be required to implement the changes proposed in this paper.

Regulatory Impact Statement

- 62 Maritime NZ has provided a Cost Recovery Impact Statement (CRIS) covering the final funding model post-consultation (refer **Appendix One**). The CRIS panel, run by the Ministry has reviewed the CRIS. The panel considers that the document meets the key requirements for a CRIS.

Climate Implications of Policy Assessment

- 63 A Climate Implications of Policy Assessment is not required because the funding proposals do not have direct emissions impacts or objectives.

Population Implications

- 64 No population implications have been identified.

Human Rights

- 65 No human rights implications have been identified.

Consultation

- 66 The Treasury, Customs, Department of the Prime Minister and Cabinet, Ministry for Primary Industries, Ministry for Business, Innovation and Employment, Ministry for the Environment, Ministry for Foreign Affairs and Trade, Te Puni Kōkiri, New Zealand Police and WorkSafe New Zealand have been consulted on this draft Cabinet Paper. Comments have been reflected where appropriate.
- 67 Police supports the increased fees and charges proposed as they will fund critical activities that enable Maritime NZ to meet their statutory obligations and regulatory

functions. These functions support the effective and safe operation of the maritime sector.

- 68 The Treasury supports completion of the funding review as soon as practicable to limit Crown funding required in Budget 2024 and to enable Maritime NZ to get back to financial sustainability sooner. The Treasury notes that the Maritime NZ has undertaken work to manage costs, considered scaled options and demonstrated that proceeding with the levies increases will have a positive impact on Crown financials compared to the counterfactual.

Communications and Proactive Release

- 69 I intend to release this Cabinet Paper proactively and in accordance with the Official Information Act 1982 within 30 business days of the public consultation process commencing.

Recommendations

I recommend that the Committee:

1. **Note** that Maritime NZ has completed a funding review to fund eight proposals related to its core business.
2. **Note** that public consultation was undertaken between 19 July and 16 August 2023, with feedback being largely supportive.
3. **Agree** to the following Maritime Levy rates, effective from 1 July 2024:

Vessel	All rates GST Exclusive	Per Gross Tonnage Rate	Per Deadweight Tonnage Rate	Per Passenger Capacity Rate	Overall length
Foreign passenger (per port call)		\$0.1004	\$0.0082	\$2.0248	na
Foreign non passenger (per port call)		\$0.1178	\$0.0095	na	na
NZ SOLAS (annual)		\$7.7931	\$0.4607	\$46.7100	na
NZ non-SOLAS (24 metres or more in length) (annual)		\$8.2197	na	\$17.5403	na
NZ non-SOLAS (less than 24 metres in length) (annual)		na	na	\$17.5403	\$15.1746

4. **Agree** to the following Oil Pollution Levy rates, effective from 1 July 2024:

Vessel or oil site type	Basis of calculation	Oil Type	Levy (GST Exclusive)
NZ vessels (all charges annual)			
Passenger and cargo ships, harbour tugs and oil tanker bunker fuel	Per gross tonne of the vessel	Bunker fuel	\$1.7395
Tankers carrying oil as cargo	Per tonne of oil carried as cargo	Persistent	\$0.1285
		Non-Persistent	\$0.0756
Fishing vessels	Per gross ton of the vessel		\$0.3086
Oil sites (all charges annual)			
Offshore oil and gas (FPSO)	Fixed Fee	Persistent	\$82,055.19
Foreign vessels (all charges per port call)			
Passenger and cargo ships, harbour tugs and oil tanker bunker fuel	Per gross ton of the vessel (per port visit)	Bunker fuel	\$0.0263
Tankers carrying oil as cargo	Per tonne of oil carried as cargo	Persistent	\$0.3546
		Non-Persistent	\$0.2086

5. **Invite** the Minister of Transport to issue drafting instructions to the Parliamentary Counsel Office to give effect to these decisions, including any necessary consequential amendments, savings and transitional provisions.
6. **Authorise** the Minister of Transport to make final policy decisions on implementation, including minor or technical changes that arise during the drafting process, without further reference to Cabinet.

[Authorised for lodgement]

Hon Simeon Brown
Minister of Transport

Appendix 1 is refused under section 18(d) as it is publicly available on MNZ's website here: <https://www.maritimenz.govt.nz/media/0xzfsfnr/d24-22229-cabinet-paper-appendix-1-mnz-cost-recovery-impact-statement-stage-2.pdf>



19 January 2024

OC240001

Hon Matt Doocey
Associate Minister of Transport

cc Hon Simeon Brown

Minister of Transport

APPROVAL OF PROPOSED INCREASES TO THE MARITIME AND OIL POLLUTION LEVIES

Key points

- Since the onset of COVID-19 in 2020, it has been necessary to provide Crown liquidity funding of \$62 million to support Maritime NZ's core functions. From the time the funding began, the Government suspended any reviews proposing increases to Maritime and Oil Pollution Levies.
- Maritime NZ's funding review is now well-advanced and in June 2023, Cabinet agreed that Maritime NZ should publicly consult on eight proposals, which it subsequently carried out from July to August 2023. Responses demonstrated strong support for the proposals and the increases to the Maritime and Oil Pollution Levies required to fund them.
- Following consultation, Maritime NZ refined the proposals and developed a Stage Two Cost Recovery Impact Statement (CRIS) that has, in turn, been reviewed by the Ministry's Regulatory Impact Assessment (RIA) panel.
- The Ministry of Transport has drafted and undertaken departmental consultation on a Cabinet Paper seeking approval of the levy increases. Departments that commented, including the Treasury, reiterated support for the proposals. That draft Cabinet paper is attached as **Appendix One**.
- You have the opportunity to either support the proposed increases, make minor adjustments, or reconsider them in their entirety. Once you are comfortable, you have an important role in seeking Cabinet's approval of the changes and, subsequently, the amendments to regulations to give effect to changes.

- The timeline that the funding review Steering Group has been working to anticipate that the Cabinet Paper should ideally be lodged with the Cabinet Business Committee by the end of February 2024, in order to return to cost-recovery by 30 June 2024.

Recommendations

We recommend that you:

EITHER		
1	agree to undertake Ministerial consultation on the proposed changes to the Maritime and Oil Pollution Levies ahead of lodging the Cabinet Paper (attached as Appendix One).	Yes / No
OR		
2	advise whether you require Maritime NZ to make material changes to the proposals.	Yes / No



David Wood
Deputy Chief Executive – Investment and Monitoring

..... / /

Hon Matt Doocey
Associate Minister of Transport

..... / /

- Minister’s office to complete:**
- Approved
 - Declined
 - Seen by Minister
 - Not seen by Minister
 - Overtaken by events

Comments

Contacts

Name	Telephone	First contact
David Wood, Deputy Chief Executive, Investment and Monitoring Group	s 9(2)(a)	✓
Marcus Schutenko, Acting Manager, Crown Entity Monitoring		
Johnny Crawford, Senior Adviser, Crown Entity Monitoring		

APPROVAL OF PROPOSED INCREASES TO THE MARITIME AND OIL POLLUTION LEVIES

Maritime NZ is likely to be reliant on Crown funding until it completes its funding review

- 1 Since COVID-19, Maritime NZ has received additional Crown funding to operate as a going concern and continue delivering services for New Zealanders. Reduced maritime activity, primarily resulting from border closures, caused a sharp drop in Maritime NZ's revenue. Before the pandemic, Maritime NZ funded 62% of its functions from fees, levies and charges.
- 2 Prior to the pandemic, Maritime NZ would typically operate on a three-year funding cycle, with alternating 'mid-point' reviews of its levies, and more fundamental reviews of the funding structure every six years.
- 3 Maritime NZ's funding review was scheduled to be completed in 2021/22. Funding reviews generally take 18-24 months and comprise three key stages:
 - developing proposals for public consultation,
 - post-consultation refinement and approval of proposals; and
 - implementing changes to regulations.
- 4 Public transparency and scrutiny are important to ensure proposals are fit-for-purpose. Public consultation is a legal requirement in the funding review process¹.
- 5 Maritime NZ has experienced cost increases, due to inflation and additional regulatory activity that is required to remain compliant with international standards, since the levies were last set. Maritime NZ concluded its last full funding review in 2018/19.
- 6 A return to cost-recovery is widely supported by stakeholders, including the Ministry and the Treasury. In June 2023, the Associate Minister of Transport and Minister of Finance jointly approved Maritime NZ publicly consulting on its proposals.

Maritime NZ seeks your approval of its proposals prior to Cabinet consideration

- 7 Maritime NZ has completed public consultation on eight proposed changes to its levies. This includes six proposals related to the Maritime Levy and two related to Oil Pollution Levy (OPL). The public submissions signalled a high level of support for the activities for which additional levies will be required, with 80% of submissions in favour of the proposals.

¹ For example, in June 2021 the PPTA successfully challenged an increase in fees by the Teaching Council on the grounds of failure to consult.

Table One: Summary of Proposals for Maritime NZ levy increases

Activity requiring additional maritime levies	Proposed Increase (\$m)
1. Managing the risks of substandard shipping through maintaining and enhancing regulatory operations (port and flag state control). This proposal seeks to address the declining quality of vessels over the past few years and the resulting impacts on safety, the environment and productivity. It will increase the number of Maritime inspectors to effectively inspect the highest-risk ships coming into New Zealand waters.	1.9
2. Reducing sector costs and enabling innovation by updating outdated Maritime and Marine Protection Rules. This proposal seeks to increase resourcing for its regulatory reform programme to make and amend maritime rules. Many of the current rules are outdated, unable to keep up with technological changes and require the sector to apply and pay for exemptions.	1.0
3. Improving performance in responding to notifications and maintain critical improvements in the process of licensing applications. This proposal seeks to continue recent work to improve the timeliness and quality of licensing for seafarers and operators. Backlogs in the licensing application process have resulted in frustration and costs for the sector since COVID-19 but Maritime NZ's performance has begun to improve in recent quarters.	1.2
4. Effectively overseeing third party regulators. This proposal would fund the establishment of a small team to lead support and improve third-party oversight activity, something that Maritime NZ has been limited in its ability to do in the past. This would enable Maritime NZ to be more proactive, significantly reduce the risk of regulatory failure, and support safety and maritime protection outcomes.	0.8
5. Maintain the administration of MARPOL Annex VI. This proposal would cover the cost of administering MARPOL Annex VI, part of an international convention that sets out a regime for the prevention of air pollution from ships to which New Zealand is a signatory.	1.8
6. Continue to support the provision of seafarer welfare services. This proposal would fund the facilitation, or support for, seafarer welfare services in line with New Zealand's obligations under the Maritime Labour Convention. This is something that Maritime NZ has been able to use levies since 2021 but which the Crown has subsidised due to levy rates not accounting for this cost.	1.5
Maritime levy related cost pressures	2.1
Maritime Levy	10.4
Activity requiring additional Oil Pollution Levy	
7. Amend the OPL allocation methodology. This proposal would apply a more straightforward levy allocation model to the OPL that aligns with the approach used for the Maritime Levy. This proposal would make it easier to retain oil pollution readiness and response capabilities that have been built up over years and paid for by the sector.	-
8. Maintain marine oil spill preparedness and response capability. This proposal would address inflationary cost pressures to maintain Maritime NZ's Oil Pollution Response capabilities.	0.4
Maritime Levy & Oil Pollution Levy	10.8

- 8 The proposals set out in Table One would require an increase in the Maritime Levy of 33.1% and the OPL of 8.8% on average. If all proposals are adopted, this will result in an average uplift of \$11.7 million per annum in levy revenue for the three-year period 2024/25 to 2026/27. While this is significant in percentage terms, most of the levy increases will be borne by foreign vessels during their activity in New Zealand waters.
- 9 Following analysis of submissions, Maritime NZ drafted a Stage-Two CRIS which has been given a 'meets' rating by the Ministry's RIA panel.
- 10 You now have the opportunity to either support the proposed increases, make minor adjustments, or reconsider them in their entirety. The Ministry has provided the draft Cabinet paper as **Appendix One**.
- 11 Implementation of the proposed changes will require amendments to the Maritime Levies Regulations 2016 and the Oil Pollution Levies Order 2016. These

amendments will need to be approved by the Cabinet Legislation Committee before the end of June.

- 12 Maritime NZ will be able to implement its new funding model by 1 July 2024 if the timelines in **Table Two** are met. If this timetable is achieved, Maritime NZ estimates approximately \$14 million from its liquidity facility can be returned to the Crown.

Delays to the funding review would create risk for Maritime NZ and the Crown

- 13 The major benefit of returning Maritime NZ to full cost recovery is fiscal. If the timeline outlined in **Table Two** is not met, then Maritime NZ advises that Crown liquidity support of approximately \$1 million per month will be required to maintain service levels for any delay beyond 1 July 2024. Alternatively, if there is a delay without additional financial support, service levels may have to be reduced.
- 14 New Zealand is heavily reliant on the maritime sector for its trade, 99.7% of which is carried by sea by volume (and 81.0% by value). If Maritime NZ has insufficient funding, there is a risk of degradation in the quality of vessels in New Zealand waters and a corresponding risk to the environment and the safety of workers and seafarers. If Maritime NZ is unable to address (or continue to improve) its performance, it could diminish confidence in the organisation, increase the risk of regulatory failure and, at worst, potentially harm our economy by discouraging ships from entering New Zealand waters.
- 15 Given your focus on fiscal sustainability, an expeditious completion of the funding review is recommended to avoid the need for any further liquidity support for Maritime NZ, and which would have the added benefit of ensuring costs revert to the sector that creates them.

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

Table Two: Timeline of Upcoming Decisions for the Maritime NZ Funding Review

Indicative Timing	Event	Action Required
Stage One – Cabinet approval to publicly consult on proposals (Completed)		
Stage Two – Cabinet approval of Maritime NZ levy proposals		
Jan 2024	Draft Cabinet paper provided to you	Consultation with your Ministerial colleagues
Feb 2024	Updated Cabinet paper provided to you incorporating Ministerial consultation	Lodge with the Cabinet office
TBC - Feb 2024	Cabinet Committee considers paper	Present the paper to Cabinet
TBC – March 2024	Drafting instructions to Parliamentary Council Office (PCO)	PCO to draft regulations
TBC – April 2024	Departmental Consultation	1 week for Departmental Consultation
TBC – April 2024	Ministerial Consultation	1 week for Ministerial Consultation
Stage Three – Cabinet approval of changes to regulations		
TBC – May 2024	Cabinet Legislation Committee (LEG) paper submitted to Minister for submission to Cabinet	Lodge with the Cabinet office
TBC – May 2024	LEG considers paper	
TBC – May 2024	Cabinet / Executive Council	Cabinet confirms LEG decision. Governor General signs regulations in Executive Council
TBC – May 2024	Gazette date	The regulations must be notified in the New Zealand Gazette at least 28 days before coming into force
Maritime NZ implements changes to levies		
1 July 2024	New funding model comes into effect	

APPENDIX ONE – CABINET PAPER – APPROVAL OF PROPOSED INCREASES TO THE MARITIME AND OIL POLLUTION LEVIES

The Stage Two Cost Recovery Impact Statement (CRIS) is publicly available on Maritime New Zealand's website here: <https://www.maritimenz.govt.nz/media/0xzfsnr/d24-22229-cabinet-paper-appendix-1-mnz-cost-recovery-impact-statement-stage-2.pdf>

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

IN CONFIDENCE

Office of the Associate Minister of Transport

Cabinet Business Committee

Approval of Proposed Increases to the Maritime and Oil Pollution Levies**Proposal**

- 1 This paper seeks approval to changes to the Maritime and Oil Pollution Levies from 1 July 2024.

Relation to Government Priorities

- 2 Supporting these proposals will help the maritime sector avoid unnecessary supply chain disruptions, reduce regulatory costs, promote innovation, and mitigate significant environmental damage or harm to people from maritime incidents. For this reason, it directly relates to the Government's emphasis on lifting economic growth.
- 3 It will also ensure that Maritime NZ can return to cost recovery, consistent with the Government's focus on fiscal sustainability and treating taxpayers' money with respect.

Executive Summary

- 4 Maritime NZ is the regulator for maritime and port safety, security, and the environment. It is also responsible for coordinating broader search and rescue activities, maintaining marine oil pollution readiness and response capabilities, running maritime distress radio and aides to maritime navigation.
- 5 Maritime NZ's funding for frontline regulatory services is largely paid for by maritime operators via the Maritime Levy. Its oil pollution readiness and response activity is funded by the Oil Pollution Levy (OPL) paid by ships carrying oil around New Zealand.
- 6 When the Government closed New Zealand's borders in response to COVID-19, there was a reduction in activity levels in the maritime sector, including the cessation of cruise. This led to a corresponding reduction in levy revenue for Maritime NZ. This revenue shortfall was exacerbated by changes in the way oil is moved around the coast, cost pressures and the introduction of new Government initiatives for Maritime NZ to implement.
- 7 Cabinet issued a moratorium on border transport agency funding reviews in response to COVID-19, which it lifted in 2021. Due to the moratorium, there has not been a way of addressing the levy shortfall since the Maritime Levy and the OPL were reviewed in 2018/19.
- 8 Prior to the resumption of the current funding review, Maritime NZ undertook an efficiency and effectiveness review, which included engagement with the sector. This review assessed the efficiency and effectiveness of the organisation and highlighted critical issues around performance that stakeholders wanted to be addressed. These issues relate to:
 - insufficient inspections of poor-quality ships around New Zealand's coast;

IN CONFIDENCE

- outdated rules causing cost and complexity for the sector and inhibiting innovation;
- inefficient regulatory services impacting on operation of the sector; and
- third parties carrying out delegated regulatory responsibilities having limited oversight resulting in issues with competition, costs, and the quality of their service.

9 Between 19 July and 16 August 2023, Maritime NZ publicly consulted on proposed levy increases. Each proposal received the support of 80% or more submitters including support from the key maritime industry bodies. In my view, the opposing submissions did not provide sufficient justification to remove or reduce any of the proposals.

10 Levy increases are supported by the Ministry of Transport (the Ministry), The Treasury and other sector stakeholders. It will minimise the financial burden on the Crown and ensure that Maritime NZ is adequately resourced to fulfil its statutory responsibilities.

Background

11 Maritime NZ's core business is funded from multiple sources. In line with cost recovery principles in the transport sector, the bulk of funding for relevant activities comes from levies on maritime operators. Its oil pollution readiness and response activity is funded by OPL paid by large ships carrying oil around the coast of New Zealand.

12 Prior to COVID-19, Maritime NZ would typically operate on a three-year funding cycle, alternating 'mid-point' reviews with more fundamental reviews every six years. The most recent funding reviews concluded in 2018/2019 and the next review was scheduled to be completed in 2021/22 but was deferred due to a moratorium being placed on transport agency funding reviews.

13 The closure of borders led to a reduction in activity levels in the maritime sector (for example cruise ships) and a corresponding reduction in levy revenue. Since 2020, to cover the gap between forecast levy revenue and actual revenue Cabinet agreed to provide additional Crown funding. This funding, via the multi-year appropriation *Protection of Transport Sector Agency Core Functions* (liquidity facility), is scheduled to expire on 30 June 2024. Beyond that point, Maritime NZ will face a funding gap, which will lead to a large reduction in frontline services. This gap can either be addressed through increased levies on the maritime sector, or through further Crown funding.

14 On 15 August 2023, to address the risk that Crown support may be required into 2024/25, the previous Government provided Maritime NZ with a Letter of Comfort to enable its Board to continue to operate on a going concern basis until 30 June 2025. The best way to provide that comfort beyond 30 June 2024 will be to support Maritime NZ to return to cost recovery through levy revenue.

