

Regulatory impact statement: Passport validity period

Agency disclosure statement

This regulatory impact statement (RIS) has been prepared by the Department of Internal Affairs.

The passport validity period is currently set at five years. This RIS analyses two options for increasing the validity period to:

- five years and nine months on renewal for adults and children: this would implement an August 2013 Cabinet decision; or
- ten years for adults: this would reinstate the situation before 2005, when the five year term was introduced.

The statement's analysis is structured in two parts. Part One weighs up the two options from the perspectives of security and risk, and takes account of convenience for passport holders. The paper concludes that there is little substantive difference between the two options, with the five year and nine month period providing marginally more security, and the ten year period providing marginally more convenience.

Part Two provides initial analysis about how a ten year passport might be funded. This focuses on whether the current funding model (full cost recovery) should be retained, or whether partial Crown funding is warranted. After Cabinet decides on the appropriate validity period, the Department will develop detailed funding options (including the cost to the Crown and passport holders).

While the Department has assessed the impact of different options on citizens and the government, the analysis in this RIS is constrained by:

- limited quantitative data about New Zealanders' preferences for passport validity and how those preferences change at different price points;
- inability to properly assess low likelihood risks with hard-to-gauge consequences;
- difficulties in conducting modelling on some options lead to narrowing of options considered within the timeframes provided; and
- public consultation on the options and their implications has not taken place.

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Executive summary

1. This regulatory impact statement considers the implications of changing the validity period of adult New Zealand passports. In addition, current passport fees (which are below production costs) are no longer sustainable.
2. This regulatory impact assessment primarily analyses options for passport validity. These options are:
 - 2.1 implementing Cabinet's August 2013 decision to extend passport validity up to five-years, nine-months on renewal; and
 - 2.2 raising the passport validity period to ten years.
3. Passports fees were reduced to below production cost in November 2012 to reduce a surplus in the Passport Memorandum Account (the Account) which is used to manage passport fee income and expenditure. This surplus has been reduced and should the default option (that fees should be set on a cost recovery basis) be retained, adult fees would need to rise to an estimated \$199 for a five-year passport. If passport validity was to rise to ten years, fees would also need to rise considerably (estimated at \$274).
4. This regulatory impact statement also considers the cost implications of maintaining full cost recovery for a ten-year validity passport and options for reducing prices to passport holders through the application of Crown revenue (and/or departmental savings).
5. The arguments between five and ten year passports are finely balanced. On the one hand, five-year validity is likely to provide a security advantage, while ten-year validity is perceived to offer greater convenience.
6. We do not have a preferred option on passport validity, nor do we have a preferred option for the funding of ten-year passports. The decision on whether to remain with a cost-recovery model, or provide Crown revenue to limit fee rises is, in our view, a decision involving political trade-offs that should be made by Cabinet.

Context

7. The Passports Act 1992 (the Act) affirms every New Zealand citizen's right to a passport, subject to express limitations specified in the Act. The Act provides that the Minister of Internal Affairs has the power to issue, renew, recall and cancel passports, emergency travel documents, certificates of identity and refugee travel documents. The Act is administered by the Department of Internal Affairs (the Department).
8. The New Zealand passport is recognised as a trusted and secure travel document. The integrity of the passport system allows New Zealanders freedom to travel to 170 countries through visa-free or visa-on-arrival arrangements. This integrity can only be maintained by a regulatory regime that is fit for purpose.

New Zealand passports: basic facts

- Adult passports have a five-year validity period with fees between \$124.50 - \$140 (with additional fees for urgent processing).
- Child passports also have a five-year validity period with fees set at \$81.70 (additional fees for urgent processing). This reduced price is subsidised by adult passport fees.
- Approximately 600,000 passports and other travel documents are produced each year.
- The passport service operates on a cost-recovery basis, managed through the Passports Memorandum Account (the Account).

