NEW ZEALAND
CUSTOMS SERVICE
TE MANA ĀRAI O AOTEAROA

Ministry for Primary Industries
Manatū Ahu Matua

Recovering the Costs of Goods Management Activities at the Border

A Joint Consultation Document

September 2024

Contents

This is an updated version of the joint consultation document. Errors identified in the original version released on 4 September 2024 have been corrected.

Foreword

Trade is crucial to New Zealand's prosperity:

- supporting economic growth and employment, with more than 600,000 jobs in direct export sectors or in sectors supporting exports[1]
- making a wide range of products available for purchase at competitive prices by businesses and consumers, increasing living standards and commercial competitiveness, and
- providing resilience during domestic economic shocks.

The New Zealand Customs Service (Customs) and the Ministry for Primary Industries (MPI) work closely together to

- help importers and exporters to trade safely, efficiently and successfully
- protect New Zealand's reputation as a trusted low risk country of origin in overseas markets, and
- protect New Zealand from a range of threats related to goods crossing the border.

Our systems, such as Trade Single Window, are well established and reliable. They place New Zealand at the leading edge of paperless trade and digitalisation, allowing importers and exporters to lodge information only once to cover most border requirements. Significant investment in intelligence and data analytics enables a risk-based approach to our interventions.

As a result, legitimate trade is able to cross the border quickly and efficiently, with a minimum of disruption. For example, a recent study found that:

- 93.9 percent of sea cargo import entries for full containers were lodged and cleared by Customs before arrival into New Zealand
- 78.3 percent of air cargo import entries were cleared before arrival, and
- 99.3 percent of trade transactions (other than those referred for compliance checks) are processed within 30 minutes.

But maintaining this level of performance requires ongoing innovation, and investment in maintaining and improving systems. The costs of doing this are largely recovered from those who use our services or create the need for them to be provided, through fees and levies charged to: importers, exporters, freight companies, shipping companies and airlines. Some costs are partially or fully Crown funded.

This Consultation Document seeks feedback on proposed changes to how we recover the costs of managing goods at the border.

We have identified several areas where our fees and levies could be changed to improve financial sustainability, fairness to fee payers and fairness to taxpayers. Much of what we do is funded through cost recovery by charging fees and levies, to those who create the need for our services, or benefit from them, to meet the cost of providing them.

1 https://www.mfat.govt.nz/en/trade/nz-trade-policy

This Consultation Document sets out a number of proposals to ensure financial sustainability and improve fairness to those who pay fees, as well as discussing the other options we considered. See Appendix 4 for a summary of the impact of the proposals and page 47 for the key changes if the proposals were implemented.

We would like your feedback on the proposals. We would like to know:

- What is important to you or your business?
- How would the proposals affect you or your business if implemented?
- Whether you think the proposals are fair.
- Whether you think there are other issues or impacts that need to be considered.

Please read through this Consultation Document, section two has more information on how to have your say. **The deadline for submissions is 5pm, 31 October 2024. You can send your submission by:**

Email to: consultingonfeesandlevies@customs.govt.nz

Post to: Consultation: Recovering the Costs of Goods Management at the Border
New Zealand Customs Service
PO Box 2218
Wellington 6140

SECTION 1

Overview

1.1 What is this review about?

1. Customs and MPI are reviewing the fees and levies that fund our goods management activities. We operate an integrated goods management system that not only processes documentation and examines and clears goods, it also involves intelligence activities, risk assessment, investigations and stakeholder education and support. This system:

   - makes sure importers and exporters declare the correct classification, origin and value[2] of their goods
   - assesses and investigates goods for risk, preventing prohibited goods from being imported or exported
   - ensures restricted goods, such as firearms and pharmaceuticals, are only imported or exported by those legally entitled to
   - protects New Zealand consumers by setting minimum regulatory requirements for the safety of food entering New Zealand
   - protects New Zealand from biosecurity risks, and
   - preserves New Zealand's reputation as a low risk exporter of goods.

2. We aim to clear low risk goods quickly and effectively, while helping to prevent threats to New Zealand. Our costs are mostly funded through cost recovery, with some Crown funding. We try to make sure that our fees and levies are financially sustainable, equitable, efficient, transparent and justified (see Appendix 1).

3. Our goods charges only fund activities related to goods management. They do not fund other activities, such as revenue collection, providing policy advice, ministerial servicing or negotiating trade agreements with other countries. These are funded by the Crown.

2 Unless stated otherwise, all references to goods value in this document mean their customs value, which includes insurance and freight. See: https://www.customs.govt.nz/business/import/valuation-for-import/customs-import-value/

1.2 Why is this review needed?

4. Customs and MPI review goods charges periodically to make sure they meet their objectives. Currently:

- we only partially recover the costs of managing low value air freight crossing the border, with funding from taxpayers meeting most of the cost
- we do not recover the costs of managing goods carried in international mail[3] which are funded by taxpayers – raising fairness[4] issues for some fee payers
- We have identified opportunities to make changes to the fee structure to improve fairness to fee payers and to taxpayers, and
- Customs' costs have risen, because of price pressures, volume pressures and the need to fund its enhanced maritime activities to better manage risk at the maritime border.

1.3 What is in this Consultation Document?

5. This Consultation Document sets out the changes to current charges that would need to be made, even if there is no change to the structure of fees, to ensure the financial sustainability of goods management activities.

6. Section 3 describes how Customs and MPI work closely together at the border and how our activities are funded. It includes an overview of:

- our goods management activities and the reasons we undertake them
- our costs and the drivers of these costs
- our cost recovery framework, and
- our current fee structure.

7. Section 4 sets out the proposals we are consulting on, together with the reasons we are proposing them. It includes other options we considered.

8. Section 5 sets out how we monitor and report on our fees.

9. Appendices 1 – 4 provide background information.

1.4 What proposals are we consulting on?

10. Customs and MPI are consulting on a package of proposals to achieve three broad objectives:

- ensuring the financial sustainability of Customs' goods management
- improving fairness to fee payers – by better aligning fees to activity costs, removing cross-subsidies and having a more level playing field for competing businesses, and
- improving fairness to taxpayers – by making sure that taxpayers are not paying for costs they do not create.

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3 Unless stated otherwise, all references to mail and international mail in this document mean letters, documents, packages and parcels imported and exported through international mail under Universal Postal Union (UPU) rules. The UPU is the primary forum for cooperation between postal sector players. Among other functions, it sets the rules for international mail exchanges. Mail includes letter-post items, parcel-post items and Express Mail Service (EMS) items.

4 'Fair' in this document means fees are aligned to the principles of cost recovery and accurately reflect the costs of the activity to which they relate, with those benefiting from a service, or whose activities create the need for the service to be provided, bearing the cost of providing It, without cross-subsidisation.

11. The proposals being consulted on include:

- increasing fee levels to make Customs' goods management activities financially sustainable (see Section 4.2)
- moving from per document to per consignment charging for low value goods (see Section 4.3.1)
- differential charges for high value air and sea consignments (see Section 4.3.2)
- discontinuing one export fee (see Section 4.3.3)
- introducing a commercial vessel charge to fully recover the costs of managing commercial vessels[5] (see Sections 4.3.4 and 4.4.3) – replacing both the costs currently recovered through charges on goods and a minor amount of taxpayer funding
- broadening the charging base by bringing transhipped goods and empty shipping containers within the scope of the charging regime (see Section 4.3.5)
- full cost recovery for clearing low value air cargo (see Section 4.4.1)
- recovering the cost of clearing low value goods arriving by international mail (see Section 4.4.2), and
- whether Customs should move to a fixed period for reviewing and resetting its goods fees and whether Customs and MPI should set up regular engagement with an industry reference group on our goods fees (see sections 5.3 and 5.4).

12. Section 2 tells you how to have your say. We seek your feedback and suggestions so that we can better understand all the implications of these proposals for stakeholders before we advise Ministers.

1.5 What is out of scope for this Consultation Document

13. Customs and MPI also charge fees for other activities related to goods clearance. These are out of scope of this review but may be reviewed in the future, including:

- the hourly rate Customs charges for officers' ad hoc attendance in non-standard situations
- the hourly rate MPI charges to importers for providing some biosecurity services
- charges associated with intellectual property rights
- valuation rulings charges
- Secure Exports Scheme (SES) programme costs, and
- licencing fees charged for Customs-controlled areas at ports and airports.

14. The core principle of cost recovery we apply to our goods management activities is also out of scope (ie, those who benefit from a service being provided and/or whose activities create the need for the service, should meet the cost of it).

5 Including commercial vessel costs that are currently recovered through other goods fees and around $800,000 of commercial vessel management fees that are currently funded by the Crown.

1.6 Introducing a levy regime for goods

15. Customs' existing goods cost recovery regime is provided for in the Customs and Excise Act 2018 (the Act) and current fees are lawfully collected.

16. In parallel with this review, the Government is also considering modernising Customs' legislation to:

- make its language and form consistent with both the approach taken by other agencies, such as MPI, as well as the wording of the Act about the Border Processing Levy and public sector guidance on cost recovery design principles, and
- better reflect that Customs operates a goods management system with costs recovered from classes of fee payers.

17. Irrespective of whether the other options in this paper go ahead, Customs will be looking to make this change to modernise and future-proof goods cost recovery.

18. We will keep stakeholders informed through the Customs' website and the Customs Release newsletter.

1.7 Package being consulted on

19. The package we are consulting on is made up of the following key proposals:

i. a number of fee increases to meet Customs' costs and recover an existing memorandum account deficit (see Section 4.2)

ii. consignment-based charging for low value goods to improve financial sustainability and fairness, so that those who need the service are the ones who pay for it (see Section 4.3.1)

iii. separate fees for high value air and sea cargo, reflecting differences in Customs' costs (see Section 4.3.2)

iv. removal of outward cargo report fees, to be consistent with consignment-based charging and reduce compliance costs (see Section 4.3.3)

v. introducing a commercial vessel charge to recover costs related to the vessels, rather than the goods they carry (see Section 4.3.4)

vi. recognition of the costs of managing risks associated with transhipped goods and empty shipping containers, rather than recovering these costs through other goods fees (see Section 4.3.5)

vii. full cost recovery for low value air cargo, with Crown subsidies being removed (see Section 4.4.1)

viii. cost recovery for goods carried in international mail, which is which is currently funded by the Crown (see Section 4.4.2), and

ix. increased cost recovery for commercial maritime vessels, with an existing Crown subsidy being removed (see Section 4.4.3).

20. We also seek feedback on whether Customs should move to a fixed period for reviewing and resetting its goods fees and whether Customs and MPI should set up regular engagements with an industry reference group on our goods fees.

1.8 Impact of proposals

21. If the proposed package is fully implemented, the key impacts on consumers and businesses would be:

1.8.1 Impact on Consumers

22. The key impact on consumers would likely be an increase in freight charges passed on after the removal of the Crown subsidy for processing low value air freight and the introduction of cost recovery for goods carried in international mail. This would increase the charges to those carrying low value goods and would likely be reflected in the freight price ultimately charged to the end purchaser. For example, the price of low value goods delivered by courier would likely rise by up to $3.47 (per consignment) and the price of goods delivered through international mail would likely rise by up to $1.68 (per kg).

23. There would also be impacts on consumers who directly import high value consignments. The clearance charge for high value consignments imported by sea would rise by $15.67 but the charge for importing high value consignments by air would fall by $39.89.

1.8.2 Impact on businesses

24. We think the key impacts on businesses would be:

- those importing and exporting high value consignments by sea would face increased charges (indicatively increasing by $15.67 and $2.46 respectively)
- those importing and exporting high value consignments by air would face reduced charges (indicatively decreasing by $39.89 and $3.50 respectively)
- those carrying low value goods and international mail on behalf of others would need to incorporate consignment-based charging and mail charging into their pricing
- those exporting low value goods would face increased costs, with the cost to export a low value item increasing from an average of around $0.66 to around $3.50, and
- for ship operators the need to reflect the proposed commercial vessel charge in their pricing.

1.9 Implementation

25. The modelling work to calculate the fees in this Consultation Document assumes an implementation date of 1 July 2025. This may change when Ministers, Customs and MPI consider submission feedback, as well as the proposals that will go ahead. Throughout this Consultation Document we seek feedback on the impacts of the proposals on businesses and consumers, and on their implementation, to help inform Ministers' decision-making.

SECTION 2:

How to have your say

26. This Consultation Document is for:
    - traders (import and export businesses buying or selling products internationally)
    - transporters/carriers, brokers and consolidators/freight forwarders
    - the public (eg, consumers buying online).

27. Your feedback will help us to understand your views and the possible impacts of the proposals. For a full set of questions, see Appendix 2.

28. When making a submission, please include:
    - the title of this Consultation Document: Recovering the Costs of Goods Management at the Border
    - your name and title, including your preferred pronoun (eg, he, she, they)
    - your organisation's name and client code (if you have a code)
    - your address and preferred contact (eg, phone or email)
    - references to the questions and/or sections you are commenting on.

29. The deadline for submissions is **5pm, 31 October 2024**. You can send your submission by:

    Email to: consultingonfeesandlevies@customs.govt.nz

    Post to:
    Consultation: Recovering the Costs of Goods Management at the Border
    New Zealand Customs Service
    PO Box 2218
    Wellington 6140

30. We intend to publish all written submissions on our website, as well as a summary of the main themes of submissions.

31. Please note: all submissions become official information and any parts of your submission that we do not publish on our website can still be requested under the Official Information Act 1982 (OIA). The OIA specifies that official information is to be made available to requesters unless there is a good reason for withholding it.

32. Please advise whether you do not want your submission, or specific information in your submission (such as commercially sensitive or personal information) to be published. Please clearly identify the relevant section(s) of your submission and state the reasons for wanting it withheld and we will consider this request based on the provisions of the OIA[6]. Any decision we make to withhold information can be reviewed by the Ombudsman, who may order the information be published.

6 More information about the OIA can be found at: https://www.ombudsman.parliament.nz/.

SECTION 3:

How Customs and MPI manage goods crossing the border

33. This section gives an overview of Customs' and MPI's:
    - goods management activities
    - costs and cost drivers
    - cost recovery framework, and
    - current fee structure.

3.1 Customs

3.1.1. Customs' role and functions

34. Customs has a key role in facilitating New Zealand's international trade. We aim to make sure that goods crossing the border comply with domestic and international requirements and that legitimate trade flows freely and efficiently. Under the Act, Customs has the authority to make regulations, setting fees to recover the costs of carrying out its functions related to goods imports and exports.

35. Customs' functions related to the management of imports and exports include (but are not limited to):
    - **Intelligence and risk targeting.** Through intelligence and risk targeting Customs protects New Zealand from external risks and threats by preventing illegal and non-compliant goods crossing the border. Both before and while goods are on their way to New Zealand, Customs uses intelligence to focus on high risk consignments and voyages. This approach means we stop fewer goods for inspection, improving clearance times and keeping border processing costs low.
    - **Processing activities.** We clear all goods crossing the border through the Trade Single Window[7], a goods clearance system that processes entries and reports before the goods get to New Zealand if importers have given the correct information. This includes issuing client codes,[8] advising on Customs' requirements and responding to queries.
    - **Examinations, rummage, inspections, detentions, seizures and destruction.** We have the power to examine all goods and vessels crossing the border (eg, when an x-ray of a container leads to the container being opened and inspected). Goods may be held pending examination or until we receive the information needed to clear them (eg, a firearm may be held and then released if the importer has a permit). Generally, goods are seized when there is reasonable suspicion that an offence has been committed. Seized goods are forfeited to the Crown and may either be sold or destroyed.

7 Trade Single Window is an electronic channel the cargo and excise industries use to submit information to and receive responses from border agencies (Customs, the Ministry for Primary Industries, Maritime New Zealand and the Ministry of Health)
8 A unique number that identifies an importer, exporter or manufacturer.

