Ministry for Primary Industries
Manatū Ahu Matua

NEW ZEALAND
CUSTOMS SERVICE
TE MANA ĀRAI O AOTEAROA

RECOVERING THE COSTS OF GOODS MANAGEMENT

STAGE 2 COST RECOVERY IMPACT STATEMENT

February 2025

CONTENTS

SECTION 1: STATUS QUO

1. This Section of the Cost Recovery Impact Statement (CRIS) describes the New Zealand Customs Service's (Customs') and the Ministry for Primary Industries' (MPI's) services and the current cost recovery arrangements relevant to this CRIS. Customs and MPI deliver services to mitigate biosecurity and other risks related to imported and exported goods. The agencies[1] fully recover costs of services related to high-value consignments.[2, 3] For low-value consignments, the agencies partly recover costs.

2. Customs and MPI deliver services to mitigate biosecurity and other risks posed by goods crossing the border, such as illicit drugs. Section 3 of the consultation document "Recovering the costs of goods management activities at the border" (the Consultation Document)[4] described Customs' and MPI's goods-related services. These services involve:
   - processing data related to goods
   - gathering intelligence and assessing the risk posed by those goods
   - detaining and examining high-risk goods
   - carrying out investigations and seizing goods.[5]

3. Customs and MPI fully recover the cost of these border protection services other than for low-value goods, where Customs and MPI partly recover the costs. Customs collects fees on imports and exports, and MPI collects the Biosecurity System Entry Levy (BSEL) on imports:
   - for high-value consignments, the agencies impose a charge when importers[6] and exporters lodge an entry. The rates charged are the same for both air and sea cargo.
   - for low-value consignments, the agencies impose a charge per report when low-value consignments are declared on a cargo report. The rate charged is the same regardless of the number of consignments declared on the cargo report (a cargo report can contain up to 9,999 consignments).
   - Customs also imposes charges on certain other cargo reports to recover costs not recovered from the charges described above.

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[1] In this CRIS, "the agencies" means Customs and MPI.
[2] "Consignment" means all of an importers' goods on a craft (or for exports, all of an exporters' goods on a craft).
[3] In this CRIS, "high-value consignment" means a consignment of goods with a total value over $1,000 and "low-value consignment" means a consignment of goods with a total value $1,000 or less. We chose this threshold because most imports valued over $1,000 are subject to the Import Entry Transaction Fee (Reg. 24A Customs and Excise Regulations 1996) and the Biosecurity System Entry Levy, and most exports valued $1,000 or more are subject to the Export Entry Transaction Fee (Reg. 29A).
[4] New Zealand Customs Service and Ministry for Primary Industries. (2024). Recovering the costs of goods management at the border: a joint consultation document. https://www.customs.govt.nz/globalassets/documents/misc/goods-fees-review-consultation-full-document.pdf
[5] In this CRIS, when we refer to costs we are referring to the cost of services described in paragraph 2 other than the activities excluded from cost recovery described in paragraph 5.
[6] In this CRIS, "importer" means the consignee of the goods (ie, the person the goods will be delivered to). Many types of businesses and individuals import goods, for example: consumers buying goods from overseas e-commerce platforms; retailers importing goods in bulk to on-sell to consumers; and exporters and other businesses importing capital equipment, parts and consumables used in their business operations.

4. The rates of these charges[7] are shown in Appendix A: Current and proposed structure and rates. The charges are authorised by the Customs and Excise Regulations 1996 and the Biosecurity (System Entry Levy) Order 2010. MPI also recovers certain costs related to border protection using charges under the Biosecurity (Costs) Regulations 2010.[8]

5. Some of Customs' activities related to goods are outside the scope of cost recovery, including taking prosecutions and other enforcement action, services to facilitate trade such as negotiating free trade agreements, and services to collect revenue for the Crown such as tariff duties. These services are Crown funded.

6. Customs' fees were last reviewed in 2019 [DEV-19-MIN-0334] and have been adjusted in line with consumer price inflation to maintain their real value, pending the outcome of the current review of goods charges. In 2019, Cabinet had agreed to:
   - set most rates to fully recover costs (the rates related to high-value air and sea cargo, low-value sea cargo, and outward cargo reports)
   - increase rates related to low-value air cargo but not to levels that would fully recover costs, with a report back to Cabinet about moving to full cost recovery. The rates were significantly below full cost recovery levels because they had not been reviewed since 2006. Since then, e-commerce has resulted in a dramatic growth in low-value goods and Customs has received Crown funding to meet funding shortfalls. Crown funding was also provided when the threshold for low-value goods was moved from $400 to $1,000 [DEV-18-MIN-0209].

7. MPI's BSEL was last reset in 2023.[9]

SECTION 2: CRITERIA AND OPTIONS

8. This Section of the CRIS notes principles of cost recovery and describes options to better align the current charges with those principles:
   - first option: to adjust Customs' fees to ensure Customs' short-term financial sustainability
   - preferred option: a package that includes this first option as well as proposals that would remove identified cross-subsidies between classes of feepayer and fully recover the agencies' costs.

9. Section 3.3 of the Consultation Document set out the principles of cost recovery, and used those principles as criteria to assess the options in the Consultation Document:
   - equity (our services are funded by those who use them, or who create the need for them, and they match the costs of the activities undertaken)
   - efficiency (we deliver high service standards at a sustainable cost)
   - transparency (we provide clear and easily understood information about our funding decisions)
   - justifiability (we recover only the costs of delivering our service).

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[7] For simplicity, this CRIS uses the term "charges" to refer to Customs' current fees related to imports and exports, MPI's BSEL, and the proposed charges described in Table 1.

[8] Separately from the BSEL, MPI charges individual importers fees under the Biosecurity (Costs) Regulations 2010 for specific services such as inspecting their goods.

[9] Biosecurity (System Entry Levy) Amendment Order 2023.

10. The first option presented in the Consultation Document was a proposal to ensure the short-term financial sustainability of Customs (Section 4.2 of the Consultation Document):

- for services intended to be fully cost recovered: adjust rates so that forecast revenue recovers forecast costs plus the opening memorandum account[10] deficit that has resulted from the fee revenue being lower than needed to recover costs
- for services intended to be partly cost recovered: adjust rates to maintain services at current levels without additional Crown funding.

11. The second option presented in the Consultation Document was an integrated package of changes ("the package") containing the proposals for Customs' short-term financial sustainability, plus proposals to improve fairness for feepayers (Sections 4.3 of the Consultation Document) and for taxpayers (Section 4.4 of the Consultation Document). The proposals and the reasons for them are summarised in Table 1. Details about how the proposed charges would be collected, and proposed exemptions from the charges, are set out in Appendix A: Current and proposed structure and rates.

Table 1 – Proposals to improve fairness for feepayers and taxpayers

Proposal	Reason for proposal
Proposals to improve fairness for feepayers	
Customs to charge separate rates for high-value air and sea cargo.[11]	Customs' costs per high-value sea consignment are considerably higher than the costs per high-value air consignment.
Charge low-value goods per consignment.	Currently, the charge related to each low-value consignment depends on the document used to declare that consignment. However, the agencies' costs relate to the consignment rather than to the document.
Customs to charge for international transhipments[12] and empty shipping containers at the same rates as for low-value goods.	Customs' costs related to international transhipments and empty shipping containers are funded by the charges on other goods.

[10] For the services where Cabinet set fees to fully recover costs, Customs established a memorandum account to ensure that Customs does not under-recover or over-recover its costs. The memorandum account records the balance of surpluses and deficits in providing these border protection services. Memorandum accounts are usually either in surplus or deficit, and fee rates should be adjusted regularly so that the balance trends towards zero. See: The Treasury. (2017). Guidelines for setting charges in the public sector. http://www.treasury.govt.nz/publications/guidance/planning/charges

[11] Customs proposes that the rate for high-value mail be the same as the rate for high-value air cargo (see footnote 14 for a definition of mail). MPI may consider whether to set separate rates for air and sea cargo in a future review.

[12] "International transhipment" means goods that are unloaded from an arriving craft and remain temporarily within Customs control until they are exported.

Proposal	Reason for proposal
Charge commercial vessel arrivals.	Customs and MPI carry out activities to mitigate risks such as contraband hidden in or on the vessel, and hull biofouling. Currently, the cost of these activities is largely funded through charges on goods. Some vessels carry many consignments of goods while others carry few or no consignments, and therefore funding these costs by charging goods does not result in a fair spread of costs across vessels.
Cease to charge cargo reports.	Charges on cargo reports are inconsistent with charging per consignment.
Proposals to improve fairness for taxpayers	
Charge low-value air cargo at rates that fully recover costs.	Currently, Customs' and MPI's charges related to low-value goods only partly recover costs.
Charge carriers (or consolidators)[13] per kilogram of mail[14] they are responsible for bringing to New Zealand.	Goods imported by mail pose biosecurity and other border risks but Customs and MPI do not currently recover the cost of mitigating these risks. The charge would be per kilogram because there is insufficient electronic data on the number of mail items carried by each carrier or consolidator.
Charge New Zealand Post actual and reasonable costs related to outbound mail.	Goods exported by mail also pose border risks and therefore costs related to mitigating these should be cost recovered.

