Hon Casey Costello
Minister of Customs
Parliament Buildings
Wellington

Hon Andrew Hoggard
Minister of Biosecurity
Parliament Buildings
Wellington

Dear Ministers

Low Value goods Technical Advisory Group

I am writing to you to advise you of issues that have been discussed by the Low-Value Goods Technical Advisory Group and to provide you with the Group's advice.

The Group has worked with MPI and Customs to:

- ensure that the full range of feasible options have been identified and assessed.
- help Customs and MPI to test their thinking on the proposals, as well as identify the implications for trade and businesses.
- consider implementation options and timeframes, and transitional measures from an industry perspective.

Given the scope of the work set for the Group, we only considered low value goods carried as Universal Postal Union (UPU) Mail to the extent relevant to competition with the fast freight stream.

Our advice and recommendations are set out below.

1. There needs to be consistency with goods carried by mail.

Mail is a direct competitor to the fast freight sector for the import and export of low-value goods. This is particularly prevalent in the case of ecommerce deliveries. as referenced on the UPU website it has stated that 80% of e-commerce today weigh under 2kg and are processed in the letter-post stream through the UPU channel (https://www.upu.int/en/universal-postal-union/activities/physical-services/postal-products). People and Businesses shipping low-value goods can choose whether they ship them as fast freight or as mail. However, Customs' and MPI's mail processing costs are currently fully met by the taxpayer. This is an unfair anomaly that would be exacerbated if costs relating to processing low-value goods carried as fast freight were to be fully recovered without UPU mail processing costs also recovered.

Furthermore, fully recovering costs for low-value goods carried as fast freight but not carried as mail would undermine the Government's objective of increased cost recovery. The increased cost differential would mean that more goods could be sent as mail, rather than as fast freight, where no costs would be recovered. Increased costs to exporters and importers using carriers would create a market imbalance between Mail and fast freight. The result would be that customers would increasingly use Mail.

We therefore consider that any introduction of full cost recovery for low value fast air freight must be matched by the introduction of full cost recover for low-value goods carried as UPU mail. In order to address the unfair anomaly, the adjustment of fees must be made at the same time, and at the same rate (in both amount and charging mechanism across all industry sectors (including the UPU mail stream).

As stated above, Low Value consignments and mail should be charged on the same basis. However, we acknowledge officials' advice that at this current time there are data limitations meaning that:

- it isn't feasible to recover mail costs based on consignment numbers and
- a weight-based charging arrangement may be the only feasible option for mail at this time.

We therefore recommend priority should be given to improving data on mail shipments. This would also enable all industry participants to move to consignment-based charging down the track should this be the direction decided by the NZ government. This will create fairness in the industry (albeit consignment-based charging was not majority of the groups preferred approach).

2. Impact on businesses

We were unable to fully consider this issue as it would have been inappropriate for members of the Group to share details of volumes, commercial arrangements and pricing strategies with their competitors on the Group.

However, freight businesses carrying low-value goods across New Zealand's border have a wide range of business models and pricing frameworks.

Given sufficient lead time (discussed further below), some of the businesses participating in the Group consider they would be able to pass proposed fees on to customers in their pricing.

However, the majority of Group members and those that specialise in Low Value consignment clearances have commercial constraints (such as international zone-based pricing) that they consider would make it infeasible to pass on these charges and were concerned that they would have to absorb the increases with a material impact on their commercial viability. There is concern by these Group members this commercial viability may lead to a retrenchment of foreign investment and further reduce competition leading to potential job losses. They were also concerned in the likely event they could not pass these costs on in their pricing to shippers, they might have to seek to recover these from recipients. This is undesirable as it would result in shipments being held until the package recipient paid the charges, with additional compliance costs such as: administration, warehousing, dealing with abandoned shipments, and higher levels of bad debts.

These Group members will address this further in their individual submissions as it relates to their business.

3. Alternatives to consignment-based charging

As well as the proposal to move to consignment-based charging, the Group considered several alternative options including weight-based charging, "bracketed charging" based on consignment numbers, and having Inland Revenue use its framework for GST collection to also collect cost recovery charges from offshore suppliers. In summary:

- We do not favour weight-based charging as a means of allocating costs. While feasible, it would create more inequities than it would solve.
- Using Inland Revenue's framework to recover costs from offshore suppliers initially appeared attractive. However, there are three principal issues that undermine it as a workable solution:
  i. suppliers under the $60,000 registration threshold would not pay and, under a full cost recovery model, would be cross subsidised by other suppliers.
  ii. costs relating to business-to-business imports, and exports would not be able to be recovered at all, as Inland Revenue's framework only collects GST on business-to-consumer consignments, so under a full cost recovery model business importers would have their charges cross-subsidised by consumers; and
  iii. suppliers are only required to report on revenue and not consignment numbers, and it would be difficult to verify that the correct MPI and Customs costs were being paid.
- Some members of the Group considered that, if the status quo could not be retained, a "bracketed" charging model could achieve the Government's objectives with a lesser impact on industry. Under this model, instead of the status quo model of a flat fee per cargo report there would be a tiered fee based on the number of requests to clear low-value consignments on the report. Whilst this approach was favoured by members of the advisory group who specialised in low value clearances, some members of the Group considered that a bracketed charging might not be fair and could make it more complicated to determine how costs should be passed through into customer charges. We were unable to reach a consensus on whether a bracketed charging model was preferable to a consignment-based charging model, and Group members will likely address this further in their individual submissions.
- If a bracketed charging model was not adopted as the new charging model, some Group members felt that it should nevertheless be available as an option to the freight industry, for a limited period as a transitional measure to mitigate the impacts on industry. Again, we were unable to reach a consensus on this issue, and Group members will likely address this further in their individual submissions.
- We considered other options by which those shipping low-value goods might be able to be directly charged for Customs and MPI costs in order to mitigate the impact on industry. The Group recommends that Customs and MPI undertake work to look at the feasibility of directly charging processing costs to those importing and exporting low-value goods, in cases where those parties have deferred settlement accounts with Customs.