9. In 2005, the Government made changes to the Act to preserve the integrity of New Zealand passports and other travel documents in light of the security concerns at that time (these changes included the introduction of ePassports). These changes reduced the validity period of adult New Zealand passports from ten-years to five-years in April 2005 and also led to the introduction of ePassports in November 2005.
10. In August 2013, Cabinet made a suite of decisions to amend the Act, including:
 - 10.1 increasing the passport validity period so that citizens could have up to nine months remaining on their current passport 'credited' to a new passport, increasing validity on renewal from five-years to five-years, nine-months;
 - 10.2 updating existing powers in the Act which seek to prevent the use of a passport in certain limited circumstances; and
 - 10.3 extend the powers in the Act which tackle illegal attempts to get a New Zealand passport.
11. These changes were agreed by Cabinet but have not yet been implemented. A Bill incorporating these changes has largely been drafted, however its introduction was deferred when a petition was lodged with Parliament seeking a return to a ten-year validity period for adult passports. In August 2014 the Minister of Internal Affairs directed the Department to review passport validity and in particular advise him on the security, cost and risk implications of returning to a 10 year passport validity period. As part of this review the Department commissioned:
 - 11.1 an independent security review from Simon Murdoch; and
 - 11.2 advice from PriceWaterhouseCooper (PWC) on sustainable funding models for both the status quo and a return to a 10 year passport.

Security review

12. The security review found that moving to a five year passport was an appropriate course of action in 2005 and contributed to improved passport security. Mr Murdoch also noted that, while international security and border risks have changed since 2005, they have not improved and remain complex. There are continued broader security risks relating to:
 - 12.1 foreign groups using New Zealand passports during criminal and terrorist activities;
 - 12.2 radicalised New Zealanders travelling and committing violent acts;

12.3 terrorism threats to New Zealanders (both travelling and in New Zealand).

13. The security review also outlined the potential security risks and implications presented by a dramatic loss of revenue. This loss of revenue was also identified as a risk due to the need to invest in regular security updates if a return to ten-year passport validity was implemented. **Appendix A** sets out the main finding and conclusions of the security review.

Funding review

14. The Department appointed PricewaterhouseCoopers (PwC) in September 2014 to develop a new funding model for passport services. The new model is more sophisticated than previous models, enabling forecasts of the effects on the Account from changes in costs or fees, the passport validity period or the number of passports being issued. The Department is also working with PwC to build up its financial capability in utilising the model and to learn from errors arising from previous assumptions. The Department's new funding model and forecasting tools, assured by PwC, are used in this regulatory impact analysis to inform the cost of passports under each option.

Status quo

15. New Zealand issues a five-year passport which complies with the best security standards set by the International Civil Aviation Organisation. Many other countries that New Zealand is compared to (Australia, USA, Canada, UK) have either retained, or moved to, a ten-year passport.
16. Countries take different factors into account when considering the appropriate validity period, such as funding of the passport service, size of population and administration, and public convenience. For some countries these factors may outweigh security risks. We also understand that many countries with larger populations retained the ten-year passport because moving to five-year passports for such countries would be extremely costly and create an undesirable administrative burden.¹

Affordability of the status quo

17. This analysis does not undertake complete cost-analyses of the options. Once Cabinet has agreed to a passport validity period, the Department will conduct further analysis on more precise proposals for passport fees.

¹ For example, New Zealand issues approximately 600,000 passports per annum while the UK issues 5,000,000 per annum. To move to a security best practice approach UK issuance would need to increase to around 9,000,000 per annum.

18. However, this analysis is informed by the fact that current pricing of passports is unsustainable. In September 2012 Cabinet decided to lower passport fees below cost of production to reduce a \$27 million surplus in the Account. The funding model used by the Department in 2012 also indicated the balance of the Account would reduce to a surplus of approximately \$12 million by 30 June 2015 and to \$3 million by 30 June 2016. However, in August 2013, faults in the (previous) funding model were discovered and the Department found that the Account was reducing at a much faster rate than forecast when Cabinet agreed to reduce adult passport fees.
19. Our February 2015 forecasts (see **table 1** below) now indicate that the balance of the Account will be more than \$10 million in deficit as at 30 June 2015.

Table 1: Current and forecast balance of the Account (if fees do not rise by July 2015)

31 December 2014	30 June 2015	30 June 2016	30 June 2018
-\$1.978m	-\$10.568m	-\$30.046m	-\$84.730m

20. This is an unsustainable position, requiring price increases and/or an alternative funding approach. Funding approaches for passports are considered in **Part Two** of this regulatory impact assessment.

Status quo & default option

21. Ordinarily, a regulatory impact assessment will compare new options against the status quo. However, in this case Cabinet have already made decisions to increase passport validity, on renewal, from five-years to five-years, nine-months. Therefore, this regulatory impact assessment will not include a status quo option.
22. Instead we will consider implementing Cabinet’s previous decision of five-years, nine-months as the default option against which the other option will be compared.

Assumptions and limitations on analysis

23. This regulatory impact analysis depends on a small number of assumptions and is constrained by two limitations. These are set out below.

