

16th January 2019

Funding Review
Maritime New Zealand
PO Box 25620
Wellington 6140

To whom it may concern,

SUBMISSION: Maritime New Zealand Funding Review

Thank you for the opportunity to respond to the Maritime New Zealand (MNZ) Funding Review proposal.

The New Zealand Marine Transport Association (NZMTA) was formed in 1970 to represent the owners of restricted limits shipping. Our members consist of active operators of vessels within the passenger transport, charter, aquaculture, bare boat charter, tourism, work boat and fishing industry sectors.

Our members are located and operate throughout New Zealand's coastline, lakes and rivers. Our member demographic is broadly representative of industry operational spread with 25% of members from the South Island, 10% of members from the Lower North Island and the remaining 65% of members located in the Auckland Region and upper North Island.

Whilst we respect the need for Maritime NZ to recover costs, the Marine Transport Association (MTA) has some concerns about MNZ's proposed levy framework and these are addressed below:

1. The Regulatory Review Committee called for a Levy methodology that is fair, robust and transparent. Throughout the consultation documents, there is little detail provided on the allocation of costs other than to show what is required for the various Output classes. To fully comment on the value of services provided by Maritime NZ to the domestic sector, we request information on items in Output Class 2, including 2.3 Monitoring and investigation of compliance and 2.4 Enforcement of compliance. The NZMTA have consistently expressed their concerns over the expenditure in these areas and have yet to receive any evidence of safety outcomes or cost/benefit analysis relating to these activities. Given that this area of expenditure requires the highest level of funding, we consider it necessary to discuss this further.
2. The funding review emphasis seems to be on extracting revenue from the maritime industry and not enough on providing consistently acceptable levels of service. Over the past 4 years, the

services requested by the domestic sector, such as policing of illegal operators, reduced surveyor costs and improved technical services, have not been addressed.

3. The increased costs to operators with more than one vessel are significant. This is disappointing, given that costs under MOSS increased from between 100-300% since its advent in 2015. This has resulted in a significantly reduced domestic fleet and an increasing number of illegal operators. Our concern is that Maritime NZ miscalculated the proposed income from MOSS for this sector initially and is now attempting to recover operating costs from a reduced fleet.
4. The audit fees shown in the MNZ proposal are confusing as they are shown as a per boat figure. MOSS audits however, are spread across a fleet with only a sample of vessel inspections carried out each visit (generally based on a square root ratio of total fleet). For the purpose of our submission, we have assumed 3 yearly (33 months).
5. The outcome of our calculations show that the majority of operators face a significant increase. The rate for passengers, length and tonnage has increased, yet there is no consideration for the number of operating days. This is concerning given that 80% of the fleet operate part-time or seasonally. The increases range from between 65% and 380% which is unacceptable and does not align with the consumer price index (CPI).
6. The examples given for seafarer certification show a decrease for most domestic sectors. This is confusing as the seafarer certification costs generally only apply to new seafarers or at time of renewal but not to seafarers who have ring-fenced their tickets. The consultation document assumes that most operators pay the costs of seafarer licensing for their staff and thus, this should be absorbed into the Maritime Levy. Feedback from many of our members is that they contribute to training, but few pay for renewal of certificates. For that reason, we have not commented on this part of the proposal as the figures do not appear to be accurate. There is a concern that the budgeted income for seafarer certification shown is not accurate and may lead to shortfalls in years to come.

Below are some examples taken from your proposal, comparing actual costs with proposed. We have assumed 33 months between MOSS audits and then annualised them across a ten(10) year MTOC period. We have also removed the seafarer licensing figure as this is not applicable to all operators and whilst its excellent to see a reduction in these costs, it is still feeable and largely irrelevant to the maritime levy discussion.