- **Investigations.** This is where an inspection or intelligence identifies potential illegal activity or another threat to New Zealand. Investigations give evidence for enforcement action and intelligence for further targeting.
- **Enforcement.** On the basis of an investigation, we may take enforcement action, including prosecution. This activity is fully funded by the Crown.
- **Collection of GST, duties, and levies.** Customs collects GST (Goods and Services Tax), other duty (including excise-equivalent duty) and other agencies' levies. Revenue collection activities are fully funded by the Crown and not through fees.
- **Supporting trade rules.** Customs is New Zealand's lead agency in negotiating:
  - 'rules of origin', which enable importers and exporters to access tariff concessions
  - recognition of Customs' and trading partners' clearance procedures
  - the removal of customs-related non-tariff barriers[9], to smooth the path for New Zealand exporters clearing goods at trading partners' borders.

  This activity enables New Zealand exporters to supply products to other countries with few barriers. It is fully funded by the Crown.

3.1.2. Customs' Goods Management System

36. Some of these activities are part of the goods clearance process, which includes:
    - processing information submitted on goods through customs declarations and commercial databases
    - assessing goods and cargo information against business rules, profiles and alerts
    - making sure goods are classified and valued correctly for statistical and tax purposes, and
    - identifying goods that have import or export controls (eg, restrictions, prohibitions or permit requirements).

37. The process starts when a business or person lodges an import or export declaration for clearance and gives information on the goods they are importing or exporting. Declarations are required, which are the legal responsibility of importers and exporters, consolidators/freight forwarders and transporters/carriers. If the information is lodged with Customs before the goods arrive in New Zealand, clearance will often be given in advance.

38. Customs has efficient systems to make sure we can process cargo easily and quickly through the border. In 2023 Customs did a Time Release Study[10], measuring the times of events and procedures from a goods' arrival to release to market. This study found that Customs has efficient systems to process cargo easily and quickly through the border. Our systems include electronic reporting, post-entry auditing capability, a risk management and alerts system, a deferred payment and credit facility system and ongoing engagement with industry. During the study:
    - import entries correctly reported to Customs were cleared often in seconds and before the arrival of the vessel carrying the cargo; 98.82 percent of transactions were cleared within five minutes of lodgement
    - all export entries for air cargo were cleared before the departure time of the aircraft
    - before entry into New Zealand 78.3 percent of import entries for air cargo were lodged and released by Customs. On average, import entries for air cargo were lodged and released by Customs 16 hours and 47 minutes before the arrival of the aircraft, and
    - 93.9 percent of sea cargo import entries for full container loads were lodged and cleared by Customs before entry into New Zealand.

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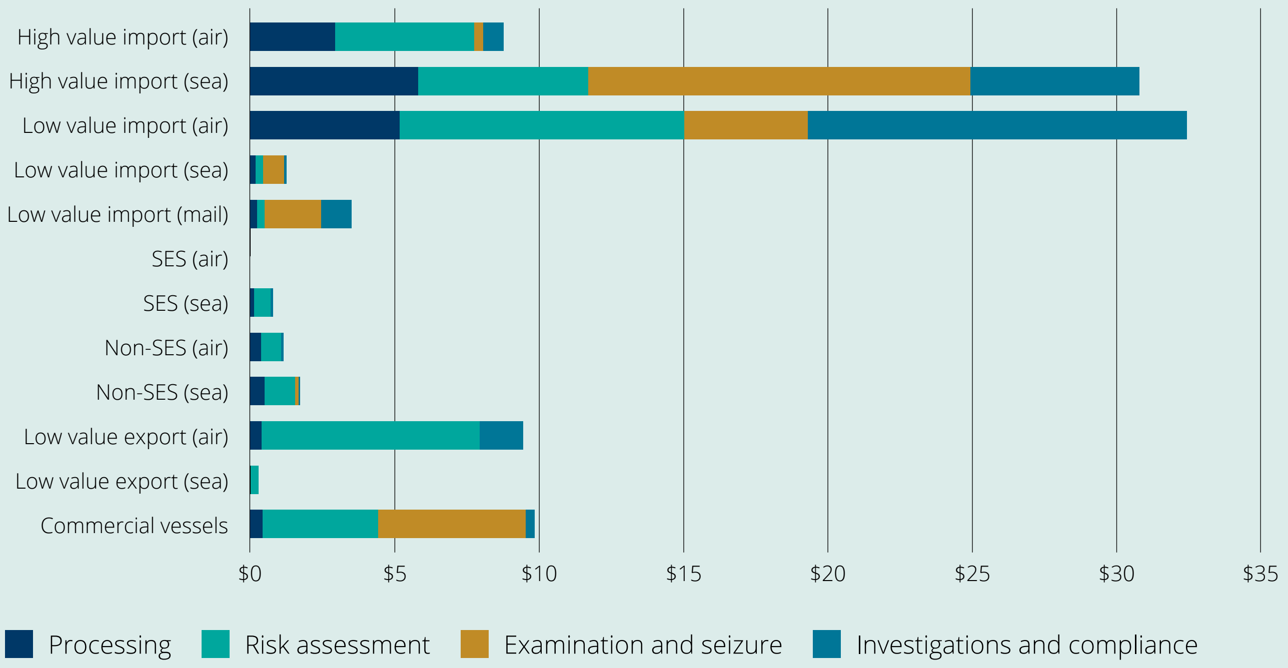
9 Trade barriers such as government policies and regulations that favour local suppliers.
10 https://www.customs.govt.nz/globalassets/documents/misc/time-release-study-2023.pdf

39. Timely clearance of consignments can be vital to exporters and importers, particularly where goods are urgently needed or are perishable.

3.1.3. Customs' costs

40. A breakdown of Customs' costs [11] by major activity is shown in Figure 1:

Figure 1: Break down of 2024/25 Customs' goods costs ($ million)

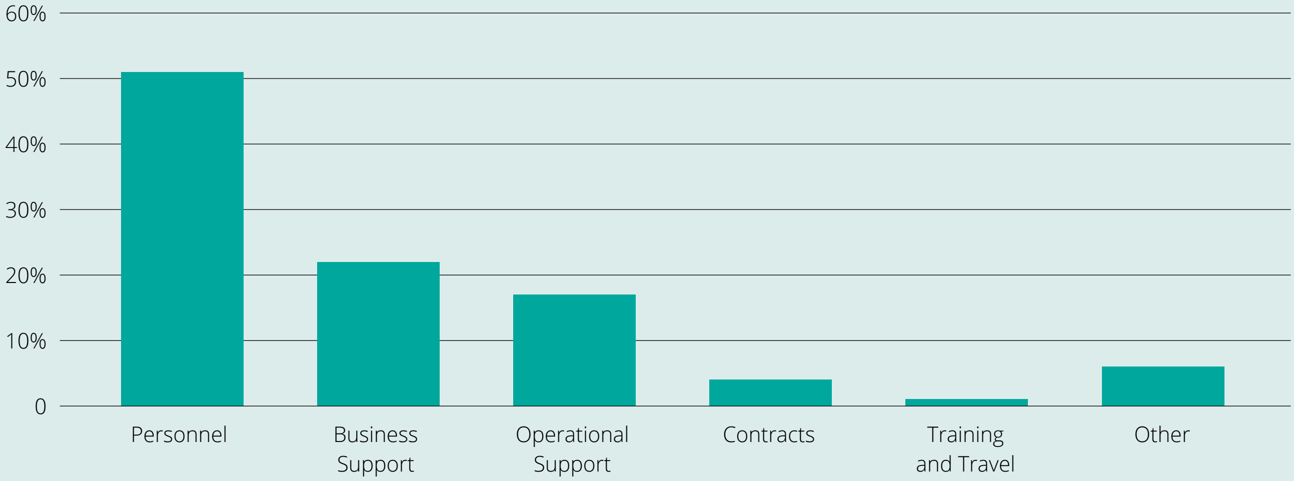


41. Of note is the high cost in clearing low value air imports. This reflects the high overall volume of these consignments that Customs clears, rather than the cost of clearing individual consignments, which is small in comparison.

11 The Import Entry Transaction Fee (IETF) and the Export Entry Transaction Fee (EETF) are collected on goods entries. Table 2 shows the structure of Customs' fees.

42. Figure 2 shows the breakdown of goods management costs by major cost type:

Figure 2: Estimated breakdown of Customs' goods costs



43. 'Business support' is operating expenses, such as for information technology, intangible assets and capital charges. 'Operational support' is operating expenses, such as for facilities, plant and equipment. Some of these costs are variable, while others, such as Customs and MPI's Joint Border Management System, are mainly fixed.

3.1.4. Customs' Cost Drivers

General operating cost pressures

44. Salary and wage costs make up a large proportion of Customs' operating expenses. Customs needs to meet commitments of its staff employment contracts and provide for increases negotiated as part of future agreements.

45. General inflation costs are increasing the expected costs to replace or upgrade assets beyond the funding set aside through depreciation. These assets include the information systems and specialist equipment essential to the delivery of Customs' goods management. General operating costs are impacted by inflation, including IT services, lease costs, consumables and fuel.

Enhanced maritime activities

46. In 2022, as part of the Government's Transnational Organised Crime (TNOC) Strategy, policy work was undertaken on New Zealand's maritime supply chain. TNOC groups are attempting large-scale importations of illicit goods into New Zealand. Techniques include accessing restricted areas in air and seaports and freight facilities to bypass security controls and corrupting legitimate supply chains. This both damages our communities and jeopardises New Zealand's reputation as a low risk trading nation.

47. To counter the increasing TNOC threat, Ministers agreed Customs would strengthen its focus on managing risks related to the maritime border and supply chain. This would include increased physical presence by Customs officers at seaports and sea cargo facilities to:
    - increase Customs' capability to identify and address vulnerabilities
    - deter and detect criminal activity, and
    - gather intelligence to enable better targeting of risk cargo and vessels for inspection.

48. From 2025/26, the costs of this enhanced capability will be recovered through the Border Processing Levy (for costs relating to travellers) and goods charges (for costs relating to goods and commercial vessels).

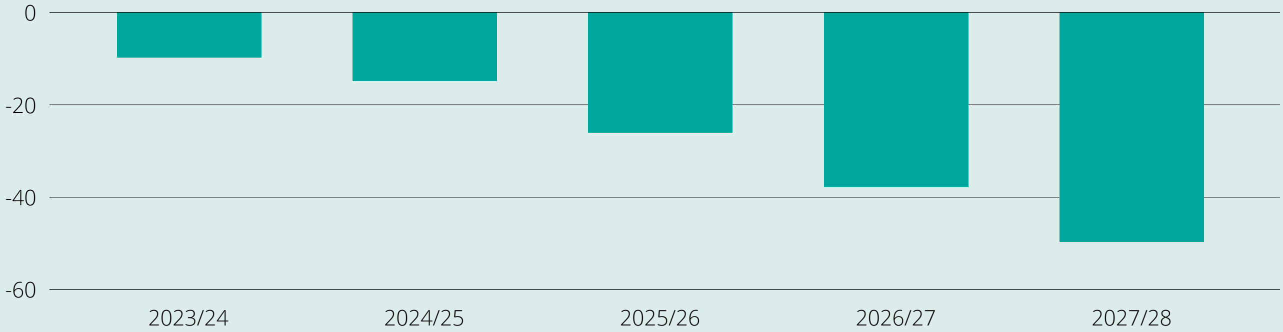
49. Customs' enhanced maritime presence has already supported:
    - Responses to security breaches in ports across the country. As at April 2024, at least 20 breaches of port environments have been reported and investigated. In several cases surveillance, using both intelligence and technology, has led to the interception of drugs.
    - Additional searches below the waterline of commercial cargo vessels, which have located drugs hidden within hull openings and attached to hulls.
    - Investment in new technology to boost capabilities in areas such as underwater inspections of vessels.
    - Increased container scanning to find drugs hidden in container structures and within consignments, leading to increased drugs seizures.
    - Increased rummages of risk targeted commercial vessels, as well as seizure/detention of contraband.
    - Increased land/gate patrols of port environments and on-water patrols.

50. Where these costs relate to goods or commercial vessels, they will need to be recovered through the reset of charges for the period 1 July 2025 to 30 June 2028. In the 2025/26 financial year, the extra costs of Customs' enhanced maritime focus are forecast to be approximately $15 million per year.

3.1.5. Customs’ Goods Fee Memorandum Account balance

51. Because current goods fees are not enough to cover Customs’ costs, our fully cost recovered activities have accumulated a deficit in our Goods Fee Memorandum Account, which is projected to continue to grow if fees are unchanged, as shown below. This is unsustainable.

Figure 3: Projected Goods Fee Memorandum Account balance ($ million)



52. In addition, we are clearing more low value consignments, which means our costs are increasing, but because they are being consolidated and cleared on fewer documents, our revenue is falling. This means that our Crown funding is no longer expected to be enough to meet the costs of our non-fully cost recovered activities.

53. To reduce the impact of financial pressures until this review of goods fees was completed, the Government approved two interim Consumer Price Index-based adjustments to Customs' goods fees on 1 October 2023 and 1 July 2024. While these adjustments mitigated the problem, they were not enough to address it.

54. Financial projections for Customs' clearance activities, given current fee rates, are shown in Table 1:[12]

Table 1: Cost of Customs' border protection activities related to goods

$ Million	2023/24	2024/25	2025/26	2026/27	2027/28
Services intended to be fully cost recovered					
Fee revenue	45.343	49.899	51.225	52.581	54.685
Capital injection	2.046	5.327	-	-	-
Cost	(50.664)	(60.342)	(62.393)	(64.389)	(66.449)
Annual surplus (deficit)	(3.275)	(5.116)	(11.168)	(11.808)	(11.764)
Accumulated Memorandum Account balance	**(9.769)**	**(14.885)**	**(26.053)**	**(37.861)**	**(49.625)**
Partially Crown-funded services					
Fee revenue – low value air cargo	5.207	5.618	6.572	7.526	8.480
Revenue Crown – low value air cargo	26.940	26.940	26.940	26.940	26.940
Revenue Crown – low value mail	4.305	3.974	4.109	4.240	4.305
Cost – low value air cargo	(32.146)	(35.363)	(36.565)	(37.734)	(38.942)
Cost – low value mail[13]	(4.305)	(3.974)	(4.109)	(4.240)	(4.376)
Annual surplus (deficit)	**-**	**(2.805)**	**(3.053)**	**(3.269)**	**(3.592)**
Total revenue and costs					
Total fee revenue	50.549	55.516	57.796	60.107	63.165
Total Crown funding	33.291	36.241	31.049	31.180	31.245
Total cost	(87.116)	(99.678)	(103.066)	(106.364)	(109.767)
Total annual surplus (deficit)	**(3.275)**	**(7.921)**	**(14.221)**	**(15.077)**	**(15.356)**

12 Numbers may not add exactly due to rounding. These forecasts were prepared by Customs.
13 The small projected decrease in international mail costs in 2024/25 is because of an expected reduction in the proportion of budgeted investigation costs that have been allocated to goods in the international mail stream.

