NEW ZEALAND
CUSTOMS SERVICE
TE MANA ĀRAI O AOTEAROA

OPTIONS FOR MAKING INTERIM INCREASES TO CUSTOMS' GOODS FEES

CONSULTATION DOCUMENT

March 2023

Protecting and promoting
New Zealand across borders

CONTENTS

SECTION 1: PURPOSE

1. The New Zealand Customs Service (Customs) protects New Zealand from illegal activity related to the importation and exportation of goods. Customs charges fees to recover the costs of these border protection services. Customs has identified issues with these fees:
   - immediate issues where fee revenue is insufficient to cover the cost of the current level of Customs' border protection services
   - longer-term issues relating to the financial sustainability of Customs' goods services, and a a mismatch between some fee-payers and the costs their fees are funding.
2. The Minister of Customs has asked Customs to carry out a comprehensive review of its goods fees to address the longer-term issues. The soonest this review could be completed is mid-2025. In the meantime, this consultation addresses the immediate issues.
3. The purpose of this consultation document is to describe the immediate issues, present options to address these issues, and assess the impacts of the options on importers, exporters and the Crown. The options are:
   - **Option 1**: make no changes to fees until the outcome of the comprehensive review
   - **Option 2:** make interim fee increases on 1 October 2023 and 1 July 2024 in line with changes in the consumers price index (CPI) since the fees were agreed by Cabinet in December 2019.
4. The consultation document seeks stakeholder feedback by asking questions about the immediate issues and the options.

SECTION 2: HOW TO MAKE A SUBMISSION

What to include in your submission

5. Stakeholders are invited to make a submission providing feedback. When making a submission, please include:
   - your name and position in the organisation making the submission
   - your organisation's responses to the questions in this consultation document.
6. Submissions should be sent to revenue.policy@customs.govt.nz by **5.00 pm on Tuesday, 18 April 2023**.

Releasing submissions under the Official Information Act 1982

7. Submissions can be requested under the Official Information Act 1982 and Customs must release the information unless there are good reasons for withholding it. If there is confidential information in your submission that you consider should be withheld, please identify the information and state the relevant section of the Official Information Act and

your reasons for seeking withholding. Customs will take your advice into account when considering whether to release that information.

What happens after submissions close

8. Customs will consider the submissions and advise the Minister of Customs. It may be impractical for Customs to include late submissions in this advice. The Minister of Customs may make recommendations to Cabinet. If Cabinet decides to increase the fees, the increases would be implemented by amending the Customs and Excise Regulations 1996. The increases would occur on dates agreed by Cabinet. If Cabinet agreed to Option 2, the increases would occur on 1 October 2023 and 1 July 2024.

SECTION 3: EXECUTIVE SUMMARY

9. Customs protects New Zealand from illegal activity related to goods. Customs charges fees to recover the cost of these services. There are two categories of fee:
   - Full-cost-recovery fees: in 2019, for most goods fees Cabinet agreed fee rates that were intended to fully recover costs. Customs established a memorandum account to record the balance of surpluses and deficits in the services related to these fees
   - Fees related to low-value air consignments:[1,2] in 2019, Cabinet agreed fee rates that only partly recover costs. In the current financial year, revenue from these fees is budgeted to be $5.5 million, with the Crown budgeted to fund a $25.6 million shortfall between fee revenue and costs.

10. This consultation document addresses immediate issues concerning the fees. Since the current fees were agreed by Cabinet in 2019, COVID-19 has affected trade patterns and the number of entries and cargo reports lodged. Wage and price inflation have affected Customs' cost of delivering the expected level of border protection services. As a result:
    - For full-cost-recovery fees: forecast fee revenue will no longer fully recover costs, and by 2025 the accumulated deficit in the memorandum account is forecast to be $28.7 million. Future fee payers will need to fund this accumulated deficit
    - For fees related to low-value air consignments: Customs forecasts the shortfall between fee revenue and costs will increase from $25.6 million in the current financial year to $26.6 million in 2024/25. Customs is forecasting that the shortfalls will begin to exceed the fixed level of Crown funding budgeted to cover them.

[1] In this document, "low-value consignment" and "low-value mail" mean consignments with a Customs value of $1,000 or less. "Consignment" means the goods on an arriving craft from a supplier to an importer, or the goods on a departing craft from an exporter to a consignee.
[2] The fees related to low-value air consignments are the Inward Cargo Transaction Fee Air, and the Outward Cargo Transaction Fee for Cargo Report Exports Air.