12. This package is integrated, and its components depend on each other. For example, ending cross-subsidies for low-value goods is a prerequisite to moving to full cost recovery for low-value goods because increasing charges without addressing cross-subsidies would exacerbate those cross-subsidies.

13. Some submitters suggested alternative options to this package. After considering their submissions, we consider those alternatives do not meet the criteria as well as the proposed package (see Appendix B: Options suggested by submitters).

[13] "Carrier" means the craft operator. "Consolidator" means the freight forwarder responsible for carrying the mail. Overseas postal operators could contract directly with a carrier to ship mail to New Zealand, or could contract with a freight forwarder.

[14] In this CRIS, "mail" means low-value international postal articles transmitted to or from New Zealand under Universal Postal Union (UPU) regulations. Mail includes letters but most mail (by weight) is comprised of goods purchased online.

SECTION 3: ASSESSMENT OF THE PACKAGE

14. This Section of the CRIS notes the assessment (published in the Consultation Document) of the options described in Section 4 of the Consultation Document and considers that assessment in light of submissions from the public consultation. After considering the submissions, officials affirm the assessment made in the Consultation Document that the package better meets the cost recovery principles than the status quo.

Summary of assessment in the Consultation Document

15. In the Consultation Document, we used the criteria to assess the package against the status quo. We assessed that the component related to Customs' financial sustainability better met the criteria than the status quo. However, we assessed that progressing with the package as a whole (Customs' financial sustainability plus fairness for feepayers and taxpayers) met the criteria better than either the status quo or progressing with only the component related to Customs' financial sustainability. Those assessments were discussed in Section 4 and summarised in Section 4.5 of the Consultation Document.

Customs' financial sustainability

16. Section 4.2 of the Consultation Document noted that adjusting Customs' fee rates under the current fee structure would continue to implement the policy intent of Cabinet's decisions in 2019 noted in paragraph 6 as well as Cabinet's decision to fund Customs' expanded maritime activities (the Maritime Initiative).[15] Usually, rates should be regularly reviewed to ensure they continue to fully recover costs. The rates had not been reviewed earlier because Cabinet deferred reviews during the COVID-19 pandemic [CVD-20-MIN-0010], and officials also needed to review the structure of the fees.

17. Customs' fees are no longer fully recovering costs because volumes[16] and costs differ to those estimated in September 2019. In particular:

- forecast volumes are lower than the original 2019 estimates, and therefore forecast revenue is 10 percent less than the original forecasts. One reason for this change is that freight forwarders are consolidating more shipments together
- Customs' forecast costs (aside from the Cabinet-agreed Maritime Initiative) have increased since 2019, but the increase is 15 percent less than consumer prices increased over the same period.

Fairness among feepayers

18. Section 4.3.1 of the Consultation Document said moving from a flat charge per report to charging per consignment would better align charges with the costs because Customs' and MPI's costs relate to the consignment rather than to the report. Similarly, Section 4.3.2 noted that separate Customs rates for air and sea cargo would align the charges with Customs' costs related to air and sea cargo respectively. A sea cargo

[15] Budget 2023 provided an initial two years of Crown funding to enhance Customs' maritime function to address significant risks at the border. When this Crown funding was provided, the Government noted the function should subsequently be cost recovered.

[16] In this CRIS, "volumes" refers to the number of documents, consignments, or vessel arrivals on which Customs and MPI impose (or propose to impose) charges.

consignment costs more for Customs to process than an air cargo consignment. Section 4.3.4 noted that introducing a vessel charge would ensure recovery of costs that relate directly to vessels from vessel operators (those costs are currently recovered from goods).

19. Section 4.3.5 of the Consultation Document noted that shippers of international transhipments and empty containers currently do not meet the costs of Customs' activities related to them. These pose risks that need to be mitigated. For example, material can be illegally removed or added to a transhipment, and empty containers can contain contraband.

Fairness for taxpayers

20. Section 4.4 of the Consultation Document assessed that the current partial cost recovery for low-value air cargo, and no cost recovery for mail, do not meet the cost recovery principle of equity. Low-value cargo and mail (including letters) can contain illegal goods or biosecurity threats and therefore generates the need for Customs and MPI to carry out activities to mitigate the risks.

Affirmation of the assessment in the Consultation Document

21. We asked submitters for their views about our assessment. Agencies considered the submissions and their implications for our policy analysis. After considering the submissions officials affirmed that the package in the Consultation Document for moving to full cost recovery and removing cross-subsidies better meets the criteria than the status quo.

Moving to full cost recovery

22. Various submitters (including The Customs Brokers and Freight Forwarders Federation of New Zealand (CBAFF), individual freight forwarders, exporters and a shipping line) suggested the Crown should fund some or all of the cost of processing low-value imports and exports, or processing vessels, because mitigating biosecurity threats and other risks delivers public goods that benefit all New Zealanders. Other submitters suggested the Crown should fund the cost of processing low-value exports because they benefit the New Zealand economy.

23. We assess that moving to full cost recovery for low-value goods and vessels better meets the criteria than the status quo. Under the cost recovery principle of equity, parties creating the need for agencies to carry out work to mitigate risks should fund the cost. Full cost recovery – rather than partial or full Crown funding – would be fairer for taxpayers, improve economic efficiency by realigning prices and production costs, and free up Crown funding for higher priority spending.

Removing cross-subsidies

24. Submitters, particularly freight forwarders, were supportive of separating air and sea rates to reflect Customs' costs related to air were different to those related to sea cargo. However, for the proposals related to cross-subsidies or low-value goods and vessels, submissions generally focused on the impact of the indicative charges rather than on the principle of removing cross-subsidies. CBAFF and two individual freight forwarders

submitted that a charge per low-value consignment would be fairer than a flat charge per cargo report. CBAFF also submitted that it was better for vessel owners to fund costs related directly to vessels, than for goods to fund those costs.

25. In light of these submissions, officials remain with their assessment in Section 4 of the Consultation Document that the package better avoids cross-subsidies than the status quo. Avoiding cross-subsidies aligns with the cost recovery principles of equity (because it better ensures feepayers are funding the costs of the service they use) and justifiability (feepayers are not funding costs unrelated to the services they use).

Overall assessment in light of the submissions

26. Overall, after considering the submissions, officials confirm their assessment in Section 4.5 of the Consultation Document that the package better meets the cost recovery criteria than the status quo.

SECTION 4: IMPACT OF IMPLEMENTING THE PACKAGE

27. Section 4 of the Consultation Document included a description of the potential impact (compared to the status quo) of implementing the package for importers, exporters and the Crown, and asked submitters about the impact on their businesses. This Section of the CRIS updates the impact assessment based on updated forecasts of volumes and costs, and summarises submitters' descriptions of the impact on their businesses. In summary, moving to fully recover costs and removing identified cross-subsidies would:

- have minor impacts for high-value goods because the changes in charges would be small relative to the median value of the goods (paragraph 32). The impact is similarly small for international transhipments and empty containers (paragraph 42)
- have moderate impacts for low-value goods (paragraph 37) and mail (paragraph 48). Charges are estimated to increase from $0.10 to $2.21 for air imports and from $0.66 to $2.48 for air exports (on average) and by $1.28 per kilogram of goods imported by mail.[17] These increases are estimated to reduce volumes by 2 percent for air cargo and 0.7 percent for mail. Exporters of low-value goods indicated they might need to significantly change their current business models as part of adjusting to an unsubsidised environment
- for commercial vessels, the impact is assessed to be small relative to the total cost of a voyage to New Zealand (paragraph 46).

28. To implement the package, Customs' and MPI's proposed charges would be set at rates calculated by dividing the relevant costs by the estimated volume of consignments. The relevant costs are the agencies' costs related to each class of consignment (or to commercial vessels) plus the opening memorandum account deficit related to those consignments or vessels. The forecast volumes and costs are discussed in the appendices (see Appendix C: Forecast volumes and Appendix D: Forecast costs). In December 2024, Customs engaged KPMG to review the calculations, assumptions and processes used to generate Customs' proposed rates. KPMG found no significant gaps in Customs' working.

[17] Unless otherwise stated, all rates shown in this CRIS are combined Customs plus MPI rates excluding GST.

