CONSULTATION DOCUMENT

Maritime NZ Review of Levies funding for 2024/25 – 2029/30

19 July 2023
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 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
- How to make a submission ......................................................................................................... 4

### PART 1: Purpose and Overview ............................................................................................... 6
  - The purpose of this review ....................................................................................................... 6
  - Summary of proposals ............................................................................................................ 7
  - What we are trying to achieve ............................................................................................... 8
  - What we have done to save money and realign activity ....................................................... 8

### PART 2: The Proposals .............................................................................................................. 10
  - Managing regulatory risks .................................................................................................... 10
  - Responding to Government commitments ........................................................................... 14
  - Maintaining marine pollution capabilities ......................................................................... 16

- Financial implications ............................................................................................................... 18
  - Scaled Options ..................................................................................................................... 19

### Appendices .............................................................................................................................. 20
  - Appendix 1: Examples of proposed levies ........................................................................ 20
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:

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

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. Further details and information available on our website www.maritimenz.govt.nz/funding.

The deadline for making a submissions is 5pm Wednesday, 16 August 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 accept or take account of submissions received after the deadline.

Please note that is it 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.
Maritime and Oil Pollution Levies

We are consulting on proposed changes to the Maritime Levies and Oil Pollution Levies.

As the national Maritime regulatory and response agency, we’re taking key steps forward to address regulatory risks and improve our regulatory services.

It’s essential we have the right funding so we can deliver our core functions and achieve our outcomes of safe, secure, clean and sustainable Aotearoa waterways. This is the first funding review in five years, as Government agreed to delay the 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. Four of the proposals to change levies will address issues that the sector has already raised.

The proposed changes to the levies are focused on:

Managing regulatory risks by:
- Building our capacity to identify and deal effectively with substandard shipping
- Improving management of Maritime and Marine Protection Rules
- Improving our response to enquiries and notifications
- Maintaining improvements in regulatory licencing
- Supporting effective oversight of third parties outside Maritime NZ who undertake critical regulatory functions

Responding to Government commitments of:
- Supporting the provision of seafarer welfare services
- Supporting the administration of MARPOL Annex VI – the international convention to reduce air pollution from ships

Maintaining marine pollution capabilities by:
- Revising the OPL allocation model to reflect the current operating environment
- Supporting marine oil spill readiness and response

Have your say
You have until 5pm on Wednesday 16 August 2023 to share your feedback – visit www.maritimenz.govt.nz/funding to make your submission on the proposed changes.

Questions?
Email: funding.review@maritimenz.govt.nz
PART 1: PURPOSE AND OVERVIEW

The purpose of this review

The purpose of this funding review is to assess whether Maritime NZ is funded adequately for the range of functions and activities it is required to carry out under legislation over the six years, from 1 July 2024.

As a transport sector agency, under the Transport Regulatory System Funding Principles, Maritime NZ is required to undertake a full review of fees and levies every six years, with mid-point checks every three years. A review of maritime levy rates was originally scheduled to occur during 2021/22. Government agreed to delay this review due to the disruption from COVID-19 impacts.

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-19, the government froze public sector Funding Reviews in 2020 and 2021 in order to minimise fiscal pressures on levy payers so this review is occurring two years ‘out of cycle’. The Crown provided additional funding to Maritime NZ to support the organisation through COVID-19 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 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.

If levies increases are recommended to, and agreed by Cabinet after this consultation, they would take effect from 1 July 2024.

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 document Initial Cost Recovery Impact Information, available on our website: http://www.maritimenz.govt.nz/funding
Summary of proposals

We are consulting on eight proposals to Maritime and Oil Pollution Levies. The eight proposals focus on:

**Managing regulatory risks (Maritime Levies)**
1. Building our capacity to identify and deal effectively with substandard shipping
2. Improving management of Maritime and Marine Protection Rules
3. Improving our performance in responding to notifications and regulatory licensing
4. Maintaining oversight of those outside of Maritime NZ who undertake critical regulatory functions

**Responding to Government commitments (Maritime Levies)**
5. Supporting the administration of MARPOL Annex VI
6. Supporting the provision of seafarer welfare services

**Maintaining marine pollution capabilities (Oil Pollution Levies)**
7. Revising the Oil Pollution Levies allocation model to reflect the current operating environment
8. Maintaining Marine Oil Spill Readiness and Response capability

The six proposals relating to an increase 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. 29% 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 (such as the impact of inflation).

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.