4. Charging for examinations

The Group considered whether the cost of examinations should be recovered by charging examination costs directly to those whose consignments are selected for examination, rather than recovering this cost from consignment charges generally. This would result in correspondingly lower consignment charges; we recommended that Customs should assess it when they provide you with recommendations on cost recovery for low-value goods processing as it would more closely align to the "user pays" approach the consultation is trying to achieve. As MPI have an activity-based fee associated with inspections now, introducing this for customs would create better industry alignment. The group however was unable to reach a consensus on this issue.

5. Lead times

If there are structural changes to cost recovery charges incurred for low value goods, such as a move to consignment-based or bracketed charging, industry will need to change information technology systems (involving outside suppliers), contractual arrangements, pricing models, and customer charging to reflect these. The Group recommends that there be a 12-to-24-month period between the date when the changes are announced and the date on which they take effect.

6. Withdrawal of Crown funding

Withdrawal of Crown funding would result in a substantial rise in fees, which would be disruptive to the freight industry and its customers. The Group's view is that this should be mitigated by phasing out Crown funding over a period of time. There was consensus that withdrawing Crown funding over three years, in three equal steps, would be appropriate.

7. Communications

The proposal would require industry to engage extensively with domestic and offshore customers. Our experience shows that some of these conversations will be difficult.

In order to mitigate this, we recommend that if changes proceed then the Government should proactively publicise the changes and produce "official" communications material and website changes to which our customers could be directed.

8. Risk of "consolidation"

Group members noted that some commercial parties would likely attempt to avoid the higher cost recovery charges by consolidating low value imports into one high-value consignment, which they would disaggregate for delivery post border. As well as undermining the Government's fee revenue, we noted that this could diminish the quality of the information available to Customs and MPI for risk management. There is no legal impediment to this occurring, unlike in Australia where legislation specifies the goods are reported down to the lowest level (i.e., per consignment).

The Group recommends that officials consider this issue, and explicitly discuss it in the advice provided to the Government.

9. Impact on Exports

Group members discussed the likely impact of the indicative $3.50 low-value export consignment charge on New Zealand's low-value exports. We considered that this charge was likely to result in a material reduction in export volumes and erect a trade barrier for NZ-based eCommerce retailers. This change could hinder the growth of local online businesses by imposing additional costs that reduce profitability, ultimately making it more difficult for small and medium enterprises to compete internationally. We would like the Government to continue with the status quo and continue with a manifest charge, as it would not add to the financial strain on local businesses and preserve New Zealand's competitive standing in the global eCommerce market.

We anticipate a significant adverse impact on eCommerce retailers based in New Zealand. These small and medium eCommerce businesses, operate on slim margins, and if the proposed per consignment fee is enacted, New Zealand eCommerce exporters could be compelled to consider alternatives to manage rising costs. These include.

- relocating their businesses to countries with lower export costs. This relocation would result in substantial revenue and job losses, weakening New Zealand's eCommerce sector and reducing tax contributions. The proposed fee risks not only the competitiveness New Zealand eCommerce exporters but also the employment of staff, as local businesses may find it financially unsustainable to retain operations domestically.

- shift to mail: eCommerce exporters may shift to mail services for their low-value export shipments. This option incurs significantly lower customs fees under the proposed programme. This discrepancy may encourage exporters to use mail services over fast freight, contradicting the government's aim to fully recover costs. Such a shift would mean fewer items are shipped through fast freight, reducing Customs' cost recovery, and hampering the intended efficiency of the policy.

- consolidation of low-value exports: Exporters may consolidate multiple low-value shipments into high-value consignments to avoid per-consignment fees. These high-value shipments could then be disaggregated after border entry for domestic delivery, circumventing the fee. This not only reduces Customs' revenue but also diminishes the quality of data available for risk management. Customs and MPI may face challenges in monitoring and assessing risk accurately if this consolidation practice becomes more widespread, potentially jeopardising border security and product safety.

10. Other matters

While outside the range of issues that the Group was asked to look at, we also make the following recommendations for the Government to consider:

- The quality of information provided on low value fast freight is much higher than for goods carried as UPU mail, making it harder for agencies to manage risks for goods coming in as mail. Officials have advised us that there is work underway to improve the data for goods carried as UPU mail. The Group recommends that this work should be prioritised. This is both on fairness grounds (subjecting those shipping goods by mail on an equal footing with those using fast freight), and to ensure that there is adequate management of the risks to New Zealand posed by low-value goods entering as mail.
- If the Government moves to cost recovery for low value goods, then the Group considers measures should be put in place to ensure transparency, and to periodically review charges to ensure that they are appropriate and to avoid large ad hoc changes. Discussion on this issue would see an annual review period as fair.

Yours sincerely

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[redacted]

Rachel Madden

Low Value Goods Technical Advisory Group Chair

These companies were invited to participate in the Low Value Goods Technical Advisory Group; Aramex, Conference of Asia Pacific Express Carriers (CAPEC) Customs Brokers and Freight Forwarders Association (CBAFF), Hobbs Global, Freightways, Nature Baby, NZ Post, and Online Distribution.

The following individuals / members were actively involved and participated in meetings and formatting the views formed in this letter; Andre Stolk – Aramex, Emma Walsh - CBAFF, Gary Thorne – Hobbs Global Logistics, Matt Rossiter – CAPEC, Mark Little – Aramex, Rachel Madden – CBAFF (Group Chair), Ruth Adin – Freightways, Sam Stokes – Online Distribution, Stephen Williams – CAPEC.