55. Volume projections for goods clearance fees and levies are shown in Table 2:

Table 2: Forecasts of volumes on which fees are collected

Fee	Units	2023/24	2024/25	2025/26	2026/27	2027/28
Imports						
High value import (air)	Consignment	703,982	725,762	745,788	766,108	806,604
High value import (sea)	Consignment	486,364	490,939	490,382	490,382	491,731
Low value import (air)	Consignment	17,512,073	17,241,123	17,803,160	18,365,197	18,927,233
Low value import (sea)	Consignment	312,001	296,568	290,921	285,273	279,625
Inward Cargo Report (air)	Report	52,426	52,434	63,578	74,722	85,866
Inward Cargo Report (sea)	Report	4,962	5,048	5,726	6,406	7,084
Low value mail import	Kilograms	7,790,650	7,790,650	7,790,650	7,790,650	7,790,650
Exports						
SES export (air)	Consignment	2,474	2,499	2,524	2,549	2,575
SES export (sea)	Consignment	135,136	140,353	146,177	151,999	157,824
High value export (air)	Consignment	265,688	275,553	293,579	311,601	329,625
High value export (sea)	Consignment	143,998	147,574	150,832	154,091	157,353
Low value export (air)	Consignment	3,322,623	3,355,849	3,389,408	3,423,302	3,457,535
Low value export (sea)	Consignment	41,917	42,114	45,016	47,918	50,820
Outward Cargo Report (air)	Report	51,787	52,488	59,624	66,760	73,898
Outward Cargo Report (sea)	Report	11,733	11,774	13,590	15,407	17,224
Cargo Report Export (air)	Report	32,598	32,360	33,546	34,733	35,919
Cargo Report Export (sea)	Report	17,491	17,484	19,792	22,104	24,408
Commercial vessels						
Commercial vessel	Arrival	2,198	2,298	2,460	2,622	2,784

56. Forecasting volumes in the goods market is challenging because shifts in market factors can impact on large volumes of goods, particular low value e-commerce. Forecasts have been based on the last two years of data since the air border fully reopened after COVID-19.

QUESTION FOR YOU TO THINK ABOUT

1. Do you think these forecasts are reasonable?

3.2 Ministry for Primary Industries

3.2.1. MPI's role and functions

57. MPI undertakes a range of functions in clearing goods. These functions are cost recovered through fees and through the Biosecurity System Entry Levy (BSEL). The BSEL funds the following activities that support the border clearance system:

- obtaining and analysing data to develop and monitor risk profiles and place alerts
- the primary screening of sea and air cargo manifests for biosecurity risk consignments
- intervention monitoring programmes, compliance monitoring surveys and baseline auditing of the compliance of imported consignments with import health standards
- surveillance around sea and airports and high risk places for preventing the establishment of pests and unwanted organisms that may come in via imported consignments
- facilitating the movement of consignments away from ports approved as places of first arrival
- fifteen minutes of secondary risk assessment for consignments identified in primary screening, authorising movement and biosecurity clearance documentation, and
- administering and collecting the levy.

58. Biosecurity fees fund the following activities relating to individual facilities, craft and consignments:

- inspecting imported biosecurity risk consignments, including unaccompanied personal baggage and effects, used vehicles and machinery
- inspecting offshore craft and shipping containers that do not meet entry requirements
- testing, treating, destroying and disposing of risk consignments
- call-outs and other work outside standard working hours, travel and waiting time for MPI inspectors to do biosecurity clearance
- monitoring controls on new organisms in containment facilities
- approving and auditing transitional and containment facilities and their operators, and
- approving permits issued under Import Health Standards.

3.2.2. Breakdown of MPI's costs

59. MPI constantly monitors revenue and expenditure and has an annual process for reviewing fees and levies that may need to change.

60. Biosecurity fees and the BSEL were reset on 1 July 2023. The BSEL was increased 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. See Table 3 for the financial break down.

61. As a result of the 2023 review, there is no imbalance between revenue and expenditure that needs to be addressed now (although other changes proposed in this Consultation Document would change who pays, which would increase the amount of MPI's expenditure cost recovered versus that funded by the Crown).

Table 3: Summary expenditure data for the 2023 BSEL reset

	2022/23 $m	2023/24 $m	2024/25 $m	2025/26 $m
Baseline expenditure	37.00	37.70	37.71	37.71
Three years of anticipated inflationary pressures	-	3.15	6.20	8.94
Expanded services	1.39	1.97	2.16	2.16
Recovery of the 22/23 expected deficit	-	3.10	3.10	3.10
Shift of focus from passenger to cargo	-	9.26	9.26	9.26
Total	**-**	**55.18**	**58.43**	**61.17**

62. Biosecurity fees were also increased in 2023 due to cost inflation since the last reset in 2015, such as increases in staff and training costs to maintain the integrity of the border clearance system in the face of increasing biosecurity risk.

63. In 2023/24, Crown funding covered $8.4 million of expenditure in clearing mail.

3.3 Cost Recovery Framework

64. MPI and Customs' cost recovery frameworks are consistent with guidance published by the Treasury and the Office of the Auditor-General. Other than when Ministers have decided to contribute Crown funding, we seek to recover all costs of providing goods management services. These include:

- direct costs of services (such as staff time, travel costs, systems and equipment used in delivering the service)
- support costs for the delivery of the service (such as training and development costs for staff, administrative support, management, project, and capital costs), and
- a proportion of wider business support or common costs (eg, the costs of corporate roles like finance, human resources, information technology (IT) and costs of property and utilities).

65. The goods management system that Customs and MPI operate is integrated and designed to clear low risk goods quickly and effectively, while mitigating threats to New Zealand. These goods management activities are mostly funded through cost recovery. We need to make sure that our goods clearance fees and levies are:

- **financially sustainable –** set at the level needed to recover costs, now and in the future
- **equitable –** 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
- **efficient –** we deliver high service standards at a sustainable cost
- **transparent –** we provide clear and easily understood information about our funding decisions, including the costs and fees, and
- **justified –** we recover only the costs of delivering our services.

66. For fully cost recovered activities, Customs and MPI use memorandum accounts to track revenue and expenditure. Memorandum accounts record the accumulated balance of surpluses or deficits incurred in providing cost recovered services. We aim to set charges at levels that make sure these accounts trend towards zero over levy periods. This means that we do not under-recover or over-recover costs over time.

3.3.1. Customs' fees

67. Customs' activities are funded by a mix of Crown funding and fees.[14] Fee revenue is not meeting our costs, leading to a shortfall in the Memorandum Account for fully cost recovered activities. Existing Crown funding for partially cost recovered activities is not projected to be sufficient beyond 2024/25.

68. The costs Customs recovers from goods importers and exporters and/or their carriers and agents are mostly through two fee types:

- A fixed fee for import and export entries that give detailed information about the goods. This fee is paid by individual importers/exporters for all consignments[15] valued over the $1,000 de minimis.
- A fixed fee for each Inward Cargo Report (ICR), Outward Cargo Report (OCR) and Cargo Reports Export (CRE). These reports provide summary information about the cargo on board a ship or aircraft (goods intended for import/export, transhipments, transit goods and empty shipping containers). Freight forwarders also submit ICRs and CREs to seek clearance of low value imports and export consignments. Cargo reports have less information than import and export entries and can cover a large number of individual consignments from many importers or exporters.

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14 Currently, there is Crown funding applied to the management of low value air freight and international mail and a small amount of Crown funding for the management of commercial maritime vessels.
15 A consignment is all the goods on a craft imported by one importer from one supplier. Separate import and export entries are needed for each high value consignment (over $1,000).

69. Customs' fee revenue depends on the number of entries and cargo reports. See Table 4 for Customs' current fee structure:

Table 4: Customs' current fee structure

Fees	Who pays	Current fee (incl GST)
Imports		
Import Entry Transaction Fee[16] Regulation 24A	Individual importers	$40.08 per entry
Inward Cargo Transaction Fee Air Regulation 13A(2)(b)	Airlines reporting on all the cargo on their craft and freight forwarders seeking clearance of low value consignments	$93.45 per report
Inward Cargo Transaction Fee Sea Regulation 13A(2)(a)	Shipping lines reporting on all the cargo on their craft and freight forwarders seeking clearance of low value consignments	$537.09 per report
Exports		
Export Entry Transaction Fee (SES) Regulation 28A(1)(a)	Exports shipped under the SES scheme	$3.96 per entry
Export Entry Transaction Fee Regulation 28A(1)(b)	Other exports valued $1,000 or more	$8.28 per entry
Outward Cargo Transaction Fee for Outward Cargo Report Air Regulation 29A(3)(a)	Freight forwarders for loading goods on a craft and airlines reporting on all goods on their craft	$17.41 per report
Outward Cargo Transaction Fee for Outward Cargo Report Sea Regulation 29A(3)(a)	Freight forwarders for loading goods on a craft and shipping lines reporting on all goods on their craft	$22.55 per report
Outward Cargo Transaction Fee for Cargo Report Export Air Regulation 29A(3)(b)	Freight forwarders seeking clearance of low value consignments	$48.54 per report
Outward Cargo Transaction Fee for Cargo Report Export Sea Regulation 29A(3)(b)	Freight forwarders seeking clearance of low value consignments	$6.75 per report

16 Customs collects the Import Entry Transaction Fee on goods valued over $1,000. In some cases (eg, a commercial traveller declaring high value goods) a full entry is needed (and therefore the fee is payable, along with any duty). In most cases Customs does not collect goods fees from travellers for goods imported in their baggage. Except in some cases (eg, commercial travellers declaring high value goods) as above.

3.3.2. MPI's current fee structure

70. The BSEL is mostly collected on consignments of imports valued at or over $1,000. The BSEL is also charged when air, seacraft or freight forwarders submit cargo reports to Customs. Around 95 percent of BSEL revenue comes from charging consignments valued over $1,000 and 5 percent from cargo reports.

71. The BSEL is collected by Customs for MPI on imported goods at $46.40 per leviable import. Goods imported and valued at $1,000 or less are exempt from the BSEL.

72. MPI also recovers costs for biosecurity inspections and other services it supplies to importers through fees and charges[17]. For most goods, biosecurity fees are charged by MPI at a base rate of $155.50 to $186.30 per hour for providing a wide range of services for individual importers.

73. MPI's current biosecurity fees are not part of this Consultation Document as the fees do not need to change.

Table 5: MPI's current charges

Imports		
Biosecurity system entry levy (BSEL)	Paid by importers of consignments valued at or over $1,000. The BSEL is also charged when air or seacraft or freight forwarders submit cargo reports to Customs. Around 95 percent of BSEL revenue comes from charging consignments and 5 percent from cargo reports. The BSEL funds system-level activities, including developing and monitoring risk profiles and place alerts, screening of sea and air cargo manifests for biosecurity risk, surveillance around sea and airports for pests and unwanted organisms and costs associated with the Joint Border Management System.	Cargo by air and by sea
Biosecurity fees	While the BSEL covers system-level costs, biosecurity fees are paid by importers to cover the costs of inspecting individual consignments for pests and unwanted organisms.	Cargo by air and by sea

17 Information about biosecurity fees and charges is available at: Fees and charges for importing: general | NZ Government (mpi.govt.nz)

SECTION 4

Proposed changes to charges and their structure

4.1 Overview

74. We are consulting on nine proposals. These are made up of a base package of fee changes needed to ensure Customs' financial sustainability and two supporting packages to improve fairness for fee payers and taxpayers.

Proposals for Public Consultation

Base Package: Ensuring Immediate Financial Sustainability

- Fees reset to:
  - meet the projected costs for activities intended to be fully cost recovered, and
  - operate within existing Crown funding for activities not fully cost recovered.
- No change to fee structure.

Minimum Package to Sustain Operations

+

Supporting Package:
Fairer for Fee Payers

- Fees better reflect the cost of activities.
- Cross subsidies removed.
- Reduced scope for fee avoidance.

"Fees better aligned with costs"
These changes would also support financial sustainability

+

Supporting Package:
Fairer for Taxpayers

- Move to full cost recovery for low value air cargo.
- Cost recovery for goods sent by international mail.
- Cost pressures will no longer require budget funding.

"Taxpayers don't pay for risks they don't create"
These changes would also support financial sustainability

Three sets of proposals to improve the financial sustainability and fairness of Customs' goods fees into the future.

4.2 Base Package: Customs' financial sustainability

75. For Customs, the base package will see an increase in charges to meet costs and fund the expansion of Customs' maritime work agreed in Budget 2023[18]:

- for fully cost recovered activities it would apply cost recovery policy to cost and volume projections, to balance costs and revenues over the next three years, as well as recover a forecast shortfall of $14.9 million as at 30 June 2025 in Customs' Goods Fee Memorandum Account
- for low value air and sea goods, it would update fees to meet forecast costs so that Government funding will not need to increase further, and
- there would continue to be no fees for low value goods in international mail. This would mean the Government would keep funding this service.

76. MPI's fees were reset on 1 July 2023 and are sufficient to fund existing biosecurity activities for fully cost recovered activities. MPI is, however, seeking to improve the fairness of cost recovery by making sure that biosecurity costs are fairly allocated to all those who create biosecurity risks and manage processing low value air cargo within its existing appropriations.

77. If there are no policy changes, Customs and MPI would keep using cost and volume projections to periodically update fees for cost recovered activities and seek Crown funding where needed for Crown-funded activities, in line with the existing cost recovery framework.

78. We group our wide range of functions into high-level activities for calculating costs and setting fees (eg, we calculate all the costs we incur for functions related to clearing high value air consignments and use this cost, together with volume data, to set the corresponding fee). If we changed the high-level activities we use, or the functions we include within activity types, then this would change calculated costs and fees.

79. Table 6 shows current Customs fees and the fees that would apply from 1 July 2025 if charges were reset to reflect forecast costs over 2025/26 to 2027/28, with no changes made to the fees structure[19]. These are the fees needed to meet costs in the next levy period, as well as recovering the portion of the shortfall in the Goods Fee Memorandum Account related to the fee in question.

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

19 BSEL rates are not included in this table, as MPI's fees do not need to change.

Table 6: Indicative Customs Fees for Cost Recovery from 1 July 2025

Indicative fees ($ excl GST)	Current rates	Change to recover costs	New rate to recover costs
Imports			
Import Entry Transaction Fee	34.85	+0.02	34.87
Inward Cargo Transaction Fee (air)	81.26	+174.30	255.56
Inward Cargo Transaction Fee (sea)	467.03	+26.00	493.03
Exports			
Export Entry Transaction Fee (SES)	3.44	+0.09	3.53
Export Entry Transaction Fee (non-SES)	7.20	-2.93	4.27
Outward Cargo Report (air)	15.14	+111.54	126.68
Outward Cargo Report (sea)	19.61	+31.46	51.07
Cargo Report Export (air)	42.21	-16.62	25.59
Cargo Report Export (sea)	5.87	+0.05	5.92

QUESTIONS FOR YOU TO THINK ABOUT

If fees are reset without any change to the fees structure:

2. What impact would the fee increases in the above tables have on you or your business?
3. What implementation issues would the changes raise for your business and what lead time would you need to manage these?
4. Is there anything else you would like to tell us about the likely impacts of these fee changes?

4.3 Proposals that could improve fairness for fee payers

80. We have identified six proposals to change Customs' and MPI's fees that could improve fairness to fee payers. These are:

   i. charging per consignment for low value goods

   ii. differential Customs charges on high value air and sea consignments

   iii. export costs currently recovered through the Outward Cargo Transaction Fee - Outward Cargo Report (OCTF-OCR) would instead be recovered through other export fees and the commercial vessel charge (see below). Note: while this fee would cease, submission of the report would still be needed

   iv. introducing a commercial vessel charge to cover the costs of managing commercial vessels

   v. broadening the charging base by bringing transhipped goods and empty shipping containers within the scope of the charging regime, using a consignment charging approach, and

   vi. cost recovery for processing international mail – see Section 4.4.