11. The Minister of Customs has asked Customs to carry out a comprehensive review of its goods fees to address longer-term issues relating to the goods fees. The longer-term issues include:
   - the financial sustainability of Customs' border protection services related to goods
   - a mismatch between some fee-payers and the costs their fees are funding.
12. The comprehensive review will require extensive analysis and consultation to explore options and understand their impacts. The outcome of the review could not be implemented before mid-2025, which is why Customs is addressing the immediate issues now.
13. There are two interim options to address these immediate issues:
   - **Option 1**: make no changes to fees until the outcome of the comprehensive review
   - **Option 2:** make interim fee increases on 1 October 2023 and 1 July 2024 in line with changes in the CPI since the fees were agreed in December 2019.
14. Customs assesses that Option 2 is superior to Option 1. Under Option 2:
   - for full-cost-recovery fees: current importers and exporters would fund a greater proportion of current costs, leaving smaller accumulated deficits for future importers and exporters to fund via the new fees that result from the comprehensive review
   - for fees related to low-value air consignments: importers and exporters would fund a greater proportion of cost of border protection services related to these consignments, reducing the pressure on the level of Crown funding budgeted for these services.

15. Table 1 illustrates the potential fee increases under Option 2 using Treasury's forecasts of inflation of 17 percent from December 2019 to March 2023, and a further 4 percent to March 2024.

Table 1 – Current fees and illustrative fees under Option 2

Fee	Current fee $ incl GST	Illustrative fee 1 October 2023 $ incl GST	Illustrative fee 1 July 2024 $ incl GST
Full-cost-recovery fees			
Import Entry Transaction Fee	33.03	38.62	40.21
Inward Cargo Transaction Fee Sea	520.00	608.04	633.00
Export Entry Transaction Fee:			
• Secure Exports Scheme (SES)	3.27	3.82	3.98
• non-SES	6.82	7.97	8.30
Outward Cargo Transaction Fee:			
• Outward Cargo Report Air	14.35	16.78	17.47
• Outward Cargo Report Sea	18.58	21.73	22.62
• Cargo Report Export Sea	5.57	6.51	6.78
Fees related to low-value air consignments			
Inward Cargo Transaction Fee Air	77.00	90.04	93.74
Outward Cargo Transaction Fee for Cargo Report Export Air	40.00	46.77	48.69

16. This consultation document does not consider the option of increasing each fee separately by the amount needed to fully recover costs related to each fee. That option would involve substantial changes in fees and more time would be needed for analysis and consultation about the impacts. Instead, this consultation document contains interim options that can be considered immediately while Customs is carrying out the comprehensive review of goods fees.

SECTION 4: CONTEXT

Description of Customs’ services

17. Customs provides services related to imported and exported goods. These services include:
    - border protection: mitigating risks of illegal activity related to imported and exported goods, such as the importation of illegal drugs
    - revenue collection: collecting duty, including tariff duty, excise-equivalent duty and GST
    - trade access: facilitating exports through activities such as trade negotiations, addressing non-tariff barriers to trade, and managing the Secure Exports Scheme.
18. Customs has efficient processes to minimise any burden that its border protection and revenue collection services have for imports and exports. The time taken for Customs to process goods is crucial for the New Zealand economy. A recent study (Customs, 2023) found:
    - if goods are reported to Customs correctly, Customs clears them within seconds unless Customs identifies that it needs to intervene with the goods
    - Customs clears most imports before they arrive in New Zealand and most exports before departure.
19. Customs is also committed to making it easy for businesses to comply with the rules that Customs needs to impose to deliver its border protection and revenue collection services.
20. Customs’ goods fees recover the costs of border protection services related to goods. These services include the following activities:
    - processing declarations for goods being imported or exported
    - carrying out risk assessment, and targeting goods for further intervention
    - examining targeted goods
    - detaining and seizing goods, depending on the outcome of the examination
    - carrying out investigations of illegal activity related to goods.
21. Customs does not recover the cost of its revenue collection or trade access services. Furthermore, Customs does not recover certain costs of its border protection services. For example, Customs does not recover its costs related to:
    - Customs’ enforcement activities after deciding to prosecute
    - reviews of seizure
    - low-value mail imported under the Universal Postal Union Convention.
22. This consultation document focuses on the border protection services described in paragraph 20. All subsequent references to border protection services and their associated revenue and costs relate solely to the activities described in paragraph 20.

The legislative framework for the goods fees

23. The Customs and Excise Act 2018 includes powers to make regulations that set fees. Section 403 provides general powers to make regulations, and section 409(1)(b) permits fees or charges to be set to meet – or assist in meeting – the costs and expenses incurred by Customs in carrying out its functions under the Act related to the importation or exportation of goods.

24. The Customs and Excise Regulations 1996 prescribe the current goods fees. The fees relate to certain documents that importers, exporters, freight forwarders and craft operators lodge as part of importing or exporting goods. Some fees have more than one rate. For example, the Inward Cargo Transaction Fee has separate rates for air and sea cargo.

25. Table 2 sets out the Regulation prescribing each fee and the document the fee is charge on, describes how industry participants (craft operators, freight forwarders, importers and exporters) use those documents, and the current fee.