15 While revenue has since recovered, it is not sufficient to cover costs and Maritime NZ has been reliant on the liquidity facility. The shortfall has been driven by:

- the closure of Marsden Point Oil Refinery changing the way oil moves around the coast and who pays, meaning the OPL was not fit for purpose;

- the Government introducing two new initiatives: MARPOL Annex VI (controlling emissions from ships) and the seafarer welfare fund, together costing \$3.3 million; and
- inflationary cost pressures such as staff, maritime safety infrastructure and services.

16 Maritime NZ is seeking to recover the shortfall from levies and not to rely on Crown liquidity funding from 1 July 2024.

Maritime NZ has been working to ensure its efficiency, effectiveness, and productivity

17 To ensure that any future levy rate increases are made on the basis that Maritime NZ is efficient and effective, it has undertaken a review of itself over the past two years, supported by an external party. The review was undertaken in collaboration with the sector to understand stakeholder issues. It focused on what Maritime NZ needed to do to deliver better outcomes and regulatory services.

18 This review has resulted in changes to organisational design and improvements to processes, practice, and systems. It has, ensured overhead costs are at an appropriate level (25 - 28%) and removed unnecessary management and administrative layers. It also disestablished roles (64) and re-deployed staff (33) to re-prioritise effort to where it was needed to achieve outcomes. As a part of the review, Maritime NZ will reduce its spend on contractors and consultants to 9% of operating expenditure by 1 July 2024.

19 Maritime NZ has been working closely with the Ministry to identify where it can reduce its total baseline expenditure. Returning to cost recovery through the funding review will remove reliance on Crown funding for levy revenue shortfalls.

Maritime NZ's funding review includes eight proposals requiring increases to the maritime and oil pollution levies

20 On 9 June 2023, joint Ministers agreed to the release of a consultation document recommending eight proposals funded by increases to the Maritime Levy and OPL. With these proposals, Maritime NZ will continue undertaking its statutory functions without incurring a funding gap that requires it to reduce its regulatory activities, impeding efficient and effective operation of the sector. It addresses the compound effects of inflationary cost pressures, system changes and new and increased regulatory activity since the levies were last increased. Refer to the Cost Recovery Impact Statement (CRIS) in **Appendix One** for more context.

Proposal 1. Managing the risks of substandard shipping through maintaining and enhancing regulatory operations (port and flag state control)

21 Maritime inspectors audit ships operating around our coast (including those involved in live-animal export) for compliance with safety and marine protection requirements. These activities mitigate the risk of catastrophic maritime incidents, the consequent impact on safety, the environment and economy, and minimise the potential of harm for New Zealanders working with ships when alongside ports. Countries that have rigorous inspection regimes are less likely to receive poor quality vessels.

22 The quality of vessels operating around the coast has declined in the last few years. Six large ships have had near groundings or lost engine propulsion over the last two years (compared with only one vessel in the five years prior). Over the last year, Maritime NZ has had to detain more vessels than the previous three years combined, taking up valuable berth space at ports. There are increasing serious

injuries and risks of fatalities for those working on the vessels. This can cause significant disruption to supply chains and increased costs to move imports and exports, which are passed onto consumers and adversely impact the economy.

- 23 Maritime NZ's inspections team is currently too small to inspect the riskiest ships in our waters. Sufficient inspection of high-risk ships is a critical issue identified by ports, stevedores, marine pilots, unions, regional councils, and harbourmasters. Maritime NZ wants to increase the Maritime Levy to recruit a small number of additional frontline maritime inspectors to inspect all high-risk vessels. This will also enable a small number of random inspections each year to deter sub-standard ships. Twenty-five submitters supported this proposal, five partially supported and one opposed it. Some submitters wanted more inspectors than proposed.

Proposal 2. Reducing sector costs and enabling innovation by updating outdated Maritime and Marine Protection Rules

- 24 Maritime NZ has a small team that makes and amends maritime rules with the cost shared between the Crown and the Maritime Levy. Over the last 25 years, there have been over 70 Maritime and Marine Protection Rules created with thousands of individual provisions. Many of these rules are outdated, requiring the sector to apply and pay for exemptions to continue operating and do not easily enable innovation. This is becoming ever more problematic as new technologies, such as electric vessels, autonomous vessels, and wing-in-ground craft are being commercialised.
- 25 Work on these issues is delivered through a regulatory reform programme. But the availability of policy, drafting and technical advice is affecting the speed of progress. Maritime NZ proposes to increase the Maritime Levy to fund additional resources to remove or update outdated and costly maritime rules. Twenty-three submitters supported this proposal, four partially supported it, and three opposed it.

Proposal 3. Improving performance in responding to notifications and maintaining critical improvements in the process of licensing applications

- 26 All commercial seafarers and operators must be licensed to operate, ensuring the fitness of participants in the maritime system. An increased number of seafarer and operator applications has led to significant delays in the processing of licensing applications. This has been exacerbated by issues related to capacity and capability and rules, impacting on the effective and efficient operation of the maritime transport sector.
- 27 Liquidity funding was used to improve licensing capacity and capability. This has seen significant timeliness and quality gains. Over the last financial year, 67% of seafarer and operator applications were processed within 20 working days (an improvement of 52% and 20% respectively). Maritime NZ proposes to increase the Maritime Levy to retain and improve on the progress made. If this licencing capability is not maintained when liquidity funding ends, the gains will be lost and backlogs will return, bringing frustration and cost for maritime operators and seafarers.
- 28 Maritime operators are required to notify Maritime NZ about a variety of matters and events. It is essential that Maritime NZ can respond in a timely and appropriate way to these notifications and enquiries. Lack of focused capacity in this area has led to inconsistent or delayed responses to safety incidents. To address these issues, Maritime NZ has used baseline savings to create a small, centralised Notifications and Enquiries team. Maritime NZ proposes to increase the Maritime Levy to provide a small amount of additional capacity (two FTEs) to allow this team to be fully functional. Nineteen submitters supported this proposal, four partially supported it, and four opposed it.

Proposal 4. Providing effective oversight to third party regulators

- 29 There are hundreds of third-party regulators performing delegated regulatory functions in the maritime domain. Due to capacity constraints, Maritime NZ does not have a comprehensive view of their performance and is limited in its ability to intervene before issues arise. We have seen a range of regulatory failures in the broader New Zealand regulatory system over the last few years due to ineffective third-party oversight. The Transport Accident Investigation Commission and the International Maritime Organization have both raised risks in this area.
- 30 Maritime NZ proposes to increase the Maritime Levy to establish a team of four people to lead, support and improve third-party oversight activity. This will enable Maritime NZ to be more proactive, reducing risk of regulatory failure and supporting safety and maritime protection outcomes. It will help to ensure costs are reasonable and services are high-quality (both issues raised by stakeholders). Twenty submitters supported this proposal, four partially supported it and three opposed it.

Proposal 5. Maintaining the administration of MARPOL Annex VI

- 31 In 2019, the New Zealand government became signatory to MARPOL Annex VI, part of an international convention that sets out a regime for the prevention of air pollution from ships. Due to the delay in the funding review, the cost of administering MARPOL Annex VI has been met by the Crown to date. However, the intent was that the funding review would enable a shift to cost recovery through the Maritime Levy.
- 32 Maritime NZ proposes increasing the Maritime Levy to cover the cost of administering MARPOL Annex VI. Twenty submitters supported this proposal, three partially supported it, and three opposed it.

Proposal 6. Continuing to support the provision of seafarer welfare services

- 33 Since 1 March 2017, New Zealand has had obligations under the Maritime Labour Convention. This establishes minimum working and living standards for all seafarers and sets obligations for seafarer welfare services. In recognition of these obligations, in 2021 Parliament amended the Maritime Transport Act to enable the Maritime Levy to be used for seafarer welfare services. The Maritime Levy rates set in 2018/19 did not account for this cost, and Maritime NZ has needed Crown funding to support the external delivery of these services, receiving \$1.5 million to date.
- 34 Maritime NZ proposes increasing the Maritime Levy to cover the costs to provide seafarer welfare services. Thirty-three submitters supported this proposal, three partially supported it, and four opposed it. Many submitters sought more funding.

Proposal 7. Amending the OPL allocation methodology

- 35 The share of OPL paid by each stakeholder is allocated through a 'likelihood and consequence' model, based on assumptions about the operating environment in New Zealand. The model is costly to apply, time consuming and prone to significant errors. With the change in the type of fuel that moves around New Zealand following the closure of Marsden Refinery, the current levy allocation model is no longer fit-for-purpose. If the methodology is not revisited it will be difficult to retain marine oil pollution readiness and response capabilities.
- 36 Maritime NZ proposes to implement a revised allocation methodology that aligns with the approach used for the Maritime Levy. This is well understood by industry. The revised methodology is simpler, less costly to implement and will ensure a fairer allocation across the sector. The Oil Pollution Advisory Committee (OPAC) supports

the change to the model. OPAC includes statutorily appointed representatives from across all sectors with OPL liability as well as iwi, central government agencies and local government. Twenty-three submitters supported this proposal, three partially supported it, and two opposed it.

Proposal 8. Maintaining marine oil spill preparedness and response capability

- 37 Since the Rena oil spill in 2011, Maritime NZ has built its capability to manage oil spills, should they occur. This has included developing capabilities, relationships and contracts with international actors needed to address a major oil spill.
- 38 Maintaining this capability requires a small increase in OPL due to cost pressures. OPAC supports this increase. If this increase is not progressed it will put the ability to respond effectively to incidents at risk. The capability investment made by the sector and built over the last few years would be diminished. Twenty-two submitters supported this proposal, three partially supported it, and three opposed it.

A thorough public consultation process has taken place

- 39 Maritime NZ undertook public consultation over a four-week period between 19 July and 16 August 2023. Alongside the consultation document, it published its initial CRIS, an international and domestic comparison of levies, and an analysis of options for the oil pollution allocation methodology. Consultation was supported by two public webinars. An email inbox enabled stakeholders and the public to ask questions during the process. All levy payers were alerted about the review by letter.
- 40 In total, Maritime NZ received 40 submissions on its proposals. Although this is relatively low in absolute terms, the webinar attendance, website views, downloads of the consultation document and number of submissions were consistent with past Maritime NZ funding reviews. Some industry bodies consulted with their members to develop a single submission. Submitters included a representative range of sector stakeholders including port operators, commercial vessel owners and operators, the cruise industry and seafarer welfare organisations.
- 41 Given many of the issues were identified by the sector itself, there was broad support for the proposals and levy increases, both by levy payers and beneficiaries. Key industry bodies like the Marine Transport Association, the Port Chief Executive Group, and NZ Shipping Federation supported the proposals along with Regional Councils and harbourmasters.
- 42 Submitters from the cruise sector supported the proposals but suggested a one-year delay to increasing levies to factor them into their business operating model. I acknowledge their reasoning for preferring a delay, but the three-year cycle of funding reviews means it's difficult to provide stakeholders with more than one year's notice of levy increases. It would also require Crown funding of Maritime NZ for another 12 months. I note that the consultation process means that stakeholders have had notice of the likely timing and quantum of levy increases for 2024/25.
- 43 Where submitters opposed proposals, the reasons often related to disagreement with the levy construct and questions around whether some services were public goods that should be paid for by the Crown. I am comfortable that the proposals are consistent with best practice for cost recovery and follow the guidelines released by the Treasury and Office of the Auditor General for funding club goods. This is because the parties participating in the sector are the ones creating risk and the levies account for this risk. Other than the proposed change to the OPL model, this was not a review of the entire levy model.

- 44 As required under s334 of the Maritime Transport Act, Maritime NZ consulted with OPAC on its intended recommendations to me as Minister responsible for OPL rates and methodology. OPAC unanimously supports an increase in OPL revenue, and the associated levy rates changes required. The new risk allocation methodology is also fully supported.
- 45 The proposed levy increases are relatively non-controversial. Many in the sector appear willing to pay more to see delivery of activity that will reduce costs, support productivity, and improve safety. I am satisfied that there has been an adequate level of awareness and public engagement.

Final Recommended Proposals from Consultation

- 46 The Minister of Finance and I have considered the feedback received during the consultation process and advice from officials and agree that ...
- 47 I note that the consultation included options to scale three proposals. Specifically, this would have meant delaying implementation of Proposals 2 and 4 and reducing the funding for Proposal 6. Few submitters expressed support for these options and most that did, did so in the context of an overall opposition to levy increases. Most submitters wanted to see the proposed changes occur as quickly as possible.
- 48 On the whole, there was support for the funding review and each of the proposals, noting that consultation highlighted minor areas of opposition from some groups to specific changes. There is no indication that any groups will oppose charges following implementation. There will be concern if the proposals do not go ahead, given the impact it will have on the sector.
- 49 Increasing these levies from 1 July 2024 means MNZ will not need liquidity funding beyond 1 July 2024, releasing up to \$14m for other government priorities in 2024/25. The changes will be announced as soon as possible, to allow maritime operators as much time as possible to plan and manage costs.

Future Funding Reviews

- 50 The funding review is aimed at ensuring Maritime NZ is sustainably funded for the range of regulatory and response activities and functions required under current legislation, between 2024 and 2030. This includes the levels of the Maritime Levy and OPL as well as the OPL methodology.
- 51 MNZ intends to maintain a regular review cycle going forward to address funding needs and ensure that cost recovery settings remain appropriate, relevant, and sustainable. This is likely to involve the completion of a full funding review within three years of 1 July 2024.

Implementation

- 52 If approved by Cabinet, the Ministry will prepare drafting instructions for the Parliamentary Counsel Office (PCO) to make changes to the relevant regulations. subject to Cabinet authorisation through the Legislation Committee, the (amendment) regulations will be made in the Executive Council and notified in the New Zealand Gazette with the new fees and charges targeted to take effect from 1 July 2024.
- 53 In recognition of the various stakeholders that will be affected by the new fees and charges, Maritime NZ intends to announce the proposed changes as soon as Cabinet has agreed to them and work closely with the sector on their implementation. It also intends to begin recruiting for any new roles as soon as it has this certainty.

54 The Maritime NZ Board will maintain oversight of the implementation of changes. The Ministry will provide performance advice to the Minister through its Crown Entity monitoring function. Maritime NZ has proposed several performance measures for its proposals, including existing measures where activity will continue. I expect it to report on these measures through its public accountability documents (Statement of Performance Expectations and Annual Report). This could include a measure of the sector's satisfaction with the proposals. Refer to the CRIS in **Appendix One** for a list of these measures.

Risks

- 55 Should levy changes not be in place by 1 July 2024, Maritime NZ will request Crown funding to cover costs that would otherwise be recovered from the sector.
- 56 In the absence of the levy changes or compensating Crown funding, baseline savings will need to be made by reducing levy-funded frontline services by around 18%. This would impact licensing timeliness and quality, oil response assets and capabilities, and the quality of frontline regulatory activities. It will also increase safety risk. The Seafarer Welfare Fund would end, impacting compliance with international labour conventions. This is likely to result in concern from the sector (most of whom support the funding review) and erode confidence in the maritime regulator.

Financial Implications

- 57 The proposals require additional Maritime Levy revenue of \$11.7 million on average per annum. This equates to a 33.1% increase in Maritime Levy rates over the three years from 2024/25. The proposals also require additional OPL of \$0.8 million on average per annum. This is an 8.8% increase in levy rates over the same period.
- 58 Agreeing to these proposals will have a positive fiscal impact on the Crown's accounts. If implemented by July 2024, Maritime NZ is expected to be able to return up to \$14 million to the Crown from the liquidity facility and remove future requirements for liquidity funding.
- 59 The financial impact of the proposals depends on the type of vessel (weight, length and passenger capacity), and whether they operate domestically or internationally. However, I expect the impact on the sector to be small for a number of reasons:
- Approximately 90% of cost of proposed increased levy revenue is expected to be paid by operators of foreign vessels. These tend to be much larger and are levied on a per-port visit basis whereas domestic vessels pay levies annually.
 - Overall, 81% of smaller domestic vessels pay annual levies of \$500 or less and will see an annual increase from between somewhere of \$21 to \$150.
 - A few larger domestic vessels are liable for both levies and due to the change in the model for the OPL, will see a large drop in their rates which will largely off-set increases in the Maritime Levy.
 - The only domestic sector for which the OPL would be higher is in the offshore oil and gas sector. Under the proposed methodology, its risk share goes from 0.02% to 0.9%. This translates to an \$81,000 OPL liability increase from the current base of \$858 for a particular operator (who did not submit or raise issues). Given the scale of the operation (45,000 barrels per day), this reflects the risk and required response to a potential incident. The increase is not considered material nor difficult to accommodate in per-unit prices. The offshore oil and gas sector is represented on OPAC which supports the changes to the OPL model and levies.

Legislative Implications

- 60 Changes to the Maritime Levies Regulations 2016 and the Maritime Transport (Oil Pollution Levies) Order 2016 will be required to implement the changes proposed in this paper.

Regulatory Impact Statement

- 61 Maritime NZ has provided a CRIS covering the final funding model post-consultation (refer **Appendix One**). The CRIS panel, run by the Ministry has reviewed the CRIS. The panel considers that the document meets the key requirements for a CRIS.

Climate Implications of Policy Assessment

- 62 A Climate Implications of Policy Assessment is not required because the funding proposals do not have direct emissions impacts or objectives.

Population Implications

- 63 No population implications have been identified.

Human Rights

- 64 No human rights implications have been identified.

Consultation

- 65 The Treasury, Customs, Department of the Prime Minister and Cabinet, Department of Internal Affairs, Ministry for Primary Industries, Ministry for Business, Innovation and Employment, Ministry for the Environment, Ministry for Foreign Affairs and Trade, Te Puni Kōkiri, New Zealand Police and WorkSafe New Zealand have been consulted on this draft Cabinet Paper. Comments have been reflected where appropriate.
- 66 Police supports the increased fees and charges proposed as they will fund critical activities that enable Maritime NZ to meet their statutory obligations and regulatory functions. These functions support the effective and safe operation of the maritime sector.
- 67 The Treasury supports completion of the funding review as soon as practicable to limit Crown funding required in Budget 2024 and to enable Maritime NZ to get back to financial sustainability sooner. The Treasury notes that the Maritime NZ has undertaken work to manage costs, considered scaled options and demonstrated that proceeding with the levy increases will have a positive impact on Crown financials compared to the counterfactual.

Communications and Proactive Release

- 68 I intend to release this Cabinet Paper proactively and in accordance with the Official Information Act 1982 within 30 business days of the public consultation process commencing.

Recommendations

I recommend that the Committee:

1. **Notes** that Maritime NZ has completed a funding review to fund eight proposals related to its core business.
2. **Notes** that public consultation was undertaken between 19 July and 16 August 2023, with feedback being largely supportive.
3. **Agrees** to the following Maritime Levy rates (GST exclusive), effective from 1 July 2024:

Vessel	Per Gross Tonnage Rate	Per Deadweight Tonnage Rate	Per Passenger Capacity Rate	Overall length
Foreign passenger (per port call)	\$0.1004	\$0.0082	\$2.0248	N/A
Foreign non passenger (per port call)	\$0.1178	\$0.0095	N/A	N/A
NZ SOLAS (annual)	\$7.7931	\$0.4607	\$46.7100	N/A
NZ non-SOLAS (24 metres or longer, annual)	\$8.2197	N/A	\$17.5403	N/A
NZ non-SOLAS (shorter than 24 metres, annual)	N/A	N/A	\$17.5403	\$15.1746

4. **Agrees** to the following Oil Pollution Levy rates (GST exclusive), effective from 1 July 2024:

Vessel or oil site type	Basis of calculation	Oil Type	Levy
NZ vessels (all charges annual)			
Passenger and cargo ships, harbour tugs and oil tanker bunker fuel	Per gross tonne of the vessel	Bunker fuel	\$1.7395
Tankers carrying oil as cargo	Per tonne of oil carried as cargo	Persistent	\$0.1285
		Non-Persistent	\$0.0756
Fishing vessels	Per gross ton of the vessel		\$0.3086
Oil sites (all charges annual)			
Offshore oil and gas (FPSO)	Fixed Fee	Persistent	\$82,055.19
Foreign vessels (all charges per port call)			
Passenger and cargo ships, harbour tugs and oil tanker bunker fuel	Per gross ton of the vessel (per port visit)	Bunker fuel	\$0.0263
Tankers carrying oil as cargo	Per tonne of oil carried as cargo	Persistent	\$0.3546
		Non-Persistent	\$0.2086

5. **Invites** the Associate Minister of Transport to issue drafting instructions to the Parliamentary Counsel Office to give effect to these decisions, including any necessary consequential amendments, savings, and transitional provisions.
6. **Authorises** the Associate Minister of Transport to make final policy decisions on implementation, including minor or technical changes that arise during the drafting process, without further reference to Cabinet.