Impact on importers and exporters of high-value goods

29. Table 2 shows the combined (Customs' and MPI's) rates for high-value consignments under the package compared to the status quo. The separate Customs and MPI rates are shown in Appendix A: Current and proposed structure and rates.

Table 2 – Rates under the package for high-value goods

Consignment Type	Current $ excl GST	Package $ excl GST	Change $ excl GST
Imports			
High-value import entry (air)	81.25	51.81	-29.44
High-value import entry (sea)	81.25	118.44	+37.19
Exports			
High-value export (air)[18]	7.20	3.35	-3.85
SES export (sea)	3.44	3.76	+0.32
Other high-value export (sea)	7.20	8.13	+0.93

30. The package would result in substantial reductions in rates for high-value air cargo with corresponding increases in rates for sea cargo. This is because air cargo would cease to cross-subsidise sea cargo.

31. Most goods are imported or exported by sea (74 percent of $83 billion total imports and 83 percent of $82 billion total exports was by sea in 2023/24).[19]

32. Table 3 shows the impact relative to the value of high-value import and export consignments. It shows that rate increases are small (less than 1/10 of one percent) compared to the median value of the cargo. For both air and sea cargo, the rate changes have been independently estimated by Sapere Research Group to have a negligible effect on the volume of trade.

Table 3 – Impact on high-value goods

	Median value of consignment $ excl GST	Rate change $ excl GST	Rate change compared to value of consignment	Estimated change in volume of trade
High-value import (air)	3,900	-29.44	-0.8%	+0.08%
High-value import (sea)	40,000	+37.19	0.09%	-0.03%
High-value export (air)	6,200	-3.85	-0.06%	+0.01%
High-value export (sea)	61,000	+0.93	0.002%	-0.00%[20]

[18] Customs proposes there be no separate rate for air cargo exported under the Secure Exports Scheme (SES) because the capability to ship SES goods by air is relatively new and volumes are still low. We will review in three years whether to propose a separate rate.

[19] These totals include goods declared as air or sea cargo. It does not include goods transported by mail.

[20] The estimated change in the volume of high-value sea exports is less than 0.005 percent.

33. Freight forwarders were generally in favour of setting different rates for air and sea consignments to reflect the different cost of processing air and sea consignments.

Impact on importers and exporters of low-value goods

34. Under the package, the agencies would impose the charges on freight forwarders who seek clearance of low-value goods, but we assume that the impact is ultimately passed on to importers and exporters of low-value goods. Some freight forwarders said they would adjust the amount they currently bill their clients to reflect the rate changes. Other freight forwarders said they might start charging recipients of low-value goods for the cost of the charges. They submitted, however, that it would be costly and cumbersome for them to bill recipients and to hold the goods until recipients had paid them. We assess that it is not viable for freight forwarders to charge recipients of low-value goods and that customers would prefer to use freight forwarders with more efficient means of passing on the cost of the agencies' charges.

35. Table 4 shows the rates related to low-value goods under the package compared to the status quo.

Table 4 – Rates for low-value consignments

Consignment Type	Current[21] $ excl GST	Package $ excl GST	Change[22] $ excl GST
Imports			
Low-value import consignment (air)	0.10	2.21	+2.11
Low-value import consignment (sea)	2.03	2.09	+0.06
Exports			
Low-value export consignment (air)	0.66	2.48	+1.82
Low-value export consignment (sea)	2.04	3.22	+1.18

36. Low-value air cargo makes up 2.4 percent of total imports and 0.6 percent of total exports (by value), but this proportion has been growing over time.

[21] Currently, charges are imposed on cargo reports used to declare low-value consignments. The impact of those charges on each consignment depends on the number of consignments on the report. Table 4 shows the estimated average impact of the current and proposed charges. This analysis assumes that freight forwarders pass on the cost of the charges to their clients. Some freight forwarders advised that they currently absorb the cost of the charges, but would pass on the proposed charges if the package is implemented.

[22] The change for any particular consignment depends on the number of consignments on the entry or report used to declare the consignment. For example, if 55 or fewer low-value air imports were declared on an Inward Cargo Report, the total of the proposed charges on those consignments would be less than the current charges on the Inward Cargo Report.

37. Table 5 shows the impact of the proposed rate changes compared to the value of low-value consignments. The $2.21 cost of processing low-value air imports is 5 percent of the $41 median low-value import, and the $2.48 cost of processing low-value air exports is 3 percent of the $91 median value of low-value exports.[23] While these rate changes are material compared to the value of the goods, officials note that Customs' and MPI's activities are focused on the risks posed by the goods and not on the value of the goods.

38. Table 5 also shows that independent economic analysis by Sapere Research Group estimates the rate changes would result in low-value imports being 2.2 percent lower and low-value exports being 2.4 percent lower than they would be if the rates were unchanged. Despite this estimated impact on low-value imports, we expect the underlying trend of increasing volumes of low-value imports will continue. We did not receive any submissions challenging the independent economic analysis.

Table 5 – Illustrative impact on low-value consignments

	Median value of consignment $ excl GST	Rate change $ excl GST	Rate change compared to value of consignment	Estimated impact on volume of trade
Low-value import (air)	41	+2.11	+5%	-2.2%
Low-value export (air)	91	+1.82	+2%	-2.4%

39. Retail New Zealand supported full cost recovery for low-value goods because it would improve competitive neutrality for local retailers. Retailers import most goods in bulk and pay agencies' charges and compete with offshore e-commerce sites where agencies' costs are largely funded by other feepayers and the Crown. Various other submitters opposed moving to fully recover costs because it would increase the cost to consumers of buying goods from offshore e-commerce sites and add to consumer price inflation. Officials consider that moving to fully recover costs would have a minimal one-off impact on consumer price inflation.

[23] Most of Customs' costs relate to imports rather than exports. However, Customs' proposed rate for low-value air exports ($2.48) is higher than the proposed rate for low-value air imports. The main reason it is higher is because the proposed rate for low-value air exports would recover a large opening deficit in the memorandum account related to low-value air exports, in addition to the forecast annual operating costs (see paragraph 63).

40. Many exporters of low-value goods strongly opposed full cost recovery for low-value air exports because it would increase their costs and could make it harder for them to compete on international markets and might affect the viability of their current business models for exporting low-value goods. The Low Value Technical Advisory Group (LVTAG)[24] advised that the proposed rate for low-value exports represents a barrier to exporting low-value goods and might hinder their growth and reduce their profitability. In response to the proposed rate, some exporters of low-value goods said they might export in bulk for overseas distribution centres to deliver their goods to individual customers, switch to exporting via mail (Customs' costs are less per mail item than for air cargo) or relocate their business overseas. Officials note industry's feedback about how it might adjust to an unsubsidised environment, and will monitor the volume of consignments as well as continuing with ongoing engagement with industry (see Section 7: Monitoring, evaluating and reviewing the charges).

Impact on transhipments and empty containers

41. Table 6 shows Customs' rates related to international transhipments and empty containers.[25]

Table 6 – Customs' rates for low-value consignments, international transhipments and empty containers

Consignment Type	Current $ excl GST	Package $ excl GST	Change $ excl GST
International transhipment (air)	Nil	1.46	+1.46
International transhipment (sea)	Nil	1.34	+1.34
Empty container (sea)	Nil	1.34	+1.34

42. CBAFF supported charging transhipments and empty containers. However, some shipping lines, freight forwarders, importers and exporters opposed it, questioning the activities that Customs carried out related to them, and expressing concern about the increased cost to businesses because of increased charges. They said that fewer goods would be transhipped via New Zealand. The proposed charge is small compared to the value of transhipments. We did not commission independent economic analysis of the potential change in the volume of transhipments because there is limited data available for analysis.

[24] During public consultation, the Minister of Customs asked Customs to establish a technical advisory group of industry participants to advise on options for cost recovery for low-value goods, how the options could be implemented, and the impact on businesses.

[25] MPI is not proposing to impose levies on international transhipments and empty containers.

Impact on commercial vessels

43. Table 7 shows the rates related to commercial vessels under the package compared to the status quo.

Table 7 – Rates under the package for vessels

	Current $ excl GST	Package $ excl GST	Change $ excl GST
Commercial vessel arrival	Nil	4,679	+4,679

44. CBAFF supported the proposed charge for commercial vessels because goods would cease to cross-subsidise commercial vessels. The proposed goods charges are lower than they would be if there were no commercial vessel charge (for example, the proposed charges for high-value sea imports are $17 lower).

45. Shipping lines and their agents generally opposed the vessel charge and questioned the cost of activities related to commercial vessels. Many of the agencies' activities related to commercial vessels are not directly visible to the shipping industry, such as maritime surveillance and investigations.