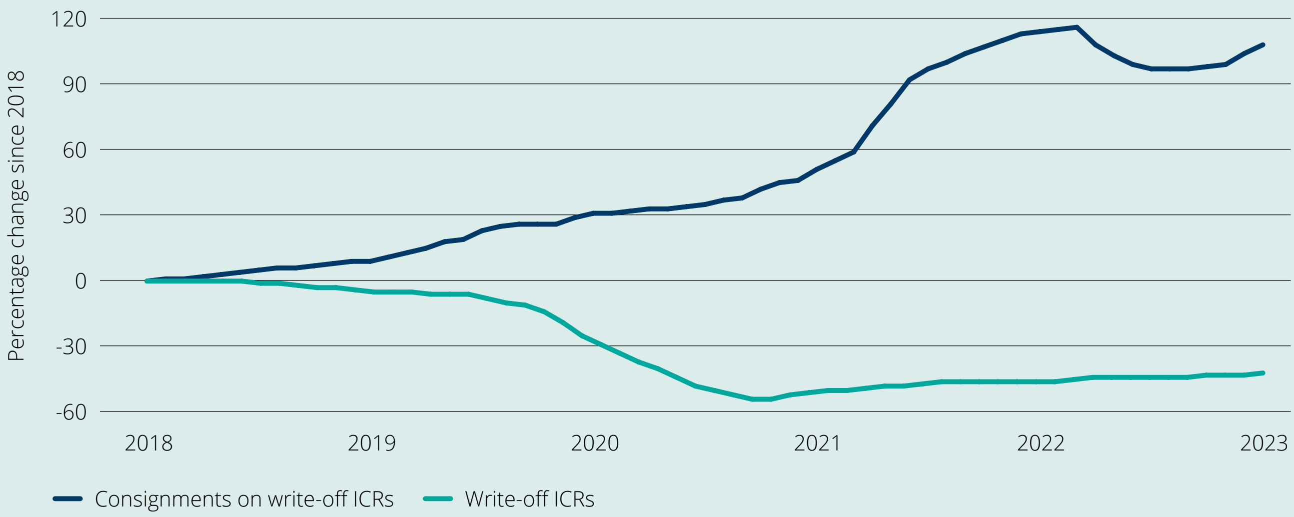
4.3.1 Charge fees per consignment for low value goods

81. The costs to Customs and MPI of clearing low value consignments are mostly driven by the number of consignments rather than the number of documents submitted. Risk assessment and examinations are mostly focused on consignments. However, the fees charged for clearing low value goods are either:

- Charged per document – when the goods are cleared through write-off requests[20] made by freight forwarders, on Inward Cargo Reports and Cargo Reports Export, to seek clearance of low value consignments. A single report can seek clearance of up to 9,999 consignments. For example, when they are cleared as write-off requests the effective combined Customs and MPI fee per consignment can vary from $122, when the freight forwarder seeks clearance for only one consignment, to 1.2 cents when clearance is sought for 9,999 consignments.
- No charge – when they are cleared by an import entry, as no fee is payable.

An ongoing trend of more consignments consolidated on fewer cargo reports is undermining the financial sustainability of our goods management activities[21].

Figure 4: Write-off Inward Cargo Reports versus write-off consignments



82. This situation is unfair to many fee payers. The per consignment fees importers and exporters must pay for an otherwise identical low value consignment can vary depending on the document used to clear the consignment and the number of consignments listed. This means that importers and exporters clearing low numbers of low value consignments are cross-subsidising those clearing large numbers of low value consignments. Furthermore, this would be exacerbated if the proportion of low value goods clearance costs recovered from importers and exporters increased to fully recover costs, as proposed.

20 A write-off is the clearance by Customs and MPI of a consignment when a Customs import entry or export entry is not needed but that need the agencies' permission for the goods to enter or leave New Zealand. This option is not available for low value consignments containing alcohol or tobacco. Currently, Clause 2.1(2) of the Customs Deemed Entry of Goods Rules 2021 requires a simplified import declaration (not an Inward Cargo Report write-off request) for tobacco and alcohol. The importer can instead choose to lodge an import entry.

21 For example, since June 2018, the need for Customs activities related to air cargo consignments on write-off ICRs more than doubled, while Customs fee revenue from those ICRs almost halved.

Consignment charging would improve fairness

83. A potential solution would be to move from charging a flat fee per cargo report submitted, to charging on the number of consignments listed. This would mean the fee for submission of a cargo report with few consignments would fall, while the fee for submission of a cargo report with many consignments would increase[22] (as set out in Table 7). This would not increase the total fee revenue but would redistribute fees to better align with the costs Customs and MPI incur in clearing the goods.

84. Indicative modelling shows the combined Customs and MPI per consignment fee would be around $1.96 for low value air imports.

Table 7: Consignment fee with different consignment numbers[23]

Indicative combined Customs + MPI rates ($ excl GST)	Current rate	New rate to recover costs per report	New rate to recover costs per consignment	Impact depending on report size	
				Consignments on report	Fee per report
Low value import (Air)	122.54	296.84	1.96	1	1.96
				152	297.92
				500	980.00
Low value import (Sea)	508.31	534.31	8.90	1	8.90
				61	542.90
				500	4,450.00
Low value export (Air)	42.21	25.59	0.40	1	0.40
				64	25.60
				500	200.00
Low value export (Sea)	5.87	5.92	2.73	1	2.73
				3	8.19
				500	1,365.00

85. Fairness would also be improved by making sure all importers and exporters of low value goods using air freight pay the same per consignment charge, irrespective of the document they use to clear their goods.

22 For example, indicatively if there were no other changes, the fee to submit an Inwards Cargo Report in the air stream with 56 or fewer consignments would reduce, and the fee for reports with more than 56 consignments would increase

23 The new rate per consignment (in the green column of the table) would recover the same total revenue as the new rate per report (in the blue column of the table).

Consignment charging would apply to low value entries and simplified import declarations

86. Although most low value consignments are declared on Inward Cargo Reports, some are declared using an import entry or simplified import declaration. Currently, Customs and MPI collect a fee or levy if a low value consignment is declared on an Inward Cargo Report but not if it is declared using an import entry or simplified import declaration.

87. This Consultation Document is consulting on the option of a per consignment fee for all low value goods regardless of the document used to declare the consignment. While the ability of importers to lodge an import entry or simplified import declaration for low value consignments would stay, the low value goods consignment charge would apply in these cases, ensuring that the per consignment charge is applied to all low value consignments.

Consignment charging would also support financial sustainability

88. A move to consignment charging would also support the financial sustainability objectives in Section 4.2. Currently:

- Importers of low value goods can avoid paying fees entirely by clearing low value consignments on import entries, undermining Customs' revenue base but Customs still incurs costs in clearing these consignments.
- We are seeing an ongoing trend of consolidation, with the average number of consignments that importers of low value goods via air freight are listing on cargo reports rising. Because Customs and MPI charge per document, but our costs are mostly driven by consignment numbers, growth in costs is outpacing growth in revenue.

Consignment charges can be efficiently collected by Customs

89. Charges would still be collected through the Trade Single Window and deferred payment accounts, as they are now. This can be done efficiently and at low cost, as Customs would charge the fee per low value consignment to a broker's account where it would be added to other amounts owing for brokers to pay all amounts owing to Customs on the date payment is due.

QUESTIONS FOR YOU TO THINK ABOUT

For low value imports and exports:

5. Do you agree that setting the fee for the submission of a cargo report for clearance of low value goods based on the number of consignments listed on it would be fairer than continuing to charge a flat per document fee, irrespective of the number of consignments on it? If you don't agree can you tell us why?
6. What impact would setting fees per consignment likely have on your business?
7. What implementation issues would the changes raise for your business? What changes would you need to make to your business processes? How much time would you need to manage these changes?
8. Do you agree a per consignment charge, payable when a document seeks clearance of a large number of low value consignments, should not be capped?
9. If you favour a cap on these charges, where do you think the costs not recovered from the submitter because of the cap should come from?

Other options we considered

90. Customs and MPI considered the following other options to per consignment charging:

- **Charging per document (the status quo).** This option is feasible. However, it is not preferred, as discussed, because it is unfair to some fee payers and raises material issues in terms of the financial sustainability of goods management activities.
- **Charging overseas sellers directly (fall back option).** We looked at whether it would be feasible to recover charges for low value goods directly from online marketplaces and offshore suppliers that have registered for GST under the GST rules applying to low value imported goods. Under those rules, online marketplaces and non-resident businesses supplying goods or services in New Zealand valued over NZ$60,000 a year are required to register for GST and account for GST directly to Inland Revenue. This option does largely ensure that those sending goods to New Zealand would bear the cost. However it is not the preferred option, and is the fall-back option that we would likely look to progress only if the preferred option is found to be infeasible, as this option:
  - would be unfair as not all parties sending low value goods to New Zealand are registered for GST, so full cost recovery would involve a cross-subsidy where GST-registered suppliers and online marketplaces also met the costs of unregistered offshore suppliers
  - is not within Inland Revenue's mandate to collect cost recovery fees on behalf of other government agencies, and
  - would likely be viewed by GST-registered online marketplaces and offshore suppliers as unfair, which could compromise the integrity of the collection of GST on low value imported goods.
- **Charging per tariff item.** Under this option, the fee for submitting a cargo report would vary not just based on the number of consignments on a report but also by the number of tariff items (different types of goods) in a consignment. This option was discarded as infeasible. Customs does not require tariff classification data to be provided for low value goods and free-text descriptions are used. This means that tariff items often cannot be distinguished.
- **Charging based on individual goods items.** Under this option the charge for submitting a document would be based on the number of individual items in a shipment. Scoping work found this option was infeasible[24] and it was discarded.
- **Charging based on the value of the goods.** Charging based on the value of the goods cleared on a document is not aligned with cost recovery principles because Customs' costs do not vary by value of consignment (eg, the cost of processing goods valued at $1,000 is not ten times more than the cost of processing goods valued at $100). It would also be contrary to the General Agreement on Tariffs and Trade. Therefore, this option was discarded.

24 Among other considerations, the New Zealand Working Tariff Document does not provide for Customs to collect this information on all types of goods. Some goods consignments are, for instance, declared by weight or value rather than by an item count.

- **Capping per consignment charging.** This would involve charging per consignment but the total amount that could be charged per document would be capped. To do this, there would be a cap on the number of chargeable consignment lines on a document, with consignments over the limit being free. This option was feasible. However, the fees it would generate would be less well aligned with costs than uncapped per consignment charging. Customs and MPI would still incur costs to process consignments above the cap but these costs would not be recovered by the party seeking consignment clearance. These costs would therefore have to be recovered through higher fees across all consignments, meaning that importers and exporters would be undercharged when they submitted documents with more consignments than the cap, at the expense of importers and exporters who would be overcharged when they submitted documents with fewer consignments than the cap. Such a cross-subsidy is at odds with the principles of cost recovery. Therefore, this option is not preferred.
- **Aligning charges with mail.** As discussed further in Section 4.4.2, we considered having the same charge for low value items carried in both air freight and through international mail. This option was assessed as both inconsistent with cost recovery principles and infeasible, and therefore discarded.
- **Charging recipients.** Under this approach the recipient would need to pay charges before receiving their goods. This was not progressed as the level of disruption and administration costs would be disproportionate to the charge.

QUESTION FOR YOU TO THINK ABOUT

For low value consignments:

10. Do you think any of the options above, or any other option, would be fairer than either the status quo or consignment-based fees? If yes, please tell us why you think they would be fairer and feasible to implement.

4.3.2 Setting separate fees for high value air and sea consignments

91. Currently the fees for high value goods (consignments valued over $1,000) do not distinguish between modes of transport, with the same fee charged whether they cross the border by air or by sea. However, there is a big difference in costs, with the costs of managing a sea consignment typically being much higher than that of an air consignment[25]. This means effectively a substantial cross-subsidy from importers and exporters using air freight to those using sea freight.

25 As an example of this, sea consignments are generally much bigger than air consignments. When an air consignment is inspected it typically involves putting a single box or item through a scanner and/or manually inspecting the item at a table. When a sea consignment is inspected this will typically involve bringing an entire sea container to an inspection facility, manually unloading that container, searching the contents, which may include hundreds or thousands of boxes or items, then manually repacking the container.

92. Removing this cross-subsidy setting up separate air and sea fees better aligned with Customs' costs of managing consignments in each mode of transport, would improve fairness. This would result in the following indicative fee changes:

Table 8: Different rates for air versus sea consignments

Indicative Customs rates ($ excl GST)	Current rate per entry	New rate to recover costs per entry	Different air/sea rates (removing cross- subsidy) per entry	Change per entry
High value import (air)	34.85	34.87	7.56	-27.31
High value import (sea)	34.85	34.87	77.86	+42.99
SES export (air)	3.44	3.53	1.95	-1.58
SES export (sea)	3.44	3.53	4.79	+1.26
High value export (air)	7.20	4.27	2.79	-1.48
High value export (sea)	7.20	4.27	8.51	+4.24

93. Based on independent economic analysis (see Appendix 3) we do not consider this would have a material impact on export or import values and volumes. The only material estimated impact is for high value air imports, where growth of $25.6 million (0.11 percent) may occur.

QUESTIONS FOR YOU TO THINK ABOUT

For high value consignments:

11. Do you think high value consignments should pay the same fee, irrespective of whether they are carried by air freight or by sea freight, or do you think there should be different fees, reflecting the different costs incurred in clearing air and sea consignments?
12. What are the reasons for your answer?
13. What impact would moving to separate fees for high value consignments for sea and air freight have on your business?
14. What implementation issues would the changes raise for your business? What lead time would you need to manage these?

4.3.3 Recovery of export costs through export fees other than the Outward Cargo Transaction Fee – Outward Cargo Report

94. Outward Cargo Transaction Fee – Outward Cargo Report (OCTF-OCR) is a fee payable when an Outward Cargo Report is submitted. Charging for the submission of this document, rather than basing charges on the consignments listed, is inconsistent with the proposed consignment-based charging for low value goods. This option would remove the OCTF-OCR fee, and instead recover the costs through other charges (ie, export charges and the vessel charge). The annual costs of these reports is $9.2 million.

95. The existing OCTF-OCR is mostly paid by fast freight operators on exports but also by craft operators. As the OCTF-OCR is charged per report, the costs are not shared fairly. Removing this fee would also reduce compliance costs for businesses. Table 9 shows how ending the OCTF-OCR would affect Customs' other export fees.

Table 9: Impact on other export fees of ending the OCTF-OCR

Indicative Customs rates ($ excl GST)	Current rate per entry or report	New rate to recover costs per entry or report	New rate after air/sea split and moving to per consignment fee per entry or report	New rate after ending OCR fee per entry or report	Impact of ending OCR fee per entry or report
SES export (air)	3.44	3.53	1.95	1.95	
SES export (sea)	3.44	3.53	5.35	6.81	+1.46
High value export (air)	7.20	4.27	2.79	3.70	+0.91
High value export (sea)	7.20	4.27	9.32	12.06	+2.74
Low value export (air)			0.40	2.77	+2.37
Low value export (sea)			2.73	5.69	+2.96
Outward Cargo Report (air)	15.14	126.68	126.68		-126.68
Outward Cargo Report (sea)	19.61	51.07	51.07		-51.07

QUESTIONS FOR YOU TO THINK ABOUT

About the OCTF-OCR fee:

15. Do you think removal of the OCTF-OCR, and spreading the costs it currently recovers through other export-related fees, is appropriate?
16. What are the reasons for your answer?
17. What impact would removing the OCTF-OCR likely have on your business?

4.3.4 Introducing a commercial vessel charge to recover commercial vessel management

96. If this proposal was implemented, it would see the introduction of a vessel charge totalling $6,268 for commercial vessels arriving in New Zealand.

97. Commercial vessels[26] pose risks to New Zealand independent of the risks posed by the goods they carry. For example, they may have contraband hidden in or on the ship[27] and pose other biosecurity risks, such as from hull biofouling[28].

98. If a commercial vessel charge is progressed, there are circumstances when charging this fee would be unjustifiable or breach international obligations. Examples of these are in Table 10. One of the issues we are seeking feedback on is whether the proposed exemptions in this table are appropriate or whether there are other circumstances in which it would be appropriate to exempt a vessel from the Customs and/or the biosecurity component of a vessel charge.