Assumption: Status quo will remain for child passports

24. Child passports will continue to have a validity period of five-years and will continue to be subsidised by adult passports with prices set at near the current rate of 58 per cent of the adult fee (a 42 per cent discount).
25. Therefore, throughout this regulatory impact statement all references to passport validity will refer to adult passports, unless specifically referencing child passports.

Assumption: changes will be implemented in July 2016

26. Any changes to passport validity or funding models will not be put into place until July 2016. This reflects the time required to amend the Passports Act (for validity period), regulation change (to set new fees) and administrative changes in the passports office needed to implement agreed change.

Assumption: Cost of service to remain constant

27. Due to high fixed costs and automation, as a part of the passport service modernisation process, there is limited scope to significantly reduce the cost of the passport service through reduced service level agreements (e.g. aiming to process passports within four or six weeks, rather than within two weeks). Therefore, this regulatory impact assessment assumes that current service levels for the production of passports will be assumed to remain constant between options.
28. We will also assume that attempts to reduce costs will have, at best, marginal impact on costs and will not lead to significant enough savings to impact on options analysis and cost of production will therefore be assumed as constant.

Limitation: non-regulatory options are not viable

29. Passports are, at a most basic level, a tool for nation-states to declare an individual's national identity and seek safe passage and consular assistance for that individual. Passports are governed by statute and international agreements. Non-regulatory options for changing passport validity are not viable.

Limitation: we do not have any data on passport use for verification of identity

30. Passports are primarily a travel document. While we recognise that New Zealanders frequently use their passports as a form of primary identity verification, the Department does not have any data on frequency of use of passport as an identity document other than for international travel purposes.
31. We consider that use of a passport as an identity document (in situations other than international travel) is a side-benefit, rather than a core component, of passports and therefore is not considered a part of this analysis.

Problem definition

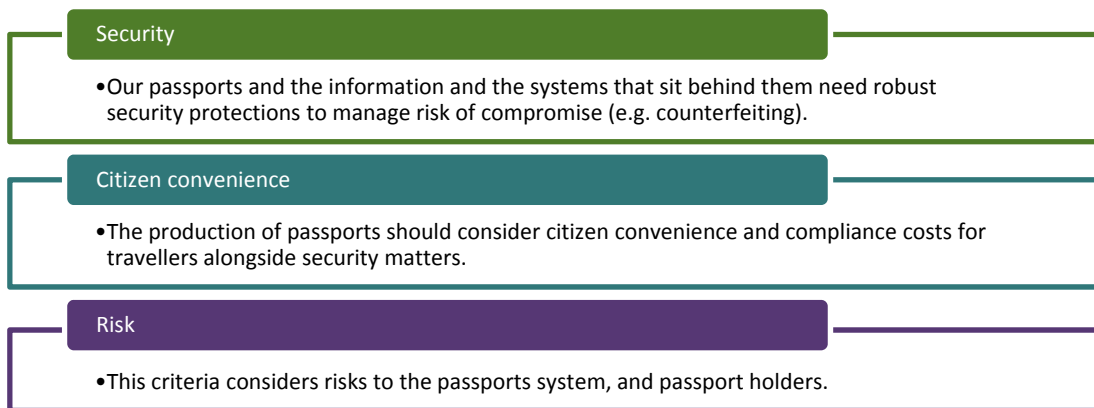
32. This Regulatory Impact Assessment responds to Ministerial direction to examine security, risk and cost implications of moving passport validity to ten years, versus implementing the previously agreed validity extension on renewal for five-years, nine-months.
33. Therefore, we will firstly, consider options for passport validity (Part 1: validity analysis) and then consider the cost implications of returning to a ten-year validity period (Part 2: cost analysis).

Part One: Validity Analysis

Objectives and Criteria

34. As per Cabinet's direction to the Department, we are examining the question of passport validity period from a perspective of security and risk and also taking account of citizen convenience. It is important that when considering passport validity periods, the interests of passport holders are considered.

Figure 1: regulatory impact assessment criteria for validity period



Options

35. When looking at passport validity periods, this regulatory impact assessment will consider two options:
 - 35.1 the default option: implementing five-year, nine-month passports (on renewal); and
 - 35.2 raising the passport validity period to ten years.

Other options not pursued

36. In addition to examining the option to return to a validity period of ten years, we initially considered an option of a seven-year passport, and the possibility of introducing citizen choice between five and ten year passports (Canada recently implemented citizen choice between five and ten year validity).