Fishing Boat (owner/operator) over 24 metre / 259GT

	Current Annual Cost	Proposed Annual Cost	\$ Increase	% increase
Maritime Levy	2174	3978	1804	
MOSS Audit (\$1537 per audit x 3 over 10 years - annualised)	461	0	(461)	
TOTAL ANNUAL COST	\$2635	\$3978	\$1343 p.a.	51%

Owner/Operator of one domestic charter boat operation (8 metre, Pax 14)

	Current Annual Cost	Proposed Annual Cost	\$ Increase	% increase
Maritime Levy	\$137	\$336	\$199	
MOSS Audit (\$1061 per audit x 3 over 10 years - annualised)	\$318	0	(\$318)	
TOTAL ANNUAL COST	\$455	\$336	(\$119) p.a.	-26%

Owner/Operator of one domestic charter boat operation (18 metres, Pax 140)

	Current Annual Cost	Proposed Annual Cost	\$ Increase	% increase
Maritime Levy	\$308	\$2,497	\$2,189	
MOSS Audit (\$1061 per audit x 3 over 10 years - annualised)	\$318	0	(\$318)	
TOTAL ANNUAL COST	\$626	\$2,497	\$1871 p.a.	299%

Fleet operator with 18 Non Passenger vessels (Non Solas)

	Current Annual Cost	Proposed Annual Cost	\$ Increase	% increase
Maritime Levy	\$34,300	\$58,211	\$23,911	
MOSS Audit (\$3000 per audit x 3 over 10 years - annualised)	\$900	0	(\$900)	
TOTAL ANNUAL COST	\$35,200	\$58,211	\$23,011 p.a.	65%

Fleet operator with 2 Passenger Ferries (Under 24 metre, 100 pax)

	Current Annual Cost	Proposed Annual Cost	\$ Increase	% increase
Maritime Levy	\$528	\$3,575	\$3,047	
MOSS Audit (\$1414 per audit x 3 over 10 years - annualised)	\$424	0	(\$424)	
TOTAL ANNUAL COST	\$952	\$3,575	\$2,623 p.a.	275%

By contrast, a domestic commercial passenger ferry and international oil tanker enjoy a substantial decrease. This is unacceptable given that these vessels pose a far greater risk to the marine environment and subsequent recovery and clean-up costs.

7. Maritime NZ budgeted operating funding is shown as \$58.1 million, with 73% coming from levies and 4% from fees. \$22.4 million of this revenue comes directly from the Maritime Levy and \$2.3 million from user fees. Maritime NZ have also expressed the need to increase their income via the maritime levy by \$10 million per annum from July 2019 to July 2022 (3 years), increasing to \$13 million a year after that. The explanation shown is that this is required to replace the loss of income from fees, yet this is only 1 million per annum. Therefore, the net increase per annum is \$9 million. On the basis of these examples, Maritime NZ's overall income would increase from \$58.1 million in 2019 to \$88 million in 2022! Is this shown correctly?
8. The full costs of regulating recreational boats appear to be unduly low and need further investigation and more explanation.
9. Domestic operators have endured a significant increase in costs since the advent of MOSS. Operators were promised decreased compliance costs by Maritime NZ, and this did not eventuate. The result of this is that NZ now has a large number of illegal operators operating around NZ. Compliance costs increased by 200-300% for most operators overnight, without any tangible benefits offered through the new system. In addition, operators have endured increased fuel costs, marina and berthage fees and significant surveyor cost increases which are directly related to the change under MOSS and the advent of MNZ Maritime Rule Part 44.
10. The funding model does not take into consideration the modus operandi of the domestic fleet. Over three quarters of all commercial operators operate their vessels part time or seasonally as opposed to large ferry and tourism operations working every day. This is significant given the inability for many to recover costs over a reduced working days. The funding model does not take this into account. Additionally, the increased costs to many operators are so significant as to prevent them on-charging in full under today's commercially competitive environment. The only way we could accept a levy allocation model is if the rates were reviewed. A 10% increase is acceptable – NOT a 300% increase.

SUMMARY OF PROPOSALS

Proposal 1 Maritime Levy Allocation

In principle, the maritime levy allocation methodology is supported by the NZMTA. The rates applied to the domestic sector however, are not supported. We seek a review of the rates in line with the consumer price index.

Proposal 2 Fee-able activities hourly rate (fees)

The MTA supports the proposal for one hourly rate.