46. Shipping lines and some other submitters said that the number of vessel arrivals might reduce as a result of imposing the proposed charge. We assess the impact of the commercial vessel charge would be negligible compared to the costs associated with operating a commercial vessel. For example, we estimate that chartering a small container ship from Shanghai to Auckland can cost between $450,000 to $700,000. We did not commission independent economic analysis of the impact because there was limited data to estimate how the number of voyages changes with changes in the cost of a voyage. We will monitor the number of arrivals, including those by vessels that are not cargo ships, as part of monitoring the impact of the charges (see Section 7: Monitoring, evaluating and reviewing the charges).

Impact on low-value mail

47. The impact of the proposed charges on low-value mail would depend on the weight of the mail as outlined in Table 8.

Table 8 – Impact of charges for low-value mail for selected weights

	Current rate	Rate under the package $ excl GST	Change $ excl GST
Letter (20 g)	Nil	0.03	+0.03
Typical parcel (400 g)	Nil	0.51	+0.51
Large parcel (1 kg)	Nil	1.28	+1.28

48. Independent economic analysis by Sapere Research Group estimated that these charges could potentially result in a 0.7 percent reduction in the volume of low-value imports via mail. Despite this reduction, we expect the growth of overall low-value imports to continue (see also paragraph 38 above).

49. New Zealand Post supported cost recovery for imported mail in principle. Freight forwarders and the LVTAG supported full cost recovery for mail if low-value air freight is to be fully cost recovered, because mail and air freight compete against each other.

50. New Zealand Post, freight forwarders – and the agencies – would have preferred to charge mail per item rather than per kilogram but that is not currently feasible. The LVTAG recommended data be improved to enable the option of charging per mail item in the future.

51. The package includes recovering actual and reasonable costs related to exported mail. New Zealand Post opposed this proposal and said it would have difficulty passing the cost on to its customers. Officials consider the impact of this proposed cost recovery would be small because Customs carries out only infrequent activities at an estimated cost of less than $20,000 per year. Activities could include screening certain types of export mail to assess their risk, or a targeted operation involving screening and examining packages to address a specific risk that might be identified.

Impact on the Crown

52. Under the status quo, Customs' memorandum account deficit is forecast to reach $47.3 million by 30 June 2028. If that level of deficit were to eventuate, Customs would likely need a capital injection so that it could carry the deficit on its balance sheet. The package is estimated to reduce that deficit to zero, avoiding the need for a capital injection. Reducing the deficit also avoids the risk that the Crown might eventually need to write the deficit off.

53. Removing Crown funding of Customs' and MPI's costs of processing low-value goods would release annual funding of 9(2)(f)(iv) [redacted] from 2027/28 for the Government to reprioritise. The amounts released in 2025/26 and 2026/27 will depend on whether the Government decides to move to cost recovery in one step or in two steps (see paragraph 57). Table 9 shows the amounts that could be released under the two options.

9(2)(f)(iv)
[redacted]

SECTION 5: IMPLEMENTATION

54. This Section of the CRIS sets out phasing options for implementing the package, as well as the regulatory changes needed to implement the package. If Cabinet agrees to the package, the proposal is to phase the implementation to give industry and Customs time to prepare for the changes:

- 1 July 2025: adjust Customs' rates under the current structure
- 1 April 2026: set charges under the new structure, with two options for setting rates:
  - set the final proposed rates (moving to full cost recovery in one step)
  - set interim rates (moving to full cost recovery in two steps)
- 1 July 2027: set the final proposed rates under the two-step option.

55. Customs currently collects the charges on behalf of itself and MPI. To implement the package, Customs would change its computer systems to reflect the new structure and rates of charges, and processes for manually raising invoices for the commercial vessel charge. The implementation cost is modest and will be funded via the proposed charges. Industry participants signalled they would update their pricing models, billing systems and contracts to pass the changed charges on to their clients.

Phasing options

56. Section 5 of the Consultation Document modelled an indicative implementation date of 1 July 2025 but noted the date would be reviewed in light of submissions. Freight forwarders, exporters and the LVTAG recommended allowing 12 to 24 months for industry to update their systems and contracts (after the current contracts expire), and to adjust to operating in an unsubsidised environment. Customs would similarly need time to change its systems.

57. Following that feedback, we have developed a proposal for implementing the package in phases:

- adjust Customs' fee rates under the existing fee structure from 1 July 2025 (the rates are shown in Appendix A: Current and proposed structure and rates)
- changing the structure of Customs and MPI charges from 1 April 2026
- Customs and MPI moving to full cost recovery for low-value cargo and mail:
  - **Either**: fully from 1 April 2026 (the one-step option)
  - **Or**: in two steps, from 1 April 2026 and from 1 July 2027 (the two-step option).

58. We have assessed the two phasing options for moving to full cost recovery against the cost recovery criteria (see paragraph 9), plus the extent to which the option minimises the transitional costs for businesses of adjusting to an unsubsidised environment.

59. The one-step option would better meet the cost recovery principles than the two-step option because it more quickly reaches the state where importers and exporters (not taxpayers) are funding costs related to their goods.

60. The LVTAG and freight forwarders advised that phasing out the Crown funding in steps would mitigate the disruption to industry and:

- give more time for freight forwarders, importers and exporters to plan and adjust their operations and engage with their customers
- reduce the risk of a potential sudden drop in the volume of low-value imports and exports and the risk of business failure.

61. However, even under the two-step option most of the rate changes would occur from 1 April 2026. For example, the rate for low-value exports would be 85 percent of its final rate, leaving only 15 percent to be added from 1 July 2027. This is because the change from 1 April 2026 includes ending cross-subsidies from other feepayers. Freight forwarders would need to update their billing systems and contracts by 1 April 2026 in order to pass on this substantive change to their clients. Most of the impact for importers and exporters would therefore be from 1 April 2026.

62. The one-step option has a greater positive impact on the Crown because it frees up 9(2)(f)(iv) [redacted] more Crown funding than the two-step option.

Phasing the recovery of deficits related to Outward Cargo Reports for air cargo

63. The accumulated deficit related to Outward Cargo Report (air) is unusually large compared to annual revenue from the fee on those reports. It became large mainly because the volume of cargo reports has been much lower than the forecast made in 2019 and used to set the original rate. These lower volumes have resulted in annual deficits that have accumulated over several years. Customs proposes to defer recovering that accumulated deficit for nine months (until the new structure of charges is in place) to avoid a large change to the rate for Outward Cargo Report (air) for the nine-month period from 1 July 2025 to 1 April 2026.

64. One implication of the proposal to charge per consignment rather than per cargo report is that the accumulated deficits related cargo reports would be recovered from consignments to which those reports relate. For low-value exports, this results in a large opening deficit relative to the forecast annual revenue from the proposed charge for these consignments (see Table 18).

65. When deficits or surpluses result from services provided to previous feepayers, it is usually appropriate to recover them from the subsequent cohort of feepayers over a three-year period. Customs proposes to recover the accumulated deficit related to low-value exports over six years because, given its size, it is fairer to spread the deficit (related to previous feepayers) over a larger group of future feepayers.

Regulatory changes and compliance with international obligations

66. If Cabinet decides to implement the package in this CRIS, it would be implemented by amending the Customs and Excise Regulations 1996 and associated Customs Rules and Directions, and the BSEL Order 2010 and potentially the Biosecurity (Costs) Regulations 2010. A new levy order under the Biosecurity Act 1993 may be required for MPI to implement the levy on commercial vessels. The Customs and Excise (Levies and Other Matters) Amendment Bill 2024 (the Bill), if passed, would enable Customs to impose a levy on commercial vessels. If it is passed, all of Customs' proposed charges would be levies. The Bill has been referred to the Foreign Affairs, Defence and Trade Select Committee. The Minister of Customs is seeking a Legislation Programme priority of 9(2)(f)(iv) [redacted]

67. The proposed charges are consistent with New Zealand's international obligations, including the World Trade Organisation's Agreement on Trade Facilitation[26] and New Zealand's free trade agreements. These obligations allow customs authorities to charge, provided that such charges are commensurate with the service provided. 9(2)(h) [redacted]

SECTION 6: CONSULTATION

68. This Section of the CRIS describes the process that the agencies carried out to consult with industry on the package, and interdepartmental consultation. The agencies carried out public consultation for two months and engaged extensively with industry associations and individual businesses both before and after the public consultation. Agencies received submissions from the main groups with an interest in the package.

Public consultation

69. The agencies engaged extensively with industry when preparing the Consultation Document, and during and after the consultation period. This engagement included seeking technical advice on the design of the package, as well as feedback on the merits of the package, its likely impacts and the feasibility of implementing it.