Seven-year validity

37. A seven-year passport validity period was raised as a possible alternative by Mr Murdoch in his security review report. We do not consider seven years to be a viable position. As a 'mid-point' solution, it would likely involve price rises without sufficiently meeting public calls for a ten-year validity period. In addition, there are no comparable international examples.

Citizen choice

38. One alternative, recently implemented in Canada would be to provide citizens with the choice of being issued a five or a ten year passport. While this option appears to be appealing from a customer services perspective, it has a number of drawbacks and complications that have necessitated discarding it for this regulatory impact assessment.

39. In particular, time constraints and a lack of data about citizen preferences (at different price points) means it is very difficult to model and predict demand for both five and ten year passports. This makes estimating pricing and business planning difficult. Offering both five and ten year passports would require lengthy business planning. We are informed that this option took Canada a number of years to implement.² Given the current fiscal constraints and need for speedy implementation to address the deficit in the Account, further analysis of this option is not possible at this point in time.
40. In addition, providing validity choice is novel and largely untested. Only one country (Canada) has implemented this option, and it has not been operating long enough to robustly assess its success, implications and suitability for New Zealand.

Option 1 Five-year, nine-month passport [Default Option]

41. Under the status quo New Zealanders have passports with a validity of five years. Cabinet has previously decided to raise validity periods to five years and nine-months so that, when an adult passport holder applies for a new passport, they can be credited up to nine-months of extra validity from the old passport. We consider implementing this previous decision to be the default option, and will be assessed in place of the status quo of a five-year validity period.

Security

42. Implementing the status quo would maintain a high level of security standard. Five years, nine-months is at the 'best practice' end of the validity period guidelines recommended by the International Civil Aviation Organisation (ICAO). The main finding of the security review was that, in the current international security environment, it is more secure to retain a validity period closer to five years.

Convenience

43. Implementing a further nine months of validity for passport renewals addresses the problem felt by travellers who are required by certain countries to have at least six months of validity left on their passport when entering that country. However, this approach does not address the concerns of people that want to retain a passport for a longer period without having to reapply after five years.
44. Passport holders living in countries which require visas to work may continue to be inconvenienced by having to renew their passport, and then have a new work visa issued, every five years instead of every ten years. However, those passport holders that only travel once within a passport validity period (22.8 per cent of passport holders³) may not feel they will benefit from the longer validity period due to a higher upfront charge.
45. This option would also have higher total transaction costs over a ten-year period for those passport holders that always renew their passport.

² Canada first announced changes to their passport system in 2009 which were introduced in July 2013. <http://www.ppt.gc.ca/publications/pdfs/proposition-eng.pdf>

³ Data extracted from CUSMOD (Customs database on departures) and the Department.

Risk

46. It is likely that implementing the default option will not meet public expectations. Further, a price rise without a significant validity period increase may also lead to increased negative public reaction and renewed pressure for longer validity.

Option 2 *Ten- year passport validity period*

47. The main alternative to the status quo is to increase passport validity back to the pre-2005 length of ten years. Returning to a ten-year validity period is seen as desirable by many members of the public. However there are security and cost implications.

Security

48. The independent security review found that there are no security benefits from moving to a ten-year validity period. This option has higher security risks. Predominantly these increased risks relate to counterfeiting and impersonation risks due to an extended 'window of vulnerability' as passports are in circulation for ten, rather than five years.
49. However, the increased security risks associated with moving to a ten-year passport could be mitigated with appropriate additional security controls. For example:
 - 49.1 becoming an early adopter of next generation ePassport chips (to mitigate technology risks);
 - 49.2 regularly adopting new cryptographic key lengths (to better protect the content of ePassports);
 - 49.3 adding further functionality to existing facial recognition systems; and
 - 49.4 other graduated changes to the security features in passports.
50. Additional security mitigations would help manage and reduce the security risks of moving to a ten-year passport so that the security difference between the default option and a ten-year passport would be marginal. These security mitigations will of course require additional investment, leading to higher production costs.

Convenience

51. A ten year validity period will be more convenient for frequent travellers, and passport holders who choose to maintain a valid passport over time in the sense that they would generally only have to apply to renew their passport once every ten years (as opposed to twice under the default option). Over 60 per cent of New Zealanders use their passport two times or more during its validity period and these regular travellers seem likely to benefit from the longer validity period.
52. We cannot be sure that a ten-year validity period will be more desirable for all citizens due to its higher upfront cost. However, it would be more convenient for more citizens than the default option.