Without this funding review proceeding Maritime NZ would have a significant funding gap from 1 July 2024 and would have to reduce maritime activities, which would exacerbate safety risks already identified by the sector and impact on the provision of regulatory activities impeding efficient and effective operation of the sector (for example the gains in licensing and certification timeliness we have made will go backwards).
What we are trying to achieve

Maritime NZ is a guardian of Aotearoa New Zealand’s maritime domain. That 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, clean and sustainable. 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 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 are reflected in our organisational 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 and important insights into how these are affecting our performance as a regulator, through impeding delivery of safe and clean outcomes for the sector and/or affecting the effective and efficient operation of the maritime sector.

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 further investment in our oversight of third parties undertaking regulatory functions, key aspects of our Port State Control work, and implementation of international conventions through NZ maritime rules.

What we have done to save money and realign activity

This section sets out what we have done to improve our efficiency and wherever possible, reduce our own costs and realign activity to address identified issues.

Having recognised that we needed to make changes across our organisation, we undertook a range of actions. We carried out an organisational redesign in 2022, which was focussed on altering the organisation and allocation of staff to address the functional delivery issues already identified. The redesign involved removing a management layer, staff re-deployment, and the disestablishment of some roles.

This enabled us to invest more resources in our Certification (now called Regulatory Licensing) team to reduce application processing timeframes and improve our licencing performance more generally. We also used some additional Crown funding to do this.

It enabled us to create 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. We also began to put in place a small centralised Notifications and Enquiries team to improve our response processes and timeframes, in addition to other improvements.

We developed and are 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 and now also have other key supporting staff based out of these regional hubs. 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.

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, providing 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-19 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, means we have been able to reduce our overheads loading to 25%. An overhead loading amount which is widely accepted as a sign of efficiency in an organisation.

While we have made good progress 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 known regulatory risks.
Managing regulatory risks

Proposal 1: Building our capacity to identify and deal effectively with substandard shipping (Maritime Levies)

The problem being addressed

International and domestic ships (cruise and cargo) need to comply with international and domestic approved standards. The sector and Maritime NZ have seen increasing numbers of poor quality ships coming to, or operating in New Zealand 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:

- navigational issues with ships colliding or running aground with catastrophic impacts on the safety of people 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 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;
- breaches of maritime labour conventions around provisions and pay.

The arrival of poor quality vessels is also resource intensive as it can require significant work following up on resolution of deficiencies with vessels. This can take our small pool of inspectors away from other inspections for some time. Detentions of vessels, including these ships taking up valuable berth space at ports, can have significant disruption on supply chains and the costs of moving goods.

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. We only have nine maritime inspectors and this is insufficient to inspect the highest risk ships in our waters and deter sub-standard ships coming to New Zealand. These inspectors are one of the first lines of defence that support prevention of ships getting in trouble in our waters and requiring rescue.

Our response

We have built the foundations of a Maritime Inspections team, however we need Maritime Levies funding to ensure the team has sufficient capacity to:

- inspect 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 small specified number or percentage of random inspections each year;
- meet our Tokyo MOU obligations by inspecting priority one vessels;
- 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 in this area and have the effect of improved audit results in future.

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.

The proposal in brief

The proposal is to increase 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: Improving management of Maritime and Marine Protection Rules (Maritime Levies)

The problem being addressed

There are thousands of maritime and marine protection rules and these need to be maintained, reviewed and in many instances, revised to support the achievement of safety and marine protection outcomes. While we have established an annual regulatory reform programme that attends to priority rules amendments, and the creation of new rules where required, the resources currently available to deliver this programme limits the volume and speed of reform activity. 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. 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. For example, you have told us that the complexity of certification rules are creating unnecessary cost and contributing to workforce issues in the sector, and that rules around pilotage require urgent review.

Our response

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. Dedicated technical capability within our regulatory policy team will be more efficient than the current arrangement, where requests for technical advice and support for rules development compete with other demands on our 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 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 issues such as those that surround certification rules more quickly.

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 in brief

The proposal is to increase 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 the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (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)

**The problem being addressed**

Maritime NZ’s decentralised and non-systematised approach to receiving and responding to regulatory notifications and enquiries has resulted in 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). Front-line staff have been 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.

Notification and enquiry management was a key issue identified by stakeholders as part of our Te Korowai organisational review. We have identified that people are not 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.

**Our response**

In 2022 a decision was made to create a centralised Notifications and Enquiries team (NET) to address the critical need to improve our practice around receipt, triaging and responses to incoming enquiries and notifications. 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 levies support for it to be fully functional and effective. The team was established out of necessity and from savings through the re-organisation but ahead of an assured on-going funding stream. For the NET team to be fully functional and sustainable, additional funding is needed.