Table 2 – Regulations prescribing goods fees

Fee	Regulation	Document the fee relates to	The document is used to:	Current fee $ incl GST
Full-cost-recovery fees				
Import Entry Transaction Fee	24A	Import Entry for consignment valued over $1,000	seek clearance of the consignment.	33.03
Inward Cargo Transaction Fee Sea	13A	Inward Cargo Report for sea cargo	report on all the cargo on the craft, or to seek clearance of low-value consignments.	520.00
Export Entry Transaction Fee:				
• Secure Exports Scheme (SES)	28A	Export Entry for SES consignment	seek clearance of the consignment.	3.27
• non-SES	28A	Export Entry for other consignment	seek clearance of the consignment.	6.82
Outward Cargo Transaction Fee:				
• Outward Cargo Report Air	29A	Outward Cargo Report for air cargo	seek permission to load already-cleared goods onto a craft, or to report on all the cargo on the craft.	14.35
• Outward Cargo Report Sea	29A	Outward Cargo Report for sea cargo	seek permission to load already-cleared goods onto a craft, or to report on all the cargo on the craft.	18.58
• Cargo Report Export Sea	29A	Cargo Report Export for sea cargo	seek clearance of low-value consignments.	5.57
Fees related to low-value air consignments				
Inward Cargo Transaction Fee Air	13A	Inward Cargo Report for air cargo	report on all the cargo on the craft, or to seek clearance of low-value consignments.	77.00
Outward Cargo Transaction Fee for Cargo Report Export Air	29A	Cargo Report Export for air cargo	seek clearance of low-value consignments.	40.00

History of decisions relating to goods fees

26. The Import Entry Transaction Fee was established on 1 December 2002 by the Customs and Excise Amendment Regulations 2002. The other goods fees were established on 1 December 2004 by the Customs and Excise (Fees) Regulations 2004. On 9 December 2019, Cabinet agreed to changes to the fees [DEV-19-MIN-0334]. After a delay due to COVID-19, the changes were implemented on 1 July 2021 by the Customs and Excise Amendment Regulations 2021.

27. In 2019, for most fees, Cabinet agreed fee rates that were intended to fully recover costs. For these full-cost-recovery fees, Customs established a memorandum account to record the accumulated balance of surpluses and deficits in providing border protection services related to these fees. Treasury guidance highlights that memorandum accounts will inevitably be in surplus or deficit in the short term, but the balance of memorandum accounts should trend towards zero over the long term (The Treasury, 2017). The memorandum account for goods fees helps to ensure that Customs does not under-recover or over-recover its costs.

28. For two fees related to low-value air consignments – the Inward Cargo Transaction Fee Air and the Outward Cargo Transaction Fee for Cargo Report Export Air – Cabinet agreed in 2019 to fee rates that would only partly recover costs. These fees were not set to fully recover costs because that would have required large fee increases, and Customs was uncertain about the impacts such increases would have on importers and exporters. Revenue from these fees recovers 18 percent of Customs' costs related to low-value air consignments, and Customs has a fixed amount of Crown funding budgeted to cover the shortfall.

SECTION 5: FORECASTS RELATING TO SETTING GOODS FEES

29. In order to understand the extent to which fees will recover costs, it is necessary to forecast the costs to be recovered and the revenue from fees. Customs charges a fee when certain documents are lodged, so forecast fee revenue depends on the forecast number of documents lodged.

Forecast number of documents and fee revenue

30. Customs has estimated the number of the documents that the goods fees apply to, using historical data and taking into account the impacts of COVID-19. Table 3 shows the actual, budgeted and forecast number of the documents on which fees are charged.

Table 3 – Forecast number of documents on which Customs charges goods fees

Number of documents (in thousands)	2021/22 Actual	2022/23 Budget	2023/24 Forecast	2024/25 Forecast
Documents on which full-cost-recovery fees are charged				
Entries	1,566	1,574	1,600	1,615
Cargo reports	63	71	80	90
Documents on which fees related to low-value air consignments are charged				
Cargo reports	73	99	116	134

31. The number of documents is below pre-COVID-19 levels but is forecast to increase between 2022/23 and 2024/25. The forecasts assume that entries will increase at their pre-COVID-19 growth rates, and cargo reports will return to their pre-COVID-19 levels. Appendix A has more information about the document forecasts.

32. Table 4 shows actual, budgeted and forecast fee revenue. Changes in fee revenue are the consequence of changes in the number of documents the fees are charged on.

Table 4 – Forecast goods fee revenue

	2021/22 Actual $000	2022/23 Budget $000	2023/24 Forecast $000	2024/25 Forecast $000
Revenue from full-cost-recovery fees	40,951	38,945	40,172	41,129
Revenue from fees related to low-value air consignments	3,980	5,492	6,414	7,376

33. Appendix A has more information about the forecast fee revenue.

Question about the forecast number of documents

Question 1. Do you consider that Customs' forecast of the number of documents is reasonable? If not, please explain why not. If possible, please provide the forecast numbers of documents that you consider reasonable, and the assumptions your numbers are based on.

Forecast costs

34. Customs has estimated the cost of border protection services using its budgeted costs for the current financial year (2022/23) and Treasury forecasts of inflation to forecast the increase in costs in future years (The Treasury, 2022a). Table 5 shows actual, budgeted, and forecast costs.