Table 10: Proposed exemptions from Commercial Vessel Charge

Circumstance	Comment
Round Trip Fishing Voyages	Fishing vessels undertaking 'round trip' voyages that leave from, and return to, New Zealand ports and travelling outside the 12-mile limit to fish that do not: • visit a foreign port during the voyage, or • interact with another craft or person from a place outside New Zealand without an MPI authorisation to do so. While not entirely risk free, such voyages are less likely to bring threats into New Zealand that need to be managed by Customs and MPI.
International obligations	The charge would not apply where this would be a breach of New Zealand's international obligations. Proposed exemptions are: • warships of another state • vessels owned or operated by any state other than New Zealand, and vessels owned or operated by the United Nations, if the vessel is being used by the state or United Nations for wholly non-commercial purposes, including but not limited to, Antarctic Research and humanitarian missions.
Force majeure	Situations where an unplanned arrival in New Zealand is necessary for safety reasons or for reasons outside of the vessel operator's control. This would apply to: • vessels rescued at sea • vessels temporarily seeking relief from weather and departing New Zealand as soon as practicable, and • vessels arriving solely for unplanned repairs during an international voyage or response to an emergency or crisis.

26 Non-commercial vessels and cruise ships also pose risks to New Zealand but are outside the scope of this proposed charge as the costs for managing these are already recovered through border processing levies.
27 For example, prohibited goods such as illicit drugs have been found inside ship funnels, crew quarters, engine rooms and bilges, as well as being attached to hulls under water.
28 The fouling of boat hulls and other surfaces by unwanted organisms.

99. Table 11 shows the number of times commercial vessels arrived in New Zealand, by vessel number, voyage number and vessel type, for the year ended 31 March 2024.

Table 11: Arriving vessels, year ended 31 March 2024[29]

Vessel type	Number of arrivals	Number of individual commercial vessels
Barge	1	1
Bulk Carrier	600	372
Bulk Refrigerated Craft	61	22
Container	873	165
Ferry (all types)	3	3
Fishing	54	32
General Cargo	150	69
Livestock Carrier	2	2
Oil Rig Supply	2	2
Roll On/Roll Off	171	94
Specialised Craft	39	23
Tanker	323	171
Tug	3	2
Total	2,282	958

Note: the number of arrivals exceeds the number of vessels, as some vessels make multiple trips from overseas destinations to New Zealand in a year.

100. Some of MPI's costs of managing these vessels are directly recovered through an hourly rate charged for clearing ships. This is distinct from fees for clearing cargo. These costs include further risk assessment, screening and inspection activities undertaken after the first 15 minutes of secondary risk assessment and are recovered under the BSEL. The BSEL also funds the first 15 minutes of secondary inspection. Other costs currently funded by the BSEL include biosecurity risk assessment of international vessel arrivals, data modelling, biofouling management, offshore verification programmes, port surveillance and data science products for the vessel pathway, development of intelligence products to target risk in the vessel pathway, along with stakeholder engagement.

29 Vessels making 'round trips' in New Zealand's Exclusive Economic Zone have not been included in this table. Other exempt voyages are included in the table, due to data limitations.

101. Between MPI and Customs, most of the costs of managing the risks posed by vessels are currently met through goods charges (ie, through fees and levies charged on the goods the vessel is carrying, rather than fees that relate to the vessel itself). This is unfair because:

- The costs of managing the risks relating to vessels are independent of the costs of managing the risks of the goods they carry. For example, all vessels are risk assessed, can have prohibited items concealed in or on them (and therefore may be rummaged) and can pose biosecurity risks.
- Empty vessels that come to New Zealand with no cargo at all (pay no fees) or vessels such as oil tankers that come to New Zealand with few cargo consignments (pay little in the way of goods fees) are effectively subsidised by vessels carrying many consignments, like container ships (which submit many documents and pay multiple fees).

102. Introduction of a commercial vessel charge would shift the recovery of costs related to managing risks of commercial ships[30] from importers and exporters of goods on ships, to ship operators directly. The charge would be a flat fee, regardless of the type of commercial vessel and whether it was carrying cargo. The fee could be charged to ship operators on arrival of a ship into New Zealand, recovering costs for both inward and outward voyages.

103. Introducing this charge would reduce costs that would otherwise need to be recovered through goods charges. Table 12 shows the impact on Customs' and MPI's combined fees and levies if a vessel fee was charged.

104. If this vessel charge is introduced, there is also a small amount of Customs' costs for commercial vessel management (around $800,000 per annum) currently funded by the Crown. See Section 4.4.3, where we are also proposing that these costs be recovered from the vessel charge.

Table 12: Impact on goods rates of introducing a vessel charge

Indicative combined Customs + MPI rates $ excl GST	Current rate per consignment	New rate to recover costs per consignment	New rates after structural changes other than introducing a commercial vessel charge per consignment	New rate including a vessel charge per consignment	Impact of introducing a vessel charge per consignment
High value import (sea)	81.25	81.27	113.39	96.92	-16.47
Low value import (sea)			8.90	8.52	-0.38
SES export (sea)	3.44	3.53	6.81	5.10	-1.71
High value export (sea)	7.20	4.27	12.06	9.66	-2.40
Low value export (sea)			5.69	5.69	
Commercial vessel (per arrival)[31]				6,268.00	+6,268.00

30 Ship costs are those incurred in managing commercial ships themselves, rather than the cargo they carry. In this context costs for managing the risks of commercial ships exclude the cost of managing the risks associated with the crew on these ships. Those costs are appropriately met through the existing Border Processing Levy, rather than through goods fees or a vessel fee. The commercial vessel charge would not apply to domestic or foreign military vessels.

31 Includes the proposed withdrawal of around $800,000 of Crown funding, see Section 4.4.3.

Could the charge be phased in?

105. Introduction of a commercial vessel charge could be phased in. While this could smooth the impact of its introduction on fee payers, it would also mean that a cross-subsidy from goods to vessels would still be wholly or partially in place over the transitional period. This raises issues of fairness.

Other options considered

106. We considered whether it would be appropriate to have a vessel charge that varied based on vessel characteristics. One option considered was a charge proportionate to the tonnage of the vessel, on the basis that: larger vessels tend to have more crew, more hiding places and greater under water complexity (cavities, lockers, side thrusters etc) and are therefore more difficult and costly to search. Another option was a charge that varied based on the type of the vessel.

107. However, our costs are not usually determined by vessel size. For example:

- We carry out pre-arrival risk assessments of all commercial vessels entering New Zealand. This assessment focuses solely on the vessel and its crew, it does not include any cargo onboard and does not differ by vessel size or type.
- All arriving craft are required to provide an Advanced Notice of Arrival (ANA) and this, along with other known information, is manually assessed against risk criteria. A vessel alone is not the risk, other risk factors such as crew, origin or route all add or subtract from the overall risk assessment. The risk assessment is then used for mitigation of any risks identified.
- Most of our searches are targeted based on risk assessments and intelligence. 'Deep rummages' are comparatively rare. Analysis of cost data shows that vessel size does not generally have a material impact on our costs

Compliance

108. We do not anticipate the proposed vessel charge would have a material impact on compliance with Customs and MPI rules by vessel operators.

QUESTIONS FOR YOU TO THINK ABOUT

In terms of the costs Customs and MPI incur in managing risks of commercial vessels, that are currently recovered through goods fees paid by importers and exporters:

18. Do you think it would be fairer to recover vessel costs through a commercial vessel charge or keep recovering these costs through goods charges paid by importers and exporters? If not, why not?
19. What impact, if any, do you think a commercial vessel charge might have on the cost and the availability of shipping services to New Zealand?
20. Do you think the proposed vessel charge would impact compliance with Customs and MPI rules by vessels arriving in New Zealand?
21. Do you think there are any other options for meeting these costs that might be fairer than a commercial vessel charge or goods fees? If you do, what are those options?
22. Do you think the broad categories of exemptions for types of vessel and voyages are appropriate? If not, what specific exemptions do you think are needed and why?
23. What impact would the introduction of a commercial vessel charge, and the consequent reduction in goods fees, likely have on you or your business?
24. Who should be invoiced for the commercial vessel charge – ship operators, owners or agents?

25. What implementation issues would the changes raise for your business? What lead time would you need to manage these?
26. Do you think there is an argument for a new vessel charge to be phased in? If yes, how do you think it should be phased? Why do you think this would be fairer?

4.3.5 Transhipped goods, transit goods and empty shipping containers

109. To protect New Zealand's interests and meet New Zealand's international obligations to control and cooperate on matters relating to the international movement of goods, Customs needs to be aware of all goods/cargo 'imported' into New Zealand on craft. These include transit goods, transhipped goods and empty shipping containers. These consignments can, and do, create real risks to New Zealand.

110. We incur costs for:

- **Transit Goods.** Goods in international transit that are being shipped from one country to another and come into our jurisdiction. The goods are not supposed to leave the craft[32]. Material can be illegally removed from or added to transhipments, which poses a risk to New Zealand. We have legal authority to intercept goods and illicit goods within New Zealand's Exclusive Economic Zone. Our costs for monitoring transit goods are not big and we do not separately break out activities and costs related to transit goods.
- **Transhipped Goods.** Goods entering New Zealand that are unloaded from one craft onto another craft to complete a journey, this includes when the cargo may have to stay ashore before its onward journey. Some transhipped goods may be reloaded without being opened; others may be handled within a Customs-controlled area where the goods can be unloaded and repacked into different containers.
- **Empty shipping containers.** Significant numbers of empty shipping containers are imported into or exported from New Zealand[33].

111. These vectors are a risk. For example:

- empty containers may have contraband or biosecurity threats. They are risk assessed, regularly inspected by Customs using backscatter x-ray vans and manually inspected, and
- transnational organised crime groups smuggle illicit drugs and other contraband into or through New Zealand in such cargo and empty shipping containers.

112. As with low value goods, parties submitting ICRs with large numbers of transhipments or empty shipping containers listed pay only a small sum for each of these. Because these don't meet the costs Customs and MPI incur it means they are cross-subsidised by other fee payers. There is a clear case for cost recovery to include transit goods, transhipped goods and empty shipping containers.

32 As per Customs' regulations, and as defined by the World Customs Organization.
33 Customs has cargo reporting rules that define domestic and international transhipments and distinguish between containers imported for re-export and imported into the wider economy. This paper is concerned with the former.

Recovering the costs of transhipped goods and empty containers

113. Like consignment charging, we propose attaching a fee to each transhipped consignment and empty container reported to Customs. This would:

- be revenue neutral overall, with the revenue received from the fees offset by a reduction in other fees, and
- improve fairness, by addressing the cross-subsidy.

114. We do not currently have the data to robustly separate the costs and volumes for the management and inspections of transhipped goods and empty shipping containers from that of other goods crossing New Zealand's border[34].

115. The proposed interim solution is to apply the consignment charge for low value goods to transhipped goods consignments and empty shipping containers. While this may be less than the costs Customs and MPI incur, it would partially remove the cross-subsidy. This would allow time to collect the data needed so the fees could be adjusted at the next fees reset.

Transit goods

116. The situation for transit goods is more problematic. Transit goods are not required to be reported to Customs on an ICR or import entry. Therefore there is no mechanism to enable fees to easily be calculated or charged, so it is likely this will need to continue for transit goods.

QUESTIONS FOR YOU TO THINK ABOUT

In terms of the costs Customs and MPI incur in managing risks of transhipped goods, transit goods and empty shipping containers:

27. Do you agree it would be fairer to recover the costs of transhipped consignments and empty shipping containers by broadening the goods management charging base and attaching an appropriate fee to each of these goods?
28. Do you agree that, if a fee is imposed on transhipped consignments and empty shipping containers, it is appropriate to use the consignment charge for low value consignments (valued at $1,000 or less) as the basis for charging, in the interim until goods fees are next reset?
29. What impact would applying a charge to transhipped goods consignments and/or empty shipping containers have on you or your business?
30. Do you think there is any other option that would allow for the recovery of costs for transit goods? If so, can you tell us what this this?
31. Do you have any other comments to make on how the costs of transit goods, transhipped goods, and empty shipping containers should be recovered?
32. What implementation issues would the changes raise for your business? What lead time would you need to manage these?

34 For example, staff record the time they spend examining goods but this doesn't split out whether a consignment was being transhipped or a container was empty when the examination was undertaken.

4.3.6 Summary of impact on fees of this package

117. These changes would result in increases and decreases in the charges paid by individual importers, exporters and shippers. Fees would more closely align with costs to improve fairness and would not change the total of fee revenue collected by Customs or MPI. Table 13 shows the indicative impact of these changes.

Table 13: Indicative impact of proposals to improve fairness among fee payers

Combined Customs and MPI indicative rates ($ excl GST)	Current rate	Impact of recovering costs	Different air/sea rates	Charging per consignment	Ending the OCR fee	Introducing vessel charge	New rate after structural changes
	per entry or report	per entry or report	per consignment				
Imports							
High value import (air)	81.25	+0.02	-27.31	-12.24		-0.36	41.36
High value import (sea)	81.25	+0.02	+42.99	-10.87		-16.47	96.92
Low value import (air)				+1.96		-0.36	1.60
International transhipment (air)				+1.96		-0.36	1.60
Low value import (sea)				+8.90		-0.38	8.52
Inward Cargo Report (air)	122.54	+174.30		-296.84			
Inward Cargo Report (sea)	508.31	+26.00		-534.31			
International transhipment (sea)				+8.90		-0.38	8.52
Empty container import (sea)				+8.90		-0.38	8.52

Table 13: Indicative impact of proposals to improve fairness among fee payers (continued)

Combined Customs and MPI indicative rates ($ excl GST)	Current rate	Impact of recovering costs	Different air/sea rates	Charging per consignment	Ending the OCR fee	Introducing vessel charge	New rate after structural changes
	per entry or report	per entry or report	per consignment				
Exports							
SES export (air)	3.44	+0.09	-1.58				1.95
SES export (sea)	3.44	+0.09	+1.26	+0.56	+1.46	-1.71	5.10
High value export (air)	7.20	-2.93	-1.48		+0.91		3.70
High value export (sea)	7.20	-2.93	+4.24	+0.81	+2.74	-2.40	9.66
Low value export (air)				+0.40	+2.37		2.77
Low value export (sea)				+2.73	+2.96		5.69
Outward Cargo Report (air)	15.14	+111.54			-126.68		
Outward Cargo Report (sea)	19.61	+31.46			-51.07		
Cargo Report Export (air)	42.21	-16.62		-25.59			
Cargo Report Export (sea)	5.87	+0.05		-5.92			
Commercial vessels							
Commercial vessel (per arrival)						+6,268.00	6,268.00

4.4 Supporting Package: Proposals to Improve Fairness for Taxpayers

118. A core cost recovery principle for government-provided services is that those people who benefit from a service, or those who generate the need for a service to manage risk, should pay for that service. As importers and exporters create the risks that arise from goods crossing the border, and benefit from investments made to ensure the efficient and timely clearance of goods across the border, it is appropriate they rather than taxpayers meet the costs of the border management services.

119. A range of Customs and MPI goods management services are funded by taxpayers and therefore don't meet cost recovery principles. Three potential changes to address this include:

- moving to full cost recovery for clearing low value air cargo
- recovery of the cost of clearing low value goods arriving by mail, and
- recovering some of the costs of managing commercial ships that are currently funded by the Crown, from either exporters and importers or from ship operators.

4.4.1 Full cost recovery for low value air freight goods management

120. In 2023/24, the Crown funded $26.5 million (84 percent) of Customs' costs and $11.8 million (96 percent) of MPI's costs of clearing low value air cargo[35]. While the move to consignment charging outlined would improve fairness across fee payers, it would still leave taxpayers funding most of the costs of clearing low value air freight. This is inconsistent with cost recovery principles. It also means that extra funding will be needed periodically through budget bids to manage ongoing cost and volume pressures.

121. Moving to full cost recovery would:

- improve fairness – taxpayers do not create the risks relating to low value goods (nor do they principally get the benefits of fast and efficient clearance) and it is unfair they should meet the costs of managing them, and
- improve financial sustainability – continued Crown funding means Customs and MPI would need to seek increases in Crown funding to meet any cost and volume pressures.