Risk

53. Moving to a ten-year passport validity period has a number of financial risks. However, these will be considered in **Part Two** of this regulatory impact statement. The primary risks of moving to a ten-year validity period relate to the passport book itself and international acceptance.
54. It is unclear whether the passport book and security chip can be guaranteed for the full ten years. If not the Department would have to absorb risk and costs associated with passport replacement due to book degradation or chip malfunction.
55. Previously there have been concerns that moving away from international best practice (five years) within the International Civil Aviation Organisation's guidance for passport validity could present a risk by undermining the international standing of the New Zealand passport and lead to reputational loss.
56. However, ten years has passed since New Zealand moved to five-year validity passports. The international security environment has changed and there has not been a widespread move from other nations to five-year passports as was anticipated at that time. We consider that, contingent on appropriate security mitigations being put in place, the reputation and 'brand' of New Zealand passports would not be significantly affected by a move to ten years. Nor are we aware of any evidence that indicated a move to ten years would directly jeopardise New Zealand passport holders' visa-free entry status with other countries. We consider that, on balance, international acceptance will not be impacted by validity periods but will instead be informed by the security and integrity of New Zealand passports.
57. Other risks relating to increased counterfeiting, impersonation at the border and misuse of New Zealand passports are hard to quantify. These risks often involve very low likelihoods with unclear, but potentially high impact, consequences. We consider that while a ten-year validity period may increase the level of these forms of risk, they should be adequately mitigated by increased security measures. Further, we consider that given the very low likelihood of these risks, they should be kept in perspective alongside other risks and security matters.

Validity period options analysis

58. Which option (default or ten-year validity period) better meets the requirements of security, convenience and risk?
59. Assuming that a security mitigation plan would be put in place and properly implemented, the security differences between the default option and a ten-year validity period are likely to be marginal.
60. While it would appear that a ten-year passport would be more convenient for many individuals, five or ten year passport validity periods carry different impacts and benefits for different groups. New Zealanders who live abroad believe they incur added costs from the five-year validity period because the country where they reside may also require them to renew their residency or working visa when they renew their passport. However, any increase in an upfront fee associated with the longer validity period applies to all applicants no matter where they live or how often they use their passport.

61. While many individuals maintain a valid passport in case they wish to travel, many others travel internationally only on a very occasional basis. They may not renew an expired passport until they need to travel again. The Department's fast issuance process means that New Zealanders do not need to apply a month or more in advance to be sure of getting their passport before travel, as may be the case in other countries such as Canada and the United States of America. For those individuals the five-year passport with the lower upfront fee may be better value than a ten-year validity passport.
62. Comparing risks is more difficult and, ultimately, more subjective. The default option involves domestic political, communications and administrative risks relating to maintaining a short passport validity period. Moving to a ten-year passport involves a small number of low likelihood risks that would involve consequences that are difficult to quantify or predict.
63. The arguments between each validity period are finely balanced. On the one hand, the five-year validity period is likely to provide a security advantage. On the other hand, a ten-year validity period is perceived to offer greater convenience.

Part Two Cost implications of ten-year validity passports

64. Currently passports are funded by fees set on a full cost recovery basis. Part 2 of this regulatory impact assessment sets out the financial and administrative implications of a return to ten-year passport validity. In particular, we examine how passport fees would rise, and then alternative funding models to help reduce fee rises. This section of the Regulatory Impact Statement does not present formal options for regulation. Instead, it seeks to inform decision-makers, and the public, about the cost implications of returning to a ten-year passport validity.
65. Using current modelling, passports would cost either \$199 for a five-year passport, or \$274 for a ten-year passport. When considering options we need to also be mindful of New Zealanders' entitlement to a passport. Therefore, we should examine funding options, including a mix of cost recovery and Crown funding, to ensure that passport prices do not become so high that they are unaffordable for some New Zealanders.