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.

**The proposal in brief**

The proposal is to increase 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: Supporting effective oversight of those outside of Maritime NZ who undertake critical regulatory functions (Maritime Levies)

The problem being addressed

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 such as ship surveys, inspections, the servicing of maritime products, approval of safety plans and seafarer examinations. While over the last 24 months we have started to make a number of improvements to third party monitoring and support, we do not have the capacity needed to provide adequate assurance over how these third parties are carrying out their functions.

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 delegated third parties to perform their functions to the standard expected: the Whakari/White Island event and Waka Kotahi vehicle testing issue are cases in point. To date, Maritime NZ oversight of the performance of third parties is 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.

A critical finding from a 2022 IMSAS audit found that there was no evidence of a Maritime NZ oversight programme for 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. 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.

Our response

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. However, we need resources to apply and implement this framework to ensure appropriate supervision of third parties.

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 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 Maritime NZ Director. This team would be small, around four, and be made up of technical expertise, audit and operational policy.

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.

The proposal in brief

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.
Responding to Government commitments

Proposal 5: Supporting the administration of MARPOL Annex VI (Maritime Levies)

The problem being addressed

In 2019 the New Zealand government became signatory to what is known as MARPOL Annex VI. This is part of an international convention and sets out a regime for the prevention of air pollution from ships. 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. To date, the general administrative costs of the regime have been funded by the Government. That 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.

Our response

In administering the MARPOL Annex VI regime Maritime NZ has provided:

- 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 to ensure any changes sought are acceptable to New Zealand and can play a credible and influencing role in climate-related negotiations.

The cost of this 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. A sustainable funding base ensures that Maritime NZ can give effect to the requirements as intended and as obliged under the convention.

The proposal in brief

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: Supporting the provision of seafarer welfare services (Maritime Levies)

The problem being addressed

Since 1 March 2017, New Zealand has had obligations under the Maritime Labour Convention (MLC) which establishes minimum living and working standards for all seafarers, and sets obligations for seafarer welfare services. 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. As a result, the New Zealand Government currently provides $1.5m to contribute to the provision of welfare services (and meet Maritime NZ costs in relation to the administration of that funding) to meet its obligations. Without additional funding to support seafarer welfare, obligations under the MLC will not be met, leading to poorer seafarer welfare conditions and 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.

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 following this funding review.

Our response

In 2021 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.

Maritime NZ 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.

Maritime NZ has considered options for the best way to deliver services in a way that will see value for money. These include the status quo (Maritime NZ funding SWB who coordinate and deliver many welfare services), an amended status quo with the SWB bulk funding port welfare groups according to a Maritime NZ formula, a Maritime NZ grants system, and Maritime NZ delivery. The full options analysis is available in the document Delivery options for Seafarer Welfare services, available on our website: [www.maritimenz.govt.nz/funding](http://www.maritimenz.govt.nz/funding)

The use of the grants model by Maritime NZ enables tighter 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 Maritime NZ grants model is currently the preferred delivery model, but we welcome feedback on each of these models (and any others).

The proposal in brief

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.
Proposal 7: Revising the Oil Pollution Levies allocation methodology

The problem being addressed

Oil Pollution Levies rates have previously been calculated through applying a complex methodology and model that is costly to apply. In the future, it is likely it would be an unreliable basis to determine levies rates for different sectors. 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 viable option. As well as being expensive, it is time consuming and particularly prone to significant errors.

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.

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.

Our response

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 current methodology.

The methodology is based on that used for Maritime Levies which was developed and implemented after the 2018 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”. 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.

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, please see the Sapere report on the Oil Pollution Levy Methodology Review, available on our website: www.maritimenz.govt.nz/funding.
Proposal 8: Supporting marine oil spill readiness and response
(Oil Pollution Levies)

The problem being addressed

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 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. This is compounded 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). This needs to be replaced in order to sustain the capability endorsed and developed during that time.

Our response

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 proposal, if effected, would mean the gap in the funding that’s 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. 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 relevant provision of the Maritime Transport Act.

The proposal in brief

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 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 units of gross tonnage, deadweight tonnage, passenger capacity and overall length shown in Table 1 below are the inputs used to determine the total Maritime Levies charged.

Similarly in Table 2, gross tonnage of the vessel, tonnes of persistent oil carried as cargo, and tonnes of non-persistent oil carried as cargo are used to determine the total Oil Pollution Levies charged.