70. While preparing the Consultation Document, the agencies established a Stakeholder Reference Group (SRG) comprised of industry associations related to exporting and importing goods. Meetings of the SRG enabled the agencies to inform industry about the proposed package, and to seek feedback on what to include in the Consultation Document to assist submitters to provide feedback. The agencies engaged with New Zealand Post over several years to understand the details about importing mail including the related data and the UPU Regulations.

[26] World Trade Organisation. (2013). Agreement on Trade Facilitation. https://www.wto.org/english/docs_e/legal_e/tfa-nov14_e.htm.

71. Public consultation took place for eight weeks ending on 31 October 2024. The Consultation Document was publicised via an "important notice" on Customs' website, Customs' newsletter "Customs Release", LinkedIn, emails to the Stakeholder Reference Group, and on MPI's website. During the consultation period, the Minister of Customs made a speech at the 2024 CBAFF conference drawing the proposals to attendees' attention. Customs and MPI held meetings with industry to inform them of the package and to answer their questions to assist them to make submissions. This included meetings with the SRG, with the shipping industry (Maritime Industry Forum, Shipping New Zealand) and meetings at the request of individual businesses including importers and exporters, freight forwarders, shipping lines and the fishing industry.

72. The agencies received 58 submissions, including submissions from industry associations and individual businesses who were freight forwarders, importers and exporters, and shipping lines. The substance of their submissions on aspects of the package are described as part of assessing the package and its impact (see Section 3: Assessment of the package and Section 4: Impact of implementing the package).

73. Alongside the consultation process, Customs established a group of industry participants (the LVTAG) to advise on the feasibility of implementing the proposals for low-value air cargo. The LVTAG provided its advice in a letter to Ministers. Customs consulted further with targeted submitters about the impact of the two phasing options in paragraph 57. These submitters reiterated the benefit of giving industry more time to adjust to the proposed changes.

74. Most submissions focused on the impact of the package on their businesses and the industry, rather than on the general principle of full cost recovery or removing cross-subsidies between feepayers. Moving to full cost recovery for low-value goods was opposed by freight forwarders who would need to change their systems to pass the costs on to their clients, and by exporters of low-value goods who would need to adjust to operating in an unsubsidised environment. Similarly, shipping lines and their agents opposed the proposal to recover costs from vessel operators because it would add to the cost of operating vessels.

75. The Consultation Document presented indicative rates knowing that the final proposed rates would differ from those indicative rates. We have now updated our forecasts of volumes and costs and calculated final proposed rates. Most of the proposed rates are lower than the indicative rates, but the two rates for high-value imports are higher. For high-value air imports the final proposed rate is $10.45 higher than the indicative rate, and for high-value sea imports it is $21.52 higher. Nevertheless, we assess these increases would not materially change the overall impact of the charges on importers of high-value goods because:

- for high-value air imports, both the indicative and final proposed rates are lower than the current rate of $81.25. Moreover, the difference between the indicative and final proposed rates is only 0.3 percent of the median value of high-value air imports
- for high-value sea imports, although both the indicative and final proposed rates are higher than the current rate of $81.25, the difference between the indicative and final proposed rates is only 0.05 percent of the median value of high-value sea imports.

Agency consultation

76. The following agencies were consulted on this CRIS and their comments were incorporated: The Treasury, Ministry for Regulation, Ministry of Transport, Ministry of Business, Innovation and Employment, and the Ministry of Foreign Affairs and Trade. The Department of Prime Minster and Cabinet was informed.

77. Agencies had no significant concerns with the CRIS and made minor suggestions that were incorporated. Suggestions included making it clearer what submitters said, and clarifying why the Crown is partly funding costs related to low-value goods.

SECTION 7: MONITORING, EVALUATING AND REVIEWING THE CHARGES

78. This Section of the CRIS outlines what the agencies will do to monitor the performance of the charges and to review rates and the structure of the charges in the future.

79. Customs and MPI will continue to monitor the charges on an ongoing basis and report annually on the performance of the charges. Customs and MPI annually release a report on the performance of the goods charges for the year.[27] Customs and MPI intend to continue to engage with industry on the performance of the charges and to understand the impact of the proposed package (if it is implemented). One indicator of potential issues with the proposed charges might be a sharp decrease in the volumes. In addition, Customs' and MPI's performance will be scrutinised by Parliament during annual reviews of expenditure.

80. Customs and MPI propose setting rates for a three-year period, consistent with the BSEL Order 2010.[28] A three-year period strikes a balance between the benefit of adjusting rates more frequently to keep the memorandum accounts trending towards balance, and the administrative and compliance costs involved in consulting on and setting rates. There was strong support from submitters for reviewing the rates regularly.

81. As part of reviewing the charges in three years, Customs will identify its costs related to international transhipments and empty containers and consider whether to propose separate rates for these goods.

[27] Annual goods and cargo performance reports are available at: https://www.customs.govt.nz/about-us/about-customs/goods-clearance-fees/

[28] Under the BSEL Order, the duration of the levy period can be up to 36 months.

APPENDIX A: CURRENT AND PROPOSED STRUCTURE AND RATES

1. This Appendix shows the current rates that apply under the current structure of charges, and the various proposed rates discussed in this CRIS:
   - adjusted Customs' rates from 1 July 2025 under the current structure
   - interim rates from 1 April 2026 under the two-step implementation option
   - final rates from 1 July 2027 under the two-step implementation option (or from 1 April 2026 under the one-step implementation option)
   - a comparison of the final rates with the indicative rates in the Consultation Document.
2. This Appendix also describes some technical details of the proposed structure including the trigger for liability for the charges, and exemptions to the charges.

Current rates

3. Table 10 shows Customs' and MPI's rates related to goods as at 1 July 2024 under the current structure of charges.

Table 10 – Current structure and rates

Consignment or Report	Who usually pays the charge	Customs $ excl GST	MPI $ excl GST	Combined $ excl GST
Fully cost recovered activities				
Imports				
High-value import entry	Broker for the importer	34.85	46.40	81.25
Inward Cargo Report (sea)	Freight forwarder or craft operator	467.03	41.28	508.31
Exports				
Non-SES export entry	Broker for the exporter	7.20		7.20
SES export entry	Broker for the exporter	3.44		3.44
Outward Cargo Report (air)	Freight forwarder or craft operator	15.15		15.15
Outward Cargo Report (sea)	Freight forwarder or craft operator	19.61		19.61
Cargo Report Export (sea)	Freight forwarder	5.87		5.87
Partly cost recovered activities				
Inward Cargo Report (air)	Freight forwarder or craft operator	81.26	41.28	122.54
Cargo Report Export (air)	Freight forwarder	42.20		42.20

Adjusted Customs' rates under the current structure

4. The package includes an initial adjustment to Customs' rates from 1 July 2025 to align with the policy intent of Cabinet's decision in 2019 to fully recover costs other than for low-value air cargo. Table 11 shows Customs' rates that would apply from 1 July 2025. MPI's rates would remain unchanged (see Table 10).

Table 11 – Proposed Customs' rates from 1 July 2025

Consignment Type	Current $ excl GST	From 1 July 2025 $ excl GST	Change $ excl GST
Fully cost recovered activities			
Imports			
High-value import entry	34.85	46.47	+11.62
Inward Cargo Report (sea)	467.03	207.53	-259.50
Exports			
Non-SES export entry	7.20	5.44	-1.76
SES export entry	3.44	3.64	+0.20
Outward Cargo Report (air)	15.15	39.59	+24.44
Outward Cargo Report (sea)	19.61	37.01	+17.40
Cargo Report Export (sea)	5.87	11.47	+5.60
Partly cost recovered activities			
Inward Cargo Report (air)	81.26	104.36	+23.10
Cargo Report Export (air)	42.20	60.82	+18.62

Interim rates under the two-step implementation option

5. Paragraph 57 of this CRIS proposed moving to the new structure for Customs' and MPI's charges on goods and commercial vessels from 1 April 2026. It also describes a two-step option for moving to full cost recovery for low-value cargo and mail, with steps on 1 April 2026 and 1 July 2027. Table 12 shows the interim rates that would apply from 1 April 2026 under the two-step option.