[Authorised for lodgement]

Hon Matt Dooney
Associate Minister of Transport

IN CONFIDENCE

Office of the Associate Minister of Transport

Cabinet Economic Policy Committee

Approval of Proposed Increases to the Maritime and Oil Pollution Levies

Proposal

- 1 This paper seeks approval of changes to the Maritime Levy and Oil Pollution Levy from 1 July 2024.

Relation to Government Priorities

- 2 Supporting these proposals will help the maritime sector avoid unnecessary supply chain disruptions, reduce regulatory costs, promote innovation, and mitigate significant environmental damage or harm to people from maritime incidents. For this reason, it directly relates to the Government's emphasis on lifting economic growth.
- 3 It will also ensure that Maritime NZ can return to cost recovery, consistent with the Government's focus on fiscal sustainability and treating taxpayers' money with respect.

Executive Summary

- 4 Maritime NZ is the regulator for maritime and port safety, security, and the environment. It is also responsible for coordinating broader search and rescue activities, maintaining marine oil pollution readiness and response capabilities, running maritime distress radio and aides to maritime navigation.
- 5 Maritime NZ's funding for frontline regulatory services is largely provided by maritime operators via the Maritime Levy. Its oil pollution readiness and response activity is funded by the Oil Pollution Levy (OPL) paid by ships carrying oil around New Zealand.
- 6 When the Government closed New Zealand's borders in response to COVID-19, there was a reduction in activity levels in the maritime sector, including the cessation of cruise. This led to a corresponding reduction in levy revenue for Maritime NZ. This revenue shortfall was exacerbated by changes in the way oil is moved around the coast, cost pressures and the introduction of new Government initiatives for Maritime NZ to implement.
- 7 Cabinet issued a moratorium on border transport agency funding reviews in response to COVID-19, which it lifted in 2021. Due to the moratorium, there has not been a way of addressing the levy shortfall since the Maritime Levy and the OPL were reviewed in 2018/19.
- 8 Prior to the resumption of the current funding review, Maritime NZ undertook an efficiency and effectiveness review, which included engagement with the sector. This review assessed the efficiency and effectiveness of the organisation and highlighted critical issues around performance that stakeholders wanted to be addressed. These issues relate to:
 - 8.1 insufficient inspections of poor-quality ships around New Zealand's coast;

IN CONFIDENCE

- 8.2. outdated rules causing cost and complexity for the sector and inhibiting innovation;
 - 8.3. inefficient regulatory services impacting on operation of the sector; and
 - 8.4. third parties carrying out delegated regulatory responsibilities having limited oversight resulting in issues with competition, costs, and the quality of their service.
- 9 Between 19 July and 16 August 2023, Maritime NZ publicly consulted on proposed levy increases. Each proposal received the support of 80% or more submitters including support from the key maritime industry bodies. In my view, the opposing submissions did not provide sufficient justification to remove or reduce any of the proposals.
- 10 Levy increases are supported by Te Manatū Waka Ministry of Transport (the Ministry), The Treasury and other sector stakeholders. It will minimise the financial burden on the Crown and ensure that Maritime NZ is adequately resourced to fulfil its statutory responsibilities.

Background

- 11 Maritime NZ's core business is funded from multiple sources. In line with cost recovery principles in the transport sector, the bulk of funding for relevant activities comes from levies on maritime operators. Its oil pollution readiness and response activity is funded by OPL paid by large ships carrying oil around the coast of New Zealand.
- 12 Prior to COVID-19, Maritime NZ would typically operate on a three-year funding cycle, alternating 'mid-point' reviews with more fundamental reviews every six years. The most recent funding reviews concluded in 2018/2019 and the next review was scheduled to be completed in 2021/22 but was deferred due to a moratorium being placed on transport agency funding reviews.
- 13 The closure of borders led to a reduction in activity levels in the maritime sector (for example cruise ships) and a corresponding reduction in levy revenue. Since 2020, to cover the gap between forecast levy revenue and actual revenue Cabinet agreed to provide additional Crown funding. This funding, via the multi-year appropriation Protection of Transport Sector Agency Core Functions (liquidity facility), is scheduled to expire on 30 June 2024. Beyond that point, Maritime NZ will face a funding gap, which will lead to a large reduction in frontline services. This gap can either be addressed through increased levies on the maritime sector, or through further Crown funding.
- 14 On 15 August 2023, to address the risk that Crown support may be required into 2024/25, the previous Government provided Maritime NZ with a Letter of Comfort to enable its Board to continue to operate on a going concern basis until 30 June 2025. The best way to provide that comfort beyond 30 June 2024 will be to support Maritime NZ to return to cost recovery through levy revenue.
- 15 While revenue has since recovered, it is not sufficient to cover costs and Maritime NZ has been reliant on the liquidity facility. The shortfall has been driven by:
- 15.1. the 2022 closure of Marsden Point Oil Refinery changing the way oil moves around the coast and who pays, meaning the OPL was not fit for purpose;

- 15.2. the Government introducing two new initiatives: MARPOL Annex VI (controlling emissions from ships) and the seafarer welfare fund, together costing \$3.3 million; and
- 15.3. inflationary cost pressures such as staff, maritime safety infrastructure and services.
- 16 Maritime NZ is seeking to recover the shortfall from levies and not to rely on Crown liquidity funding from 1 July 2024.

Maritime NZ has been working to ensure its efficiency, effectiveness, and productivity

- 17 To ensure that any future levy rate increases are made on the basis that Maritime NZ is efficient and effective, it has undertaken a review of itself over the past two years, supported by an external party. The review was undertaken in collaboration with the sector to understand stakeholder issues. It focused on what Maritime NZ needed to do to deliver better outcomes and regulatory services.
- 18 This review has resulted in changes to organisational design and improvements to processes, practice, and systems. It has ensured overhead costs are at an appropriate level (25 - 28%) and removed unnecessary management and administrative layers. It also disestablished roles (64) and re-deployed staff (33) to re-prioritise effort to where it was needed to achieve outcomes. As a part of the review, Maritime NZ will reduce its spend on contractors and consultants to 9% of operating expenditure by 1 July 2024.
- 19 Maritime NZ has been working closely with the Ministry to identify where it can reduce its total baseline expenditure. Returning to cost recovery through the funding review will remove reliance on Crown funding for levy revenue shortfalls.

Maritime NZ's funding review includes eight proposals requiring increases to the maritime and oil pollution levies

- 20 On 9 June 2023, joint Ministers agreed to the release of a consultation document recommending eight proposals funded by increases to the Maritime Levy and OPL. With these proposals, Maritime NZ will continue undertaking its statutory functions without incurring a funding gap that requires it to reduce its regulatory activities, impeding efficient and effective operation of the sector. It addresses the compound effects of inflationary cost pressures, system changes and new and increased regulatory activity since the levies were last increased. Refer to the Cost Recovery Impact Statement (CRIS) in **Appendix One** for more context.
- 21 For more detail on the impacts from levies increases, refer to **Appendix Two**.

Proposal 1. Managing the risks of substandard shipping through maintaining and enhancing regulatory operations (port and flag state control)

- 22 Maritime inspectors audit ships operating around our coast (including those involved in live-animal export) for compliance with safety and marine protection requirements. These activities mitigate the risk of catastrophic maritime incidents, the consequent impact on safety, the environment and economy, and minimise the potential of harm for New Zealanders working with ships when alongside ports. Countries that have rigorous inspection regimes are less likely to receive poor quality vessels.
- 23 The quality of vessels operating around the coast has declined in the last few years. Six large ships have had near groundings or lost engine propulsion over the last two years (compared with only one vessel in the five years prior). Over the last year, Maritime NZ has had to detain

more vessels than the previous three years combined, taking up valuable berth space at ports. There are increasing serious injuries and risks of fatalities for those working on the vessels. This can cause significant disruption to supply chains and increased costs to move imports and exports, which are passed onto consumers and adversely impact the economy.

- 24 Maritime NZ's inspections team is currently too small to inspect the riskiest ships in our waters. Sufficient inspection of high-risk ships is a critical issue identified by ports, stevedores, marine pilots, unions, regional councils, and harbourmasters. Maritime NZ wants to increase the Maritime Levy to recruit a small number of additional frontline maritime inspectors to inspect all high-risk vessels. This will also enable a small number of random inspections each year to deter sub-standard ships. Twenty-five submitters supported this proposal, five partially supported and one opposed it. Some submitters wanted more inspectors than proposed.

Proposal 2. Reducing sector costs and enabling innovation by updating outdated Maritime and Marine Protection Rules

- 25 Maritime NZ has a small team that makes and amends maritime rules with the cost shared between the Crown and the Maritime Levy. Over the last 25 years, there have been over 70 Maritime and Marine Protection Rules created with thousands of individual provisions. Many of these rules are outdated, requiring the sector to apply and pay for exemptions to continue operating and do not easily enable innovation. This is becoming ever more problematic as new technologies, such as electric vessels, autonomous vessels, and wing-in-ground craft are being commercialised.
- 26 Work on these issues is delivered through a regulatory reform programme. But the availability of policy, drafting and technical advice is affecting the speed of progress. Maritime NZ proposes to increase the Maritime Levy to fund additional resources to remove or update outdated and costly maritime rules. Twenty-three submitters supported this proposal, four partially supported it, and three opposed it.

Proposal 3. Improving performance in responding to notifications and maintaining critical improvements in the process of licensing applications

- 27 All commercial seafarers and operators must be licensed to operate, ensuring the fitness of participants in the maritime system. An increased number of seafarer and operator applications has led to significant delays in the processing of licensing applications. This has been exacerbated by issues related to capacity and capability and rules, impacting on the effective and efficient operation of the maritime transport sector.
- 28 Liquidity funding was used to improve licensing capacity and capability. This has seen significant timeliness and quality gains. Over the last financial year, 67% of seafarer and operator applications were processed within 20 working days (an improvement of 52% and 20% respectively). Maritime NZ proposes to increase the Maritime Levy to retain and improve on the progress made. If this licencing capability is not maintained when liquidity funding ends, the gains will be lost and backlogs will return, bringing frustration and cost for maritime operators and seafarers.
- 29 Maritime operators are required to notify Maritime NZ about a variety of matters and events. It is essential that Maritime NZ can respond in a timely and appropriate way to these notifications and enquiries. Lack of focused capacity in this area has led to inconsistent or delayed responses to safety incidents. To address these issues, Maritime NZ has used baseline savings to create a small, centralised Notifications and Enquiries team. Maritime NZ proposes to increase the

Maritime Levy to provide a small amount of additional capacity (two FTEs) to allow this team to be fully functional. Nineteen submitters supported this proposal, four partially supported it, and four opposed it.

Proposal 4. Providing effective oversight to third party regulators

- 30 There are hundreds of third-party regulators performing delegated regulatory functions in the maritime domain. Due to capacity constraints, Maritime NZ does not have a comprehensive view of their performance and is limited in its ability to intervene before issues arise. We have seen a range of regulatory failures in the broader New Zealand regulatory system over the last few years due to ineffective third-party oversight. The Transport Accident Investigation Commission and the International Maritime Organization have both raised risks in this area.
- 31 Maritime NZ proposes to increase the Maritime Levy to establish a team of four people to lead, support and improve third-party oversight activity. This will enable Maritime NZ to be more proactive, reducing risk of regulatory failure and supporting safety and maritime protection outcomes. It will help to ensure costs are reasonable and services are high-quality (both issues raised by stakeholders). Twenty submitters supported this proposal, four partially supported it and three opposed it.

Proposal 5. Maintaining the administration of MARPOL Annex VI

- 32 In 2019, the New Zealand government became signatory to MARPOL Annex VI, part of an international convention that sets out a regime for the prevention of air pollution from ships. Due to the delay in the funding review, the cost of administering MARPOL Annex VI has been met by the Crown to date. However, the intent was that the funding review would enable a shift to cost recovery through the Maritime Levy.
- 33 Maritime NZ proposes increasing the Maritime Levy to cover the cost of administering MARPOL Annex VI. Twenty submitters supported this proposal, three partially supported it, and three opposed it.

Proposal 6. Continuing to support the provision of seafarer welfare services

- 34 Since 1 March 2017, New Zealand has had obligations under the Maritime Labour Convention. This establishes minimum working and living standards for all seafarers and sets obligations for seafarer welfare services. In recognition of these obligations, in 2021 Parliament amended the Maritime Transport Act to enable the Maritime Levy to be used for seafarer welfare services. The Maritime Levy rates set in 2018/19 did not account for this cost, and Maritime NZ has needed Crown funding to support the external delivery of these services, receiving \$1.5 million to date.
- 35 Maritime NZ proposes increasing the Maritime Levy to cover the costs to provide seafarer welfare services. Thirty-three submitters supported this proposal, three partially supported it, and four opposed it. Many submitters sought more funding.

Proposal 7. Amending the OPL allocation methodology

- 36 The share of OPL paid by each stakeholder is allocated through a ‘likelihood and consequence’ model, based on assumptions about the operating environment in New Zealand. The model is costly to apply, time consuming and prone to significant errors. With the change in the type of fuel that moves around New Zealand following the closure of Marsden Refinery, the current

levy allocation model is no longer fit-for- purpose. If the methodology is not revisited it will be difficult to retain marine oil pollution readiness and response capabilities.

- 37 Maritime NZ proposes to implement a revised allocation methodology that aligns with the approach used for the Maritime Levy. This is well understood by industry. The revised methodology is simpler, less costly to implement and will ensure a fairer allocation across the sector. The Oil Pollution Advisory Committee (OPAC) supports the change to the model. OPAC includes statutorily appointed representatives from across all sectors with OPL liability as well as iwi, central government agencies and local government. Twenty-three submitters supported this proposal, three partially supported it, and two opposed it.

Proposal 8. Maintaining marine oil spill preparedness and response capability

- 38 Since the Rena oil spill in 2011, Maritime NZ has built its capability to manage oil spills, should they occur. This has included developing capabilities, relationships and contracts with international actors needed to address a major oil spill.
- 39 Maintaining this capability requires a small increase in OPL due to cost pressures. OPAC supports this increase. If this increase is not progressed it will put the ability to respond effectively to incidents at risk. The capability investment made by the sector and built over the last few years would be diminished. Twenty-two submitters supported this proposal, three partially supported it, and three opposed it.

A thorough public consultation process has taken place

- 40 Maritime NZ undertook public consultation over a four-week period between 19 July and 16 August 2023. Alongside the consultation document, it published its initial CRIS, an international and domestic comparison of levies, and an analysis of options for the oil pollution allocation methodology. Consultation was supported by two public webinars. An email inbox enabled stakeholders and the public to ask questions during the process. All levy payers were alerted about the review by letter.
- 41 In total, Maritime NZ received 40 submissions on its proposals. Although this is relatively low in absolute terms, the webinar attendance, website views, downloads of the consultation document and number of submissions were consistent with past Maritime NZ funding reviews. Some industry bodies consulted with their members to develop a single submission. Submitters included a representative range of sector stakeholders including port operators, commercial vessel owners and operators, the cruise industry and seafarer welfare organisations.
- 42 Given many of the issues were identified by the sector itself, there was broad support for the proposals and levy increases, both by levy payers and beneficiaries. Key industry bodies like the Marine Transport Association, the Port Chief Executive Group, and NZ Shipping Federation supported the proposals along with Regional Councils and harbourmasters.
- 43 Submitters from the cruise sector supported the proposals but suggested a one-year delay to increasing levies to factor them into their business operating model. I acknowledge their reasoning for preferring a delay, but the three-year cycle of funding reviews means it is difficult to provide stakeholders with more than one year's notice of levy increases. It would also require Crown funding of Maritime NZ for another 12 months. I note that the consultation process means that stakeholders have had notice of the likely timing and quantum of levy increases for 2024/25.

- 44 Where submitters opposed proposals, the reasons often related to disagreement with the levy construct and questions around whether some services were public goods that should be paid for by the Crown. I am comfortable that the proposals are consistent with best practice for cost recovery and follow the guidelines released by the Treasury and Office of the Auditor General for funding club goods. This is because the parties participating in the sector are the ones creating risk and the levies account for this risk. Other than the proposed change to the OPL model, this was not a review of the entire levy model.
- 45 As required under s334 of the Maritime Transport Act, Maritime NZ consulted with OPAC on its intended recommendations. OPAC unanimously supports an increase in OPL revenue, and the associated levy rates changes required. The new risk allocation methodology is also fully supported.
- 46 The proposed levy increases are relatively non-controversial. Many in the sector appear willing to pay more to see delivery of activity that will reduce costs, support productivity, and improve safety. I am satisfied that there has been an adequate level of awareness and public engagement.

Final Recommended Proposals from Consultation

- 47 I have considered the feedback received during public consultation. I have also undertaken my own consultation with my Ministerial colleagues including the Minister of Finance. Feedback reflected a general support for increasing the Maritime Levy and OPL in order to fund the proposals and return Maritime NZ to cost recovery. Other minor feedback, including more detail on the current and proposed levy changes outlined in Appendix Two, has been reflected in this paper.
- 48 I note that the consultation included options to scale three proposals. Specifically, this would have meant delaying implementation of Proposals 2 and 4 and reducing the funding for Proposal 6. Few submitters expressed support for these options and most that did, did so in the context of an overall opposition to levy increases. Most submitters wanted to see the proposed changes occur as quickly as possible.
- 49 On the whole, there was support for the funding review and each of the proposals, noting that consultation highlighted minor areas of opposition from some groups to specific changes. There is no indication that any groups will oppose charges following implementation. There will be concern if the proposals do not go ahead, given the impact it will have on the sector.
- 50 Increasing these levies from 1 July 2024 means Maritime NZ will not need liquidity funding beyond 1 July 2024, releasing any funds that have not been drawn down (currently forecast to be between \$10 million and \$14 million) for other government priorities in 2024/25. The changes will be announced as soon as possible, to allow maritime operators as much time as possible to plan and manage costs.

Future Funding Reviews

- 51 The funding review is aimed at ensuring Maritime NZ is sustainably funded for the range of regulatory and response activities and functions required under current legislation, between 2024 and 2030. This includes the levels of the Maritime Levy and OPL as well as the OPL methodology.
- 52 Maritime NZ intends to maintain a regular review cycle going forward to address funding needs and ensure that cost recovery settings remain appropriate, relevant, and sustainable. This is likely to involve the completion of a full funding review within three years of 1 July 2024.

