

User fees for the Electronic Travel Authority Cost Recovery Impact Statement

Agency Disclosure Statement

This Cost Recovery Impact Statement has been prepared by the Ministry of Business, Innovation and Employment. It provides an analysis of options for setting fee levels for the new Electronic Travel Authority (ETA) user fees.

The proposed increases will provide third-party funding under existing regulatory powers through the Immigration Act 2009 s393. A new fee will be established in the regulations. Cabinet will consider the fees in February 2019 and the Regulations in April.

The fees have been determined based on the current estimates of operating costs and expected visitor volumes. As a new process there is some uncertainty about the exact costs of operating the ETA, particularly the manual assessment costs. Therefore the recommended fee amounts are based on the upper bounds of the cost estimate from the business case and subsequent cost refinements. Immigration New Zealand will undertake an update to fees as part of the planned general immigration levy and fee review in 2020/21, based on its experience implementing and operating the ETA.

An earlier economic impact analysis was carried out using the now recommended fee range (and the additional International Visitor Conservation and Tourism Levy) based on elasticity modelling of tourism volumes from different countries. The conclusion was that there would be a negligible impact on traveller volumes, given the small additional cost to the total cost of travelling to New Zealand.

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Executive summary

From 1 October 2019 eligible passengers and crew will need to hold an ETA to board a commercial aircraft or cruise vessel travelling to New Zealand.

In keeping with the principles guiding the allocation of immigration costs between the Crown and users, the operating costs of the ETA will be met by user fees.

The fee has been determined based on the expected operating costs of the ETA from business case analysis of system and manual processing requirements spread across expected visitor numbers.

A fee of \$9 is recommended for applicants using the mobile application and \$12 for those using the web application to reflect relative cost of the different channels.

MBIE will review the fee levels in 2021 based on implementation and operating experience.

The Electronic Travel Authority

On 9 September 2018, and following public consultation, the Cabinet Economic Development Committee (DEV) agreed to the introduction of the ETA, which will be an electronic account and will be a condition on a visa waiver. [DEV-18-MIN-0191] It will be required of most people who currently can travel visa waiver to New Zealand, with the major exception of Australian citizens.

From 1 October 2019, eligible passengers and crew will need to hold an ETA to board a commercial aircraft or cruise vessel travelling to New Zealand. Travellers that need an ETA will be able to request one from 1 July 2019 when the Mobile App and Web Browser forms will become available. A Traveller ETA may last for up to two years and can be linked at the time of application to multiple passports, while a Crew ETA may last up to 5 years.

The ETA addresses the need to change immigration border settings in order to ensure:

- *Faster and better facilitation for an increasing number of travellers:* to meet travellers' and carriers' expectations of a quicker facilitation experience (including not being turned around at check-in or at the border) and an expectation of an ability to interact with authorities digitally and receive personalised and modern services
- *More secure borders:* to provide assurance to New Zealand about the purposes and characteristics of intending foreign travellers and close gaps in New Zealand border settings relating to the marine (cruise) pathway.

Cost Recovery Principles and Objectives

The immigration system is paid for, in large part, by fees and levies recovered from migrants. This recognises the benefits migrants receive from decisions made on applications for visas (the costs of which are met by fees), and enables migrants to appropriately contribute to system costs which arise from migration, such as compliance and border clearance (through the payment of a levy).

Section 393 and 399 of *Immigration Act 2009* provide authority to set immigration fees and levies through regulations made under section 400 of the Act. The *Immigration (Visa, Entry Permission, and Related Matters) Regulations 2010* prescribe fee and levy rates for a range of application types. The Immigration Levy can only be charged to applicants for visas, so is not chargeable to people requesting an ETA.

The application and review of fees and levies in the immigration system is underpinned by the following cost recovery principles:

Principle	Description
Equity (between migrants and New Zealand taxpayers)	Costs are fully recovered from fee and levy payers for the provision of services and management of risks associated with migration. Unlike other jurisdictions, New Zealand uses a cost recovery, as opposed to willingness-to-pay, model to set immigration charges. Where the activities have both public and private benefits, costs are shared between the Crown and migrants.
Authority	The Immigration Act and the Regulations provide authority to recover costs of the immigration system through fees and levies.
Transparency and consultation	Where appropriate, there should be consultation on significant changes to immigration settings and information the underlying drivers of costs and decisions should be available.
Efficiency	Regular review of fees and levies ensures that fees reflect the costs of underlying services and support efficient resource allocation. Efficiency gains achieved through INZ's transformation process have ameliorated cost pressures that would have otherwise occurred and the proposed increase in fees and levies has factored in the expected efficiency gains from additional investment.
Simplicity	Fees and levies for individual visa applications are fixed in regulations and charged at the point of application. Information is readily available through the visa application process.
Accountability	Fees and levies must be set by regulation approved by the Government where the usual regulatory accountability mechanisms apply. INZ fees and revenues are scrutinised as part of its public sector financial accountability arrangements. Public consultation will be undertaken for future INZ fees/levy setting processes to ensure transparency and accountability.