Table 12 – Interim rates from 1 April 2026 under the two-step option

Rates are shown as $ excl GST	Customs		MPI		Combined	
Consignment Type	**Current**	**Interim**	**Current**	**Interim**	**Current**	**Interim**
Imports						
High-value import entry (air)	34.85	7.24	46.40	44.57	81.25	51.81
High-value import entry (sea)	34.85	73.87	46.40	44.57	81.25	118.44
Low-value import consignment (air)	0.07	1.26	0.03	0.38	0.10	1.64
Low-value import consignment (sea)	1.87	1.34	0.16	0.38	2.03	1.72
Inwards international mail – 20g letter	Nil	0.01	Nil	0.01	Nil	0.02
Inwards international mail – 400g parcel	Nil	0.12	Nil	0.17	Nil	0.29
Inwards international mail – per kilogram	Nil	0.30	Nil	0.43	Nil	0.73
International transhipment (air) Customs only	Nil	1.26			Nil	1.26
International transhipment (sea) Customs only	Nil	1.34			Nil	1.34
Empty container (sea) Customs only	Nil	1.34			Nil	1.34
Exports						
High-value export (air)	7.20	3.35			7.20	3.35
SES export (sea)	3.44	3.76			3.44	3.76
Other High-value export (sea)	7.20	8.13			7.20	8.13
Low-value export consignment (air)	0.66	2.12			0.66	2.12
Low-value export consignment (sea)	2.04	3.22			2.04	3.22
Vessels						
Commercial vessel	Nil	3717.00	Nil	962.00	Nil	4679.00

Final proposed rates

6. Aside from describing a two-step option, paragraph 57 of the CRIS also described the option for moving to full cost recovery for low-value cargo and mail in one step on 1 April 2026. Table 13 shows the proposed rates that would apply from 1 April 2026 under the one-step option. These are also the proposed rates that would apply from 1 July 2027 under the two-step option.

Table 13 – Proposed rates from 1 April 2026 under the one-step option (or from 1 July 2027 under the two-step option)

Rates are shown as $ excl GST	Customs		MPI		Combined	
Consignment Type	**Current**	**Proposed**	**Current**	**Proposed**	**Current**	**Proposed**
Imports						
High-value import entry (air)	34.85	7.24	46.40	44.57	81.25	51.81
High-value import entry (sea)	34.85	73.87	46.40	44.57	81.25	118.44
Low-value import consignment (air)	0.07	1.46	0.03	0.75	0.10	2.21
Low-value import consignment (sea)	1.87	1.34	0.16	0.75	2.03	2.09
Inwards international mail – 20g letter	Nil	0.01	Nil	0.02	Nil	0.03
Inwards international mail – 400g parcel	Nil	0.16	Nil	0.35	Nil	0.51
Inwards international mail – per kilogram	Nil	0.40	Nil	0.88	Nil	1.28
International transhipment (air) Customs only	Nil	1.46			Nil	1.46
International transhipment (sea) Customs only	Nil	1.34			Nil	1.34
Empty container (sea) Customs only	Nil	1.34			Nil	1.34
Exports						
High-value export (air)	7.20	3.35			7.20	3.35
SES export (sea)	3.44	3.76			3.44	3.76
Other High-value export (sea)	7.20	8.13			7.20	8.13
Low-value export consignment (air)	0.66	2.48			0.66	2.48
Low-value export consignment (sea)	2.04	3.22			2.04	3.22
Vessels						
Commercial vessel	Nil	3,717	Nil	962	Nil	4679.00

Comparison with indicative rates in the Consultation Document

7. The Consultation Document set out indicative rates based on forecasts available at that time, with the intention that the rates proposed for Cabinet decisions would be based on updated forecasts (see Appendix 4 of the Consultation Document).

8. Table 14 compares the proposed rates with the indicative rates that were shown in the Consultation Document. The proposed rates are lower than the indicative rates other than for high-value imports where the differences in the rates are small compared to the median value of the goods (see paragraph 75 of this CRIS).

Table 14 – Customs plus MPI indicative rates in Consultation Document, and proposed rates under the package

Consignment Type	Indicative rates $ excl GST	Final proposed rates $ excl GST	Change $ excl GST
Imports			
High-value import (air)	41.36	51.81	+10.45
High-value import (sea)	96.92	118.44	+21.52
Low-value import (air)	3.57	2.21	-1.36
Low-value import (sea)	9.11	2.09	-7.02
Inwards mail – 1kg parcel	1.68	1.28	-0.40
International transhipment (air) Customs only	3.57	1.46	-2.11
International transhipment (sea) Customs only	9.11	1.34	-7.77
Empty container (sea) Customs only	9.11	1.34	-7.77
Exports			
High-value export (air)	3.70	3.35	-0.35
SES export (sea)	5.10	3.76	-1.34
Other high-value export (sea)	9.66	8.13	-1.53
Low-value export (air)	3.50	2.48	-1.02
Low-value export (sea)	5.69	3.22	-2.47
Vessels			
Commercial vessel	6,268	4,679	-1,589

Details related to the proposed structure of the charges

9. Customs' charges under the proposed structure would be levies (subject to the passage of the Customs and Excise (Levies and Other Matters) Amendment Bill 2024).

10. Table 15 shows the event that would trigger the collection of the charges under the proposed structure, and who would usually pay the charge.

Table 15 – Trigger for collecting charges under the proposed structure

Consignment Type	Trigger for collection of the charge	Who would usually make the payment
Imports		
High-value import entry	Import entry. Private importer declaration.	Broker. Importer.
Low-value import consignment	Import entry. Simplified import declaration. Inward Cargo Report write-off request.	Broker. Broker. Freight forwarder.
"Buik mail" (a non-UPU consolidation of multiple identical low-value consignments).	Inward Cargo Report write-off request for the consolidation.	Freight forwarder. The charge would be imposed on each consignment.
Inwards international mail.	Information provided by the Designated Operator (currently New Zealand Post).	Carrier or consolidator named in that information.
International transhipment: Customs only	International transhipment request.	Freight forwarder.
Empty container (sea) Customs only	Inward cargo report.	Shipping line.

Consignment Type	Trigger for collection of the charge	Who would usually make the payment
Exports		
High-value export entry.	Export entry.	Broker for the exporter.
Low-value export consignment	Export entry. Cargo Report Export write-off request.	Broker. Freight forwarder.
Export international mail.	Customs' invoice of actual and reasonable costs.	Designated Operator (currently New Zealand Post).
Vessels		
Commercial vessel	Completion of Customs' risk assessment process once the vessel has arrived at a customs place.	Owner or operator of the vessel (or their agent).

Exemptions from the charges

11. The charges would not be imposed on certain imports and exports and certain vessel arrivals.

12. Imports and exports would not be liable to pay the charges if there is no trigger for collection (as described in Table 15). For example, human remains for cremation or burial would be liable because they are exempt entry under Regulation 25 of the Customs and Excise Regulations 1996, and temporary imports declared using a carnet would not be liable because they are deemed to be entered under Regulation 26.

13. Current exemptions from paying charges would continue. For example, imported diplomatic goods are currently exempt from charges, and short shipped goods are exempt from charges under Regulation 24A(4) of the Customs and Excise Regulations 1996.

14. For completeness, it is proposed to explicitly provide that diplomatic goods, human remains for cremation or burial, and goods declared using a carnet, would also be exempt from the charges if they are declared on an import entry, simplified import declaration or export entry.

15. There would be no exemptions from charges for low-value goods declared using a write-off request on a cargo report. Customs requires less data for write-off requests than it does for entries, and the resulting data limitations make it impractical to provide any exemptions for write-off requests. Importers and exporters of low-value goods seeking exemptions from the charges could make an entry or simplified import declaration.

16. The following vessel arrivals would be exempt from the proposed commercial vessel charge:

- a vessel exercising its right of innocent passage in the territorial sea
- a craft being operated by the New Zealand Defence Force or the defence forces of any Government other than that of New Zealand
- a craft being used wholly for diplomatic or ceremonial purposes of any Government
- a craft being used wholly for the purposes of a mission being carried out or organised by any Government that is a humanitarian mission or a mission in response to an emergency or a crisis
- a craft being used for the purposes of an official expedition of a Contracting Party under Section 7(1) of the Antarctica (Environmental Protection) Act 1994
- vessels that are already cost-recovered through border processing levies, launches, rowing craft, yachts and cruise ships
- vessels arriving after having been rescued at sea, or which arrive wholly for the purpose of seeking temporary relief from stress of weather and, in the latter case, depart as soon as is reasonably practicable
- a vessel that departs on a journey — (i) within the exclusive economic zone (EEZ);[29] and (ii) that is not intended to include a meeting with any craft or persons entering the exclusive economic zone from a point outside New Zealand.

17. A fishing vessel journey to the High Seas (outside the EEZ) would be exempt from MPI's commercial vessel charge (if the journey does not include entering another country's EEZ) because such journeys pose a low biosecurity risk.

18. There are two options related to Customs' commercial vessel charge for a fishing vessel journey to the High Seas:

- **Either**: exempt the journey[30]
- **Or**: do not exempt the journey.