122. After fee changes in 2019, we note that:

- there is no evidence they have materially impacted low value goods imports, which have continued to grow rapidly
- the move to consignment charging for low value air freight goods (see Section 4.3.1) would align well with this option. While it would be possible to adjust fees for low value air freight to fully recover costs without introducing consignment charging, the rise in fees would exacerbate the fairness issues discussed in Section 4.3.1
- independent modelling indicates that the size of the fee changes needed to move to full cost recovery would have a 3.7 percent impact on import and export volumes (see Appendix 3).

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35 In 2019, the Government decided to move to full cost recovery for most of Customs' goods management activities but not to immediately move to full cost recovery for low value air consignments. Fees only partially recovered these costs. A review of whether to move to full cost recovery was due in 2021, which was deferred because of COVID-19. It has now been incorporated into this Consultation Document.

123. As well as improving fairness to taxpayers, moving to full cost recovery for low value air freight would also improve fairness among importers paying fees. For instance, currently when a New Zealand retailer brings in a consignment of a number of low value goods, this will be classed as a high value consignment and fees will be charged that fully recover Customs and MPI's costs of clearing the goods. However, where a New Zealander buys an identical good from an offshore supplier, there will be an artificial price advantage, as the costs of having those goods cleared by Customs and MPI are subsidised by taxpayers. Removing this subsidy would improve competitive neutrality between New Zealand retailers and offshore suppliers.

124. Table 14 shows the impact that full cost recovery would have on low value air freight, both under the current fee structure where fees are a flat rate per document and under the proposals in Section 4.3.1 where fees are charged per consignment.

Table 14: Impact of full cost recovery for low value air freight

Indicative combined Customs + MPI rates $ excl GST	Current rate per consignment	New rates after structural changes per consignment	New rate after full cost recovery per consignment	Impact of full cost recovery per consignment
Low value import (air)	0.00	1.60	3.57	+1.97
Low value export (air)	0.00	2.77	3.50	+0.73

Potential phasing in of changes

125. If the impact on importers of moving immediately to full cost recovery for low value air freight was significant, there is also an option for it to be phased in. Phasing would smooth the path of the fee increases, which might make transition easier, but would also mean an ongoing cost to taxpayers for a longer period.

126. There is also an accumulated deficit related to low value air exports, the recovery of which is material to the calculation of the indicative low value export (air) fee of $3.50. This fee would be able to be reduced if the deficit were recovered over a longer time period (for example, over six years instead of three). This would, however, means that future levy rates would be correspondingly higher.

QUESTIONS FOR YOU TO THINK ABOUT

In terms of low value goods carried by air freight:

33. Do you think it would be fairer for Customs and MPI's costs of clearing these goods to be fully recovered from the importers and exporters or do you think taxpayer funding should continue? If you think ongoing funding from the Crown is appropriate, why do you think this?
34. If the costs of clearing these goods were fully cost recovered from importers and exporters, what effect would this have on you or your business?
35. If your business involves carrying low value goods consignments for other senders, including submitting documents to clear those consignments, how do you incorporate changes in costs in your pricing? Would you face any constraints in moving from document-based to consignment-based charging?
36. What implementation issues would the above changes raise for your business. What lead time would you need to manage these?
37. If you are a business exporting low value goods by air freight, how price sensitive are the markets you sell into? What would the impact of a per consignment export charge indicated have on your competitive position? How might you respond to the introduction of such a charge?
38. If the withdrawal of Crown funding was phased, how long should any phasing-in transition last. Why do you think this would be fair and appropriate?
39. Do you consider that that the accumulated deficit related to low value air exports should be recovered over one levy period (i.e., three years) or over two levy periods, and why?
40. Do you think any consignment types should be exempt from the low value consignment charge? If so, what types of items? How could an exemption be implemented and why would it be appropriate?
41. If any consignment types are exempted from the low value consignment charge, how do you think the costs Customs and MPI incur should be recovered (eg, from other fee payers or funded by the Crown)? Why do you think this is fair and appropriate?

4.4.2 Cost recovery for low value goods arriving by mail

127. Goods imported to, and exported from, New Zealand via international mail are subject to Universal Postal Union (UPU) rules. Goods consignments have followed a strong growth trend with the expansion of e-commerce globally. Although volumes fell during COVID-19, they are now expected to resume.

128. In 2023/24, the cost to manage risks of goods in the mail is estimated to be $13.4 million, $5.0 million are Customs costs and $8.4 million MPI costs. These are fully Crown funded for both Customs and MPI[36]. These costs are likely to increase over time due to general cost pressures, such as wage growth and any volume growth. It is also likely that process changes, such as increasing use of Electronic Advance Data to improve risk management, will also improve the detection and seizure of contraband. It would likely change the nature of Customs' costs of mail, decreasing physical screening and increasing electronic risk assessment. It could potentially increase detention and seizure of mail and investigations related to mail.

129. Customs and MPI seize material quantities of contraband in mail parcels, packages and letters. These include falsely labelled meat products, posing biosecurity risks, drugs, weapons and objectionable material.

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36 The Customs cost excludes the cost of processing that low value mail for which an import document is required (eg, high value goods, and alcohol on which duty is collected regardless of its value).

130. Crown funding of these costs is inconsistent with the principles of cost recovery and is unfair to:

- some fee and levy payers – for instance, fast freight operators must pay Customs fees and MPI levies when low value goods are imported through air freight and cleared using inward cargo reports, while no fees are payable for an identical item imported by mail, and[37]
- taxpayers – as taxpayers do not create the risks of low value goods by mail and it is unfair they meet the costs of managing them.

Preferred option is to charge carriers and consolidators bringing in mail

131. The preferred option is to charge carriers and consolidators for mail they bring into New Zealand. A carrier charge would involve Customs requiring carriers to report consignments of mail, with Customs and MPI charging based on weight of the consignment. This option is preferrable to charging New Zealand Post (NZ Post) (which may not be able to oncharge those sending mail) or charging mail recipients (which is infeasible).

132. A carrier charge is fairer to taxpayers. Postal operators make commercial arrangements with carriers or consolidators to ship mail to New Zealand. Carriers and consolidators' freight charges take account of the costs they face in fulfilling the contract and would, therefore, take account of any Customs or MPI charges. Postal operators likewise consider freight costs when setting their postal rates. Senders of mail could therefore bear Customs and MPI's costs relating to mail. Senders of mail create the need for Customs and MPI to carry out activities related to their mail, so it is fairer they pay the cost than taxpayers.

133. A carrier charge would also address issues of competitive neutrality because senders would bear the cost of Customs and MPI's activities regardless of how they shipped their goods via mail or fast freight. Submissions on previous goods fee consultations, and recent engagement with industry stakeholders, make it clear the fast freight industry sees:

- international mail as a direct competitor, and
- it as unfair that fast freight operators must pay fees to clear consignments, when no fees are payable for equivalent consignments through international mail.

134. The simplest way to implement a carrier charge would be to require carriers to report the number of mail items on their craft. However, electronic data is not available and carriers will not always know the number of mail items being carried. This means it is currently infeasible to charge per mail item. However, for both mail arriving by air and mail arriving by sea, there is accurate data on the weight of mail consignments, which is why we developed the option of charging based on the weight of consignments containing mail. The work on the Data for Mail (DFM) project will improve the information we have on mail and may make a per-item charge feasible in future.

135. The charge would apply to the gross weight of a consignment containing mail, with no reduction for receptacles, because Customs would just increase the rate per kilogram to compensate. There would be no adjustment for the weight of transhipped mail because Customs reserves the right to assess, examine, seize and carry out investigations on all goods, including transhipped goods.

136. For mail items with a Customs value of $1,000 or more, either the importer would submit an import entry or Customs would complete a Private Importer Declaration on their behalf, with Customs collecting the Import Entry Transaction Fee (IETF) and MPI collecting the BSEL. If that mail item was within a consignment of mail subject to the per kilogram charge, the amount charged would be reduced by the amounts of the fees.

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37 The unfairness to other fee and levy payers will be exacerbated if the fee rises needed to ensure financial sustainability, and/or fee changes to move to full cost recovery for low value air freight are implemented.

137. Sometimes, freight forwarders provide Customs with data about their consignments on a craft on behalf of the carrier. It would be practical for those freight forwarders to also pay the carrier charge on behalf of the carrier.

138. Table 15 shows the indicative mail charge for inward mail. Customs and MPI's costs for outward mail would be charged to NZ Post, when Customs and MPI incur costs.

Table 15: Indicative mail charge

Indicative combined Customs + MPI rates $ excl GST	Current rate	Customs' new rate per kilogram	MPI's new rate per kilogram	Combined new rate per kilogram
Inward mail consignment	0.00	0.48	1.20	1.68

139. This approach is consistent with cost recovery principles, because ultimately, the cost related to mail items would be borne by the party sending the mail item, who creates the risk to New Zealand.

Service Charge to NZ Post for outbound mail

140. Customs incurs small costs related to outbound mail, such as when Aviation Security or NZ Post refer items to Customs. One option is to charge NZ Post for the costs related to outbound mail. This option would ensure full cost recovery for outbound mail. NZ Post's costs are considered when setting postal rates for outbound mail. However, compared to inwards mail, our costs of processing outwards mail are very small.

Letters would be included

141. Letters would be included in the proposed cost recovery for mail, although as they weigh comparatively little[38] the charge would be correspondingly low. This is appropriate as:

- Customs and MPI incur costs in clearing letters and do find contraband in letters, and
- current mail data limitations mean that excluding letters is infeasible. Although we are working with NZ Post to modernise the processing and clearance of mail, including DFM that aims to improve the nature and quality of the data for mail, and which may make this feasible in future.

38 The UPU uses 20g for a standard letter and 10g for a standard postcard.

QUESTIONS FOR YOU TO THINK ABOUT

In terms of low value goods carried by international mail:

42. Do you think it would be fairer for Customs and MPI's costs of clearing these goods to be fully recovered from the importers and exporters or do you think the taxpayer should still meet this cost?
43. What is the reason for your answer?
44. If you are a business sending or receiving goods through the mail, why do you use international mail instead of a fast freight service?
45. If the costs of clearing goods in the mail steam were to be fully recovered, based on the indicative per item rates above, what impact would this have on you or your business?
46. If the costs of clearing these goods were fully cost recovered from importers and exporters, do you think interim taxpayer funding should continue to phase this change in. If you think so, why?
47. How long should any phasing or transition last? Why do you think this timeframe would be fair and appropriate?
48. Do you agree that, if mail items are valued over $1,000 and are subject to both the IETF and the per kilogram charge, the IETF should be reduced to avoid applying two charges?
49. What implementation issues would the above changes raise for your business? What lead time would you need to manage these?
50. Do you think the costs of low value goods carried via international mail should be treated separately to the costs of low value air freight? Do you think they should be combined so that the same charge applies to low value consignments whether carried by air freight or by mail?

Other options we considered

142. We also considered:

- **Crown funding (the status quo).** This option is feasible. However, it is not well aligned with the principles of cost recovery because, as discussed above, it is not fair to other fee payers, financially sustainable for Customs and MPI or fair to taxpayers.
- **Service fee to NZ Post for inbound mail (fall back option).** Under this option NZ Post would be charged for Customs and MPI's costs of processing inbound mail. This option is feasible and would improve transparency, as it would make the true costs of mail more apparent to industry. However, we consider that this option should only be progressed if the preferred option above is not feasible, as it is less well aligned with the principles of cost recovery:
  - NZ Post is obliged to accept mail by the provisions of the UPU Treaty and it is also constrained in its ability to increase the terminal dues it charges to offshore postal operators. It is unlikely to be feasible to charge recipients either (see below). This means that NZ Post may not be able to pass the cost on to senders of mail, which are the parties that create the risks to New Zealand, and which should ideally bear the cost of managing the risks of this mail, and
  - if the charges can't be recovered from mail senders, NZ Post may struggle to absorb a cost increase of this magnitude and seek support from the Crown. An explicit Crown subsidy to NZ Post, rather than costs more opaquely Crown funded through Customs and MPI appropriations, would improve transparency. However, it would not achieve other objectives like removing cost to taxpayers, competitive neutrality with the fast freight industry and having those sending items to New Zealand bearing the costs.

- **Charge senders of mail.** Under this option the origin Designated Operator (DO) would collect a charge from the sender. This option was discarded because it would require Customs and MPI to enter into separate bilateral agreements with 182 origin DOs for them to collect the charge and remit it to Customs. This is infeasible.
- **Charge recipients of mail.** There would be a per item charge for packages crossing the border by mail. Recipients would be charged at the time the item is cleared for delivery[39]. This option was discarded, as it is both infeasible from an operational standpoint and administratively inefficient in terms of costs collection greatly exceeding the amounts collected. It would involve manual collection of a fee each time a mail package was delivered, with a collection cost that would be high in relation to the amount of money being collected and/or tens of millions of low value mail packages being held until the recipient paid a fee and then the goods manually released.
- **Charging per item.** Charging per item rather than per kilogram for goods in mail would align more closely to per consignment charging for low value air and sea freight. Charging on this basis would be more consistent with cost recovery principles as it is the number of items rather than the weight of items that is the best proxy for the costs we incur. This is currently administratively infeasible because of data limitations around arriving mail. Although, we note that DFM may allow moving cost recovery for mail to a charge-per item in future. We may revisit the feasibility of moving from per kilogram to per item for mail charging when goods fees are next reset.
- **Aligning charges with low value air freight.** As discussed, there is also the option of combining costs related to UPU mail and low value air freight and then allocating this cost to UPU mail items and low value air cargo items in proportion to the number of packages in each channel. This would mean the same clearance charge would apply to low value goods consignments, irrespective of how they were carried. This option is not preferred as:
  - Customs and MPI incur different costs when processing mail and processing low value air freight. Therefore, charging the same price would mean those sending goods through one channel would cross-subsidise those sending goods through the other channel, and
  - low value air freight is proposed to be charged on per consignment. It is hard to replicate this for mail as current data limitations for international mail parties handling mail (including carriers and consolidators) have robust information about weights but not about item counts. This makes it hard to either charge per item, for carriers and consolidators to calculate a per item charge and pass that on in their pricing. As noted above, the DFM project may address this issue and it could be revisited in future.

QUESTIONS FOR YOU TO THINK ABOUT

In terms of low value goods carried by mail:

51. Are there any options you feel would be fairer than a per kilogram charge for recovering costs of mail clearance by Customs and MPI?
52. If the fall-back option of recovering the costs of clearing inwards mail through a service charge to NZ Post were to be implemented, what impacts would this have on you or your business, and do you consider that this would be fairer than the preferred option?

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39 For outbound mail, a per item charge would be levied on NZ Post, which would incorporate it into the postage rates for sending items.

4.4.3 Cost recovery of some costs relating to commercial vessels

143. Approximately $800,000 of Customs' costs for the management of vessels are paid by the Crown. Some of this is appropriate, such as costs of managing ships stores, largely related to revenue collection. However, the majority is for managing risks related to vessels. It is appropriate these costs are met by the vessels rather than the Crown.

QUESTIONS FOR YOU TO THINK ABOUT

In terms of Crown funding for the management of commercial vessels:

53. Do you think it would be appropriate for the costs of managing commercial vessels to be fully cost recovered rather than partially funded by the Crown?
54. What is the reason for your answer?
55. Do you have anything else to tell us about this proposal not already covered by your responses to questions on the proposal to introduce a commercial vessel fee?