The financial impact of moving to a ten-year validity period

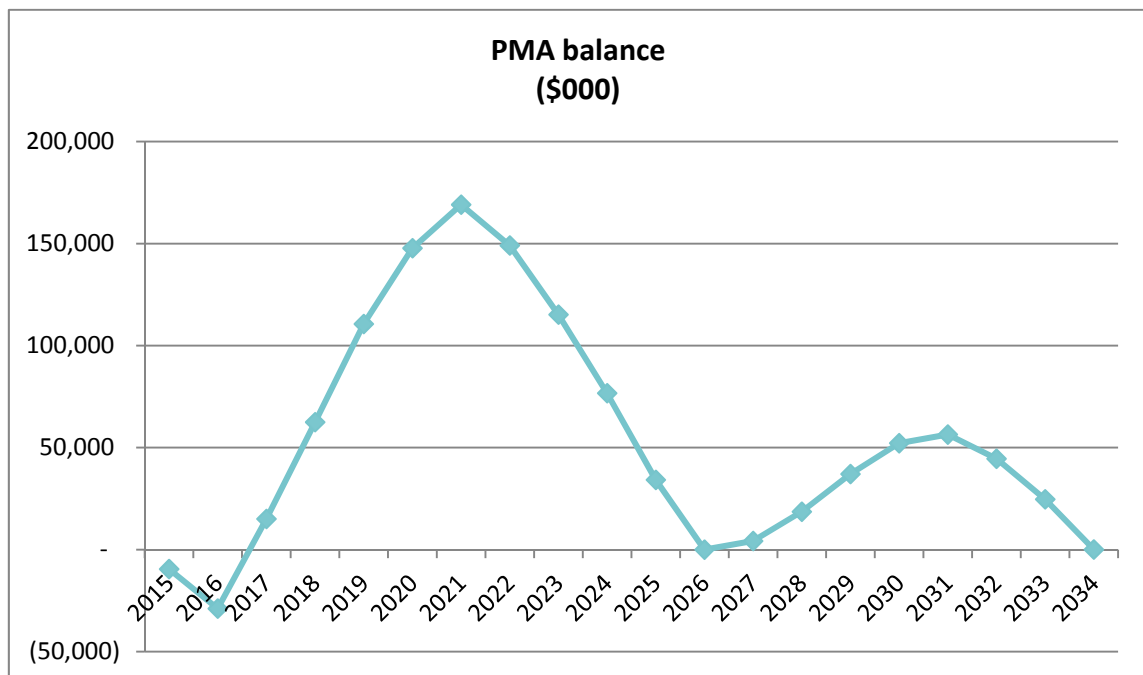
66. One major administrative risk associated with moving to a ten-year passport is the implications of significantly reduced number of passports issued after the first five years, as most current adult five-year passports will have been renewed and have a ten-year validity by that time. It is estimated the Department would issue 1.77 million (36 per cent) fewer adult passports over that ten-year period. The costs of maintaining the passport service and supporting the child subsidy will therefore be spread over a much smaller number of passports. **Appendix B** sets out the cyclical nature of passport renewal, and the implications for per-unit cost of a move to ten-year passport validity.
67. Other factors that will affect costs for a ten-year validity period passport include:
 - 67.1 security mitigation costs (approximately \$4 million);
 - 67.2 renegotiation of contracts with suppliers;
 - 67.3 staff redundancy costs at Year five (and subsequently Year 15);

- 67.4 staff recruitment and training costs at Year nine (and subsequently Year 19);
 - 67.5 business risks associated with forecasting for changed customer behaviour and constant business change.
68. Combined, those costs and risks would drive up the cost of administering the passport service.

Maintaining full cost recovery

- 69. If the current full cost recovery model was to be retained the fee for ten-year adult passports would cost citizens an estimated \$274 (38 per cent higher than the default option).
- 70. A full cost recovery model for ten-year passports would also mean that the Department would need to accumulate a large cash surplus in the Account over the first five years to sustain the provision of passport services over the second five years, when there would be few adult passport renewals. As renewal rates drop significantly, the costs of the passport service need to be spread across a very small number of passports, driving up per-unit administrative costs.
- 71. As shown in **figure 2** (below), the Department would need to build up a large surplus (nearly \$170 million at its highest value) over the first five years in order to sustain the large fall in revenue over the second five years when there are few passport renewals. This large surplus would be necessary to ensure the Account does not go into deficit in 2026. This cyclical building of a surplus to spend over the following five years would continue to happen over decades, but at a decreasing rate.

Figure 2: forecast balance of the Account for ten-year passports with full cost recovery fees



72. Maintaining this large surplus would be critical to ensuring the medium and long-term viability of the passport service, the integrity of the New Zealand passport and ensuring price consistency for ten-year passports over the first ten years (2016 – 2026). However, maintaining such a large surplus would require ongoing organisational discipline and political and public recognition of the necessity for the surplus to fund future activity. This surplus would be more than six times larger than the \$27 million surplus that was previously reduced and equivalent to more than one quarter of 2014/15 Departmental Appropriations under Vote Internal Affairs.
73. The key financial and administrative risks associated with this approach would be:
- 73.1 the high price (\$274) could be viewed as nullifying the additional convenience (of a longer validity period) and/or inconsistent with the entitlement of citizens to a passport;
- 73.2 maintaining a very large surplus in the Account (nearly \$170 million) would require careful management of perceptions of the Account surplus, and the necessity to manage it in this way.