Table 5 – Forecast costs of border protection services related to goods

	2021/22 Actual $000	2022/23 Budget $000	2023/24 Forecast $000	2024/25 Forecast $000
Costs related to full-cost-recovery fees	43,539	46,590	48,865	50,863
Costs related to fees related to low-value air consignments	25,869	31,101	32,620	33,953

35. Costs are forecast to increase in 2023/24 and 2024/25. This increase reflects Treasury's forecasts of wage and price inflation. Appendix B has more information about the forecast costs.

Question about the forecast cost of Customs' border protection services related to goods

Question 2. Do you consider that Customs' forecasts of the cost of its border protection services related to goods are reasonable? If not, please explain why.

Forecast memorandum account balance, and funding shortfalls

Full-cost-recovery fees

36. The goods memorandum account records the balance of revenue and costs related to the full-cost-recovery fees. Table 6 shows the actual, budgeted and forecast balance of the memorandum account.

Table 6 – Forecast balance of the goods memorandum account

	2022 Actual $000	2023 Budget $000	2024 Forecast $000	2025 Forecast $000
Memorandum account balance as at 30 June	-2,588	-10,233	-18,926	-28,660

37. The memorandum account balance is budgeted to have an accumulated deficit of $10.2 million by the end of the current financial year. The accumulated deficit is forecast to increase to $28.7 million by 30 June 2025.

38. Appendix C shows the actual, budgeted and forecast balance of the memorandum account by fee.

Fees related to low-value air consignments

39. The fees related to low-value air consignments are the Import Entry Transaction Fee Air and the Outward Cargo Transaction Fee Cargo Report Export Air. Revenue from these fees is less than the cost of border protection services related to low-value air consignments, resulting in a shortfall in funding. Table 7 shows the actual, budget and forecast shortfalls.

Table 7 – Shortfall related to low-value air consignments

	2021/22 Actual $000	2022/23 Budget $000	2023/24 Forecast $000	2024/25 Forecast $000
Cost	25,869	31,101	32,620	33,953
Fee revenue	3,980	5,492	6,414	7,376
Shortfall	**21,889**	**25,609**	**26,206**	**26,577**

40. In the current financial year (2022/23), fee revenue is budgeted to be $5.5 million, and the Crown is budgeted to contribute $25.6 million to address the shortfall between fee revenue and Customs' costs. The shortfall is forecast to increase and exceed the fixed Crown contribution in 2023/24 and 2024/25. Appendix C shows these forecasts by fee.

SECTION 6: ISSUES RELATING TO THE FEES

Immediate issues

41. The current goods fee rates were agreed by Cabinet in 2019. Since 2019, various factors have affected fee revenue and costs, including COVID-19 and wage and price inflation.

Issues relating to full-cost-recovery fees

42. Current forecasts project that the full-cost-recovery fees will no longer fully recover costs. Using Treasury's forecasts of wage and price inflation, costs are forecast to be higher than fee revenue. Deficits are forecast to accumulate in the memorandum account, and the accumulated deficit in 2025 is forecast to be $28.7 million. This creates issues:

- current importers and exporters are no longer fully funding the cost of mitigating the border risks related to their goods
- future importers and exporters will be expected to fund the costs unpaid by current importers and exporters, according to the guidance on memorandum accounts (The Treasury, 2017).

Issues relating to fees related to low-value air consignments

43. Fees related to low-value air consignments were set to partly recover costs. Customs has a fixed amount of Crown funding budgeted to cover the shortfall. Current forecasts are that the shortfall will increase and will begin to exceed the fixed Crown funding. This increasing shortfall creates issues because:
    - it is the people who import and export low-value consignments who create the need for Customs to process their goods, not all taxpayers
    - if the Government decided to increase the amounts of Crown funding to cover the forecast shortfalls, that funding would be unavailable for other Government priorities.

Longer-term issues

44. Aside from these immediate issues, there are longer-term issues with the goods fees:
    - the financial sustainability of Customs' border protection services related to goods, to ensure that Customs has sufficient funding to deliver these services to the level expected by New Zealanders
    - a mismatch between some fee-payers and the costs their fees are funding. For example, a cargo report can be used to clear one low-value consignment or thousands, but Customs charges a flat fee per cargo report regardless of the number of consignments.
45. The Minister of Customs has asked Customs to carry out a comprehensive review of its goods fees to address these longer-term issues. The comprehensive review will involve detailed analysis and extensive consultation. The outcome of the review could not be implemented before mid-2025. Appendix D has more information about the comprehensive review.
46. This consultation document considers interim options to address the immediate issues described in paragraphs 42 and 43 while the comprehensive review is underway.

SECTION 7: PRINCIPLES AND OPTIONS FOR CHANGING FEES

Cost recovery framework and principles

47. Customs uses a framework to guide its approach to recovering the cost of its services. Customs' framework aligns with guidelines developed by the Controller and Auditor-General (2021) and The Treasury (2017). Appendix E has more information about Customs' cost recovery framework.