4.5 Summary of package of proposals

144. See Appendix 4 for a summary of the impact of the proposals on combined Customs and MPI's charges as well as the impact on Customs fees and MPI's BSEL. If the proposals were implemented, the key changes are:

i. **Fee increases for Customs' financial sustainability.** Fees would increase to meet Customs' costs going forward and recover the memorandum account deficit.

ii. **Separate high value air and sea cargo fees.** Currently, fees to clear high value consignments are the same, whether they come in by air or by sea. But Customs costs of clearing sea consignments are higher than for clearing air consignments. Separate charges for the difference in costs would address this.

iii. **Consignment charging for low value goods.** Charging based on the number of low value consignments on an ICR would better align fees with costs.

iv. **Removal of the Outward Cargo Report fee.** Removing this fee would simplify the charging structure, be consistent with consignment-based charging for low value goods and reduce compliance costs.

v. **Introducing a Commercial Vessel Charge.** This would recover costs related to our work with the vessels themselves rather than the goods they carry.

vi. **Charging for transhipped goods and empty shipping containers.** This will mitigate the existing cross-subsidy, which will both increase efficiency and generally be fairer.

vii. **Full cost recovery for low value air cargo.** Currently, the Crown meets most of the cost of clearing these goods. This is inconsistent with cost recovery principles, unfair to taxpayers who do not create the need for these services and unfair to other New Zealand businesses[40] that, therefore, face subsidised competition.

viii. **Cost recovery for goods carried in mail.** Taxpayers fund all the cost of clearing UPU mail, which includes large numbers of low value goods consignments. As with the Crown subsidy for low value air freight, this raises issues of fairness for other New Zealand businesses and taxpayers. It is also unfair to those sending by air freight, who must pay fees for an essentially identical importation.

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40 For example, commercial retailers importing high numbers of low value goods for sale would typically pay the full cost of clearing them (as the total value of the consignment exceeds $1,000). Their online competitors (such as overseas websites) shipping identical goods directly to consumers by air freight and mail have an unfair competitive advantage, with taxpayers subsidising most or all their clearance costs. Removing this subsidy would create a more level playing field. The unfairness of businesses paying these clearance fees when their competitors do not, is an issue raised in previous consultations and in the stakeholder engagement undertaken when preparing this Consultation Document.

ix. Increased cost recovery for commercial maritime vessels. A small proportion of the costs of managing risks posed by commercial vessels is being funded by the Crown. This is inconsistent with cost recovery principles, as taxpayers do not create the need for the services.

4.5.1 Alignment with objectives

145. Table 16 shows how these proposals would align with the objectives of the review:

Table 16: Alignment of options with objectives

Option		Alignment with objectives		
		Financial Sustainability	Fairer for Fee payers	Fairer for Taxpayers
Base Package	Adjust fees to recover costs (fully cost recovered activities) and manage within Crown appropriations (partly cost recovered activities)	✓✓	-	✓
Supporting Package One	Separate air and sea cargo fees[41]	-	✓✓	-
	Consignment-based charging for low value goods	✓✓	✓✓	-
	Removal of some report fees	-	✓	-
	Introduction of a Commercial Vessel Charge	-	✓✓	-
	Charging for transhipped goods, transit goods and empty shipping containers	-	✓	-
Supporting Package One	Full cost recovery for low value air cargo	✓		✓✓
	Cost recovery for goods carried in mail.	✓	✓✓	✓✓
	Increased cost recovery for commercial maritime vessels (minor amount, less than $1 million)	✓	-	✓
✓✓ Material improvement ✓ Minor improvement – No impact				

4.5.2 Impact on Fee Payers

146. If the proposed package is fully implemented, then it is expected to increase the total revenue collected by Customs and MPI by $70.5 million (65 percent). Of this:

- $19.6 million is due to the fee increases needed to meet cost pressures for Customs' fully cost recovered activities, and
- $50.9 million is because of the removal of taxpayer subsidies for Customs and MPI's costs of clearing low value air consignments and mail.

147. Table 17 shows the indicative impact of this package of proposals, once fully implemented, on fees:

41 Customs only.

Table 17: Impact of changes for fairness to Taxpayers – Combined impact of options in this document[42]

Indicative combined Customs and MPI fees ($ excl GST) Financial Sustainability + Fair for Fee Payers + Fair for Taxpayers	Current rates per entry or report	Change for financial sustainability per entry or report	Change for fairness among fee payers per consignment	Change for fairness for taxpayers per consignment	New rates per consignment
Imports					
High value import (air)	81.25	+0.02	-39.91		41.36
High value import (sea)	81.25	+0.02	+15.65		96.92
Low value import (air)			+1.60	+1.97	3.57
International transhipment (air)			+1.60	+1.97	3.57
Low value import (sea)			+8.52	+0.59	9.11
Inward Cargo Report (air)	122.54	+174.30	-296.84		
Inward Cargo Report (sea)	508.31	+26.00	-534.31		
International transhipment (sea)			+8.52	+0.59	9.11
Empty container import (sea)			+8.52	+0.59	9.11
Low value mail import (per kg)				+1.68	1.68
Exports					
SES export (air)	3.44	+0.09	-1.58		1.95
SES export (sea)	3.44	+0.09	+1.57		5.10
High value export (air)	7.20	-2.93	-0.57		3.70
High value export (sea)	7.20	-2.93	+5.39		9.66
Low value export (air)			+2.77	+0.73	3.50
Low value export (sea)			+5.69		5.69
Outward Cargo Report (air)	15.14	+111.54	-126.68		
Outward Cargo Report (sea)	19.61	+31.46	-51.07		
Cargo Report Export (air)	42.21	-16.62	-25.59		
Cargo Report Export (sea)	5.87	+0.05	-5.92		
Commercial vessels					
Commercial vessel (per arrival)			+6,268		+6,268

42 A note on modelling: there is a range of options in this Consultation Document. Most have implications for the fees charged under other options. For example, if the proposed Commercial Vessels Charge is not implemented then ship costs will continue to be mainly recovered through consignment goods. This means that the goods fee increases needed for financial sustainability will be higher and mean impacts such as the indicative impact of splitting air and sea fees for high value goods, and per-consignment charges under the consignment charging proposal, will also change. Given the number of combinations of options, it is not possible to model all the fees linked with them.

148. It is important to note these fees are inter-related and if implemented are projected to fully recover both Customs and MPI's costs of operating our goods management systems over the next levy period. If any of the proposals do not go ahead this would impact the other charge rate. This would mean the costs would need to be allocated to another fee or levy. As an example:

- if the commercial vessel charge was not introduced, then the costs this charge is expected to meet would need to continue to be met through charges related to goods carried on ships, and
- this would result in higher goods fees for both exported and imported goods by sea. For example, the indicated Customs fee for high value goods imported by sea would be $16.47 higher than shown in Table 12.

4.5.3 Impact on the economy

149. Sapere Research Group (Sapere) did an independent economic analysis of the potential impact of these indicative fee changes on exports and imports. Sapere estimated the overall impact on trade volumes was likely to be small, with total imports falling by $44 million (0.05 percent) and total exports falling by $19.3 million (0.04 percent). The biggest impact was for low value goods carried by air freight and international mail, where shifting to cost recovery rather than Crown funding is expected to:

- reduce low value air imports by $50.2 million (3.51 percent)
- reduce low value air exports by $20.3 million (3.67 percent), and
- reduce low value mail imports by $8.4 million (0.86 percent).

150. See Appendix 3 for more on Sapere's economic impact analysis.

SECTION 5

Implementation, monitoring, reviewing and engagement on our fees

5.1 Implementation

151. As noted in Section 1.9, for modelling purposes we have assumed that the proposals in this document would be implemented from 1 July 2025. However, Ministers will make decisions on implementation based on submissions and feedback on this Consultation Document. Final decisions are expected to be published in the first half of 2025.

5.2 Customs and MPI closely monitor costs and fee revenue

152. Customs and MPI recognise that performance reporting is a critical component in providing transparency to industry and interested parties, as well as ensuring overall system efficiency. We closely monitor the financial performance of our goods clearance activities and update our projected fee and levy revenue and our costs several times a year. To improve transparency, we:

- provide summary information on our goods clearance activities in our respective annual reports, and
- jointly produce a yearly public report with a commentary on our cost recovered goods clearance activities, as well as showing financial information, such as:
  - goods volumes cleared
  - fee and levy income
  - expenditure by activity, and
  - summary financial data, including memorandum account balances.

153. This report provides information for fee payers to see how the system is functioning, how costs are used and whether costs are being over or under recovered.

5.3 Frequency of fee reviews

154. Currently, MPI reviews and resets its goods fees annually. Customs does not have a set review period and does this on an ad hoc basis. We propose moving to a three-yearly review cycle for goods fees, like we do for the Border Processing Levy, and seek feedback on this and the timeframe.

155. We normally review our Border Processing Levy every three years, as we consider this strikes the right balance between:

- making sure charges don't get too far out of line with costs, which would mean a large adjustment when they are reviewed, and
- not requiring industry to be consulted on and implement changes too often.

156. Irrespective of fixed review dates, both Customs and MPI monitor our revenue and expenses closely. We would advise Ministers on a more immediate change to fee and levy rates if our monitoring showed we were going to greatly under recover or over recover our costs in a levy period.

5.4 Stakeholder engagement

157. We do not have scheduled discussions with key stakeholders on goods fees and levies like we do for our border processing levies. We seek feedback on whether Customs and MPI should set up regular scheduled engagements with key stakeholders. One option would be to set up a permanent representative stakeholder group.

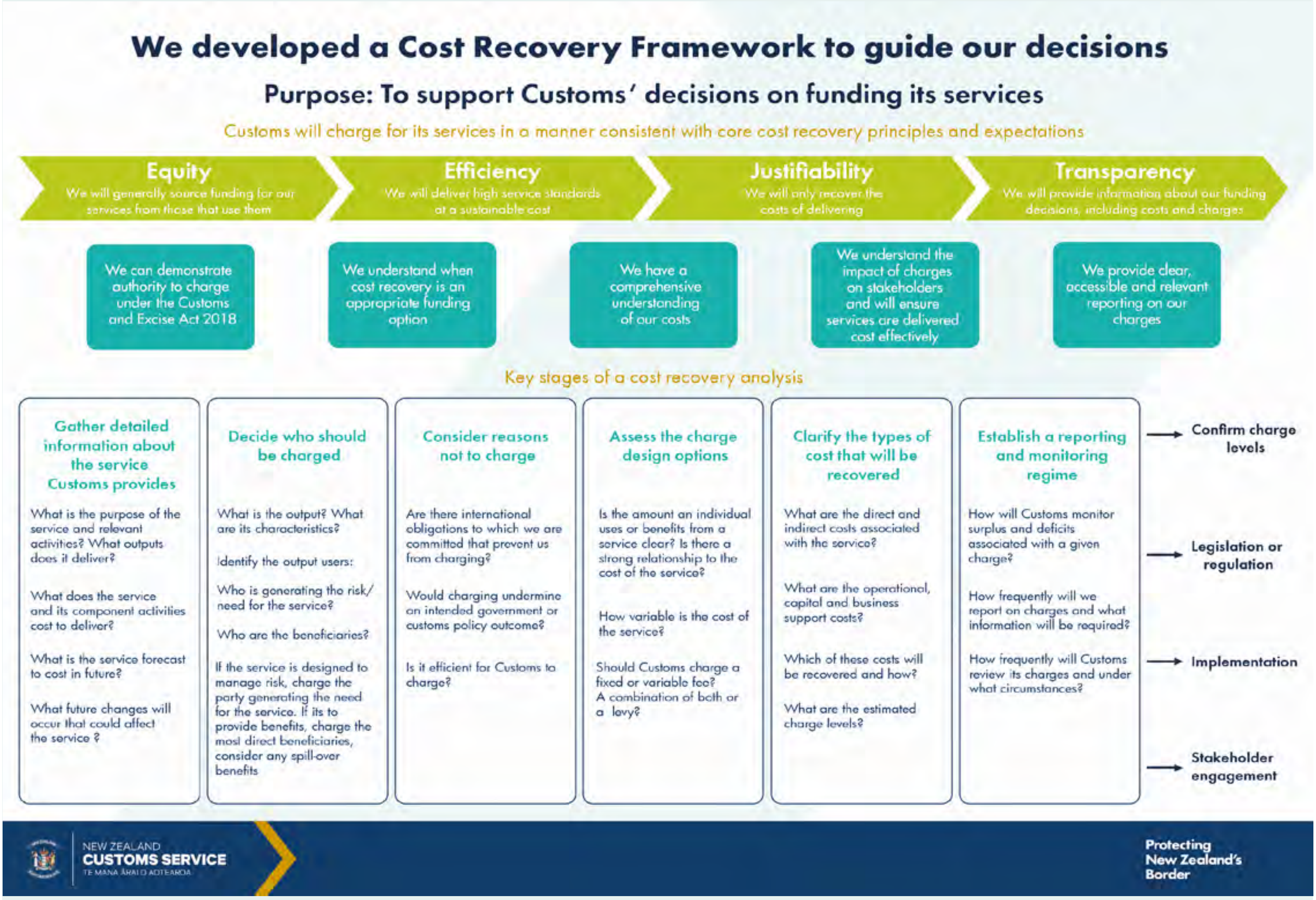
QUESTIONS FOR YOU TO THINK ABOUT

In terms of monitoring, reporting and engagement on our fees:

56. Do you support Customs moving to a regular cycle for reviewing and resetting its fees (we propose three-yearly)?
57. If Customs were to move to a regular review cycle for its fees, what do you think is an appropriate review period?
58. Do you think Customs and MPI should have regular engagement with key stakeholders on goods fees and levies? If you do, what form should this take?
59. What are the reasons for your answers?

APPENDIX 1:

Cost recovery framework



Our Cost Recovery Framework is based on the guidelines issued by the Treasury[43] and the Auditor- General[44]. This framework have been designed to achieve the objectives of financial sustainability, equity, efficiency, transparency and justifiability.

In determining who should pay, we assess our goods clearance activities against the four cost recovery principles, asking:

- what is the purpose of the activity or function? Are the outputs designed to deliver benefits or manage risk? What are these benefits and risks?
- can we identify an individual or a group that benefits directly from the activity? On this basis, is the activity best characterised as a private, club or public good?
- if the activity or function is designed to manage risk, is the need for it being generated by an individual or a group? Is it administratively efficient to charge them?
- are there situations where cost recovery may not be justified?

43 A private good is a good purchased and used by one party and not available to others, for example, a service requested by an individual, such as a Customs ruling. A club good is a good where use by one person does not detract from its use by another, for example, a Mutual Recognition Arrangement. A public good is a good whereby excluding people from its benefits is either hard or costly, and its use by one person does not detract from its use by another, for example, policy advice.
44 Based on https://treasury.govt.nz/publications/guide/guidelines-setting-charges-public-sector-2017-html.

APPENDIX 2
List of questions

Volume projections for goods clearance fees and levies:

Question 1 Do you think these forecasts are reasonable?

If fees are reset without any change to the fees structure:

Question 2 What impact would the fee increases in the above tables have on you or your business?

Question 3 What implementation issues would the changes raise for your business and what lead time would you need to manage these?

Question 4 Is there anything else you would like to tell us about the likely impacts of these fee changes?

For low value consignments:

Question 5 Do you agree that setting the fee for the submission of a cargo report for clearance of low value goods based on the number of consignments listed on it would be fairer than continuing to charge a flat per document fee, irrespective of the number of consignments on it? If you don't agree can you tell us why?

Question 6 What impact would setting fees per consignment likely have on your business?

Question 7 What implementation issues would the changes raise for your business? What changes would you need to make to your business processes? How much time would you need to manage these changes?

Question 8 Do you agree a per consignment charge, payable when a document seeks clearance of a large number of low value consignments, should not be capped?

Question 9 If you favour a cap on these charges, where do you think the costs not recovered from the submitter because of the cap should come from?

For low value imports and exports:

Question 10 Do you think any of the options above, or any other option, would be fairer than either the status quo or consignment-based fees? If yes, please tell us why you think they would be fairer and feasible to implement.

For high value consignments:

Question 11 Do you think high value consignments should pay the same fee, irrespective of whether they are carried by air freight or by sea freight, or do you think there should be different fees, reflecting the different costs incurred in clearing air and sea consignments?

Question 12 What are the reasons for your answer?

Question 13 What impact would moving to separate fees for high value consignments for sea and air freight have on your business?

Question 14 What implementation issues would the changes raise for your business? What lead time would you need to manage these?