Implementation

- 53 If approved by Cabinet, the Ministry will prepare drafting instructions for the Parliamentary Counsel Office (PCO) to make changes to the relevant regulations. subject to Cabinet authorisation through the Legislation Committee, the (amendment) regulations will be made in the Executive Council and notified in the New Zealand Gazette with the new fees and charges targeted to take effect from 1 July 2024.
- 54 In recognition of the various stakeholders that will be affected by the new fees and charges, Maritime NZ intends to announce the proposed changes as soon as Cabinet has agreed to them and work closely with the sector on their implementation. It also intends to begin recruiting for any new roles as soon as it has this certainty.
- 55 The Maritime NZ Board will maintain oversight of the implementation of changes. The Ministry will provide performance advice to the Minister through its Crown Entity monitoring function. Maritime NZ has proposed several performance measures for its proposals, including existing measures where activity will continue. I expect it to report on these measures through its public accountability documents (Statement of Performance Expectations and Annual Report). This could include a measure of the sector's satisfaction with the proposals. Refer to the CRIS in **Appendix One** for a list of these measures.

Risks

- 56 Should levy changes not be in place by 1 July 2024, Maritime NZ will request Crown funding to cover costs that would otherwise be recovered from the sector.
- 57 In the absence of the levy changes or compensating Crown funding, baseline savings will need to be made by reducing levy-funded frontline services by around 18%. This would impact licensing timeliness and quality, oil response assets and capabilities, and the quality of frontline regulatory activities. It will also increase safety risk. The Seafarer Welfare Fund would end, impacting compliance with international labour conventions. This is likely to result in concern from the sector (most of whom support the funding review) and erode confidence in the maritime regulator.

Financial Implications

- 58 The proposals require additional Maritime Levy revenue of \$11.7 million on average per annum. This equates to a 33.1% increase in Maritime Levy revenue over the three years from 2024/25. The proposals also require additional OPL of \$0.8 million on average per annum. This is an 8.8% increase in levy revenue over the same period.
- 59 Agreeing to these proposals will have a positive fiscal impact on the Crown's accounts. If implemented by July 2024, Maritime NZ is expected to be able to return to the Crown any funds that have not been drawn down from its liquidity facility (currently forecast to be between \$10 million and \$14 million) and remove future requirements for liquidity funding.
- 60 The financial impact of the proposals depends on the type of vessel (weight, length and passenger capacity), and whether they operate domestically or internationally. However, I expect the impact on the sector to be small for a number of reasons:
- 60.1. Approximately 90% of cost of proposed increased levy revenue is expected to be paid by operators of foreign vessels. These tend to be much larger and are levied on a per-port visit basis whereas domestic vessels pay levies annually.

- 60.2. Overall, 81% of smaller domestic vessels pay annual levies of \$500 or less and will see an annual increase from between somewhere of \$21 to \$150.
- 60.3. A few larger domestic vessels are liable for both levies and due to the change in the model for the OPL, will see a large drop in their rates which will largely off-set increases in the Maritime Levy.
- 60.4. The only domestic sector for which the OPL would be higher is in the offshore oil and gas sector. Under the proposed methodology, its risk share goes from 0.02% to 0.9%. This translates to an \$81,000 OPL liability increase from the current base of \$858 for a particular operator (who did not submit or raise issues). Given the scale of the operation (45,000 barrels per day), this reflects the risk and required response to a potential incident. The increase is not considered material nor difficult to accommodate in per-unit prices. The offshore oil and gas sector is represented on OPAC which supports the changes to the OPL model and levies. As this sector only includes floating production storage and offloading (FPSO) sites, levies for contributing oil sites other than FPSOs listed in Schedule 2 of the Oil Pollution Levy will be revoked.

Legislative Implications

- 61 Changes to the Maritime Levies Regulations 2016 and the Maritime Transport (Oil Pollution Levies) Order 2016 will be required to implement the changes proposed in this paper.

Regulatory Impact Statement

- 62 Maritime NZ has provided a CRIS covering the final funding model post-consultation (refer **Appendix One**). The CRIS panel, run by the Ministry has reviewed the CRIS. The panel considers that the document meets the key requirements for a CRIS.

Climate Implications of Policy Assessment

- 63 A Climate Implications of Policy Assessment is not required because the funding proposals do not have direct emissions impacts or objectives.

Population Implications

- 64 No population implications have been identified.

Human Rights

- 65 No human rights implications have been identified.

Consultation

- 66 The Treasury, Customs, Department of the Prime Minister and Cabinet, Department of Internal Affairs, Ministry for Primary Industries, Ministry for Business, Innovation and Employment, Ministry for the Environment, Ministry for Foreign Affairs and Trade, Te Puni Kōkiri, New Zealand Police and WorkSafe New Zealand have been consulted on this draft Cabinet Paper. Comments have been reflected where appropriate.
- 67 Police supports the increased fees and charges proposed as they will fund critical activities that enable Maritime NZ to meet their statutory obligations and regulatory functions. These functions support the effective and safe operation of the maritime sector.

68 The Treasury supports completion of the funding review as soon as practicable to limit Crown funding required in Budget 2024 and to enable Maritime NZ to get back to financial sustainability sooner. The Treasury notes that the Maritime NZ has undertaken work to manage costs, considered scaled options and demonstrated that proceeding with the levy increases will have a positive impact on Crown financials compared to the counterfactual.

Communications and Proactive Release

69 I intend to release this Cabinet Paper proactively and in accordance with the Official Information Act 1982 within 30 business days of the public consultation process commencing.

Recommendations

The Associate Minister for Transport recommends that the committee:

1. Note that Maritime NZ has completed a funding review to fund eight proposals related to its core business.
2. Note that public consultation was undertaken between 19 July and 16 August 2023, with feedback being largely supportive.
3. Agree to the following Maritime Levy rates (GST exclusive), effective from 1 July 2024:

Vessel	Per Gross Tonnage Rate	Per Deadweight Tonnage Rate	Per Passenger Capacity Rate	Overall length
Foreign passenger (per port call)	\$0.1004	\$0.0082	\$2.0248	N/A
Foreign non passenger (per port call)	\$0.1178	\$0.0095	N/A	N/A
NZ SOLAS (annual)	\$7.7931	\$0.4607	\$46.7100	N/A
NZ non-SOLAS (24 metres or longer, annual)	\$8.2197	N/A	\$17.5403	N/A
NZ non-SOLAS (shorter than 24 metres, annual)	N/A	N/A	\$17.5403	\$15.1746

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

IN CONFIDENCE

4. Agree to the following Oil Pollution Levy rates (GST exclusive), effective from 1 July 2024:

Vessel or oil site type	Basis of calculation	Oil Type	Levy (GST Exclusive)
Foreign vessels (all charges per port call)¹			
Passenger and cargo ships, harbour tugs and oil tanker bunker fuel [Ship using bunker fuel]	Per gross ton of the vessel	Bunker fuel	2.63 cents
Tankers carrying oil as cargo [Oil tanker, persistent oil as cargo]	Per tonne of oil carried as cargo	Persistent	35.46 cents
Tankers carrying oil as cargo [Oil tanker, non-persistent oil as cargo]	Per tonne of oil carried as cargo	Non-Persistent	20.86 cents
Domestic NZ vessels (all charges annual)¹			
Passenger and cargo ships, harbour tugs and oil tanker bunker fuel [Ship using bunker fuel (other than New Zealand fishing vessel)]	Per gross tonne of the vessel	Bunker fuel	173.95 cents
Tankers carrying oil as cargo [Oil tanker, persistent oil as cargo]	Per tonne of oil carried as cargo	Persistent	12.85 cents
Tankers carrying oil as cargo [Oil tanker, non-persistent oil as cargo]	Per tonne of oil carried as cargo	Non-Persistent	7.56 cents
New Zealand Fishing vessels	Per gross ton of the vessel		30.86 cents
Oil sites (all charges annual)²			
Offshore oil and gas (FPSO)	Fixed Fee	Persistent	\$82,055.19

5. Agree to revoke levies for contributing oil sites other than floating production storage and offloading (FPSO) sites.
6. Note that the capability levies provided for in the Maritime Transport (Oil Pollution Levies) Order 2016 for contributing ships and contributing oil sites ended on 30 June 2022 and that there is no intention to continue the capability levies.
7. Invite the Associate Minister of Transport to issue drafting instructions to the Parliamentary Counsel Office to give effect to these decisions, including any necessary consequential amendments, savings, and transitional provisions.
8. Authorise the Associate Minister of Transport to make final policy decisions on implementation, including minor or technical changes that arise during the drafting process, without further reference to Cabinet.

Authorised for lodgement

Hon Matt Doocoy

Associate Minister of Transport

Appendix 1 is linked above under Document 18. Appendix 2 is publicly available on MNZ's website here: <https://www.maritimenz.govt.nz/media/oisjisl2/d24-29991-cabinet-paper-appendix-2-detail-on-impacts-from-levies-increases-with-redactions.pdf>

¹ The bracketed [] text indicates how the classes of ship are described in the Maritime Transport (Oil Pollution Levies) Order 2016. There is no intention to change those descriptions.

² FPSOs are the only class of oil site that a change in levy is proposed.

IN CONFIDENCE

Office of the Associate Minister of Transport

Cabinet Economic Policy Committee

Approval of Proposed Increases to the Maritime and Oil Pollution Levies

Proposal

1. This paper seeks approval of changes to the Maritime Levy and Oil Pollution Levy from 1 July 2024. It was originally considered by the Cabinet Economic Policy Committee on 28 February 2024.
2. Cabinet requested that the paper should be resubmitted with additional detail on the consultation process to demonstrate that relevant sectors were consulted. This information has been added in sections 48 – 51 and **Appendix Three**.

Relation to Government Priorities

3. Supporting these proposals will help the maritime sector avoid unnecessary supply chain disruptions, reduce regulatory costs, promote innovation, and mitigate significant environmental damage or harm to people from maritime incidents. For this reason, it directly relates to the Government's emphasis on lifting economic growth.
4. It will also ensure that Maritime NZ can return to cost recovery, consistent with the Government's focus on fiscal sustainability and treating taxpayers' money with respect.

Executive Summary

5. Maritime NZ is the regulator for maritime and port safety, security, and the environment. It is also responsible for coordinating broader search and rescue activities, maintaining marine oil pollution readiness and response capabilities, running maritime distress radio and aides to maritime navigation.
6. Maritime NZ's funding for frontline regulatory services is largely provided by maritime operators via the Maritime Levy. Its oil pollution readiness and response activity is funded by the Oil Pollution Levy (OPL) paid by ships carrying oil around New Zealand.
7. When the Government closed New Zealand's borders in response to COVID-19, there was a reduction in activity levels in the maritime sector, including the cessation of cruise. This led to a corresponding reduction in levy revenue for Maritime NZ. This revenue shortfall was exacerbated by changes in the way oil is moved around the coast, cost pressures and the introduction of new Government initiatives for Maritime NZ to implement.
8. Cabinet issued a moratorium on border transport agency funding reviews in response to COVID-19, which it lifted in 2021. Due to the moratorium, there has not been a way of addressing the levy shortfall since the Maritime Levy and the OPL were reviewed in 2018/19.
9. Prior to the resumption of the current funding review, Maritime NZ undertook an efficiency and effectiveness review, which included engagement with the sector. This review assessed the efficiency and effectiveness of the organisation and highlighted critical issues around performance that stakeholders wanted to be addressed. These issues relate to:

IN CONFIDENCE

- 9.1. insufficient inspections of poor-quality ships around New Zealand's coast;
 - 9.2. outdated rules causing cost and complexity for the sector and inhibiting innovation;
 - 9.3. inefficient regulatory services impacting on operation of the sector; and
 - 9.4. third parties carrying out delegated regulatory responsibilities having limited oversight resulting in issues with competition, costs, and the quality of their service.
10. Between 19 July and 16 August 2023, Maritime NZ publicly consulted on proposed levy increases. Each proposal received the support of 80% or more submitters including support from the key maritime industry bodies. In my view, the opposing submissions did not provide sufficient justification to remove or reduce any of the proposals.
11. Levy increases are supported by Te Manatū Waka Ministry of Transport (the Ministry), The Treasury and other sector stakeholders. It will minimise the financial burden on the Crown and ensure that Maritime NZ is adequately resourced to fulfil its statutory responsibilities.

Background

12. Maritime NZ's core business is funded from multiple sources. In line with cost recovery principles in the transport sector, the bulk of funding for relevant activities comes from levies on maritime operators. Its oil pollution readiness and response activity is funded by OPL paid by large ships carrying oil around the coast of New Zealand.
13. Prior to COVID-19, Maritime NZ would typically operate on a three-year funding cycle, alternating 'mid-point' reviews with more fundamental reviews every six years. The most recent funding reviews concluded in 2018/2019 and the next review was scheduled to be completed in 2021/22 but was deferred due to a moratorium being placed on transport agency funding reviews.
14. The closure of borders led to a reduction in activity levels in the maritime sector (for example cruise ships) and a corresponding reduction in levy revenue. Since 2020, to cover the gap between forecast levy revenue and actual revenue Cabinet agreed to provide additional Crown funding. This funding, via the multi-year appropriation Protection of Transport Sector Agency Core Functions (liquidity facility), is scheduled to expire on 30 June 2024. Beyond that point, Maritime NZ will face a funding gap, which will lead to a large reduction in frontline services. This gap can either be addressed through increased levies on the maritime sector, or through further Crown funding.
15. On 15 August 2023, to address the risk that Crown support may be required into 2024/25, the previous Government provided Maritime NZ with a Letter of Comfort to enable its Board to continue to operate on a going concern basis until 30 June 2025. The best way to provide that comfort beyond 30 June 2024 will be to support Maritime NZ to return to cost recovery through levy revenue.
16. While revenue has since recovered, it is not sufficient to cover costs and Maritime NZ has been reliant on the liquidity facility. The shortfall has been driven by:
- 16.1. the 2022 closure of Marsden Point Oil Refinery changing the way oil moves around the coast and who pays, meaning the OPL was not fit for purpose;

- 16.2. the Government introducing two new initiatives: MARPOL Annex VI (controlling emissions from ships) and the seafarer welfare fund, together costing \$3.3 million; and
 - 16.3. inflationary cost pressures such as staff, maritime safety infrastructure and services.
17. Maritime NZ is seeking to recover the shortfall from levies and not to rely on Crown liquidity funding from 1 July 2024.

Maritime NZ has been working to ensure its efficiency, effectiveness, and productivity

18. To ensure that any future levy rate increases are made on the basis that Maritime NZ is efficient and effective, it has undertaken a review of itself over the past two years, supported by an external party. The review was undertaken in collaboration with the sector to understand stakeholder issues. It focused on what Maritime NZ needed to do to deliver better outcomes and regulatory services.
19. This review has resulted in changes to organisational design and improvements to processes, practice, and systems. It has ensured overhead costs are at an appropriate level (25 - 28%) and removed unnecessary management and administrative layers. It also disestablished roles (64) and re-deployed staff (33) to re-prioritise effort to where it was needed to achieve outcomes. As a part of the review, Maritime NZ will reduce its spend on contractors and consultants to 9% of operating expenditure by 1 July 2024.
20. Maritime NZ has been working closely with the Ministry to identify where it can reduce its total baseline expenditure. Returning to cost recovery through the funding review will remove reliance on Crown funding for levy revenue shortfalls.

Maritime NZ's funding review includes eight proposals requiring increases to the maritime and oil pollution levies

21. On 9 June 2023, joint Ministers agreed to the release of a consultation document recommending eight proposals funded by increases to the Maritime Levy and OPL. With these proposals, Maritime NZ will continue undertaking its statutory functions without incurring a funding gap that requires it to reduce its regulatory activities, impeding efficient and effective operation of the sector. It addresses the compound effects of inflationary cost pressures, system changes and new and increased regulatory activity since the levies were last increased. Refer to the Cost Recovery Impact Statement (CRIS) in **Appendix One** for more context.
22. For more detail on the impacts from levies increases, refer to **Appendix Two**.

Proposal 1. Managing the risks of substandard shipping through maintaining and enhancing regulatory operations (port and flag state control)

23. Maritime inspectors audit ships operating around our coast (including those involved in live-animal export) for compliance with safety and marine protection requirements. These activities mitigate the risk of catastrophic maritime incidents, the consequent impact on safety, the environment and economy, and minimise the potential of harm for New Zealanders working with ships when alongside ports. Countries that have rigorous inspection regimes are less likely to receive poor quality vessels.
24. The quality of vessels operating around the coast has declined in the last few years. Six large ships have had near groundings or lost engine propulsion over the last two years (compared with only one vessel in the five years prior). Over the last year, Maritime NZ has had to detain

more vessels than the previous three years combined, taking up valuable berth space at ports. There are increasing serious injuries and risks of fatalities for those working on the vessels. This can cause significant disruption to supply chains and increased costs to move imports and exports, which are passed onto consumers and adversely impact the economy.

25. Maritime NZ's inspections team is currently too small to inspect the riskiest ships in our waters. Sufficient inspection of high-risk ships is a critical issue identified by ports, stevedores, marine pilots, unions, regional councils, and harbourmasters. Maritime NZ wants to increase the Maritime Levy to recruit a small number of additional frontline maritime inspectors to inspect all high-risk vessels. This will also enable a small number of random inspections each year to deter sub-standard ships. Twenty-five submitters supported this proposal, five partially supported and one opposed it. Some submitters wanted more inspectors than proposed.

Proposal 2. Reducing sector costs and enabling innovation by updating outdated Maritime and Marine Protection Rules

26. Maritime NZ has a small team that makes and amends maritime rules with the cost shared between the Crown and the Maritime Levy. Over the last 25 years, there have been over 70 Maritime and Marine Protection Rules created with thousands of individual provisions. Many of these rules are outdated, requiring the sector to apply and pay for exemptions to continue operating and do not easily enable innovation. This is becoming ever more problematic as new technologies, such as electric vessels, autonomous vessels, and wing-in-ground craft are being commercialised.
27. Work on these issues is delivered through a regulatory reform programme. But the availability of policy, drafting and technical advice is affecting the speed of progress. Maritime NZ proposes to increase the Maritime Levy to fund additional resources to remove or update outdated and costly maritime rules. Twenty-three submitters supported this proposal, four partially supported it, and three opposed it.

Proposal 3. Improving performance in responding to notifications and maintaining critical improvements in the process of licensing applications

28. All commercial seafarers and operators must be licensed to operate, ensuring the fitness of participants in the maritime system. An increased number of seafarer and operator applications has led to significant delays in the processing of licensing applications. This has been exacerbated by issues related to capacity and capability and rules, impacting on the effective and efficient operation of the maritime transport sector.
29. Liquidity funding was used to improve licensing capacity and capability. This has seen significant timeliness and quality gains. Over the last financial year, 67% of seafarer and operator applications were processed within 20 working days (an improvement of 52% and 20% respectively). Maritime NZ proposes to increase the Maritime Levy to retain and improve on the progress made. If this licencing capability is not maintained when liquidity funding ends, the gains will be lost and backlogs will return, bringing frustration and cost for maritime operators and seafarers.
30. Maritime operators are required to notify Maritime NZ about a variety of matters and events. It is essential that Maritime NZ can respond in a timely and appropriate way to these notifications and enquiries. Lack of focused capacity in this area has led to inconsistent or delayed responses to safety incidents. To address these issues, Maritime NZ has used baseline savings to create a small, centralised Notifications and Enquiries team. Maritime NZ proposes to increase the

Maritime Levy to provide a small amount of additional capacity (two FTEs) to allow this team to be fully functional. Nineteen submitters supported this proposal, four partially supported it, and four opposed it.

Proposal 4. Providing effective oversight to third party regulators

31. There are hundreds of third-party regulators performing delegated regulatory functions in the maritime domain. Due to capacity constraints, Maritime NZ does not have a comprehensive view of their performance and is limited in its ability to intervene before issues arise. We have seen a range of regulatory failures in the broader New Zealand regulatory system over the last few years due to ineffective third-party oversight. The Transport Accident Investigation Commission and the International Maritime Organization have both raised risks in this area.
32. Maritime NZ proposes to increase the Maritime Levy to establish a team of four people to lead, support and improve third-party oversight activity. This will enable Maritime NZ to be more proactive, reducing risk of regulatory failure and supporting safety and maritime protection outcomes. It will help to ensure costs are reasonable and services are high-quality (both issues raised by stakeholders). Twenty submitters supported this proposal, four partially supported it and three opposed it.