19. Customs has assessed these two options against the cost recovery criteria (see paragraph 9 of the CRIS) and conclude that not exempting these journeys would better meet the cost recovery principles than exempting these journeys from Customs' charge. Exempting these journeys would not meet the cost recovery principle of equity because Customs carries out activities to mitigate risks posed by those journeys including gathering and using intelligence, land-based and waterborne monitoring and surveillance, and strategic and tactical risk assessment. Customs needs to be aware of, and monitor, all vessels making landfall in New Zealand from outside our territorial waters.

20. In 2023 there were 11 High Seas fishing journeys. The impact of Customs' commercial vessel charge would be minimal for large fishing vessels but could be a significant additional cost for small fishing vessels.

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[29] Section 2(1) of the Territorial Sea, Contiguous Zone, and Exclusive Economic Zone Act 1977.

[30] A journey would not be exempt if it is intended to include: when the vessel is outside the EEZ, a meeting with any craft or person; or when the vessel is within the EEZ, a meeting with any craft or person entering the EEZ from a point outside New Zealand.

21. Section 4.3.4 of the Consultation Document included a proposal to exempt, “Fishing vessels undertaking ‘round trip’ voyages that leave from, and return to, New Zealand ports and travelling outside the 12-mile limit to fish ...”. It did not explicitly state whether or not those journeys should remain within the EEZ (200 nautical miles offshore). The agencies did not receive any submissions on this proposal.

22. Customs considers it should consult on the option of including fishing vessel journeys to the High Seas within the scope of the proposed commercial vessel charge, before forming a view about this option. We would seek to gather more information and better understand the impact on the industry and any unintended consequences of this option. Consultation would occur when the charges are next reviewed in three years’ time. In the meantime, we propose these journeys be outside the scope of the proposed commercial vessel charge.

APPENDIX B: OPTIONS SUGGESTED BY SUBMITTERS

1. This CRIS focuses on the package (described in paragraph 11) because it is the preferred option. Some submitters suggested alternative options. After considering their submissions, we consider those alternatives do not meet the cost recovery criteria as well as the proposed package.

Tiered rates for low-value consignments

2. Some members of the LVTAG, and some submitters in the public consultation, suggested a “tiered rates option” although their first preference was remaining with the status quo (charging per report). It would involve imposing a charge on reports with tiered rates rather than the current single rate. For example, the rates could be:
   - $50x for reports containing up to 100 consignments (where “x” is chosen so that estimated revenue equals estimated costs)
   - $150x for reports containing between 101 and 200 consignments
   - $250x for reports containing between 201 and 300 consignments
   - $350x for reports containing more than 300 consignments.
3. Officials consider that the tiered rates option aligns costs with consignments less well than charging per consignment because costs are driven by consignments not reports. Reports containing a single consignment would pay far more than the cost of processing a consignment, while consolidations just below each tier would pay far less per consignment than the cost of processing a consignment. For example, a single consignment would pay 50 times the average cost of processing a consignment. This is not commensurate with the cost of processing a consignment.

Other options that are inferior to the package

4. One suggestion made by some freight forwarders and considered by the LVTAG was for Customs to charge for each examination of goods directly to the importer or exporter of the goods examined. This suggestion was intended to reduce the total remaining Customs’ costs to be spread across all importers and exporters. Officials consider this option inequitable for the traders whose goods are examined. Examinations are an integral part of Customs’ service aimed at mitigating border risks and any goods can be examined. Customs decides which goods to examine based on its assessment of risk, and selects some goods at random. Relatively few goods are examined, and relatively few of those examinations result in interdicting illicit goods. Recovering Customs’ examination costs from all traders gives them certainty about what Customs will charge.

5. Some submitters suggested alternatives or variations to the proposed commercial vessel charge, including:
   - charging the vessel owner directly for searching their craft. Officials consider this approach inequitable for the same reasons as charging directly for examinations of goods would be inequitable
   - different rates for different size or type of vessel. Officials do not consider that there is a good reason to do this. Many costs such as maritime surveillance, intelligence gathering and risk assessment relate to all vessels, and searches are generally targeted to specific parts of vessels based on intelligence. As a result costs do not vary materially by:
     - the cargo carried by the ship (eg by type of commodity, number of containers, etc)
     - the size or type of vessel (all vessel types, including fishing boats, pose a risk)
     - frequency of visits to New Zealand
     - past compliance record. The crew may be unaware of the contraband and criminal organisations are increasingly using ships and crew with good compliance records.
6. The LVTAG also considered other options related to low-value goods before providing its advice to Ministers. Aside from the tiered rates option discussed above, other options raised by submitters or considered by the LVTAG had already been discussed and dismissed in the Section 4 of the Consultation Document as being either infeasible or inferior to the package:
   - Ad valorum rates (based on the value of goods) or weight-based charging (paragraph 90 of the Consultation Document): such charging is inferior to charging per consignment because Customs' and MPI's activities relate to the consignment itself rather than to its value or weight per se. Ad valorum rates are contrary to New Zealand's international obligations. Weight-based charging is proposed for mail only because charging per consignment is not feasible without electronic data linking mail items to the craft they arrived on.
   - Recovering costs alongside Inland Revenue's offshore supplier registration (OSR) regime for collecting GST on low-value goods (paragraph 90 of the Consultation Document): this option is not feasible because:
     - it does not cover all low-value goods (it excludes suppliers under the $60,000 registration threshold and business-to-business imports)
     - the OSR regime does not have data on the number of consignments.
   - Charging New Zealand Post for agencies' costs related to imports (paragraph 142 of the Consultation Document): this option would not result in costs ultimately being passed to the senders of goods (who are responsible for creating the need for Customs and MPI to deliver services mitigate risks related to their mail). The UPU sets rules for mail exchange including charges for various postal services and New Zealand Post may be constrained in its ability to pass on Customs and MPI charges to overseas postal operators.

APPENDIX C: FORECAST VOLUMES

1. Table 2 of the Consultation Document showed forecasts of volumes on which charges are currently imposed or are proposed to be imposed. The forecast for high-value imports reflected a forecast approved by the Border Executive Board (BEB).[31] Customs prepared forecasts for the other volumes. CBAFF and New Zealand Post submitted that the forecasts were broadly reasonable, while the Conference of Asia Pacific Express Carriers considered the low-value import forecasts to be too low.
2. In December 2024, as part of its regular cycle of updating its forecasts, the BEB approved new forecasts for high-value imports. Customs prepared new forecasts for the other volumes. The current forecasts differ from those in the Consultation Document because they incorporate data on trade since the previous forecasts were prepared in mid-2024, and because Customs has updated its forecasting methodology.
3. Table 16 shows the updated forecasts related to the current structure of charges.

Table 16 – Forecast volumes for the current structure of charges

Consignment or report	Units	2023/24 Actual	2024/25 Budget	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
Fully cost recovered activities						
Imports						
High-value import entry	Consignment	1,162,741	1,161,328	1,147,405	1,150,497	1,153,274
Inward Cargo Report (sea)	Report	5,398	5,860	6,253	6,644	7,035
Exports						
Non-SES export entry	Consignment	391,304	403,007	407,021	413,671	420,321
SES export entry	Consignment	159,486	164,292	169,353	174,205	179,056
Outward Cargo Report (air)	Report	54,977	53,607	56,406	58,738	61,069
Outward Cargo Report (sea)	Report	12,704	13,525	14,270	15,068	15,865
Cargo Report Export (sea)	Report	18,751	19,826	20,920	22,029	23,138
Partly cost recovered activities						
Inward Cargo Report (air)	Report	61,976	68,604	77,991	86,334	94,676
Cargo Report Export (air)	Report	32,826	33,911	34,222	34,866	35,511

[31] The Border Executive Board was established under the Public Service Act 2020 to deliver an integrated and effective border system. The Board comprises the New Zealand Customs Service, Ministry of Business, Innovation and Employment, Ministry of Foreign Affairs and Trade, Ministry of Health, Ministry for Primary Industries and Ministry of Transport.

4. Table 17 shows the updated forecasts related to the proposed structure of charges.

Table 17 – Forecast volumes for the proposed structure of charges

Charge	Units	2023/24 Actual	2024/25 Budget	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
Imports						
High-value import (air)	Consignment	688,326	682,170	677,444	678,120	680,625
High-value import (sea)	Consignment	474,415	479,158	469,961	472,377	472,649
Low-value import (air)	Consignment	24,225,624	26,173,248	27,343,314	28,542,804	29,500,187
Low-value import (sea)	Consignment	374,809	434,335	489,834	545,693	601,553
Low-value mail import	Kilograms	7,790,650	7,790,650	7,790,650	7,790,650	7,790,650
Exports						
High-value export (air)	Consignment	258,703	266,951	271,464	277,704	283,944
SES export (sea)	Consignment	157,012	161,991	167,195	172,207	177,219
Other high-value export (sea)	Consignment	135,075	138,357	137,716	137,965	138,215
Low-value export (air)	Consignment	3,322,623	3,089,408	2,875,319	2,739,386	2,641,689
Low-value export (sea)	Consignment	44,803	69,780	76,448	82,488	88,528
Commercial vessels						
Commercial vessel	Arrival	2,198	2,298	2,344	2,388	2,433

APPENDIX D: FORECAST COSTS

Customs' forecast costs

1. Table 1 of the Consultation Document showed Customs' forecasts of costs. Customs has updated its costs to reflect its latest budgets and forecasting methodology. The updates include updated actual financials which impact the starting balance and updated forecasts for outyears. Overall, there is no substantial change from the costs reported in the Consultation Document.
2. Table 18 shows forecast cost for each class of goods under the proposed structure of charges.