48. Based on its cost recovery framework, Customs uses the following principles to guide its decisions about cost recovery of border protection services related to goods:

- equity – services should be funded by those who create the risks that border protection services are designed to mitigate. This includes:
    - equity between current and future importers and exporters
    - equity between taxpayers and importers and exporters
- efficiency – costs should be charged to ensure that maximum benefits are delivered at minimum cost
- transparency – costs should be identified and allocated to the relevant fee
- justifiability – the fees should only recover the reasonable costs of providing the border protection services.

Options for changing goods fees

49. This consultation document considers two options for addressing the immediate issues described in paragraphs 42 and 43:

- Option 1: make no changes to goods fees until the end of the comprehensive review. The soonest this review could be completed is in mid-2025
- Option 2: make interim fee increases on 1 October 2023 and 1 July 2024 in line with changes in the CPI since the fees were agreed in December 2019.

50. Option 2 would involve:

- increasing the goods fees on 1 October 2023 by the change in the ‘all groups’ CPI between December 2019 (when Cabinet agreed the fees) and March 2023 using the following formula:

$$\text{Fee from 1 October 2023} = \text{current fee} \times \frac{\text{CPI March 2023}}{\text{CPI December 2019}}$$

- increasing the goods fees on 1 July 2024 by the change in the CPI through to March 2024 as follows:

$$\text{Fee from 1 July 2024} = \text{fee from 1 October 2023} \times \frac{\text{CPI March 2024}}{\text{CPI March 2023}}$$

51. Customs would calculate the fees under Option 2 when the CPI for March 2023 and March 2024 are released. An individual fee would not be increased – or would be adjusted by less than the CPI increase – if necessary to ensure it does not over-recover costs.

52. This consultation document does not consider the option of separately adjusting each full-cost-recovery fee by the amount needed to fully recover the costs related to that fee. This option would not be feasible to implement in 2023. It would involve substantial changes to fees rates, and more time would be needed for detailed analysis and extensive consultation about the impacts. Instead, this consultation document considers interim options that could be implemented while Customs is carrying out its comprehensive review of the fee structure.

53. This consultation document does not consider the option of reducing costs by curtailing border protection services because the Government expects Customs to continue protecting New Zealand against border risks at current levels.

Questions about the options

Question 3. Are there any changes you would suggest to the details of Option 2 (interim fee increases in line with the CPI)? If so, please describe the changes you would suggest, and your reason for suggesting them.

Question 4. Are there other options Customs should consider for addressing the immediate issues described in paragraphs 42 and 43 of this consultation document?

Criteria for assessing these options

54. In this consultation document, Customs assesses the options against the principles for cost recovery described in paragraph 48, and considers the impact of the options on fee payers and the Crown. The principles most relevant to the options in this consultation document are equity between current and future fee payers, and equity for taxpayers.

SECTION 8: IMPACTS OF THE OPTIONS

Impact of the options on current fee payers

55. Under Option 2, the fees would increase on 1 October 2023 in line with changes in the CPI between December 2021 and March 2023, and on 1 July 2024 in line with changes in the CPI between March 2023 and March 2024. The increases would be calculated after the CPI for March 2023 and March 2024 are released.

56. Table 8 illustrates the potential increases using Treasury's inflation forecasts (The Treasury, 2022b).[3]

Table 8 – Current fees and illustrative fees under Option 2

Fee	Current fee $ incl GST	Illustrative fee 1 October 2023 $ incl GST	Illustrative fee 1 July 2024 $ incl GST
Full-cost-recovery fees			
Import Entry Transaction Fee	33.03	38.62	40.21
Inward Cargo Transaction Fee Sea	520.00	608.04	633.00
Export Entry Transaction Fee:			
• Secure Exports Scheme (SES)	3.27	3.82	3.98
• non-SES	6.82	7.97	8.30
Outward Cargo Transaction Fee:			
• Outward Cargo Report Air	14.35	16.78	17.47
• Outward Cargo Report Sea	18.58	21.73	22.62
• Cargo Report Export Sea	5.57	6.51	6.78
Fees related to low-value air consignments			
Inward Cargo Transaction Fee Air	77.00	90.04	93.74
Outward Cargo Transaction Fee for Cargo Report Export Air	40.00	46.77	48.69

[3] The illustrative fees on 1 October 2023 reflect the forecast change in CPI from December 2019 to March 2023 of 17 percent. The illustrative fees on 1 July 2024 reflect the forecast change in CPI between March 2023 and March 2024 of 4 percent.