Proposal 5. Maintaining the administration of MARPOL Annex VI

33. In 2019, the New Zealand government became signatory to MARPOL Annex VI, part of an international convention that sets out a regime for the prevention of air pollution from ships. Due to the delay in the funding review, the cost of administering MARPOL Annex VI has been met by the Crown to date. However, the intent was that the funding review would enable a shift to cost recovery through the Maritime Levy.
34. Maritime NZ proposes increasing the Maritime Levy to cover the cost of administering MARPOL Annex VI. Twenty submitters supported this proposal, three partially supported it, and three opposed it.

Proposal 6. Continuing to support the provision of seafarer welfare services

35. Since 1 March 2017, New Zealand has had obligations under the Maritime Labour Convention. This establishes minimum working and living standards for all seafarers and sets obligations for seafarer welfare services. In recognition of these obligations, in 2021 Parliament amended the Maritime Transport Act to enable the Maritime Levy to be used for seafarer welfare services. The Maritime Levy rates set in 2018/19 did not account for this cost, and Maritime NZ has needed Crown funding to support the external delivery of these services, receiving \$1.5 million to date.
36. Maritime NZ proposes increasing the Maritime Levy to cover the costs to provide seafarer welfare services. Thirty-three submitters supported this proposal, three partially supported it, and four opposed it. Many submitters sought more funding.

Proposal 7. Amending the OPL allocation methodology

37. The share of OPL paid by each stakeholder is allocated through a 'likelihood and consequence' model, based on assumptions about the operating environment in New Zealand. The model is costly to apply, time consuming and prone to significant errors. With the change in the type of fuel that moves around New Zealand following the closure of Marsden Refinery, the current

levy allocation model is no longer fit-for- purpose. If the methodology is not revisited it will be difficult to retain marine oil pollution readiness and response capabilities.

38. Maritime NZ proposes to implement a revised allocation methodology that aligns with the approach used for the Maritime Levy. This is well understood by industry. The revised methodology is simpler, less costly to implement and will ensure a fairer allocation across the sector. The Oil Pollution Advisory Committee (OPAC) supports the change to the model. OPAC includes statutorily appointed representatives from across all sectors with OPL liability (including oil and gas) as well as iwi, central government agencies and local government. Twenty-three submitters supported this proposal, three partially supported it, and three opposed it. The opposing submissions included OMV, the operator of the floating production storage and offloading (FPSO) site and two cruise submitters.

Proposal 8. Maintaining marine oil spill preparedness and response capability

39. Since the Rena oil spill in 2011, Maritime NZ has built its capability to manage oil spills, should they occur. This has included developing capabilities, relationships and contracts with international actors needed to address a major oil spill.
40. Maintaining this capability requires a small increase in OPL due to cost pressures. OPAC supports this increase. If this increase is not progressed it will put the ability to respond effectively to incidents at risk. The capability investment made by the sector and built over the last few years would be diminished. Twenty-two submitters supported this proposal, three partially supported it, and four opposed it (including OMV).

A thorough public consultation process has taken place

The coverage of the levy consultation was broad

41. Maritime NZ undertook public consultation on the proposals after a period of extensive engagement with key industry bodies representing the sector. This included ascertaining what stakeholders wanted to see from Maritime NZ and discussions with OPAC about challenges posed by the current oil pollution model.
42. Maritime NZ undertook public consultation over a four-week period between 19 July and 16 August 2023. Alongside the consultation document, it published its initial CRIS, an international and domestic comparison of levies, and an analysis of options for the oil pollution allocation methodology. Consultation was supported by two public webinars. An email inbox enabled stakeholders and the public to ask questions during the process. All levy payers (3,338 recipients) were alerted about the review by letter. Emails were sent to a wide range of interested parties including levy payers, unions, industry groups and seafarer welfare groups. Advertisements were also posted in a number of publications and on social media.
43. In total, Maritime NZ received 40 submissions on its proposals. OMV submitted on the levy review in August 2023. However, its submission was not received by Maritime NZ until March 2024 due to the original submission being sent to an incorrect email address. Maritime NZ is confident this was an isolated incident.
44. Although the total number of submissions is relatively low in absolute terms, the webinar attendance, website views, downloads of the consultation document and number of submissions were consistent with past Maritime NZ funding reviews. Some industry bodies consulted with their members to develop a single submission on behalf of their members. Submissions were

IN CONFIDENCE

received from all major groups of sector stakeholders including port operators, commercial vessel owners and operators, the cruise industry and seafarer welfare organisations..

45. I am comfortable that the consultation process reached the wider sector, directly or via representative organisations and submissions were received from all the key parties.

There was wide-reaching support from the submitters for the proposals

46. Given many of the issues had been identified by the sector itself, there was broad support for the proposals and levy increases, both by levy payers and beneficiaries. This meant that each proposal had at least 80% submissions in support of it. Key industry bodies like the Marine Transport Association (representing smaller passenger ferries, charters, domestic tourism and aquaculture), the Port Chief Executive Group, and NZ Shipping Federation (representing large coastal operators like Cook Strait ferries) supported the proposals along with Regional Councils and harbourmasters. Many were eager to have issues that were impacting them addressed and expressed concern that a Maritime NZ funding deficit could impact on frontline services and see regulatory timeliness and quality reduce.
47. Submitters from the cruise sector supported the proposals but suggested a one-year delay to increasing levies to factor them into their business operating model. I acknowledge their reasoning for preferring a delay, but the three-year cycle of funding reviews means it is difficult to provide stakeholders with more than one year's notice of levy increases. It would also require Crown funding of Maritime NZ for another 12 months. I note that the consultation process means that stakeholders have had notice of the likely timing and quantum of levy increases for 2024/25.

Some submitters supported the proposals or intent of the proposals but thought they should be funded differently

48. Where submitters opposed proposals, the reasons often related to disagreement with the levy construct and questions around whether some services were public goods that should be paid for by the Crown or through fees. For example, the Federation of Commercial Fishermen supported most of the proposals but indicated 'partial support' in many cases because it would have preferred them to be funded through fees.
49. I am comfortable that the proposals are consistent with best practice for cost recovery and follow the guidelines released by the Treasury and Office of the Auditor General for funding club goods. This is because the parties participating in the sector are the ones creating risk and the levies account for this risk. Other than the proposed change to the OPL model, this was not a review of the entire levy model, which had been reviewed in the last levy review.
50. I also note that the Maritime Levy is based on a club good across a range of activities, some of which it is difficult to charge fees for. Placing more of the emphasis on fees as a funding source would mean that some domestic operators, including the fishing sector, would face a higher proportion of the costs (given that approximately 90% of the levy is charged to foreign operators).
51. Making these changes within the current levy model is the most straightforward way to ensure that Maritime NZ can return to cost recovery from 1 July 2024.

A small number of submitters did not support changes to the Oil Pollution Levy

52. As required under s334 of the Maritime Transport Act, Maritime NZ consulted with OPAC on its intended recommendations. OPAC unanimously supports an increase in OPL revenue, and the associated levy rates changes required. The new risk allocation methodology is also fully supported by OPAC and the majority of submitters.
53. I note that a small number of submitters, including OMV and Cruise Lines International Association opposed the change in Oil Pollution methodology. This partly reflects the impact it would have on their individual levy rates. In particular, OMV does not consider the proposed increase in liability is justified given the measures it takes, or is required to take, to mitigate the likelihood and consequence of an oil spill. It also considers its current liability appropriately reflects Maritime NZ's oil pollution preparedness and response effort in relation to the offshore oil and gas sector, and that the modelling on which its proposed liability is based applied incorrect production assumptions.
54. The new methodology is intended to move away from complex calculations of risk mitigation which are increasingly unreliable and difficult to administer, especially with changes to oil movement around New Zealand. It is based on the risk brought to the system by a particular sector or operator involved in a particular scale of activity within a particular operating environment. All operators are required to undertake activities to mitigate the risk from oil pollution, not just OMV. The levy pays for the club good capability and equipment to respond should these mitigation measures fail for any particular operator.
55. Like other sectors, modelling was based on capacity to carry or store oil, not on actual carriage or storage. Capacity assumptions were based on OMV's publicly available consent documentation (45,000 barrels per day). It would be difficult and costly to calibrate the levy depending on individual operator capacity at a particular time given how regularly it varies for operators.
56. Most submitters support the changes to the new methodology and rates, as did OPAC. If Maritime NZ is unable to implement the revised methodology, the difficulties and unreliability with the current model will continue and result in significant levy increases for domestic operators, which are likely to be met with broad concern. Retaining it is therefore, in my view, infeasible and given the wide support from other submitters and OPAC, I am comfortable that the methodology change is appropriate.
57. Overall, I am satisfied that there has been an adequate level of awareness and public engagement and submissions have been considered. An overview of the consultation process is attached as **Appendix Three** and a summary of submissions is attached as **Appendix Four**.

Final Recommended Proposals from Consultation

58. I have considered the feedback received during public consultation. I have also undertaken my own consultation with my Ministerial colleagues including the Minister of Finance. Feedback reflected a general support for increasing the Maritime Levy and OPL in order to fund the proposals and return Maritime NZ to cost recovery. Other minor feedback, including more detail on the current and proposed levy changes outlined in **Appendix Two**, has been reflected in this paper.
59. I note that the consultation included options to scale three proposals. Specifically, this would have meant delaying implementation of Proposals 2 and 4 and reducing the funding for Proposal 6. Few submitters expressed support for these options and most that did, did so in the

context of an overall opposition to levy increases. Most submitters wanted to see the proposed changes occur as quickly as possible.

60. On the whole, there was support for the funding review and each of the proposals, noting that consultation highlighted minor areas of opposition from some groups to specific changes. There is no indication that any groups will oppose charges following implementation. There will be concern if the proposals do not go ahead, given the impact it will have on the sector.
61. Increasing these levies from 1 July 2024 means Maritime NZ will not need liquidity funding beyond 1 July 2024, releasing any funds that have not been drawn down (currently forecast to be between \$10 million and \$14 million) for other government priorities in 2024/25. The changes will be announced as soon as possible, to allow maritime operators as much time as possible to plan and manage costs

Future Funding Reviews

62. The funding review is aimed at ensuring Maritime NZ is sustainably funded for the range of regulatory and response activities and functions required under current legislation, between 2024 and 2030. This includes the levels of the Maritime Levy and OPL as well as the OPL methodology.
63. Maritime NZ intends to maintain a regular review cycle going forward to address funding needs and ensure that cost recovery settings remain appropriate, relevant, and sustainable. This is likely to involve the completion of a full funding review within three years of 1 July 2024.

Implementation

64. If approved by Cabinet, the Ministry will prepare drafting instructions for the Parliamentary Counsel Office (PCO) to make changes to the relevant regulations. subject to Cabinet authorisation through the Legislation Committee, the (amendment) regulations will be made in the Executive Council and notified in the New Zealand Gazette with the new fees and charges targeted to take effect from 1 July 2024.
65. In recognition of the various stakeholders that will be affected by the new fees and charges, Maritime NZ intends to announce the proposed changes as soon as Cabinet has agreed to them and work closely with the sector on their implementation. It also intends to begin recruiting for any new roles as soon as it has this certainty.
66. The Maritime NZ Board will maintain oversight of the implementation of changes. The Ministry will provide performance advice to the Minister through its Crown Entity monitoring function. Maritime NZ has proposed several performance measures for its proposals, including existing measures where activity will continue. I expect it to report on these measures through its public accountability documents (Statement of Performance Expectations and Annual Report). This could include a measure of the sector's satisfaction with the proposals. Refer to the CRIS in **Appendix One** for a list of these measures.

Risks

67. Should levy changes not be in place by 1 July 2024, Maritime NZ will request Crown funding to cover costs that would otherwise be recovered from the sector.
68. In the absence of the levy changes or compensating Crown funding, baseline savings will need to be made by reducing levy-funded frontline services by around 18%. This would impact

licensing timeliness and quality, oil response assets and capabilities, and the quality of frontline regulatory activities. It will also increase safety risk. The Seafarer Welfare Fund would end, impacting compliance with international labour conventions. This is likely to result in concern from the sector (most of whom support the funding review) and erode confidence in the maritime regulator.

Financial Implications

69. The proposals require additional Maritime Levy revenue of \$11.7 million on average per annum. This equates to a 33.1% increase in Maritime Levy revenue over the three years from 2024/25. The proposals also require additional OPL of \$0.8 million on average per annum. This is an 8.8% increase in levy revenue over the same period.
70. Agreeing to these proposals will have a positive fiscal impact on the Crown's accounts. If implemented by July 2024, Maritime NZ is expected to be able to return to the Crown any funds that have not been drawn down from its liquidity facility (currently forecast to be between \$10 million and \$14 million) and remove future requirements for liquidity funding.
71. The financial impact of the proposals depends on the type of vessel (weight, length and passenger capacity), and whether they operate domestically or internationally. However, I expect the impact on the sector to be small for a number of reasons:
 - 71.1. Approximately 90% of cost of proposed increased levy revenue is expected to be paid by operators of foreign vessels. These tend to be much larger and are levied on a per-port visit basis whereas domestic vessels pay levies annually.
 - 71.2. Overall, 81% of smaller domestic vessels pay annual levies of \$500 or less and will see an annual increase from between somewhere of \$21 to \$150.
 - 71.3. A few larger domestic vessels are liable for both levies and due to the change in the model for the OPL, will see a large drop in their rates which will largely off-set increases in the Maritime Levy.
72. The only domestic sector for which the OPL would be higher is in the offshore oil and gas sector. Under the proposed methodology, its risk share goes from 0.02% to 0.9%. This translates to an \$81,000 OPL liability increase from the current base of \$858 for OMV. The increase is not expected to be material nor difficult to accommodate in per-unit prices. OPL liability would be lower than that faced by OMV before levies were changed in the 2018/19 funding review. For example, in 2016/17, OMV paid an OPL of \$82,186 on the relevant installation.
73. Due to the high percentage increase facing OMV, I am proposing a two-year transition period which will see OMV OPL liability increase to \$41,457 in 2024/5 and the full amount of \$82,055 in 2025/6.
74. As this sector only includes FPSO sites, levies for contributing oil sites other than FPSOs listed in Schedule 2 of the Oil Pollution Levy will be revoked.

Legislative Implications

75. Changes to the Maritime Levies Regulations 2016 and the Maritime Transport (Oil Pollution Levies) Order 2016 will be required to implement the changes proposed in this paper.

Regulatory Impact Statement

76. Maritime NZ has provided a CRIS covering the final funding model post-consultation (refer **Appendix One**). The CRIS panel, run by the Ministry has reviewed the CRIS. The panel considers that the document meets the key requirements for a CRIS.

Climate Implications of Policy Assessment

77. A Climate Implications of Policy Assessment is not required because the funding proposals do not have direct emissions impacts or objectives.

Population Implications

78. No population implications have been identified.

Human Rights

79. No human rights implications have been identified.

Consultation

80. The Treasury, Customs, Department of the Prime Minister and Cabinet, Department of Internal Affairs, Ministry for Primary Industries, Ministry for Business, Innovation and Employment, Ministry for the Environment, Ministry for Foreign Affairs and Trade, Te Puni Kōkiri, New Zealand Police and WorkSafe New Zealand have been consulted on this draft Cabinet Paper. Comments have been reflected where appropriate.
81. Police supports the increased fees and charges proposed as they will fund critical activities that enable Maritime NZ to meet their statutory obligations and regulatory functions. These functions support the effective and safe operation of the maritime sector.
82. The Treasury supports completion of the funding review as soon as practicable to limit Crown funding required in Budget 2024 and to enable Maritime NZ to get back to financial sustainability sooner. The Treasury notes that the Maritime NZ has undertaken work to manage costs, considered scaled options and demonstrated that proceeding with the levy increases will have a positive impact on Crown financials compared to the counterfactual.

Communications and Proactive Release

83. I intend to release this Cabinet Paper proactively and in accordance with the Official Information Act 1982 within 30 business days of the public consultation process commencing.

Recommendations

The Associate Minister for Transport recommends that the committee:

1. Note that Maritime NZ has completed a funding review to fund eight proposals related to its core business.
2. Note that public consultation was undertaken between 19 July and 16 August 2023, with feedback being largely supportive.
3. Agree to the following Maritime Levy rates (GST exclusive), effective from 1 July 2024:

Vessel	Per Gross Tonnage Rate	Per Deadweight Tonnage Rate	Per Passenger Capacity Rate	Overall length
Foreign passenger (per port call)	\$0.1282	\$0.0105	\$2.5839	N/A
Foreign non passenger (per port call)	\$0.1504	\$0.0121	N/A	N/A
NZ SOLAS (annual)	\$9.9449	\$0.5879	\$59.6072	N/A
NZ non-SOLAS (24 metres or longer, annual)	\$10.4870	N/A	\$22.3834	N/A
NZ non-SOLAS (shorter than 24 metres, annual)	N/A	N/A	\$22.3834	\$19.5347

4. Agree to the following Oil Pollution Levy rates (GST exclusive), effective from 1 July 2024:

Vessel or oil site type	Basis of calculation	Oil Type	Levy
Foreign vessels (all charges per port call)¹			
Passenger and cargo ships, harbour tugs and oil tanker bunker fuel [Ship using bunker fuel]	Per gross ton of the vessel	Bunker fuel	2.63 cents
Tankers carrying oil as cargo [Oil tanker, persistent oil as cargo]	Per tonne of oil carried as cargo	Persistent	35.46 cents
Tankers carrying oil as cargo [Oil tanker, non-persistent oil as cargo]	Per tonne of oil carried as cargo	Non-Persistent	20.86 cents
Domestic NZ vessels (all charges annual)			
Passenger and cargo ships, harbour tugs and oil tanker bunker fuel [Ship using bunker fuel (other than New Zealand fishing vessel)]	Per gross tonne of the vessel	Bunker fuel	173.95 cents
Tankers carrying oil as cargo [Oil tanker, persistent oil as cargo]	Per tonne of oil carried as cargo	Persistent	12.85 cents
Tankers carrying oil as cargo [Oil tanker, non-persistent oil as cargo]	Per tonne of oil carried as cargo	Non-Persistent	7.56 cents
New Zealand Fishing vessels	Per gross ton of the vessel		30.86 cents

Oil Type		Levy 1/7/24 to 30/6/25	Levy 1/7/25 to 30/6/26	Out-years
Oil sites (all charges annual)²				
Offshore oil and gas (FPSO)	Fixed Fee	Persistent	\$41,457	\$82,055.19

¹ The bracketed [] text indicates how the classes of ship are described in the Maritime Transport (Oil Pollution Levies) Order 2016. There is no intention to change those descriptions.

² FPSOs are the only class of oil site that a change in levy is proposed.

IN CONFIDENCE

5. Agree to revoke levies for contributing oil sites other than floating production storage and offloading (FPSO) sites.
6. Note that the revised levy rates include a 2-year phased approach for OMV oil pollution levy fees. OMV owns the only FPSO operating in New Zealand waters. FPSO OPL liability will increase to \$41,457 in 2024/25 and the full amount of \$82,055 in 2025/26 and outyears.
7. Note that the capability levies provided for in the Maritime Transport (Oil Pollution Levies) Order 2016 for contributing ships and contributing oil sites ended on 30 June 2022 and that there is no intention to continue the capability levies.
8. Invite the Associate Minister of Transport to issue drafting instructions to the Parliamentary Counsel Office to give effect to these decisions, including any necessary consequential amendments, savings, and transitional provisions.
9. Authorise the Associate Minister of Transport to make final policy decisions on implementation, including minor or technical changes that arise during the drafting process, without further reference to Cabinet.