Proposal 3 Audits and inspections (Maritime Levy)

We do not support the recovery of first audits being absorbed into the Maritime Levy **unless the rates are amended**. This proposal suggests that the benefits include addressing industry concerns about the cost of compliance caused by these fees, yet for a large portion of the domestic fleet, compliance costs under the levy allocation model will significantly increase. With respect to improving incentives for compliance, this is not correct. The current model is already price-driven and is based on audit outcomes; good performance under both models will determine overall costs. As the pool of operators reduce, the levy model may also increase the risk of Maritime NZ Officers reducing the period of time given to operators between audits so as to ensure better revenue outcomes.

Proposal 4: Seafarer certificates and endorsements

The MTA supports this proposal. We take this opportunity to express concerns over the time taken to process seafarer certificates and endorsements and would like to see this improved.

Proposal 5: Travel time and costs (Maritime Levy)

The MTA supports Option 3 within Proposal 5 whereby the travel time and costs are Maritime Levy funded. We see this is a good initiative and will reduce administrative inefficiencies. It will also benefit the smaller regional operators who are currently paying enormous travel costs to surveyors due to the reduced number and spread of surveyors around the country.

Proposal 6: Pre-assessment service fee (Maritime Levy)

The MTA supports the proposal to absorb the pre-assessment service fee into the Maritime Levy and create an online tool for seafarers to calculate sea time.

Proposal 7: International engagement (Maritime Levy)

This submission is primarily based on the interests of the NZ domestic commercial sector and for that reason, we do not consider additional funding for international engagement to be as relevant as it may be to other sectors. For that reason, alternative funding models should be considered to cover these costs and reduce the maritime levy rates. We do respect the need for NZ to meet its international obligations but consider the crown funding for this to be adequate. Without more information on where the money is spent and how it directly benefits the domestic sector, we cannot support its inclusion in the Maritime Levy pot. International conventions signed by NZ are supported as they improve our partnership relationships with other nations and provide for internationally safe practices. What we question is the influence NZ has or in fact needs that will directly benefit our maritime industry. We would be happy to discuss this viewpoint further as historically, the international conventions have been applied liberally to the domestic market where other countries review the relevance of their application and provide alternative codes of practice for operators to work within, whilst still meeting full compliance with the convention.

Proposal 8: Regulatory Reform (Maritime Levy)

Regulatory reform is an ongoing improvement project and for this reason, we support its inclusion in the Maritime Levy. We would comment that there appears to be an imbalance of representation with respect to these projects in that, funding for regulatory change is made up of crown and industry funding, yet industry do not have a voice. Surveyors and Naval Architects are heavily involved in these projects throughout their development, which is a good concept, however, as key stakeholders and end-users of the regulatory system, industry do not enjoy this

same level of engagement. We request a change to this policy to ensure an industry voice on all regulatory reform projects.

Proposal 9: General areas of systemic risk activity (Maritime Levy)

Systemic risk activities encompass a broad approach to educating industry for the purpose of improving safety. We support any investment into this but strongly criticize the punitive approach taken by the compliance team at Maritime NZ in the past. There is a large element of mistrust and a view that Maritime NZ spend an unnecessary level of money on investigations and prosecutions with very few safety outcomes. Again, if industry are expected to pay for Maritime NZ's increased compliance regime, then they should have some input into the project, for example, more money spent on targeting illegal operators who pose a seriously high risk to the sector.

Proposal 10: Port and Harbour Marine Safety Code (Maritime Levy)

The MTA supports this proposal.

Proposal 11: Surveyor standards of performance (Maritime Levy)

This is a project that directly impacts our sector. Under MOSS, the availability of experienced surveyors has significantly diminished. The current pool of recognized surveyors, whilst all professionally able, have received inconsistent technical guidance from Maritime NZ over the past 4 years. Our view on this is that the surveyor inconsistencies are not related to the inability of the surveyors, rather the implementation of MR44 and the ongoing support model offered by Maritime NZ. This was a major failing associated with MOSS - one that was predicted and identified during the MOSS submission process. Surveyors are a very important part of MOSS and the responsibility by Maritime NZ to rectify the surveying model is critical. We support further investment into this project BUT, would temper that with a request for industry involvement if the costs are to be paid for under the Maritime Levy. Initiatives over the past 4 years have failed and we now look to work in partnership with MNZ to develop new standards and support services.