Reducing fees for ten-year passports through Crown revenue

74. Should full cost recovery fees be considered too expensive for citizens and/or too administratively risky, an alternative would be to provide Crown revenue for the production of passports and other travel documents. Partial Crown funding, and some reduction in departmental expenditure, could help make a ten-year passport more affordable for passport holders, and bring down the surplus needed in the Account.
75. However, any meaningful reduction in price would require a significant amount of Crown funding to offset the lost revenue. Crown funding would be needed after 2022 when the number of passport renewals drops dramatically, to offset reduced revenue. **Table 2**, below, sets out an indicative timeline for Crown revenue injections (final costings and revenue requirements would be finalised should Cabinet agree to this option).

Table 2: Potential Crown revenue requirements June 2016 – June 2026

Crown Revenue	June 2016	June 2017	June 2018 – June 2022	June 2023	June 2024	June 2025	June 2026
\$million	-	13.642	-	32.899	43.044	46.637	41.382

76. This new Crown funding would have an opportunity cost in terms of the other new Crown initiatives that could have been funded with the money. For example, setting a \$200 fee could require between \$175 – \$200 million in extra funding through to 2026 (exact passport fees and levels of Crown funding would be subject to further analysis if this option were agreed to by Cabinet).
77. We note that this option would not eliminate the need for the Account to build up a surplus over the first five years of operation. Instead, the provision of Crown revenue from 2023 – 2026 would reduce the necessary surplus down to an estimated \$43 million. While one quarter the size of the surplus required under full cost recovery, this surplus would still be a large amount of money, with the potential to create communications and perception challenges.

78. The main risks of this option are:
- 78.1 requiring a surplus of almost \$43 million still brings with it administrative and perception risks similar to those under full cost recovery (but less pronounced); and
 - 78.2 maintaining political commitment to providing funding from 2023 in what is likely to continue to be an environment of fiscally constrained government spending could be challenging for the Department.

Capital injection to reduce deficit

79. One alternative option could be to secure a capital injection to eliminate the current deficit in the Account. This would reduce passport fees while maintaining a full cost recovery approach. This option would mean that, if changes were implemented in July 2016, fees for ten-year passports would not need to account for the estimated \$30 million deficit in the Account at that time. Our initial estimates indicate that, with a capital injection to remove the deficit, passport fees would be \$265. However, we note that this is not significantly different from fees under the full cost recovery approach.

Funding options are a trade-off

80. Analysis of the costs and funding models for passports will involve:
- 80.1 trade-off between cost to citizens and fiscal cost to Government; and
 - 80.2 balancing of financial and administrative risks associated with each option.
81. Preference for full cost recovery or Crown subsidies will depend on individual preferences and interests. Continuing the existing cost-recovery model does not require any Crown revenue. However, the high prices of this option could be politically unpalatable, and the required surplus to properly manage the drop in revenue from 2022 would be difficult to manage and justify. Meanwhile, lower prices for passport holders are likely to be welcomed by many members of the public, but will come with an opportunity cost for Government.
82. We consider that, on balance, the funding methods for ten-year passports are both risky. One involves price rises that could potentially be unpalatable to the public, while the other requires considerable injection of Crown revenue to offset price rises.

Consultation

83. The Cabinet paper that this regulatory impact statement accompanies has been subject to consultation with the Ministry of Justice; the Ministry of Foreign Affairs and Trade; the Ministry of Business, Innovation and Employment (Immigration); the Treasury; New Zealand Customs; New Zealand Police; and the New Zealand Security Intelligence Service. The Department of the Prime Minister and Cabinet has been informed of the Cabinet paper. This consultation has encompassed matters relating to the criteria selected in this regulatory impact assessment.

84. There has not been any public consultation on the options to date. However, over 15,000 New Zealanders signed Petition 2011/97 which sought a return to a ten-year passport validity. Members of the public and interested parties will have the opportunity to comment on the validity period of passports during consideration of a Passports Amendment Bill.