Authorised for lodgement

Hon Matt Dooney

Associate Minister of Transport

RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

Oil Pollution Levy Options

Background:

- The Oil Pollution Levy (OPL) pays for capabilities, equipment and assets to be able to undertake initial response to an oil pollution event and to maintain contracts to enable international support to come in to support if that event is significant. The capabilities have been built over many years and been paid for by the sector.
- An Oil Pollution Advisory Committee (OPAC), appointed by Cabinet, made up of many parties with an interest, including the oil and gas sector, look after the levy, strategy and plan for oil pollution response.
- The distribution of the OPL to different operators is based on the application of a methodology. This ensures that it is applied in a fair and transparent way that reflects risk.
- The current methodology for the OPL is no longer fit for purpose, as it was complex and no longer reflects the changing mix of oil that is transported around our coasts given the closure of Marsden Point.
- OPAC were presented with a number of options for the methodology going forward, broadly: a) maintaining the existing methodology, b) progressing with a simpler methodology that more closely reflected the Maritime Levy approach or c) a 'halfway house' model that maintained some of the complexities of the existing model.
- Members of OPAC supported an increase in the levy on the condition that option b), the simpler methodology, was chosen. This was on the basis that it reflected the fairest approach that best reflected risk.
- This methodology was then the one consulted on and the large majority of submitters supported it.
- While one methodology was proposed in the discussion document, the range of options were made available to submitters as part of the consultation only two submitters asked for a different model, one of which was OMV. We do not understand why when the Oil and Gas sector is represented on OPAC, OMV's issues were not raised there.
- The impact of the new methodology is, in general:
 - the OPL rates for large numbers of domestic vessel operators went down. So, for example, a multi-vessel fishing company is likely to see reductions of \$5,800 per annum in OPL; an Interislander ferry operator will see decreases of \$96,700 per annum in OPL. In many cases the OPL levy reductions offset to a degree the maritime levy increases.
 - the OPL rates for internationally-travelling vessels and oil and gas installations (FPSOs) went up. This includes the OPL rate for OMV's FPSO Raroa, which will see increases of \$81,000 per annum in OPL.

Options:

- Broadly speaking, if the focus is the impact of the OPL rate on OMV, the options for Ministers are as follows:
 - **Option 1: proceed with the proposed new methodology as proposed.** This has the support of OPAC and the large majority of submitters. It will mean increased OPL costs for OMV; but decreased OPL costs for large numbers of domestic vessel operators.
 - **Option 2: retain the existing methodology.** This would be opposed by the majority of submitters. It will mean significantly increased OPL costs across the board for domestic operators vs what was proposed, which is likely to meet strong opposition by large numbers of domestic operators.
 - **Option 3: proceed with the new methodology but retain OMV at their current OPL rate of \$858.** This enables domestic operators to benefit from decreased OPL costs, at the cost of a small shortfall of \$81,000 in the Oil Pollution Fund. The special treatment of OMV will be transparent, however; so government would need to justify this based on

its aspirations around the oil and gas sector. There will be a residual risk of Regulations Review Committee review given the new methodology is not being applied consistently, but if the Government has been transparent it has exempted OMV to support oil and gas sector, this will be minimised.

- **Option 4: re-consult on a different methodology option.** Given that the implications of a different methodology on the sector and the need to reflect the legally required advice from OPAC, it would not be possible to simply choose an alternative methodology and apply it. A further consultation would be required. This would mean that new levy rates by 1 July definitely could not be achieved, meaning oil pollution readiness would remain dependent on Crown funding for longer. While there are small variations there are only two key model options: the previous one and the new one proposed. While the variations might reduce slightly OMVs amount it will still be a significant increase for them unless status quo is maintained. Variations would simply generate different distribution of costs between domestic and oil and gas / international operators; so are unlikely to present Ministers with significant different choices. In every option there will be winners and losers. The option proposed, while impacting OMV, actually had more winners than losers.
- We were asked whether the methodology could be phased in. A methodology can't be phased in, as you can't have two methodologies operating at the same time. Changing the date for when the methodology comes in would be feasible if the Crown continued to fund the current hole in the levy; given the levy pays for current fixed costs in relation to equipment, assets, capabilities and contracts. If the methodology came in later and there was not interim Crown funding, then we would have to remove capabilities and assets the sector has paid for over many years; which would also be met with concern from the sector.

Recommendation:

- On balance, if Ministers are seeking a way to proceed whilst reducing the impact on OMV, we would recommend **Option 3**; noting the residual risks.
- Please note that there is a time imperative in this. If approximately \$14m in the current Crown multi-year is to be returned to Government on 1 July as planned, the Oil Pollution Ley and Maritime Levy changes need to be agreed as a matter of urgency, so the regulations can be in place by 1 July 2024.



Hon Simeon Brown

Minister of Transport

Hon Matt Doocey

Associate Minister of Transport

AIDE MEMOIRE: OIL POLLUTION LEVY OPTIONS

To: Hon Matt Doocey (Associate Minister of Transport)

Hon Simeon Brown (Minister of Transport)

From: Richard Cross (Director)

Date: 28 March 2024

OC Number: OC240327

Summary/Purpose

- 1 To provide you with options for addressing concerns raised by the Cabinet Economic Policy Committee (ECO) on 27 March, in relation to the proposed increase in Oil Pollution Levy (OPL) to OMV.

Background

- 2 Maritime NZ is undertaking a funding review to return it to a financially sustainable position, following a significant decline in third-party revenue due to COVID-19. Consultation on proposed changes to the Maritime Levy and OPL occurred between 19 July and 16 August 2023. The proposals were largely supported by submitters.
- 3 Two of the eight proposals in the consultation document relate to the OPL. The first involves a proposed change to the methodology for calculating such levies and the second relates to a proposed increase in total OPL revenue. Maritime NZ seeks an average 8.8% increase in OPL revenue from 2024/25 (equal to \$800,000 per annum).
- 4 ECO considered the proposed increases to maritime and oil pollution levies on 27 March 2024. Concerns were raised about the proposed increase in OPL liability to OMV (from \$859 to \$82,055 per annum), which operates a Floating Production Storage and Offloading (FPSO) facility at the Maari field in South Taranaki.
- 5 ECO did *not* agree to any of the recommendations in the Cabinet paper and asked for more information on the options available to address the proposed increase in OMV's OPL liability.

Options

- 6 Maritime NZ has identified five options. It's advice is attached as Annex A. The five options suggested by Maritime NZ are:
- a. Proceed with the proposed new methodology (as presented to Cabinet)
 - b. Retain the pre-existing OPL methodology
 - c. Proceed with the proposed new methodology, but phase in the OMV increase (over two or three years) or cap the increase at a level Ministers consider more reasonable
 - d. Proceed with the new methodology, but exempt OMV or retain current OPL charge of \$858 per annum
 - e. Develop a new OPL methodology.
- 7 Maritime NZ recommends options 'c' or 'd' above "...if Ministers are seeking a way to proceed whilst reducing the impact on OMV..."
- 8 These five options (referred to as options a – e) are discussed below.
- 9 Option 'a' does not address the concerns raised by ECO and is therefore not given any further consideration.
- 10 Under option 'b', the liability for OMV would be significantly lower than under the current proposal (around \$933 per annum). However, this option would be opposed by many submitters as it would spread OPL costs across the board for domestic operators, compared to the revised methodology. This option would require another consultation round, which would compromise the planned implementation date of 1 July 2024, potentially resulting in a need for further Crown funding.
- 11 Option 'c' involves proceeding with the new methodology, but either phasing the increase in over time or capping the increase to a more reasonable level.
- 12 While a phased approach would ultimately result in OMV paying \$82,055 per annum, the increase would occur gradually over time. For example, a two-year transition could see an increase in OPL liability from \$859 in 2023/24 to \$41,457 in 2024/25 and \$82,055 in 2025/26.
- 13 Alternatively, option 'c' entails capping the OMV increase with reference to the second highest proposed increase. This option is a compromise between the two extremes outlined in options 'a' and 'd' above, which entail OPL liabilities of \$859 and \$82,055 per annum. It recognises that the proposed OMV increase is extraordinary and could have an adverse impact on the attractiveness of New Zealand as a destination for oil and gas exploration, but partially preserves the principle of the levy which is to allocate costs to those who impose the greatest risks to the system.
- 14 The second highest proposed increase in OPL relates to foreign passenger and cargo ships, harbour tugs and oil tanker bunker fuel, all of which face a 387 percent increase. If this increase is applied to OMV, its OPL liability would increase to \$4,183 per annum (i.e. five percent of the proposed OMV liability of \$82,055). It may be more appropriate to double this figure (to \$8,367 per annum) given how low it's in absolute

and relative terms, but it's helpful to use the second highest increase as a reference point.

- 15 Option 'd' involves proceeding with the new methodology but exempting OMV from any OPL or increase. This would result in a shortfall in OPL revenue of at least \$81,196 per annum (i.e. \$82,055 minus \$859), which equates to a 10% decline in the proposed total average increase in OPL revenue. This may have implications on Maritime NZ's ability to deliver the Marine Oil Spill Readiness and Response Strategy. Exempting OMV from the new methodology entirely would also be difficult to justify from an equity perspective and could set a precedent for other exemptions being sought.
- 16 Option 'e' entails developing a new OPL calculation methodology. This would take months to complete, and it would then need to be consulted on. This would push the implementation date well beyond 1 July 2024, and increase the risk that the Crown will need to provide financial support during 2024/25. Because of the delays inherent in this option, the Ministry does not recommend considering it at this stage.

Risks

- 17 There are risks associated with all the options outlined above. Time constraints have limited the Ministry's ability to spell these risks out in detail.
- 18 However, the options which entail significant additional work (including consultation) increase the risk that the review will not be completed by 30 June 2024, and therefore the risk that Maritime NZ will seek Crown financial support for 2024/25. The Ministry has not been provided with the level of cash reserves Maritime NZ will have available on 30 June 2024, and the extent to which it could call on any unused Crown liquidity facility beyond 30 June 2024.

Recommendations

- 19 The Ministry recommends option 'c' and capping the OMV increase with reference to the second highest proposed increase. We recommend setting this to, at a minimum, twice the percentage increase faced by any other operator (\$8,367 per annum), reflecting that OMV contributes a greater share of the risk than other operators. We consider this to be the most equitable solution of those that can be implemented quickly (thus avoiding the need for additional Crown funding).

Contacts

Name	Telephone	First contact
Richard Cross (Director)	s 9(2)(a)	✓
Chris Jones (Principal Adviser, Crown Entity Monitoring)		

Annex A: Maritime NZ Advice on OPL Options

Background

- The Oil Pollution Levy (OPL) pays for capabilities, equipment and assets to be able to undertake initial response to an oil pollution event and to maintain contracts to enable international parties to come in to support if that event is significant and needs large clean up. The capabilities have been built over many years since the Rena incident and been paid for by the sector. The levy is paid by a broad range of international and domestic operators of various sizes.
- An Oil Pollution Advisory Committee (OPAC), appointed by Cabinet, and made up of many parties with an interest, including the oil and gas sector, look after the levy, strategy and plan for oil pollution response.
- The distribution of the OPL to different operators is based on the application of a methodology. This ensures that it is applied in a fair and transparent way that reflects risk.
- The current methodology for the OPL is based on use of a complex model (MOSRA) to allocate a weighted share of risk of marine oil spills to each sector of the maritime industry based on, amongst other things, the history of vessel movements, the risk of coastline damage and the ocean currents. This model was complex, inherently uncertain and no longer fit for purpose; as it no longer reflects the changing mix of oil that is transported around our coasts given the closure of Marsden Point.
- OPAC were presented with a number of options for the methodology going forward, broadly:
 - a) maintaining the existing methodology, which OPAC agreed was confusing, costly and not fit for purpose.
 - b) progressing with a simpler methodology that more closely reflected the Maritime Levy approach. This approach is modelled on the capacity to store or carry oil by operators and therefore potential risk and size of response if an event occurs. Each operators levy therefore varies, depending on the amount of oil able to be carried, or as in the case of OMV stored. This is why the OMV levy is high given the amount of potential fuel it produces and stores whereas a smaller operator will be lower.
 - c) a 'halfway house' with various minor sub-options for changes to the existing complex model; the most feasible sub-option being the removal of the distinction between persistent and non-persistent oil (which would have made the result slightly simpler and more certain, but much less fair in its allocation of risk). Whilst we know the impacts of the model in broad terms, we have not modelled this in detail given OPAC chose option b). It would take some time to update and run the model to generate detailed levy rates for all participants.
- Members of OPAC supported an increase in the levy on the condition that option b), the simpler methodology, was chosen. This was on the basis that it reflected the fairest approach that best reflected risk.
- This methodology was then the one consulted on and the large majority of submitters also agreed with it. While one methodology was proposed in the discussion document, the range of options and models were made available to submitters as part of the consultation in an appendix. Only two submitters asked for a different model, one of which was OMV whose comments indicated that they preferred something closer to the

status quo. We do not understand why when the Oil and Gas sector is represented on OPAC, OMV's issues were not raised there.

- The impact of the new methodology is, in general:
 - the OPL rates for large numbers of domestic vessel operators went down. So, for example, a multi-vessel fishing company is likely to see reductions of \$5,800 per annum in OPL; an Inter-islander ferry operator will see decreases of \$96,700 per annum in OPL. In many cases the OPL levy reductions offset to a degree the maritime levy increases for domestic operators.
 - the OPL rates for internationally-travelling vessels and oil and gas installations (FPSOs) went up. This includes the OPL rate for OMV's FPSO Raroa, which will see increases of \$81,000 per annum in OPL back to where it was at the prior funding review.
- Whilst we have not modelled it in detail, we would expect these distributional impacts to apply in the same way in the comparison between the new methodology and any 'halfway house' option: domestic operators would face lower costs under the new methodology, compared to the halfway house; and internationally-travelling vessels / oil and gas installations would face higher costs under the new methodology, compared to the halfway house.

Options:

- Broadly speaking, if the focus is the impact of the OPL rate on OMV, the options for Ministers are as follows:
 - **Option 1: proceed with the proposed new methodology as proposed.** This has the support of OPAC and the large majority of submitters. It will mean increased OPL costs for OMV and some other international operators; but decreased OPL costs for large numbers of domestic vessel operators.
 - **Option 2: retain the existing methodology.** This would be opposed by the majority of submitters. It will mean significantly increased OPL costs across the board for domestic operators vs what was proposed, which will meet with strong opposition by large numbers of domestic operators.
 - **Option 3: proceed with the new methodology but phase in the increase for OMV (over, say, 3 years) or cap the increase at a level Ministers consider more reasonable for OMV.** This enables domestic operators to benefit from decreased OPL costs, at the cost of a small shortfall in the Oil Pollution Fund. Given the model is based on the potential amount of oil carried, or stored, and the risk this provides, rather than simply developing or choosing levy band steps, there is not an obvious basis for another number for OMV. Phasing the increase in or coming up with something less that does not relate to the potential oil they hold and move will be seen as inconsistent with the application of the model and is likely to be subject to risk of Regulations Review Committee review. To minimise the risk, there would need to be a transparent justification given for applying the model in a different way. This could be the Government's aspirations for the oil and gas sector or for Cabinet to say that given the size of the levy increase phasing it in over time or capping it is appropriate.
 - **Option 4: proceed with the new methodology, but retain OMV at their current OPL rate of \$858 or simply exempt them.** This enables domestic operators to benefit from decreased OPL costs, at the cost of a small shortfall of \$81,000 in the Oil Pollution Fund. Again, the government would need to justify special treatment of OMV based on its aspirations around the oil and gas sector; to minimise the risk of Regulations Review Committee review

- **Option 5: re-consult on a different methodology option (such as a version of the ‘halfway house’).** This will have a significant number of issues:
 - Given that the implications of a different methodology and different levy numbers on large numbers of operators in the sector and the need to reflect the legally required advice from OPAC, it would not be possible to simply choose an alternative methodology and apply it. A further consultation would be required. This would mean that new levy rates by 1 July definitely could not be achieved.
 - There is currently a shortfall in the levy revenue to deliver oil response readiness. This is being plugged at the moment by Crown funding through a multi-year appropriation. Delaying the review would mean oil pollution readiness would remain dependent on Crown funding for longer, and the planned multi-year appropriation of \$14m would not be returned to the Crown. Or Maritime NZ would need to make up the difference or cut oil response assets and capabilities. Maritime NZ is already implementing reductions in Crown funding through baseline review; and the levy take originally modelled for the levy review 18 months ago for 2024/25 is predicted to be significantly lower as Cruise schedules released this week for 2024/25 are 17% down and cargo movements are also down and predicted to be down for a while by Treasury. This means Maritime NZ is already looking to have to use reserves and make more savings to address lower levy revenue. We would not be able to address the levy gap whilst we re-consult; but would need to start to remove some of the capabilities which have been built and funded by the sector, which will cost more to build back and result in criticism.
 - The sector will wonder why we are consulting again after they have already given their views and proposing a different levy methodology is unlikely to get a different response from submitters (domestic operators will still want the current proposed model and OMV might be slightly happier but still want the status quo). More than that if at 1 July the Maritime levy comes in, and the Oil Pollution response does not, the domestic operators will be paying more and they will know this as many submitters through the calculator provided as part of consultation will have calculated their levy amount by looking at both levies together. For example, an interisland ferry operator will face an increase of \$112,800 in Maritime Levies but this is offset by a decrease of \$96,700 in OPL under the proposed methodology; a multi-vessel fishing company will face an increase in \$31,600 in Maritime Levies, but this is offset by a decrease of \$5,600 in OPL under the proposed methodology.
 - While the halfway house provides some model variations there are only two key methodology options: the previous one (based on a complex model) and the new proposal. While the model variations might slightly reduce OMVs levy it will likely still be a significant increase for them (because of the changes in the flow of oil around NZ's coasts), whilst also having negative impacts on domestic vessel operators. Variations would simply generate slightly different distributions of costs between domestic and oil and gas / international operators; so are unlikely to present Ministers with significantly different choices. In every option there will be winners and losers. The option proposed, while impacting OMV, had more individual winners than losers.
- We were asked whether the methodology could be phased in. A methodology can't be phased in, as you can't have two methodologies operating at the same time. Changing the date for when the methodology comes in would be feasible if the Crown continued to fund the current shortfall in the levy; given the levy pays for current fixed costs in relation

to equipment, assets, capabilities and contracts. If the methodology came in later and there was not interim Crown funding, then as above we would have to remove capabilities and assets the sector has paid for over many years; which would also be met with concern and criticism.

Recommendation:

- On balance, if Ministers are seeking a way to proceed whilst reducing the impact on OMV, we would recommend **Option 3 or 4**; noting the residual risks.
- Please note that there is a time imperative in this. If approximately \$14m in the current Crown multi-year is to be returned to Government on 1 July as planned, the Oil Pollution Levy and Maritime Levy changes need to be agreed as a matter of urgency, so the regulations can be drafted, put through the Cabinet Legislation Committee to be in place by 1 July 2024.