57. Table 9 shows the impact that these illustrative fee increases could have on individual import and export consignments.[4]

Table 9 – Illustrative impact of Option 2 per consignment cleared

	Consignment cleared	Median value of consignment $ incl GST	Average number of consignments cleared per document	Illustrative impact on fee per consignment cleared $ incl GST	Illustrative impact as percent of value of consignment
Full-cost-recovery fees					
Import Entry Transaction Fee	Import > $1,000	13,000	1	7.18	0.06%
Inward Cargo Transaction Fee Sea	Low-value sea import	135	297	0.38	0.3%
Export Entry Transaction Fee:					
• Secure Exports Scheme	SES export	180,000	1	0.71	0.0004%
• non-SES	Other export >= $1,000	18,000	1	1.48	0.008%
Outward Cargo Transaction Fee:					
• Cargo Report Export Sea	Low-value sea export	1,018	2	0.61	0.1%
Fees related to low-value air consignments					
Inward Cargo Transaction Fee Air	Low-value air import	45	481	0.03	0.08%
Outward Cargo Transaction Fee for Cargo Report Export Air	Low-value air export	93	150	0.06	0.1%

58. Most fee revenue is collected on import entries valued over $1,000. For most of these consignments, the total of the two interim fee increases would be less than 0.06 percent of the value of the consignment. Most import consignments are cleared using inward cargo reports. For most of these consignments, the fee increases would be less than 0.08 percent of the value of the consignment.

[4] Outward Cargo Reports are not shown in Table 9 because they are not used to clear consignments.

Impact of the options on future fee payers

59. Under both Option 1 and Option 2, fee revenue is forecast to be insufficient to recover forecast costs, with deficits accumulating in the memorandum account. Table 10 shows the impact of the options on these accumulated deficits.

Table 10 – Forecast memorandum account balance under two options

Forecast memorandum account balance	30 June 2024 $000	30 June 2025 $000	30 June 2025 Deficits as % of annual cost
Option 1	-18,926	-28,660	56%
Option 2	-13,824	-14,622	29%
Impact of Option 2 compared to Option 1	**+5,102**	**+14,038**	

60. These accumulated deficits will impact future importers and exporters because, in line with Treasury guidelines, Customs would need to recover the accumulated deficit from future fee-payers. The comprehensive review would result in new fees. Those future fees would be lower under Option 2 than under Option 1 because the accumulated deficits would be smaller under Option 2. The impact for individual importers and exporters will not be known until the completion of the comprehensive review.

Questions about the impact on fee payers

Question 5. What do you think about Customs’ assessment of the impacts of the options on fee payers?

Impact of the options on the Crown

61. For border protection services related to low-value air consignments, the shortfall between fee revenue and costs would be smaller under Option 2 than Option 1, placing less pressure on the Crown funding budgeted to cover the shortfall. Table 11 summarises the amounts.

Table 11 – Forecast shortfall related to low-value air consignments

Forecast shortfall related to low-value air consignments	2023/24 $000	2024/25 $000
Option 1	26,206	26,577
Option 2	25,391	24,973
Impact of Option 2 compared to Option 1	**-815**	**-1,604**

Question about the impact on the Crown

Question 6. What do you think about Customs' assessment of the impacts of the options on the Crown?

SECTION 9: ASSESSMENT AGAINST THE COST RECOVERY PRINCIPLES

Equity of options for full-cost-recovery fees

62. Under both Option 1 and Option 2, fee revenue is forecast to be insufficient to recover forecast costs, with deficits accumulating in the memorandum account. This will result in inequity between current and future fee payers because the deficits relate to current imports and exports, but future importers and exporters will be expected to fund them.

63. Option 2 would involve less inequity between current and future fee payers than Option 1 because Option 2 is forecast to have smaller accumulated deficits than Option 1, as shown in Table 10.

Equity of options for fees related to low-value air consignments

64. Fees related to low-value air consignments were set to partly recover costs. Customs has a fixed amount of Crown funding budgeted to cover the shortfall. This Crown funding creates an inequity for taxpayers because importers and exporters create the need for Customs to process low-value air consignments, not all taxpayers.

65. Under both Option 1 and Option 2, the shortfalls are forecast to increase and begin to exceed the fixed level of Crown funding. If the Government decided to increase the amount of Crown funding for low-value air consignments, it would exacerbate the existing

inequity for taxpayers. This inequity is less under Option 2 than Option 1 because the shortfalls would be smaller.

Neither option affects the other cost recovery principles

66. Neither option would materially affect the efficiency implications of charging fees. For most consignments, the change in fee rates under the options are less than one tenth of one percent of the value of the goods, so Customs assesses that neither option would materially affect the behaviour of importers or exporters.

67. Neither option would impact the transparency or justifiability of the fees because the options affect fee rates and not the structure of the fees.

Overall assessment of the options

68. Table 12 summarises Customs' assessment of the options against the principles, relative to Option 1.

Table 12 – Assessment of the options relative to Option 1

Cost recovery principles	Option 1	Option 2
Equity:		
Full-cost-recovery fees		
Equity between current and future fee payers	No impact	Better equity
Equity for taxpayers	No impact	No impact
Fees related to low-value consignments		
Equity between current and future fee payers	No impact	No impact
Equity for taxpayers	No impact	Better equity
For all fees		
Efficiency	No impact	Minimal impact
Transparency	No impact	No impact
Justifiability	No impact	No impact

69. Overall, Customs assesses Option 2 to be superior to Option 1. Compared to Option 1, Option 2 would involve:

- less inequity between current and future importers and exporters:
  - current importers and exporters would pay a greater proportion of the cost of processing their goods
  - smaller accumulated deficits would be carried forward for future fee payers to fund via the new fees that result from the comprehensive review
- better equity for taxpayers because the shortfalls between fee revenue and costs of border protection services related to low-value air consignments would be smaller so there would be less pressure on the Crown funding budgeted for these services.