Proposal 12: ICT systems integration, data, analytics and mobility (Maritime Levy)

We support investment into this area.

Proposal 13: Ballast Water Management Convention (Maritime Levy and Fees)

Without a full understanding of the costs for this project, we are unable to comment. Given the small number of domestic operators affected by this convention however (9 in total), we consider this to be a fee-based service which would enable a reduction in the levy rate.

Proposal 14: Aids to Navigation (Maritime Levy)

We consider this service should be covered by crown funding, not the Maritime Levy.

Proposal 15: Maritime Distress and safety communications (Maritime Levy)

The MTA support this proposal.

Proposal 16: General Business cost pressures (Maritime Levy, Fees, Crown, OPL, HSWA)

The MTA does not support the inclusion of additional cost pressures being funded by the Maritime Levy. Maritime NZ are a government agency and operating costs such as salary increases are already funded by the Crown through annual adjustments. If the business is offering an outstanding service to the maritime sector, then this view may be reconsidered. With the

implementation of MOSS and associated surveyor and audit costs, coupled with a diminished level of technical service we are not confident that an increase in funding through the levy will offer any tangible benefits. It seems to replicate the SSM model of 'annual fee' with a stark difference. The SSM company annual fee included **ALL** costs (survey, audit, administration and certification). Our recommendation would be to remove this from the maritime levy and reconsider its inclusion once successful outputs and service delivery could be demonstrated to industry.

CONCLUSION:

The NZMTA would like to sincerely thank Maritime NZ for the level of engagement and transparency offered to industry stakeholders during this round of consultation.

In general, we support the concept of a Maritime Levy to improve efficiencies within the organization. We do have grave concerns about the rates and subsequent increased costs proposed under the Maritime Levy and request that these **rates** be reviewed to ensure a viable and sustainable maritime industry.

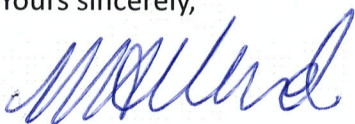
It is difficult to escape the conclusion that the funding review proposal will result in more domestic operators leaving the industry as the increased costs are simply not sustainable. There is little evidence to demonstrate value for money through improved services such as technical guidance and surveyor support. Furthermore, the level of trust in the compliance regime with respect to investigations will not encourage industry to invest more money in these areas. If Maritime NZ want to increase their operating budgets, then they need to demonstrate their willingness to improve in the areas that matter the most and this can only be achieved through better engagement with industry associations and stakeholders.

Our recommendation is that the review team re-scope the project to include clear pathways towards improved service delivery and in the meantime, reduce the levy rate until such time as this is achieved.

The MTA would be happy to contribute to the success of Maritime NZ and offer any feedback or involvement necessary to achieve this.

Thanks again and if there is an opportunity to expand on the views covered by this submission, we would be happy to oblige.

Yours sincerely,



Margaret Wind
Executive Director
NZ Marine Transport Association

APPENDIX 1:

The NZ Marine Transport Association Vision

- To promote and advance the interests and welfare of all members
- To provide input and affect the direction of central and local government policy and actions in accordance with the wishes of Members and the vision of the Association
- To represent the interests of Members at all public forums and in public issues as they arise
- To provide the information, services and products which will assist Members to meet their business goals
- To maintain regular and close contact and communication with Members to listen to and understand their views and aspirations
- To improve the public's understanding of the importance of the marine transportation industry to the nation and promote the professionalism, hospitality and efficiency of Members in the eyes of the wider community.

The organisation is made up of members who represent the majority of fleet operators throughout the country and range from Work boats, Ferries both passenger and vehicular, Charter boats, Tug and Barge operators, Fishing boats and Aquaculture vessels.