We have developed an online levies estimator that you can input vessel characteristics to calculate your proposed Maritime Levies and proposed Oil Pollution Levies (if appropriate). See the levies estimator on our website: www.maritimenz.govt.nz/funding

The method for calculating the Maritime Levy has not changed.

In Appendix 1 we have included the proposed levies for different types of vessels as examples only.

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

<table>
<thead>
<tr>
<th>Vessel category</th>
<th>Gross tonnage</th>
<th>Deadweight tonnage</th>
<th>Passenger capacity</th>
<th>Overall length</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign passenger</td>
<td>0.1004</td>
<td>0.0082</td>
<td>2.0248</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>0.1282</td>
<td>0.0105</td>
<td>2.5839</td>
<td></td>
</tr>
<tr>
<td>Foreign non passenger</td>
<td>0.1178</td>
<td>0.0095</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>0.1504</td>
<td>0.0121</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NZ SOLAS</td>
<td>7.7931</td>
<td>0.4607</td>
<td>46.7100</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>9.9449</td>
<td>0.5879</td>
<td>59.6072</td>
<td></td>
</tr>
<tr>
<td>NZ non-SOLAS (24m or more in length)</td>
<td>8.2197</td>
<td>N/A</td>
<td>17.5403</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>10.4870</td>
<td></td>
<td>22.3834</td>
<td></td>
</tr>
<tr>
<td>NZ non-SOLAS (less than 24m in length)</td>
<td>N/A</td>
<td>N/A</td>
<td>17.5403</td>
<td>15.1746</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>22.3834</td>
<td>19.5347</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Type of vessel or oil site</th>
<th>Calculation</th>
<th>Oil Type</th>
<th>Current Levy</th>
<th>Proposed Levy</th>
</tr>
</thead>
<tbody>
<tr>
<td>NZ vessels</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passenger and cargo ships, harbour tugs and oil tanker bunker fuel</td>
<td>Per gross tonne of vessel, paid annually</td>
<td>Bunker fuel</td>
<td>414.69 cents</td>
<td>173.95 cents</td>
</tr>
<tr>
<td>Tankers carrying oil as cargo</td>
<td>Per tonne of oil carried as cargo</td>
<td>Persistent</td>
<td>29.96 cents</td>
<td>12.85 cents</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Non Persistent</td>
<td>26.76 cents</td>
<td>7.56 cents</td>
</tr>
<tr>
<td>Fishing vessels</td>
<td>Per gross tonne of vessel, paid annually</td>
<td>Bunker fuel</td>
<td>37.56 cents</td>
<td>30.86 cents</td>
</tr>
<tr>
<td>Oil sites</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Offshore oil and gas (FPSO)</td>
<td>Fixed Fee, paid annually</td>
<td>Persistent</td>
<td>$858.66</td>
<td>$82,055.19</td>
</tr>
<tr>
<td>Foreign vessels</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passenger and cargo ships, harbour tugs and oil tanker bunker fuel</td>
<td>Per gross ton of the vessel (per port visit)</td>
<td>Bunker fuel</td>
<td>0.54 cents</td>
<td>2.63 cents</td>
</tr>
<tr>
<td>Tankers carrying oil as cargo</td>
<td>Per tonne of oil carried as cargo</td>
<td>Persistent</td>
<td>36.14 cents</td>
<td>35.46 cents</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Non Persistent</td>
<td>7.6 cents</td>
<td>20.86 cents</td>
</tr>
</tbody>
</table>
Scaled Options

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.

For three of the proposals, the additional Maritime or Oil Pollution Levies revenue that is proposed, aligns with what the Crown has to date provided due to levies shortfall arising from COVID-19. Without sustained funding, recent gains made will be lost.

Recognising that levies payers (in particular domestic payers) are also 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 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.

The proposals, the scaled option, and the impact of the scaling, are set out in the table below:

<table>
<thead>
<tr>
<th>Proposal</th>
<th>Scaling</th>
<th>Impact on non-scaled rates over three years from 2024/25</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposal 2: Improving management of Maritime and Marine Protection Rules</td>
<td>defer until 1 January 2026</td>
<td>-1.4% per year</td>
</tr>
<tr>
<td>Proposal 4: Maintaining oversight of those outside of Maritime NZ who undertake critical regulatory functions</td>
<td>defer until 1 January 2026</td>
<td>-1.1% per year</td>
</tr>
<tr>
<td>Proposal 6: Supporting the provision of seafarer welfare services</td>
<td>reduce by $0.5m per annum</td>
<td>-1.4% per year</td>
</tr>
</tbody>
</table>

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. Within each relevant proposal we have set out that risk.
## Appendix 1: Examples of proposed levies