Questions about the overall assessment of the options

Question 7. What do you think about Customs' assessment of the options against the cost recovery principles?

Question 8. Is there anything else Customs should consider when assessing the options? If so, please explain what should be considered and what your assessment is?

Question 9. Which option do you prefer, and what are the reasons for your preference?

SECTION 10: IMPLEMENTATION

70. After the consultation process, the Minister of Customs may make recommendations to Cabinet, and the option agreed by Cabinet would be implemented. Option 1 would leave the fees unchanged until the outcome of the comprehensive review.

71. Option 2 would involve the implementation steps such as those described in Table 13.

Table 13 – Illustrative steps to implement Option 2

Step	Timeframe
Customs calculates new fees based on CPI for March 2023	April 2023
Cabinet policy decision about what to implement	June 2023
Cabinet considers regulations to amend the fees	July or August 2023
Amendment regulations notified in the New Zealand Gazette	At least 28 days before 1 October 2023
New fees come into effect	1 October 2023
Customs calculates new fees based on CPI for March 2024	April 2024
Cabinet considers regulations to amend the fees	April or May 2024
Amendment regulations notified in the New Zealand Gazette	At least 28 days before 1 July 2024
New fees come into effect	1 July 2024

Question about implementation

Question 10. Are there implementation issues Customs should consider? If so, please explain.

SECTION 11: MONITORING AND REVIEWING THE FEES

72. If Cabinet decides to make interim adjustments to the goods fees, Customs will monitor and review the adjusted fees.

73. Customs monitors the goods fees on an ongoing basis and intends to report annually on the performance of the goods fees. Customs has released a report on the performance of the goods fees for the year ended 30 June 2022 (Customs and the Ministry for Primary Industries, 2023).

74. Customs is carrying out a comprehensive review of the structure of the fees. This review will involve extensive analysis and consultation with stakeholders to explore options and understand the potential impacts. It is unlikely that the comprehensive review will be completed before mid-2025 at the earliest.

Questions about monitoring and review of the fees

Question 11. What do you think about Customs' approach to monitoring and reviewing any fee adjustments agreed by Cabinet?

Question 12. What do you think about Customs carrying out a comprehensive review of its goods fees?

Final question

Question 13. Is there anything else that Customs should consider when providing advice to Ministers about interim options to increase the goods fees?

APPENDIX A: FORECAST NUMBER OF DOCUMENTS AND FEE REVENUE

Forecast number of documents

1. Customs delivers border protection services related to goods and charges fees on entries and cargo reports to recover the costs. Table A1 shows the actual, budgeted and forecast number of those documents.

Table A1 – Forecast number of documents on which Customs charges goods fees

Number of documents (in thousands)	2021/22 Actual	2022/23 Budget	2023/24 Forecast	2024/25 Forecast
Documents on which full-cost-recovery fees are charged				
Import entries > $1,000	1,217	1,210	1,237	1,255
Inward Cargo Report sea	3	3	4	5
Export entry SES	75	76	81	85
Export entry non-SES	275	288	282	275
Outward Cargo Report air	34	41	46	52
Outward Cargo Report sea	10	10	11	11
Cargo Report Export sea	17	17	19	22
Documents on which fees related to low-value air consignments are charged				
Inward Cargo Report air	41	64	74	85
Cargo Report Export air	32	34	42	49

2. In September 2022, the Border Executive Board[5] approved the forecast for import entries over $1,000 for agencies to use for planning purposes. The number of import entries fell during the initial COVID-19 outbreak, but subsequently recovered. The forecast the BEB approved assumes that import entries will increase at rates similar to before COVID-19. Customs has forecast export entries using the same methodology.

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

3. The number of cargo reports fell during the initial COVID-19 outbreak and have only partly recovered. Customs has assumed that cargo reports will gradually return to pre-COVID-19 levels.

4. It is more difficult than usual to forecast trends in the number of documents because COVID-19 impacted the number of documents lodged, and ongoing supply chain disruptions has made the number of documents more volatile than previously. These forecasts are described further in the performance report on goods fees and levies (Customs and the Ministry for Primary Industries, 2023).

Forecast fee revenue

5. Customs charges fees against documents as shown in Table A2.

Table A2 – Documents and related fees

Fee	Document	Fee $ incl GST
Full-cost-recovery fees		
Import Entry Transaction Fee	Import entries > $1,000	33.03
Inward Cargo Transaction Fee Sea	Inward Cargo Report sea	520.00
Export Entry Transaction Fee:		
• Secure Exports Scheme (SES)	Export entry SES	3.27
• non-SES	Export entry non-SES	6.82
Outward Cargo Transaction Fee:		
• Outward Cargo Report Air	Outward Cargo Report air	14.35
• Outward Cargo Report Sea	Outward Cargo Report sea	18.58
• Cargo Report Export Sea	Cargo Report Export sea	5.57
Fees related to low-value air consignments		
Inward Cargo Transaction Fee Air	Inward Cargo Report air	77.00
Outward Cargo Transaction Fee for Cargo Report Export Air	Cargo Report Export air	40.00

6. Table A3 shows actual, budgeted and forecast goods fee revenue, based on the actual, budgeted and forecast number of documents.