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982



3 May 2024

OC240479

Hon Matt Doocey
Associate Minister of Transport

Action required by:
 Monday, 6 May 2024

cc Hon Simeon Brown
 Minister of Transport

MINISTERIAL CONSULTATION ON LEGISLATIVE CHANGES FOR MARITIME AND OIL POLLUTION LEVIES CHANGES

Key points

- The Ministry of Transport has attached a Cabinet Paper seeking approval of the legislative changes required to amend the Maritime Levy and Oil Pollution Levy as part of Maritime NZ's ongoing funding review.
- We ask that you undertake consultation on this paper with your Ministerial colleagues and coalition partners including the Minister of Finance, Minister of Transport and Minister for Oceans and Fisheries between 6 and 14 May 2024. This will enable us to lodge the Cabinet Paper by 16 May 2024, in time for the Cabinet Legislation Committee (LEG) on 23 May 2024.
- The changes are required to give effect to the policy decisions made by Cabinet following the Cabinet Economic Development Committee on 10 April 2024. This will ensure Maritime NZ's regulatory and compliance activities are suitably funded. It will also ensure that the basis on which the cost of those activities is recovered from the maritime sector is clear, consistent, and transparent.
- The Ministry is currently undertaking departmental consultation on the LEG Paper. If this results in any changes, we will provide you with a revised paper clearly laying out any changes. However, we do not anticipate material changes to arise from this.
- Given policy decisions have already been made, the risks associated with the paper are low. If any risks arise, they are likely to relate to the tight timeline necessary for the new levies to come into effect on 1 July 2024. The funding review Steering Group is mitigating this risk by undertaking Departmental and Ministerial consultation simultaneously.

A handwritten signature in black ink, appearing to read 'D Wood', is positioned above a horizontal line.

David Wood
 Deputy Chief Executive – Investment and Monitoring

Hon Matt Doocey
 Associate Minister of Transport

..... / /

IN CONFIDENCE

In Confidence

Office of the Associate Minister of Transport

Chair, Cabinet Legislation Committee

APPROVAL OF LEGISLATIVE CHANGES REQUIRED FOR MARITIME AND OIL POLLUTION LEVIES CHANGES**Proposal**

- 1 This paper seeks authorisation for submissions to the Executive Council of the Maritime Levies Amendment Regulations 2024 and the Maritime Transport (Oil Pollution Levies) Amendment Order 2024, together referred to as the Amendment Regulations.

Policy

- 2 Maritime New Zealand's ("Maritime NZ") funding for frontline regulatory services is largely provided by maritime operators via the maritime levy (authorised by the Maritime Levies Regulations 2016). Its oil pollution readiness and response activity are funded by the oil pollution levy (OPL) (authorised the Maritime Transport (Oil Pollution Levies) Order 2016) and paid by ships carrying oil around New Zealand.
- 3 The maritime levy and OPL have not been updated since 2019 due to the COVID-19 pandemic disrupting Maritime NZ's three-year funding cycle.
- 4 Maritime NZ has since completed a review of its funding for 2024/25 through to 2027/28, which identifies changes required to the maritime levy and OPL to fund eight proposals intended to enable Maritime NZ to continue undertaking its statutory functions.
- 5 On 10 April 2024, the Cabinet Economic Policy Committee approved changes to the maritime levy and OPL from 1 July 2024, set out in paragraph 6.1 and 6.2 below [ECO-24-MIN-0055 refers].
- 6 The regulations to be authorised are the:
 - 6.1 Maritime Levies Amendment Regulations 2024, which will amend the Maritime Levies Regulations 2016 by increasing the maritime levy rates;
 - 6.1.1 The increase to rates for a foreign commercial passenger ship are as follows (GST exclusive):
 - the gross tonnage rate increases from \$0.1004 to \$0.1282;
 - the deadweight tonnage rate increases from \$0.0082 to \$0.0105;
 - the passenger capacity rate increases from \$2.0248 to \$2.5839.
 - 6.1.2 The increase to rates for a foreign commercial non-passenger ship are as follows (GST exclusive):

- the gross tonnage rate increases from \$0.1178 to \$0.1504;
 - the deadweight tonnage rate increases from \$0.0095 to \$0.0121.
- 6.1.3 The increase to rates for a New Zealand Safety of Life at Sea (SOLAS) ship are as follows (GST exclusive):
- the gross tonnage rate increases from \$7.7931 to \$9.9449;
 - the deadweight tonnage rate increases from \$0.4607 to \$0.5879;
 - the passenger capacity rate increases from \$46.7100 to \$59.6072.
- 6.1.4 The increase to rates for a New Zealand non-SOLAS ship that is 24 metres or more in length are as follows (GST exclusive):
- the gross tonnage rate increases from \$8.2197 to \$10.4870;
 - the passenger capacity rate increases from \$17.5403 to \$22.3834.
- 6.1.5 The increase to rates for a New Zealand non-SOLAS ship that is less than 24 metres in length are as follows (GST exclusive):
- the overall length rate increases from \$15.1746 to \$19.5347;
 - the passenger capacity rate increases from \$17.5403 to \$22.3834.
- 6.2 The Maritime Transport (Oil Pollution Levies) Amendment Order 2024 which will amend the Maritime Transport (Oil Pollution Levies) Order 2016 by changing the OPL:
- 6.2.1 The changes to rates for foreign vessels are as follows (GST exclusive):
- for a ship using bunker fuel, which is times (x) by the number of gross tons of the ship increases from 0.54 cents to 2.63 cents;
 - for an oil tanker carrying persistent oil as cargo, which is x by the number of tonnes of persistent oil carried as cargo decreases from 36.14 cents to 35.46;
 - for an oil tanker carrying non persistent oil as cargo, which is x by the number of tonnes of non-persistent oil carried as cargo increases from 7.60 cents to 20.86.
- 6.2.2 The decreases to rates for domestic vessels are as follows (GST exclusive):
- for a ship using bunker fuel (other than a New Zealand fishing vessel), which is x by the number of gross tons of the ship decreases from 414.69 cents to 173.95 cents;
 - for an oil tanker carrying persistent oil as cargo, which is x by the number of tonnes of persistent oil carried as cargo in year decreases from 29.96 cents to 12.85 cents;
 - for an oil tanker carrying non-persistent oil as cargo, which is x by the number of tonnes of non-persistent oil carried as cargo in year decreases from 26.76 cents to 7.56 cents;
 - the rates for a New Zealand fishing vessel, which are x by the gross tons of the vessel decreases from 73.56 cents to 30.86 cents.

- 6.2.3 The incremental increases to floating production storage and offloading sites (FPSO) from \$858.66 in a levy year increases as follows (GST exclusive):
- in the levy year 2024 - 2025 increases to \$41,457;
 - in the levy year 2025 – 2026 increases to \$82,055.19;
 - outyears remains \$82,055.19.
- 7 The Amendment Regulations are required to give effect to policy decisions agreed to by Cabinet Economic Policy Committee on 10 April 2024 and are consistent with the policy intent [ECO-24-MIN-0055], which is to ensure Maritime NZ’s regulatory and compliance activities are suitably funded and the basis on which the cost of those activities is recovered from the maritime sector is clear, consistent and transparent.

Timing and 28-day rule

- 8 The Amendment Regulations have a proposed in-force date of 1 July 2024. No waiver of the 28-day rule is sought.

Compliance

- 9 The Amendment Regulations comply with each of the following:
- 9.1 the principles of the Treaty of Waitangi;
 - 9.2 the Treaty Provisions Officials Group Guidelines;
 - 9.3 the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993;
 - 9.4 the principles and guidelines set out in the Privacy Act 1993;
 - 9.5 relevant international standards and obligations;
 - 9.6 the Legislation Guidelines (2018 edition), which are maintained by the Legislation Design and Advisory Committee.

Regulations Review Committee

- 10 There are no grounds for the Regulations Review Committee (RRC) to draw the Amendment Regulations to the attention of the House of Representatives under Standing Order 319.

Certification by Parliamentary Counsel

- 11 The Parliamentary Counsel Office has certified the Amendment Regulations as being in order for submission to Cabinet.

Impact Analysis

- 12 Maritime NZ completed a Cost Recovery Impact Statement (CRIS) which has been proactively released to the public.
- 13 The CRIS and associated supporting material has been assessed by the Ministry of Transport RIS Panel, and assessed as meeting the quality assurance criteria. The paper thoroughly details the reasoning for the proposed funding changes.

Publicity

- 14 The Amendment Regulations will be published in the *New Zealand Gazette*.

Proactive release

- 15 I intend to pro-actively release this Cabinet paper shortly after decisions are made on this paper. Release will be subject to appropriate redactions.

Consultation

- 16 The Ministry of Transport consulted the following agencies in drafting this paper: Maritime NZ, the Treasury, New Zealand Police, the Ministry of Business, Innovation and Employment, WorkSafe New Zealand, the New Zealand Customs Service, the Ministry for Primary Industries, the Ministry for the Environment and the Department of the Prime Minister and Cabinet.

Recommendations

I recommend that the Cabinet Legislation Committee:

1. **note** that on 10 April 2024 the Cabinet Economic Policy Committee agreed to implement levies changes proposed by the Maritime NZ Funding Review [ECO-24-MIN-0055], with the exception of a 2-year phased approach for the Oil Pollution Levy for FPSO;
2. **note** that the Maritime Levies Amendment Regulations 2024 and the Maritime Transport (Oil Pollution Levies) Amendment Order 2024 will give effect to the decision referred to in paragraph 1 above;
3. **authorise** submission to the Executive Council of the Maritime Levies Amendment Regulations 2024 and the Maritime Transport (Oil Pollution Levies) Amendment Order 2024.
4. **note** that the Maritime Levies Amendment Regulations 2024 and the Maritime Transport (Oil Pollution Levies) Amendment Order 2024 will come into force on 1 July 2024.

Authorised for lodgement

Hon Matt Dooney

Associate Minister of Transport

Appendices

Maritime Levies Amendment Regulations 2024

Maritime Transport (Oil Pollution Levies) Amendment Order 2024

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

DRAFT FOR CONSULTATION

Maritime Levies Amendment Regulations 2024

Governor-General

Order in Council

At Wellington this day of 2024

Present:
in Council

These regulations are made under section 191 of the Maritime Transport Act 1994—

- (a) on the advice and with the consent of the Executive Council; and
- (b) on the recommendation of the Minister of Transport made after complying with section 191(3A) of that Act.

Contents

	Page
1 Title	1
2 Commencement	2
3 Principal regulations	2
4 Regulation 8 amended (Maritime levies for foreign commercial ships: Part 1 of Schedule 2)	2
5 Regulation 9 amended (Maritime levies for New Zealand commercial ships: Part 2 of Schedule 2)	2
6 Schedule 2 amended	3

Regulations

1 Title

These regulations are the Maritime Levies Amendment Regulations 2024.

2 Commencement

These regulations come into force on 1 July 2024.

3 Principal regulations

These regulations amend the Maritime Levies Regulations 2016.

4 Regulation 8 amended (Maritime levies for foreign commercial ships: Part 1 of Schedule 2)

- (1) In regulation 8(2), delete “specified in column 2 of that table”.
- (2) In regulation 8(2), formula,—
 - (a) replace “c3” with “c2”:
 - (b) replace “c4” with “c3”:
 - (c) replace “c5” with “c4”.
- (3) In regulation 8(2), formula, item c3,—
 - (a) replace “c3” with “c2”:
 - (b) replace “column 3” with “column 2”.
- (4) In regulation 8(2), formula, item c4,—
 - (a) replace “c4” with “c3”:
 - (b) replace “column 4” with “column 3”.
- (5) In regulation 8(2), formula, item c5,—
 - (a) replace “c5” with “c4”:
 - (b) replace “column 5” with “column 4”.

5 Regulation 9 amended (Maritime levies for New Zealand commercial ships: Part 2 of Schedule 2)

- (1) In regulation 9(2), (3), and (4), delete “specified in column 2 of that table”.
- (2) In regulation 9(2), formula,—
 - (a) replace “c3” with “c2”:
 - (b) replace “c5” with “c4”:
 - (c) replace “c6” with “c5”.
- (3) In regulation 9(2), formula, item c3,—
 - (a) replace “c3” with “c2”:
 - (b) replace “column 3” with “column 2”:
- (4) In regulation 9(2), formula, item c5,—
 - (a) replace “c5” with “c4”:
 - (b) replace “column 5” with “column 4”:
- (5) In regulation 9(2), formula, item c6,—

- (a) replace “c6” with “c5”;
- (b) replace “column 6” with “column 5”.
- (6) In regulation 9(3), formula,—
- (a) replace “c3” with “c2”;
- (b) replace “c6” with “c5”.
- (7) In regulation 9(3), formula, item c3,—
- (a) replace “c3” with “c2”;
- (b) replace “column 3” with “column 2”;
- (8) In regulation 9(3), formula, item c6,—
- (a) replace “c6” with “c5”;
- (b) replace “column 6” with “column 5”.
- (9) In regulation 9(4), formula,—
- (a) replace “c4” with “c3”;
- (b) replace “c6” with “c5”.
- (10) In regulation 9(4), formula, item c4,—
- (a) replace “c4” with “c3”;
- (b) replace “column 4” with “column 3”;
- (11) In regulation 9(4), formula, item c6,—
- (a) replace “c6” with “c5”;
- (b) replace “column 6” with “column 5”.

6 Schedule 2 amended

- (1) In Schedule 2, Part 1, replace the table with:

Column 1	Column 2	Column 3	Column 4
Class of ship	Gross tonnage rate (\$)	Deadweight tonnage rate (\$)	Passenger capacity rate (\$)
Passenger	0.1282	0.0105	2.5839
Non-passenger	0.1504	0.0121	—

- (2) In Schedule 2, Part 2, replace the table with:

Column 1	Column 2	Column 3	Column 4	Column 5
Class of ship	Gross tonnage rate (\$)	Overall length rate (\$)	Deadweight tonnage rate (\$)	Passenger capacity rate (\$)
NZ SOLAS	9.9449	—	0.5879	59.6072
NZ non-SOLAS (24 m or more in length)	10.4870	—	—	22.3834
NZ non-SOLAS (less than 24 m in length)	—	19.5347	—	22.3834

Clerk of the Executive Council.

Explanatory note

This note is not part of the regulations but is intended to indicate their general effect.

These regulations, which come into force on 1 July 2024, amend the Maritime Levies Regulations 2016. The main effects of the amendments are as follows:

- an increase to the amount of maritime levy that is payable for each visit that a foreign commercial ship makes to a New Zealand port in a levy year:
- an increase to the amount of maritime levy that is payable each levy year for a New Zealand SOLAS or non-SOLAS ship.

The increase to rates for a foreign commercial passenger ship are as follows:

- the gross tonnage rate increases from \$0.1004 to \$0.1282:
- the deadweight tonnage rate increases from \$0.0082 to \$0.0105:
- the passenger capacity rate increases from \$2.0248 to \$2.5839.

The increase to rates for a foreign commercial non-passenger ship are as follows:

- the gross tonnage rate increases from \$0.1178 to \$0.1504:
- the deadweight tonnage rate increases from \$0.0095 to \$0.0121.

The increase to rates for a New Zealand SOLAS ship are as follows:

- the gross tonnage rate increases from \$7.7931 to \$9.9449:
- the deadweight tonnage rate increases from \$0.4607 to \$0.5879:
- the passenger capacity rate increases from \$46.7100 to \$59.6072.

The increase to rates for a New Zealand non-SOLAS ship that is 24 metres or more in length are as follows:

- the gross tonnage rate increases from \$8.2197 to \$10.4870:
- the passenger capacity rate increases from \$17.5403 to \$22.3834.

The increase to rates for a New Zealand non-SOLAS ship that is less than 24 metres in length are as follows:

- the overall length rate increases from \$15.1746 to \$19.5347:
- the passenger capacity rate increases from \$17.5403 to \$22.3834.

Regulatory impact statement

Maritime New Zealand produced a regulatory impact statement on [date] to help inform the decisions taken by the Government relating to the contents of this instrument.

A copy of this regulatory impact statement can be found at—

- [Insert URL link(s) to the RIS on the agency's/agencies' Internet site(s)]

- <https://treasury.govt.nz/publications/informationreleases/ris>

Issued under the authority of the Legislation Act 2019.

Date of notification in *Gazette*:

These regulations are administered by the Ministry of Transport.

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

DRAFT FOR CONSULTATION

Maritime Transport (Oil Pollution Levies) Amendment Order 2024

Governor-General

Order in Council

At Wellington this day of 2024

Present:
in Council

This order is made under section 333(1) of the Maritime Transport Act 1994—

- (a) on the advice and with the consent of the Executive Council; and
- (b) on the recommendation of the Minister of Transport made in accordance with section 333(4) of that Act.

Contents

	Page
1 Title	2
2 Commencement	2
3 Principal order	2
4 Cross-heading above clause 5 amended	2
5 Clause 5 amended (Purposes of levies)	2
6 Clause 6 amended (Oil pollution levies: contributing ships)	2
7 Clause 7 amended (Oil pollution levies: contributing oil sites)	2
8 Clause 8 revoked	2
9 Clause 9 revoked	3
10 Clause 10 amended (Reduced proportional levy if use arises after 1 July)	3
11 Clause 14 amended (Refunds on change of use)	3
12 Clause 15 amended (Refunds for ships laid up)	3

**Maritime Transport (Oil Pollution Levies) Amendment
Order 2024**

cl 1

13	Clause 16 amended (Refunds for ships not entering port during year)	3
14	Clause 17 amended (Refunds for certain oil sites)	3
15	Clause 19 amended (Right to deduct other levies from refunds)	3
16	Schedule 1AA amended	3
17	Schedule 1 amended	4
18	Schedule 2 amended	4

Schedule

New Part 2 inserted into Schedule 1AA

Order

1 Title

This order is the Maritime Transport (Oil Pollution Levies) Amendment Order 2024.

2 Commencement

This order comes into force on 1 July 2024.

3 Principal order

This order amends the Maritime Transport (Oil Pollution Levies) Order 2016.

4 Cross-heading above clause 5 amended

In the cross-heading above clause 5, delete “*and capability*”.

5 Clause 5 amended (Purposes of levies)

Revoke clause 5(2).

6 Clause 6 amended (Oil pollution levies: contributing ships)

In clause 6(1), replace “2019” with “2024”.

7 Clause 7 amended (Oil pollution levies: contributing oil sites)

(1) In clause 7(1), replace “2019” with “2024”.

(2) Replace clause 7(2) with:

(2) The oil pollution levy for a year for a contributing oil site in a class specified in column 1 of Schedule 2 is the levy specified in column 3 of that schedule for that class of site and the relevant year.

8 Clause 8 revoked

Revoke clause 8.

9 Clause 9 revoked

Revoke clause 9.

10 Clause 10 amended (Reduced proportional levy if use arises after 1 July)

- (1) In clause 10(1),—
 - (a) replace “6 to 9” with “6 and 7”;
 - (b) replace “any” with “either”.
- (2) In clause 10(2), formula, item FullLevy, replace “the applicable clause of clauses 6 to 9” with “clause 6 or 7 (whichever is applicable)”.

11 Clause 14 amended (Refunds on change of use)

- (1) In clause 14(1), replace “6, 8, and 10” with “6 and 10”.
- (2) In clause 14(1)(a), replace “any” with “either”.
- (3) In clause 14(2), formula, item DaysLevied, delete “or 8”.

12 Clause 15 amended (Refunds for ships laid up)

- (1) In clause 15(1),—
 - (a) replace “6, 8, and 10” with “6 and 10”;
 - (b) replace “any” with “either”.
- (2) In clause 15(2), formula, item DaysLevied, delete “or 8”.

13 Clause 16 amended (Refunds for ships not entering port during year)

- In clause 16,—
- (a) replace “clauses 6 and 8” with “clause 6”;
 - (b) replace “either of those clauses” with “that clause”.

14 Clause 17 amended (Refunds for certain oil sites)

- (1) In clause 17(1), replace “7, 9, and 10” with “7 and 10”.
- (2) In clause 17(1)(a), replace “any” with “either”.
- (3) In clause 17(2), formula, item DaysUsedforLevy, delete “or 9”.