Policy Rationale for cost recovery for the Electronic Travel Authority

In keeping with the above principles the operating costs of running the ETA system and making decisions will be met by individual users on a transaction charge basis. The Crown is meeting the initial capital investment costs to build the system while users will fund the capital charge and depreciation costs.

A third party charge is the same approach that is taken to other services (such as visa processing services) managed by Immigration New Zealand. This reflects that individuals who wish to visit New Zealand will benefit from the decisions made. It is appropriate that these costs sit with potential visitors using the system.

A fee model is the best to preserve simplicity of operation and ensure equity across users. People will pay a small fee when applying to travel to New Zealand. Cost recovery costs are low preserving the efficiency of the process.

The level of the proposed fee and its cost components (cost recovery model)

The ETA business case set out an estimate of the total costs to administer the ETA system. This estimate was based on the likely asset value of the ICT systems, ICT operational costs, bank fee/charges for credit cards, education and engagement costs and the increased in

operational costs associated with manual processing of ETA applications, including traveller facilitation required at the Border:

Contributing cost	Estimate
Annual depreciation charge on ICT asset	\$5,398,000
Annual ICT operational cost	\$ 250,000
Bank fees and charges for credit cards	\$314,000
Education and engagement	\$2,474,000
Manual ETA processing	\$3-6,000,000
Total Cost per annum	\$11 - 14,436,000

The range of \$3 – \$6 million for manual processing made a number of assumptions about operational costs to process ETAs and provide assistance to travellers. Since then further discussions with other jurisdictions (in particular Canada, which introduced an ETA in 2015) have revealed a reasonable proportion of travellers (15%) not having applied for an ETA prior to travel at the point that the ETA became obligatory. If similar behaviour is observed in the initial stages of the NZ ETA regime (meaning people discovering that they need an ETA at check in) then the border facilitation costs will be significant, especially given the imperative to continue to expedite visa waiver travel.

On this basis and given levels of uncertainty about the capability (people, process and technology) required to support the regime before operations begin, the project is assuming that the manual ETA processing cost will be closer to the upper bound identified in the business case. The total cost to operate in the first year will be approximately **\$14.436 Million**.

Pricing options

Current estimates are that the ETA will be required for 1.4 million individuals per year.

There are a number of options for dividing the total cost amongst these people. Section 393 of the Immigration Act, which provides for the prescription of fees via Regulation allows for variation based on urgency of service and different categories of person and allows for averaging of costs across applicants. We note that it is not compatible with the rules for public sector charging to set fees to incentivise behaviour if underlying costs do not support such differentiation.

A number of options were considered when determining the fee levels to cover the project costs, given the expected ETA volumes. They were subjected to a sensitivity analysis:

Option	Description	Required fee per applicant for cost recovery
1	Flat Fee for all	\$10.50
2	Cheaper for Mobile	\$9.00 mobile
	(Assume 50% mobile, 50% web)	\$12.00 Web

1. Charging a flat fee

A total fee of \$10.50 per applicant would be the easiest to administer and communicate. It would average the cost to operate across all applicants. It would not reflect the difference in

manual ETA processing rates for applications via different channels, nor would it penalise applicants for applying late. In effect applicants who applied with no urgency and/or provided better quality data via the Mobile App would be subsidising late applicants and those who provide lower quality data (which is likely to require more manual intervention).

2. Reflecting lower processing costs for applications via the mobile channel

The current expectation is that applications received via the mobile channel will have a lower rate of manual intervention for identity resolution and during border processing, as the quality of the data received will be higher. INZ has historically had issues at check-in for travellers with visas issued on the basis of self-asserted travel document data via online applications. Visa applicants often transpose passport numbers or do not spell their names as per their passports.