Conclusions and recommendations

85. We conclude that the arguments on whether to implement a passport validity period of ten years (versus implementing the default option) are finely balanced. In addition, returning to a ten-year passport validity period comes with significant additional costs – either to passport holders (under full cost recovery) or to both passport holders and the Crown. A return to ten-year passports would require the Department to build up a considerable surplus in the Account to ensure that the Account does not go into deficit again when, from 2021, the number of passports produced each year would drop dramatically.
86. The trade-off involved in moving to, and funding, a ten-year passport validity period is a political decision for Cabinet to make. As such, the Department does not have a preferred option on passport validity, nor how to fund a validity increase should Cabinet decide to return to ten-year passports.

Implementation plan

87. Implementation of this regulatory impact assessment would be in two phases: legislative change and further analysis on fee setting.

Legislative change

88. Following Cabinet decisions on passport validity, we would seek agreement to introduce a Passports Amendment Bill, implementing Ministers decision on validity period and the previous, non-validity period, changes agreed to in August 2013.

Further analysis on fee setting

89. The implementation of Cabinet's decisions relating to passport validity and fee setting will require further consideration and analysis once in-principle decisions on validity and whether to provide Crown revenue have been made.
90. Following Cabinet consideration, we would undertake further financial analysis to advise Ministers of options for setting fees and structuring of Crown funding (if any).
91. Fee setting for passports is undertaken by Order-in-Council and would therefore not require further amendment to the Passports Act.

Monitoring, evaluation, and review

92. The Department monitors and regularly reviews the passports service both in terms of financial monitoring and other levels of efficiency performance.
93. Rather than a formal policy evaluation or review after two or three years, we consider that if New Zealand moves to a ten-year validity period ongoing monitoring and maintenance would include:

- 93.1 routine checking and assessment of security mitigations as a part of the Department's ongoing and planned security processes, including maintaining security levels and assessing needs for further security enhancements over time;
- 93.2 assessing the effects of the change to the passport validity period on individuals' perceptions of convenience and on the cost implications of the change;
- 93.3 whether moving to a ten-year passport validity period has negatively impacted on how other countries regard New Zealand passports; and
- 93.4 routine testing of funding models and assumptions between 2016 and 2021 to ensure that the Account is building up the necessary surplus to cover costs from 2022 – 2026 as revenue drops significantly.

Appendix A: Findings of the passport security review

1. On 9 October 2014, the Minister of Internal Affairs appointed Simon Murdoch CNZM, to carry out an independent review of passport security. This review considered the security settings of passports in the context of current international civil aviation security and border control issues, and the materiality of the differences in security risks between five-year and ten-year validity periods.
2. During his review Mr Murdoch: interviewed senior Departmental officials, passport fraud investigators; met with relevant external stakeholders and analysed information received from international experts and organisations on travel document security, and the current travel security environment.
3. Mr Murdoch's main finding was that in the current international security environment, it is better to retain a validity period closer to five years.
4. His main conclusions were:
 - 4.1 it was appropriate for New Zealand to move to a five-year passport in 2005 to help improve the security of its passport;
 - 4.2 international and border security risks have changed since 2005 but have not improved, and global security remains complex;
 - 4.3 the physical security of the New Zealand passport has improved significantly;
 - 4.4 five years (including the nine month extension) remains at the most secure end of a validity period;
 - 4.5 there is no security benefit from moving to a ten year-validity period. It increases the risk of counterfeiting and a security mitigation plan and investment would be necessary to reduce these risks; and
 - 4.6 a risk of reduced revenue from the longer validity period may mean there would be less income for future security enhancements.

Appendix B: Fluctuations on passport numbers and per unit costs for ten-year passports

- Figure 3, below, illustrates how passport issuance and the production cost for each passport would change over a twenty year cycle if the validity period were to increase to ten-year. There is a steep decline in the number of passports issued after five-years, but then the number rises quickly again five years later as the first series of ten-year passports now need to be renewed. This fluctuation in passport demand will continue for several decades. As issuance levels fall quickly, the production costs of each passport increase sharply, while some costs reduce with lower volumes, there is a high portion of fixed costs which are recovered from reduced volumes. For fee purposes this cost would be averaged out over the ten-year period.
- This large fluctuation in passport demand has significant business impacts which will continue for a number of decades. Initially, it could lead to a decrease in some variable costs such as staff, but it is also likely to lead to an increase in other costs such as passports books (where price discounts will be lost as fewer books are being purchased by the Department).

Figure 3: Fluctuations in passport numbers and unit costs resulting from a ten-year validity period 2014/15-2033/34