15 Clause 19 amended (Right to deduct other levies from refunds)

In clause 19, delete “or capability levy”.

16 Schedule 1AA amended

In Schedule 1AA,—

- (a) insert the Part set out in the Schedule of this order as the last Part; and
- (b) make all necessary consequential amendments.

17 Schedule 1 amended

- (1) In the Schedule 1 heading, replace “cls 6, 8” with “cl 6”.
- (2) In Schedule 1,—
 - (a) item relating to foreign vessels, ship using bunker fuel, column 2, replace “0.54” with “2.63”;
 - (b) item relating to foreign vessels, oil tanker, persistent oil as cargo, column 2, replace “36.14” with “35.46”;
 - (c) item relating to foreign vessels, oil tanker, non-persistent oil as cargo, column 2, replace “7.60” with “20.86”;
 - (d) item relating to domestic vessels, ship using bunker fuel (other than New Zealand fishing vessel), column 2, replace “414.69” with “173.95”;
 - (e) item relating to domestic vessels, oil tanker, persistent oil as cargo, column 2, replace “29.96” with “12.85”;
 - (f) item relating to domestic vessels, oil tanker, non-persistent oil as cargo, column 2, replace “26.76” with “7.56”;
 - (g) item relating to domestic vessels, New Zealand fishing vessel, column 2, replace “73.56” with “30.86”;
 - (h) revoke column 3.

18 Schedule 2 amended

- (1) In the Schedule 2 heading, replace “cls 7, 9” with “cl 7”.
- (2) In Schedule 2, replace the table with:

Column 1	Column 2	Column 3
Class of oil site	Year	Oil pollution levy (\$)
FPSO	2024–25	41,457
	2025–26 and subsequent years	82,055.19

Schedule
New Part 2 inserted into Schedule 1AA

cl 16

Part 2
Provision relating to Maritime Transport (Oil Pollution Levies)
Amendment Order 2024

- 1 Levies that became payable before 30 June 2024 are still payable**
- (1) This clause applies to any levy that became payable on or before 30 June 2024 under any of clauses 6 to 9 of the Maritime Transport (Oil Pollution Levies) Order 2016 as in force immediately before the commencement of the 2024 amendment order.
 - (2) The levy continues to be payable despite the amendments made by the 2024 amendment order.
 - (3) In this clause, **2024 amendment order** means the Maritime Transport (Oil Pollution Levies) Amendment Order 2024.

Clerk of the Executive Council.

Explanatory note

This note is not part of the order but is intended to indicate its general effect.

This order, which comes into force on 1 July 2024, amends the Maritime Transport (Oil Pollution Levies) Order 2016 (the **principal order**). The principal order is amended to do the following:

- change the rate of oil pollution levy for contributing ships:
- remove the following classes of contributing oil site:
 - oil exploration well:
 - offshore oil installation other than an offshore oil installation that is a floating vessel used in the production, storage, and offloading of oil or an oil exploration well:
 - oil pipeline:
- change the rate of oil pollution levy for the remaining class of contributing oil site (floating production, storage, and offloading (**FPSO**)):
- remove references to capability levies (the imposition of which ended on 30 June 2022):

**Maritime Transport (Oil Pollution Levies) Amendment
Order 2024**

Explanatory note

- confirm that [oil pollution levies] that became payable on or before 30 June 2024 are still payable.

The main effects of the amendments are as follows:

- an increase to the amount of levy payable for foreign ships using bunker fuel and foreign oil tankers that carry non-persistent oil as cargo:
- a decrease to the amount of levy payable for foreign oil tankers that carry persistent oil as cargo, domestic ships using bunker fuel (other than New Zealand fishing vessels), domestic oil tankers that carry persistent oil as cargo, domestic oil tankers that carry non-persistent oil as cargo, and New Zealand fishing vessels:
- an oil pollution levy is no longer imposed in relation to the following classes of contributing oil site:
 - oil exploration well:
 - offshore oil installation other than an offshore floating production, storage, and offloading site or an oil exploration well:
 - oil pipeline:
- an increase to the amount of oil pollution levy payable for contributing oil sites that are classed as FPSO sites for the year starting on 1 July 2024 and ending on 30 June 2025 and a further increase to the amount of levy payable for subsequent years.

Regulatory impact statement

Maritime New Zealand produced [a regulatory impact statement/regulatory impact statements] on [date] to help inform the decisions taken by the Government relating to the contents of this instrument.

[A copy of this regulatory impact statement/Copies of these regulatory impact statements] can be found at—

- [Insert URL link(s) to the RIS on the agency's/agencies' Internet site(s)]
- <https://treasury.govt.nz/publications/informationreleases/ris>

Issued under the authority of the Legislation Act 2019.

Date of notification in *Gazette*:

This order is administered by the Ministry of Transport.

Associate Minister of Transport

Weekly Report week commencing

10 June 2024



Funding review update

After Cabinet approved the Maritime and Oil Pollution levies changes on 27 April 2024, the necessary legislative changes were approved on 23 May and a gazette notice published on 30 May.

We have been communicating the decisions with the sector via email, newsletters and events, and the annual domestic levy invoices will be emailed out on 1 July 2024.

RELEASED UNDER THE
OFFICIAL INFORMATION ACT 1982

Breanne Dirk

From: Robyn Wong <Robyn.Wong@maritimenz.govt.nz>
Sent: Wednesday, 10 September 2025 12:56 pm
To: Isaac Trienen
Cc: Mark Hodge
Subject: IN-CONFIDENCE: Last Funding Review consultation period
Attachments: Cabinet paper Appendix 2 - Detail on Impacts from Levies Increases.PDF; Cabinet paper Appendix 3 - Summary of consultation and engagement.PDF; MNZ Review of Levies Funding - Consultation A3.DOCX; Talking Points OMV.DOCX

Kia ora Isaac,

Attached are some documents from the 2024 funding review:

1. Cabinet paper Appendix 2: Detail on impacts from levies increases
2. Cabinet paper Appendix 3: Summary of consultation and engagement (April 2024)
3. Summary of consultation process (March 2024)
4. Talking points 27 Feb 2024 explaining engagement with OMV (OMV is the only FPSO).

Ngā mihi
Robyn (she/her)
 Strategic Business Analyst
 s 9(2)(a)

Attachments 1 and 2 are refused under section 18(d) as they are publicly available on MNZ's website here: <https://www.maritimenz.govt.nz/media/oisjisl2/d24-29991-cabinet-paper-appendix-2-detail-on-impacts-from-levies-increases-with-redactions.pdf>
 And here: <https://www.maritimenz.govt.nz/media/diwbrqh5/d24-22232-cabinet-paper-appendix-3-summary-of-consultation-and-engagement.pdf>

s 9(2)(f)(iv)



RELEASED UNDER THE OFFICIAL INFORMATION ACT 1982

MARITIME NZ REVIEW OF LEVIES FUNDING: CONSULTATION

Consultation approach

4 weeks from 19 Jul to 16 Aug 2023

Our approach through public consultation was to not contact individual parties during a levy review unless a submission is received, and it is transparent as to how the submission is addressed publicly. This is based on a previous Regulations Review Committee decision.

- Wide communication through different channels.
- Channel to ask questions.
- Multiple methods of submission.

Consultation communicated via email

4,511 Go Live emails opened

Reminder email on 9 August opened by **3,115**

14 emails to Maritime Forum and Unions

23 emails to Seafarer Welfare Stakeholders

Support through Webinars and FAQs

Webinar 1: 4 August 9am – 10am

- 13 registrations, attended by 7
- 2 questions asked and responded to

Webinar 2: 7 August 1:30pm - 2:30pm

- 15 registrations, attended by 10
- 2 questions asked and responded to

Both webinars were recorded and available the following day on our public website.

The **Frequently Asked Questions (FAQs)** document on our website was available when consultation began on 16 August 2023 with 14 FAQs. It was updated with a further 6 FAQs on 9 August 2023 which included the webinar questions and other queries via email.

Met with OPAC three times

on 16 Nov 2022, 7 Feb and 21 Sep 2023

"Minutes from the September meeting record that members were supportive of proceeding with the change to the levy rate and levy model. However, it was noted by some members that their agreement to the levy adjustment was contingent on the change to the methodology proposal proceeding."

OPAC meeting minutes 21 September 2023

NZ Shipping Gazette on 12 August 2023

MNZ consults on levies

Iain MacIntyre
A one-month consultation on Maritime Levies and Oil Pollution Levies will be concluded by Maritime New Zealand (MNZ) this coming Wednesday.

The mid-point funding review, for which scheduling was offset due to COVID-19 impacts, covers the 2024-2030 period.

MNZ has put forward eight proposals in the consultation document, which are focused on ensuring the agency:

- Delivers its regulatory functions effectively and minimise risks.
- Meets Government commitments since the last full funding review.
- Maintains marine pollution capabilities.

"Many of the proposals are responding to feedback from our stakeholders about areas we needed to focus on to reduce regulatory risks," stated an MNZ media release.

"We're also addressing the Government's expectation that the additional funding they provided to MNZ during the COVID-19 pandemic will be met through Maritime Levies and Oil Pollution Levies from July 1, 2024.

"It's essential we have the right funding in place so we can continue to deliver our core functions and achieve our outcomes of safe, secure, clean and sustainable Aotearoa waterways."

Consultation communicated via Levy Letter

Sent by post to 3,163 Maritime levy payers



20 July 2023

TEL +64 4 473 0111 FAX +64 4 494 1263
Level 11 1 Gray Street Wellington 6011
PO Box 25620, Wellington 6140
New Zealand

To whom it may concern

Maritime Levy invoices for 2023 / 2024

Please find enclosed invoices for the annual Maritime Levy for commercial vessels where our records have you listed as an owner. These invoices are due for payment on 20 August 2023.

Maritime Levy

Maritime Levies apply to all commercial ships operating in New Zealand waters, whether on a permanent, temporary, or occasional basis. The levies fund maritime safety services and regulatory activities undertaken by Maritime New Zealand, regardless of whether the services or activities are used by the owner or operator of a particular commercial ship. The levies methodology takes into account that vessels do not operate all of the time, and are not always full.

Funding review consultation

We're conducting the first funding review in five years, as Government agreed to delay a 2021/22 mid-point review due to COVID-19 impacts. We have looked closely at areas where additional levies funding will need to be invested between July 2024 and June 2030, and are now consulting on proposed changes to the Maritime Levies, Oil Pollution Levies, and Oil Pollution Levies allocation model.

The consultation will close **Wednesday, 16 August 2023**. Please visit our website for more details and to have your say: www.maritimenz.govt.nz/funding

3,338 Maritime & Oil Pollution Levy Letters sent



Levy Paying Sector	Number of Vessels
Non-Passenger Ship	~950
Passenger Ship	~900
Fishing Ship	~650
Specialised Limits	~200
Fishing	~150
Occasional Lake Craft	~100
Jet Boat	~50
Sailing Ship	~40
Barge	~30
Diving	~20
Long	~15
Adventure activity	~10
Hovercraft	~5
Sailing	~5

42 Submissions received

* identifies sector representative organisations

Representation from	Organisations
NZ Coastal Shipping	NZ Shipping Federation*
Smaller commercial operators (including tourism operators)	Marine Transport Association* The Ferry Real NZ Group
Ports	Port Company CEO Group* Northport, Auckland x2, Tauranga, Taranaki, CentrePort, Lyttleton
Cruise lines	Cruise Lines International Association (CLIA)* Carnival Australia
Regional Councils	Greater Wellington
Fishing	NZ Federation of Commercial Fishermen*
Seafarer Welfare Organisations	Seafarer Welfare Board (SWBNZ)* x7, International Sailors Society, Auckland, South Canterbury, Stella Maris Apostleship x2, Nelson x2, Anglican Diocese Christchurch, The Mission, Anglican Advocacy, Oceania & Pacific Region, Galilee Mission, Tauranga x3, Wellington
Unknown	Individuals

Consultation communicated via Linked In

2 posts on 3 August and 15 August

Maritime NZ is currently consulting on proposed changes to Maritime Levies and Oil Pollution Levies. The consultation is open until 16 August 2023.

It's essential we have the right funding in place so we can continue to deliver our core functions and achieve our outcomes of safe, secure, clean and sustainable Aotearoa waterways. Many of the changes proposed are responding to feedback from our stakeholders about areas we need to focus on to reduce regulatory risks.

To find out more and make a submission, see our website: <https://ow.ly/wxoK50PqWlP>



Maritime and Oil Pollution Levies - Maritime NZ

OMV and FPSO Raroa

Maritime NZ did not receive a submission from OMV NZ Ltd in regards the one Floating Production Storage and Offloading (FPSO) installation in NZ.

However months later and after further investigation OMV provided their submission which had been sent to a wrong email and a bounce back overlooked. OMV did not support the level of increase.

"CLIA would like Maritime NZ to delay the rise for 12 months.

Cruise lines generally release itineraries up to two years in advance. Itineraries and pricing for 2024 have been advertised, contracts and agreements are in place with wholesalers, and many cruises have been sold.

Any significant change in the cost structure that changes the price of the cruise could have ramifications for the commercial viability of operating these itineraries. Delaying the rise until the 2025/26 FY would allow the necessary time for operators to adjust to the new cost regime, and give certainty for operators and customers alike.

An increase in maritime levies would result in higher cruise fares and could reduce New Zealand's attractiveness as a cruise destination.

Despite the above comment to delay, CLIA (and Carnival) reflected partial support for all of the proposals apart from the levy methodology change for the OPL."

Cruise Lines International Ass 16 Aug 2023

Consultation communicated via Seachange

Monthly newsletter in July 2023

Consultation open on Maritime and Oil Pollution Levies

Maritime NZ is consulting on proposed changes to Maritime Levies and Oil Pollution Levies. The consultation is open from 19 July - 16 August 2023.

The proposed increases are for the period beginning July 2024 to 2030, and will not come into effect this year. Levy invoices for this year, 2023-2024, have now been sent to all domestic commercial operators for the same rates as last year.

We're proposing increases to the Maritime Levies and Oil Pollution Levies to ensure we have sufficient and sustainable funding. Many of the proposals are responding to feedback from our stakeholders about areas we needed to focus on to reduce regulatory risks.

The proposals are focused on:

- ensuring we can deliver regulatory functions effectively and minimise risks
- meeting Government commitments since the last full funding review
- ensuring we can maintain our marine pollution capabilities.

During the consultation, we're holding webinars to discuss the proposed changes, and provide an opportunity for Q&A:

- Friday, 4 August 2023, 9-10am
- Monday, 7 August 2023, 1.30-2.30pm

For all information including the consultation document, how to make a submission, and register for webinar, visit our website at www.maritimenz.govt.nz/funding.

If you have not received a levy invoice for this year by 11 August, please contact accounts.receivable@maritimenz.govt.nz

Further Maritime Sector support since consultation

"With recent changes to the health and safety mandate the sector has an even bigger relationship with Maritime New Zealand than in the past. The relationship is a good one. The group is concerned at the funding challenges facing Maritime New Zealand.

Maritime NZ is towards the end of a funding review process for maritime levies which is the first in a five year period and looks to address a range of risks and issues that the sector, including Port Chief Executives, have identified. It is critical that we have a maritime regulator that has sufficient capability and capacity to do its job to enable the efficient and safe operation of the Port sector. The proposals will enable improvements to licensing, notifications and rules to make it easier to work with Maritime NZ and reduce costs of complying with out of date regulation. They also maintain the needed maritime oil response capability that has been built up over many years. However, most importantly it will ensure more maritime inspectors working on ports, and with ships, which should mitigate the issues with poor quality ships coming to New Zealand. Poor quality ships pose safety risks for our people working with these ships in ports and also leads to significant costs for ports, and disruption to supply chains, if ships with maintenance issues take up berth space for long periods of time."

NZ Port Company CE Group (represents NZ Ports) 27 Nov 2023

"Government funding has allowed for paid staff in almost all ports, working alongside local volunteers. Prior to the funding welfare services were not as extensive as they currently are, with none to limited services in most ports.

The cooperation, communication and networking that has developed over the last three years across the country has been well recognised globally and locally. The feedback regularly received from seafarers is that they greatly appreciate the support they receive at New Zealand ports. In a recent global survey of seafarers, New Zealand got special mention regarding how well they received when calling at our ports.

Seafarers enjoy having visitors on board to see them, that are not officials, from the port or the company, but are there for them. They also enjoy the ease of taking shore leave in our ports.

Without funding we see the gains that have been made being lost and the services / support currently being provided to seafarers being seriously reduced."

Seafarers Welfare Board, 30 Jan 2024

"We [MTA] work closely with Maritime New Zealand who have recently completed a funding review for our industry. This is aimed in part, at addressing some long overdue challenges faced by commercial operators.

We are aware that the government is looking to address overspending within its state services so felt it was timely to inform the Minister that the New Zealand Marine Transport Association members endorse this review. We acknowledge that this will impact our members through increased maritime levies, however, the objectives targeted for funding by Maritime New Zealand, will provide positive and long overdue outcomes. We believe that the new Director and her executive team have good insight into the needs of our industry and encourage the Minister to look favourably on this when considering funding for our sector."

Marine Transport Association ((represents the maritime passenger sector, including marine tourism, charter and transport), 27 Jan 2024

"The Shipping Federation supports a need to make decisions on the Funding Review as soon as possible. We support most of the proposals in the review, as they reflect priorities we have raised for urgent attention given the impact they continue to have on ship operators (for example, the need to reform rules and improve licensing timeframes). We do not support the uncertainty for levy payers or reduction in service that would result from a continued delay. Work that is vital for the sustainability of our industry is dependent on the funding review progressing."

NZ Shipping Federation (represents NZ coastal shipping), 25 Jan 2024

Talking Points 27 February 2024:

Engagement with OMV on proposed increase to FPSO levy

- Maritime NZ sent OMV a letter informing it about the OPL review and with information on how to engage with the review.
- Maritime NZ also, as required by law, engaged with the Oil Pollution Advisory Committee (OPAC) on the changes to the model and levy through two meetings. The Oil and Gas sector is represented on OPAC, and members agreed to both the change in levy methodology and the amount of the levy change.
- Following the ECO consideration of the Cabinet Paper, Ministers asked that Maritime NZ ring and confirm with OMV that it was aware of its levy increase.
- Maritime NZ rang OMV, with whom they have a good relationship, to check if they were aware of the levy change. Henrik Mosser, the Chief Executive, clarified that OMV had sent a submission on the 16th of August 2023 via email and forwarded the submission which did not support the level of increase. Maritime NZ has confirmed that it did not receive the submission as it had been sent to an incorrect email address.
- OMV did not follow up on the submission, and it is Maritime NZ practice to not contact individual parties during a levy review, given a previous Regulations Review Committee decision which said it should not consult with individual parties during a funding review unless a submission is received, and it is transparent as to how the submission is addressed publicly.
- As all other major sector representatives provided a submission, I am confident that this was an isolated incident with minimal risk that it has been repeated elsewhere.
- OMV's reasons for not supporting the increase were insufficient to justify changing the methodology. The Cabinet Paper and its Appendices include specific information about OMV's submission.

Proposal to Cabinet

- It is my view that the questions raised by Cabinet have been fully addressed by the additional detail added to the paper.
- Maritime NZ has assured me that all the major groups of sector stakeholders have been reached and that there was nobody who it expected to submit who did not.
- The funding review should now proceed as per the original recommendations.
- This would support the timeline with changes to the levies and methodology being implemented in time for the 1 July 2024 deadline and Maritime NZ resourced to deliver the expected improvements in core regulatory services that are expected by the sector.
- It will also remove Maritime NZ's reliance on Crown liquidity funding and enable it to return liquidity funding (forecast to be between \$10m and \$14m) to the Crown.