The data quality for ETA received via the mobile app will be higher because the intention is to populate the biographic and travel document data automatically by scanning the passport using (in the first instance) the mobile camera to photograph the Machine Readable Zone (MRZ) on the bio-page, and plug-ins that can “read” the MRZ. It is likely that some devices will be able to read the eChip on the holder’s passport.

A lower application fee for requests made via the mobile channel would reflect the benefits expected from this approach to data capture, and the expectation of lower costs for the main mobile channel given less manual data entry from people making errors, and photographs helping to resolve identity. On balance the benefits and cost attribution associated with the cheaper fee for the mobile channel was judged the fairest and in keeping with the fee principles.

Options are also being considered to introduce an urgent processing fee at a later date if needed.

Impact analysis

People who need an ETA to travel to New Zealand include:

- Travellers from visa-waiver countries who are not required to hold a visa to travel to New Zealand, whether they are travelling to New Zealand by air or cruise vessel, or whether New Zealand is their final destination or transit point (excluding Australian citizens)
- Travellers who are not required to hold a visa before transiting New Zealand.
- Travellers from visa-required countries, for cruise travel to New Zealand only
- Australian Permanent Residents.

MBIE undertook an economic impact analysis for the potential impact on visitor numbers based on an ETA fee of \$9 and a \$25 for an International Visitor Conservation and Tourism Levy (on which decisions have been taken separately).

Using forecasts of visitor numbers and their spending while in New Zealand produced by MBIE (MBIE (2018)), and the best available demand elasticity estimates for New Zealand inbound tourism (Schiff and Becken (2011)), this report makes estimates of the possible

impacts on visitors by air. Approximately 200,000 visitors by sea are not able to be broken out of visitor arrival forecasts. The estimates were based on an ETA fee of \$9 and \$25 IVL. Where both apply, \$34 would be collected from the affected visitors. This represents an increase in the cost-price of visiting New Zealand that range between 0.1 percent and 0.6 percent. (The final IVL rate was set at \$35 per individual: this is close enough to the figure used in the original model to provide confidence that the conclusions stand.)

Our estimates of the possible impacts in 2021 of the combined ETA fee and IVL, relative to the MBIE forecast for that year, were 14,983 fewer visitors, \$51 million reduced spending by visitors while in New Zealand, and a \$42 million smaller contribution to GDP by the tourism sector. This corresponds to lowering the rate of growth of inbound visitors from 32 percent to 30 percent over the forecast period 2018-2024.

Consultation

Public consultation was undertaken in June and July 2018 on the ETA proposal and its key features. This included a potential cost of between \$9 and \$12.50 per person. There was no feedback received that indicated that this would be inappropriately high.

Conclusions and recommendations

A \$9 ETA for mobile applicants and \$12 for web applicants is recommended. These fee levels cover the expected operating costs of the ETA, taking a conservative position on the cost range given the uncertainty associated with a new process. (Fee adjustments will be made later if needed as part of the standard regular reviews of immigration charges, and will be based on operational experience.) Differentiating the fee by mobile and web reflects the expected cheaper cost and better data quality of the mobile process. There is an additional cost for INZ in running the alternate web application channel, and it is appropriate that users of this alternate channel meet the higher running costs it involves.

Implementation

A project team has been established in INZ from October 2018 to carry out system build and ensure communications with key stakeholders including travel agents, airlines and the cruise industry.

Travellers will apply for an ETA through a mobile application or web browser, due to go live July 2019. Travellers that need to request an ETA will be able to do so from July 2019, while holding an ETA will be mandatory from 1 October 2019.

A new memorandum account will be established to track the expenditure and revenue associated with the ETA. This will support future reviews of fee levels and ensure that the costs and revenues are closely aligned over time.

Monitoring and evaluation

INZ will monitor aspects of the ETA operation including:

- Overall ETA request volumes including the proportions via each channel , (mobile or web) and the proportion which are automatically assessed, and the proportion requiring manual assessment.
- The impact, both increased volumes and associated costs have on the IdMe Manual Identity Resolution team.
- The cost to operate the ETA manual assessment team
- The cost to service queries from ETA applicants and visa waiver travellers.
- The costs associated with border facilitation for Visa Waiver travellers.

Review

The ETA regime will be phased in from 1 July 2019, with the requirement to hold an ETA coming into effect on 1 October 2019. This timing will allow INZ to get a good understanding of the actual costs to operate prior to the next scheduled Fee Review in 2021, and re-set the fees if required as part of the scheduled review.