### Table 3: Examples of impact on foreign vessel levies paying sector

<table>
<thead>
<tr>
<th>Vessel type</th>
<th>Paid per port visit</th>
<th>FY25 Proposed Maritime Levy</th>
<th>FY25 Proposed Oil Pollution Levy</th>
<th>Proposed total Levies increase</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>International Oil Tanker (SOLAS)</strong></td>
<td>GT 25,000 PAX 0 DWT 45,000</td>
<td>$4,305</td>
<td>$658</td>
<td>$1,455</td>
</tr>
<tr>
<td><strong>International Container Ship (SOLAS)</strong></td>
<td>GT 40,000 PAX 0 DWT 52,000</td>
<td>$6,645</td>
<td>$1,052</td>
<td>$2,275</td>
</tr>
<tr>
<td><strong>International Cruise Vessel (SOLAS)</strong></td>
<td>GT 110,000 PAX 2500 DWT 15000</td>
<td>$20,719</td>
<td>$2,893</td>
<td>$6,789</td>
</tr>
</tbody>
</table>

### Table 4: Examples of impact on domestic vessel levies paying sector

<table>
<thead>
<tr>
<th>Vessel type</th>
<th>Paid Annually</th>
<th>FY25 Proposed Maritime Levy</th>
<th>FY25 Proposed Oil Pollution Levy</th>
<th>Proposed total Levies increase</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Domestic Passenger Ferry (SOLAS)</strong></td>
<td>GT 22,365 PAX 1,350 DWT 5,794</td>
<td>$306,294</td>
<td>$38,904</td>
<td>$12,432</td>
</tr>
<tr>
<td><strong>Domestic Container Ship (SOLAS)</strong></td>
<td>GT 6000 PAX 0 DWT 10,000</td>
<td>$65,548</td>
<td>$10,437</td>
<td>-$262</td>
</tr>
<tr>
<td><strong>Domestic Coastal Fishing Trawler (non-SOLAS)</strong></td>
<td>GT 529 PAX 0 DWT 0</td>
<td>$5,548</td>
<td>$163</td>
<td>$974</td>
</tr>
<tr>
<td><strong>Domestic fishing</strong></td>
<td>Length 5.9 metres</td>
<td>$115</td>
<td>NA</td>
<td>$26</td>
</tr>
<tr>
<td><strong>Domestic non-passenger aquaculture vessel (mussel barge)</strong></td>
<td>GT 104</td>
<td>$1,091</td>
<td>NA</td>
<td>$236</td>
</tr>
<tr>
<td><strong>Domestic non-passenger barge</strong></td>
<td>GT 150</td>
<td>$1,573</td>
<td>NA</td>
<td>$340</td>
</tr>
<tr>
<td><strong>Domestic non-passenger</strong></td>
<td>Length 23.9 metres (including tugs)</td>
<td>$467</td>
<td>NA</td>
<td>$104</td>
</tr>
<tr>
<td><strong>Domestic non-passenger</strong></td>
<td>Length 8 metre workboat</td>
<td>$156</td>
<td>NA</td>
<td>$35</td>
</tr>
<tr>
<td><strong>Domestic Passenger Ferry (Non SOLAS)</strong></td>
<td>GT 280 PAX 300 DWT 0</td>
<td>$9,651</td>
<td>$487</td>
<td>$1,414</td>
</tr>
<tr>
<td><strong>Domestic Charter Passenger Boat (Non SOLAS)</strong></td>
<td>Length 18 metres PAX 140 DWT 0</td>
<td>$3,485</td>
<td>NA</td>
<td>$757</td>
</tr>
<tr>
<td><strong>Domestic Charter Passenger Boat (Non SOLAS)</strong></td>
<td>Length 8 metres PAX 14 DWT 0</td>
<td>$470</td>
<td>NA</td>
<td>$103</td>
</tr>
<tr>
<td><strong>Domestic Commercial Jet Boat</strong></td>
<td>Length 8.2 metres PAX 8 DWT 0</td>
<td>$339</td>
<td>NA</td>
<td>$74</td>
</tr>
<tr>
<td><strong>Domestic passenger</strong></td>
<td>Commercial dive boat Length 4.5 metres PAX 4</td>
<td>$177</td>
<td>NA</td>
<td>$39</td>
</tr>
<tr>
<td><strong>Domestic passenger</strong></td>
<td>3.7 metre personal watercraft (jet ski/novel craft) PAX 1</td>
<td>$95</td>
<td>NA</td>
<td>$21</td>
</tr>
</tbody>
</table>