Table 18 – Customs' costs under the proposed structure of charges

	2025/26 Forecast $m	2026/27 Forecast $m	2027/28 Forecast $m	Memorandum Account Balance 1 April 2026 $m
Imports				
High-value import entry (air)	4.97	5.17	4.99	0.24
High-value import entry (sea)	32.74	35.35	36.94	1.59
Low-value import consignment (air)	39.48	41.41	43.34	-
Low-value import consignment (sea)	1.44	1.51	1.57	1.74
Inwards mail	2.98	3.10	3.25	-
Exports				
High-value export (air)	0.81	0.85	0.89	(0.17)
SES export (sea)	0.38	0.40	0.42	(0.59)
Other high-value export (sea)	0.91	0.95	1.00	(0.37)
Low-value export consignment (air)	4.92	5.17	5.39	(7.60)
Low-value export consignment (sea)	0.05	0.06	0.06	(0.48)
Vessels	8.48	8.83	9.25	-
Total	**97.18**	**102.78**	**107.10**	**(5.65)**

3. Table 19 shows the costs under the current fee structure.

Table 19 – Customs' costs under the current structure of charges

	2024/25 Budget $m	2025/26 Forecast $m	2026/27 Forecast $m	2027/28 Forecast $m	Memorandum account Balance 30 June 2025 Forecast $m
Fully cost recovered activities					
Import Entry Transaction Fee	48.28	51.38	53.56	55.96	0.16
Inward Cargo Transaction Fee Sea	1.91	2.06	2.15	2.25	2.32
Export Entry Transaction Fee:					
• SES	0.52	0.55	0.58	0.60	(0.14)
• Other	2.03	2.17	2.28	2.38	0.18
Outward Cargo Transaction Fee:					
• Outward Cargo Report Air	2.09	2.22	2.33	2.43	(7.87)
• Outward Cargo Report Sea	0.50	0.53	0.56	0.58	(1.22)
• Cargo Report Export Sea	0.15	0.16	0.17	0.18	(0.25)
Total for fully cost recovered activities	**55.49**	**59.08**	**61.62**	**64.37**	**(6.82)**
Partly cost recovered activities					
Inward Cargo Transaction Fee Air	26.15	28.08	29.37	30.67	-
Outward Cargo Transaction Fee for Cargo Report Export Air	5.10	5.37	5.67	5.90	-
Total for partly cost recovered activities	**31.25**	**33.45**	**35.04**	**36.57**	**-**
Total	**86.74**	**92.52**	**96.66**	**100.95**	**(6.82)**

4. The main contributor to Customs' costs has been the Maritime Initiative (described on page 16 of the Consultation Document). Aside from the Maritime Initiative, Customs' forecast costs have increased (compared to the forecasts used to calculate the fees in 2019) due to actual and projected price inflation. However, the increase to Customs' forecast costs is 15 percent below consumer price inflation since the fees were last reviewed in 2019.

5. Customs' costs are allocated to services using an activity-based costing (ABC) methodology. After the ABC model was established, PriceWaterhouseCoopers was engaged to assess Customs' ABC methodology, and KPMG was engaged to validate Customs' ABC Model.

Customs' cost efficiency

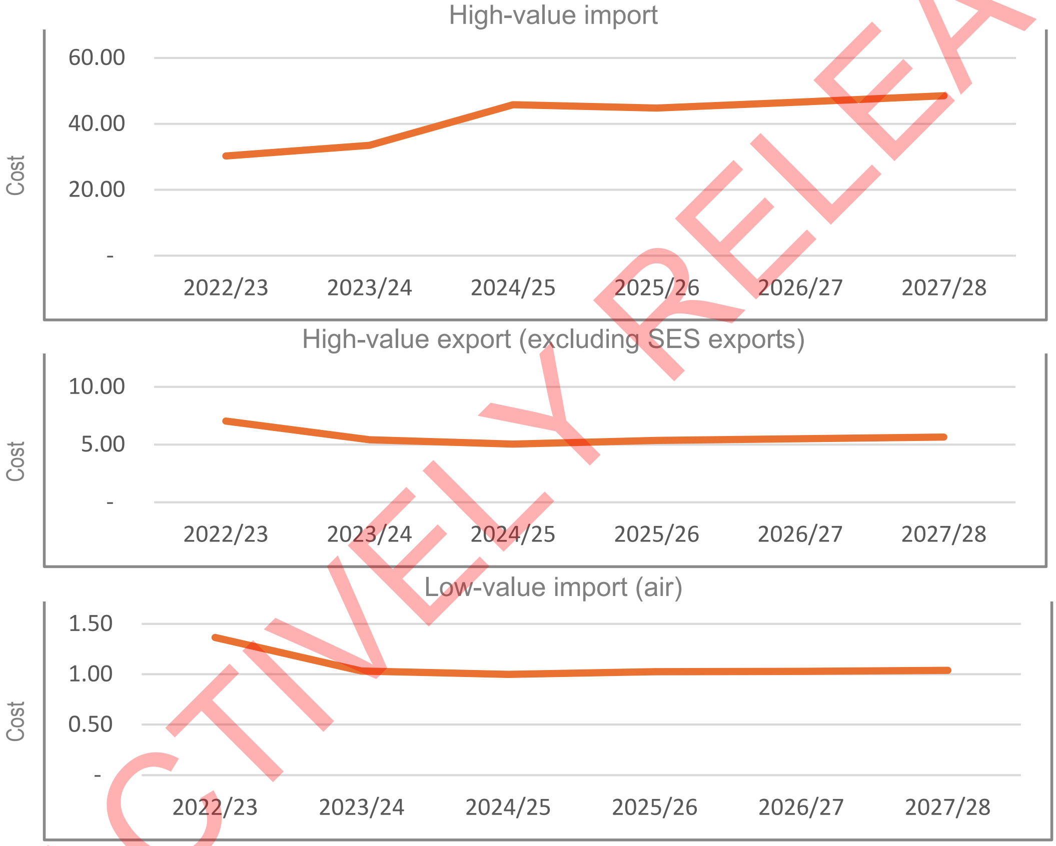
6. Like all agencies, Customs' costs are subject to Parliamentary scrutiny. Customs and MPI report annually on the performance of the charges (see Section 7: Monitoring, evaluating and reviewing the charges).

7. Section 3 of the Consultation Document highlighted that Customs clears goods quickly and most goods are pre-cleared before they reach the border. It also showed a breakdown of Customs' costs by the various activities that Customs carries out to deliver services.

8. Figure 1 shows the recent trend in Customs' costs for the largest classes of goods.[32] It shows that:

- Customs' costs per high-value import have increased and are forecast to continue increasing. This is largely due to the Cabinet-approved Maritime Initiative
- Customs' costs per high-value export and low-value imports are forecast to be stable; this reflects that forecast growth in volumes is similar to forecast growth in costs.

Figure 1 – Customs cost per consignment (2024/25 dollars)



[32] We show the trend only from 2021/22 because earlier years were impacted by the COVID-19 pandemic.

MPI's forecast costs

9. Table 20 shows MPI's forecast cost for each class of goods under the proposed structure of charges proposed to come into effect from 1 April 2026.

Table 20 – MPI's costs under the proposed structure of charges

	2024/25 Budget $m	2025/26 Forecast $m	2026/27 Forecast $m	2027/28 Forecast $m	1 July 2025 Opening balance $m
High-value goods	41.81	44.94	45.83	46.71	7.41
Low-value goods	20.90	22.47	22.91	23.35	
Vessels	2.32	2.50	2.54	2.59	
BSEL-related costs	65.03	69.91	71.28	72.65	
Mail	6.45	6.58	6.71	6.85	
Total	71.48	76.49	77.99	79.50	

10. MPI constantly monitors revenue and expenditure. The BSEL was increased from 1 July 2023 to address: cost inflation, lower than forecasted volumes, new and expanded cargo services and a shift of border biosecurity effort from the passenger pathway to the cargo pathway.