For the OCTF-OCR fee:

Question 15 Do you think removal of the OCTF-OCR, and spreading the costs it currently recovers through other export-related fees, is appropriate?

Question 16 What are the reasons for your answer?

Question 17 What impact would removing the OCTF-OCR likely have on your business?

Costs incurred in managing risks associated with commercial vessels:

Question 18 Do you think it would be fairer to recover vessel costs through a commercial vessel charge or keep recovering these costs through goods charges paid by importers and exporters? If not, why not?

Question 19 What impact, if any, do you think a commercial vessel charge might have on the cost and the availability of shipping services to New Zealand?

Question 20 Do you think the proposed vessel charge would impact compliance with Customs and MPI rules by vessels arriving in New Zealand?

Question 21 Do you think there are any other options for meeting these costs that might be fairer than a commercial vessel charge or goods fees? If you do, what are those options?

Question 22 Do you think the broad categories of exemptions for types of vessel and voyages are appropriate? If not, what specific exemptions do you think are needed and why?

Question 23 What impact would the introduction of a commercial vessel charge, and the consequent reduction in goods fees, likely have on you or your business?

Question 24 Who should be invoiced for the commercial vessel charge – ship operators, owners or agents?

Question 25 What implementation issues would the changes raise for your business? What lead time would you need to manage these?

Question 26 Do you think there is an argument for a new vessel charge to be phased in? If yes, how do you think it should be phased? Why do you think this would be fairer?

Costs incurred managing risks associated with transhipped goods, transit goods and empty shipping containers:

Question 27 Do you agree it would be fairer to recover the costs of transhipped consignments and empty shipping containers by broadening the goods management charging base and attaching an appropriate fee to each of these goods?

Question 28 Do you agree that, if a fee is imposed on transhipped consignments and empty shipping containers, it is appropriate to use the consignment charge for low value consignments (valued at $1,000 or less) as the basis for charging, in the interim until goods fees are next reset?

Question 29 What impact would applying a charge to transhipped goods consignments and/or empty shipping containers have on you or your business?

Question 30 Do you think there is any other option that would allow for the recovery of costs for transit goods? If so, can you tell us what this this?

Question 31 Do you have any other comments to make on how the costs of transit goods, transhipped goods, and empty shipping containers should be recovered?

Question 32 What implementation issues would the changes raise for your business? What lead time would you need to manage these?

Low value goods carried by air freight:

Question 33 Do you think it would be fairer for Customs and MPI's costs of clearing these goods to be fully recovered from the importers and exporters or do you think taxpayer funding should continue? If you think ongoing funding from the Crown is appropriate, why do you think this?

Question 34 If the costs of clearing these goods were fully cost recovered from importers and exporters, what effect would this have on you or your business?

Question 35 If your business involves carrying low value goods consignments for other senders, including submitting documents to clear those consignments, how do you incorporate changes in costs in your pricing? Would you face any constraints in moving from document-based to consignment-based charging?

Question 36 What implementation issues would the above changes raise for your business. What lead time would you need to manage these?

Question 37 If you are a business exporting low value goods by air freight, how price sensitive are the markets you sell into? What would the impact of a per consignment export charge indicated have on your competitive position? How might you respond to the introduction of such a charge?

Question 38 If the withdrawal of Crown funding was phased, how long should any phasing-in transition last. Why do you think this would be fair and appropriate?

Question 39 Do you consider that that the accumulated deficit related to low value air exports should be recovered over one levy period (i.e., three years) or over two levy periods, and why?

Question 40 Do you think any consignment types should be exempt from the low value consignment charge? If so, what types of items? How could an exemption be implemented and why would it be appropriate?

Question 41 If any consignment types are exempted from the low value consignment charge, how do you think the costs Customs and MPI incur should be recovered (eg, from other fee payers or funded by the Crown)? Why do you think this is fair and appropriate?

In terms of low value goods carried by international mail:

Question 42 Do you think it would be fairer for Customs and MPI's costs of clearing these goods to be fully recovered from the importers and exporters or do you think the taxpayer should still meet this cost?

Question 43 What is the reason for your answer?

Question 44 If you are a business sending or receiving goods through the mail, why do you use international mail instead of a fast freight service?

Question 45 If the costs of clearing goods in the mail steam were to be fully recovered, based on the indicative per item rates above, what impact would this have on you or your business?

Question 46 If the costs of clearing these goods were fully cost recovered from importers and exporters, do you think interim taxpayer funding should continue to phase this change in. If you think so, why?

Question 47 How long should any phasing or transition last? Why do you think this timeframe would be fair and appropriate?

Question 48 Do you agree that, if mail items are valued over $1,000 and are subject to both the IETF and the per kilogram charge, the IETF should be reduced to avoid applying two charges?

Question 49 What implementation issues would the above changes raise for your business? What lead time would you need to manage these?

Question 50 Do you think the costs of low value goods carried via international mail should be treated separately to the costs of low value air freight? Do you think they should be combined so that the same charge applies to low value consignments whether carried by air freight or by mail?

Question 51 Are there any options you feel would be fairer than a per kilogram charge for recovering costs of mail clearance by Customs and MPI?

Question 52 If the fall-back option of recovering the costs of clearing inwards mail through a service charge to NZ Post were to be implemented, what impacts would this have on you or your business, and do you consider that this would be fairer than the preferred option?

Crown funding for the management of commercial vessels:

Question 53 Do you think it would be appropriate for the costs of managing commercial vessels to be fully cost recovered rather than partially funded by the Crown?

Question 54 What is the reason for your answer?

Question 55 Do you have anything else to tell us about this proposal not already covered by your responses to questions on the proposal to introduce a commercial vessel fee?

Monitoring, modelling and engagement on fees:

Question 56 Do you support Customs moving to a regular cycle for reviewing and resetting its fees (we propose three-yearly)?

Question 57 If Customs were to move to a regular review cycle for its fees, what do you think is an appropriate review period?

Question 58 Do you think Customs and MPI should have regular engagement with key stakeholders on goods fees and levies? If you do, what form should this take?

Question 59 What are the reasons for your answers?

APPENDIX 3

Potential economic impacts of fee changes

15 July 2024

Paula Strickson

Manager Revenue Policy

New Zealand Customs Service

Dear Paula

In August 2023, Sapere Research Group (Sapere) presented Customs New Zealand (Customs) with a report analysing the impacts of changing border charges. The report estimated the change in quantity of imported and exported goods that would arise under two scenarios of fees changes.

Customs is currently in the process of finalising indicative fees for public consultation. You contacted Sapere on June 13, 2024, requesting a short letter summarising the impact of these indicative fees and any additional caveats associated with these fees given their scale. The indicative fees proposed are as follows:

Consignment category	Current Customs + MPI charges	Indicative Customs + MPI charges
Imports		
Low-value imports (air)	$0.10	$3.57
Low-value imports (sea)	$2.03	$9.11
Low-value imports (mail)	$0.00	$1.68
High-value imports (air)	$81.25	$41.36
High-value imports (sea)	$81.25	$96.92
Exports		
Low-value exports (air)	$0.66	$3.50
High-value exports (air)	$7.20	$3.70
High-value exports (sea)	$7.20	$9.66

We estimate that imports will decrease by $43.9 million (around 0.05% of imports), and exports will decrease by $19.3 million (around 0.04% of exports)

All fees presented in this letter are in 2024 dollars unless otherwise stated.

The indicative fees are estimated to reduce imports by $43.9 million, equivalent to around 0.05% of all imports. Reflecting the respective sign of the proposed fee changes, impacts are distributed unevenly across consignment categories. Low value imports transported by sea experience the greatest proportional reduction, equal to 3.71%, while high-value imports transported by air would see a small rise.

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Exports are estimated to decrease by $19.3 million, equivalent to a reduction of 0.04% of total exports. Like imports, the distribution is uneven. The impacts range from 0.00% to -3.67%.

In total, there is an estimated $63.3 million reduction in goods entering and exiting New Zealand. The results of our estimation can be seen in the table below.

Consignment category	Change ($2024, M)	Change (%)
Imports		
Low-value imports (air)	-$50.2	-3.51%
Low-value imports (sea)	-$1.8	-3.71%
Low-value imports (mail)	-$8.4	-0.86%
High-value imports (air)	$25.6	0.11%
High-value imports (sea)	-$9.1	-0.01%
Total imports change	**-$43.9**	**-0.05%**
Exports		
Low-value exports (air)	-$20.3	-3.67%
High-value exports (air)	$0.6	0.00%
High-value exports (sea)	$0.4	0.00%
Total exports change	**-$19.3**	**-0.04%**
Total change	**-$63.3**	**-0.05%**

The total fees change impact is greater than that reported in Sapere's 2023 work. Our previous work reported a fees change impact of $13.5 million (2023 dollars) under Scenario A and $59.5 million (2023 dollars) under Scenario B. The order of magnitude difference, as well as the difference in the time period of estimation, results in two additional caveats.

The estimate assumes constant elasticities

Price elasticity refers to the responsiveness of quantity to a given change in price. For example, a price elasticity of supply of one means that a 5% increase in price results in a 5% increase in quantity. It is estimated as follows:[1]

$$Elasticity = \frac{\%\ change\ in\ quantity}{\%\ change\ in\ price}$$

In our case, price elasticity refers to the extent that the quantity imported or exported changes in response to a change in the relevant fee. Imports' responsiveness to a given fees change is the elasticity of demand because New Zealanders demand imports. Exports' responsiveness to a given fees change is the elasticity of supply because New Zealanders supply exports.

Constant elasticity refers to a situation where elasticities remain the same as quantities or prices change. If we consider an imported product with a price elasticity of one, the percentage change in

[1] Note that elasticities are conventionally reported in absolute value terms, but in the case of demand, the actual value of the elasticity is negative in the case of normal goods or services (i.e. as prices rise, demand drops). We have assumed that border services funded by the fees are normal services.

quantity demanded will always equal the percentage change in price, regardless of the price change. For example, a price increase of 1% will result in a quantity demanded decrease of 1%, similarly a price increase of 50% will result in a quantity demanded decrease of 50%.

Consistent with Sapere's 2023 work we assume constant elasticities of demand and supply. We have no reason to believe that market conditions would have changed sufficiently to alter that position but note that the magnitude of some of the changes in fees makes this assumption more noteworthy.

Caution is required for direct comparisons with Sapere's 2023 results

Sapere's 2023 work was completed in August of 2023 for consignment data between June 2022 and May 2023. All changes in the previous report were reported in 2023 dollars.

The current indicative fees have been provided in 2024 dollars. We have expressed dollar values in these present value terms, that is, adjusting the previous work's data for inflation. However, this adjustment means that direct comparison with the 2023 figures is not possible.

Kind regards,

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APPENDIX 4

Detailed impact of proposals on charges

1. Table 1 is a summary of the impact of the proposals on combined Customs and MPI charges. Tables 2 and 3 summarise the impact separately on Customs fees and MPI's BSEL.

Table 1: Combined impact of proposals in this document

Indicative combined Customs and MPI fees ($ excl GST)	Current rates per entry or report	New rates per consignment	Increase/ Decrease
Imports			
High value import (air)	81.25	41.36	↓
High value import (sea)	81.25	96.92	↑
Low value import (air)	NA	3.57	↑
International transhipments (air)	NA	3.57	↑
Low value import (sea)	NA	9.11	↑
Inward Cargo Report (air)	122.54	NA	↓
Inward Cargo Report (sea)	508.31	NA	↓
International transhipment (sea)	NA	9.11	↑
Empty container import (sea)	NA	9.11	↑
Low value mail import (per kg)	NA	1.68	↑
↑ Increase ↓ Decrease			

Table 1: Combined impact of proposals in this document (continued)

Indicative combined Customs and MPI fees ($ excl GST)	Current rates per entry or report	New rates per consignment	Increase/ Decrease
Exports			
SES export (air)	3.44	1.95	↓
SES export (sea)	3.44	5.10	↑
High value export (air)	7.20	3.70	↓
High value export (sea)	7.20	9.66	↑
Low value export (air)	NA	3.50	↑
Low value export (sea)	NA	5.69	↑
Outward Cargo Report (air)	15.14	NA	↓
Outward Cargo Report (sea)	19.61	NA	↓
Cargo Report Export (air)	42.21	NA	↓
Cargo Report Export (sea)	5.87	NA	↓
Commercial vessels			
Per arrival	NA	6,268.00	↑
↑ Increase ↓ Decrease			

2. The following two tables break this combined impact according to Customs and MPI components and by the impact of each of the proposals in the package.

Table 2: Impact of proposals on Customs fees

Indicative fees ($ excl GST)	Current rates	Change to achieve	Rebalancing rates to improve fairness among fee payers				Increases to rates to improve fairness for taxpayers	New rates
Financial Sustainability + Fair for Fee Payers + Fair for Taxpayers		Financial sustainability	Different air/sea rates	Consignment charging	Remove outward cargo report fees	Introduce vessel fee		Incorporating all options
Imports								
High value import (air)	34.85	+0.02	-27.31					7.56
High value import (sea)	34.85	+0.02	+42.99	+1.37		-16.11		63.12
Low value import (air)				+1.04			+1.38	2.42
International transhipment (air)				+1.04			+1.38	2.42
Low value import (sea)				+7.98		-0.02		7.96
Inward Cargo Report (air)	81.26	+174.30		-255.56				
Inward Cargo Report (sea)	467.03	+26.00		-493.03				
International transhipment (sea)				+7.98		-0.02		7.96
Empty container import (sea)				+7.98		-0.02		7.96
Low value mail import (per kg)							+0.48	0.48

Table 2: Impact of proposals on Customs fees (continued)

Indicative fees ($ excl GST)	Current rates	Change to achieve	Rebalancing rates to improve fairness among fee payers				Increases to rates to improve fairness for taxpayers	New rates
Financial Sustainability + Fair for Fee Payers + Fair for Taxpayers		Financial sustainability	Different air/sea rates	Consignment charging	Remove outward cargo report fees	Introduce vessel fee		Incorporating all options
Exports								
SES export (air)	3.44	+0.09	-1.58					1.95
SES export (sea)	3.44	+0.09	+1.26	+0.56	+1.46	-1.71		5.10
High value export (air)	7.20	-2.93	-1.48		+0.91			3.70
High value export (sea)	7.20	-2.93	+4.24	+0.81	+2.74	-2.40		9.66
Low value export (air)				+0.40	+2.37		+0.73	3.50
Low value export (sea)				+2.73	+2.96			5.69
Outward Cargo Report (air)	15.14	+111.54			-126.68			
Outward Cargo Report (sea)	19.61	+31.46			-51.07			
Cargo Report Export (air)	42.21	-16.62		-25.59				
Cargo Report Export (sea)	5.87	+0.05		-5.92				
Commercial vessels								
Commercial vessel (per arrival)						+3,553		3,553

Table 3: Impact of proposals on MPI levy rates

Indicative fees ($ excl GST)	Current rates	Fairness among fee payers		Fairness for taxpayers	New rates
Financial Sustainability + Fair for Fee Payers + Fair for Taxpayers		Consignment charging	Introduce vessel fee	Full cost recovery for low value consignments	Incorporating all options
Imports					
High value import (air)	46.40	-12.24	-0.36		33.80
High value import (sea)	46.40	-12.24	-0.36		33.80
Low value import (air)		+0.92	-0.36	+0.59	1.15
International transhipment (air)		+0.92	-0.36	+0.59	1.15
Low value import (sea)		+0.92	-0.36	+0.59	1.15
Inward Cargo Report (air)	41.28	-41.28			
Inward Cargo Report (sea)	41.28	-41.28			
International transhipment (sea)		+0.92	-0.36	+0.59	1.15
Empty container import (sea)		+0.92	-0.36	+0.59	1.15
Low value mail import (per kg)				+1.20	1.20
Commercial vessels					
Commercial vessel (per arrival)			+2,715.00		2,715.00

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