Table A3 – Forecast fee revenue

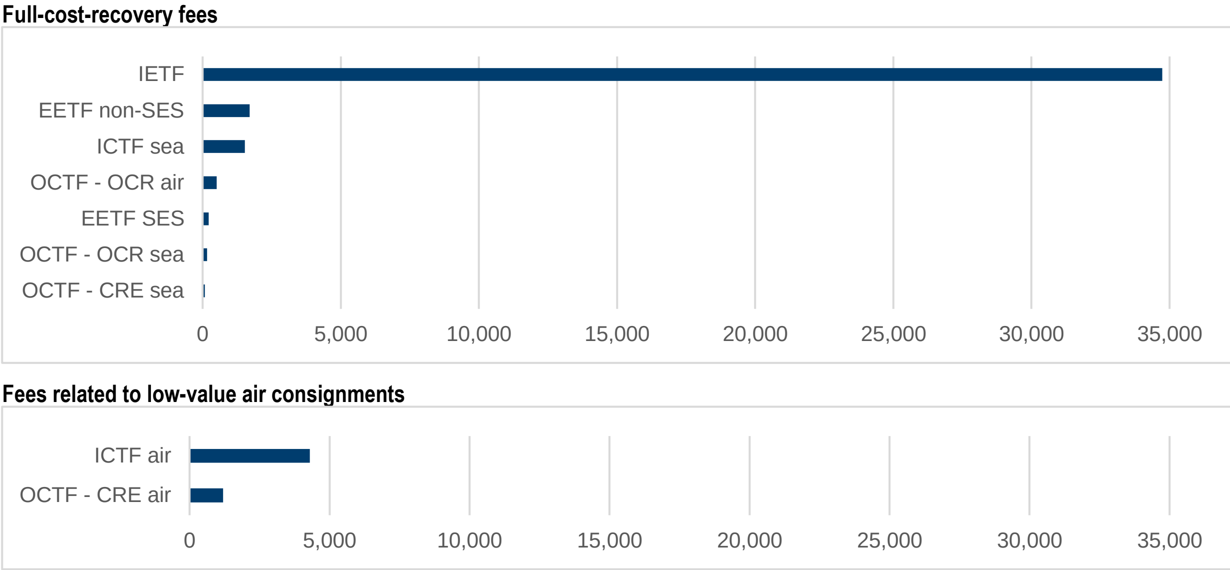
Fee revenue	2021/22 Actual $000	2022/23 Budget $000	2023/24 Forecast $000	2024/25 Forecast $000
Full-cost-recovery fees				
Import Entry Transaction Fee	35,363	34,739	35,518	36,031
Inward Cargo Transaction Fee Sea	2,062	1,532	1,911	2,291
Export Entry Transaction Fee:				
• Secure Exports Scheme (SES)	421	217	231	241
• non-SES	2,274	1,707	1,674	1,633
Outward Cargo Transaction Fee:				
• Outward Cargo Report Air	566	505	572	643
• Outward Cargo Report Sea	183	163	172	182
• Cargo Report Export Sea	82	82	94	108
Total for full-cost-recovery fees	**40,951**	**38,945**	**40,172**	**41,129**
Fees related to low-value air consignments				
Inward Cargo Transaction Fee Air	2,847	4,297	4,969	5,670
Outward Cargo Transaction Fee for Cargo Report Export Air	1,133	1,195	1,445	1,706
Total for fees related to low-value air consignments	**3,980**	**5,492**	**6,414**	**7,376**

7. Changes in fee revenue are a consequence of changes in the number of documents lodged. However, the change in revenue between 2021/22 and 2022/23 does not mirror the change in the number of related documents because the 2021/22 actual revenue includes accounting adjustments.

8. Overall, fee revenue is forecast to increase between 2022/23 and 2024/25. However, fee revenue is less than was forecast when the fees rates were agreed by Cabinet in 2019.

9. Most goods fee revenue is from the Import Entry Transaction Fee, as highlighted in Figure A1.

Figure A1 – Budgeted fee revenue in 2022/23 ($000)



IETF: Import Entry Transaction Fee. ICTF: Inward Cargo Transaction Fee. EETF: Export Entry Transaction Fee. SES: Secure Exports Scheme. OCTF: Outward Cargo Transaction Fee. OCR: Outward Cargo Report. CRE: Cargo Report Export.

APPENDIX B: FORECAST COSTS

1. Customs' goods fees recover costs of border protection services related to imported and exported goods. Table B1 summarises the activities that make up these services, and the relative cost of carrying out these activities.

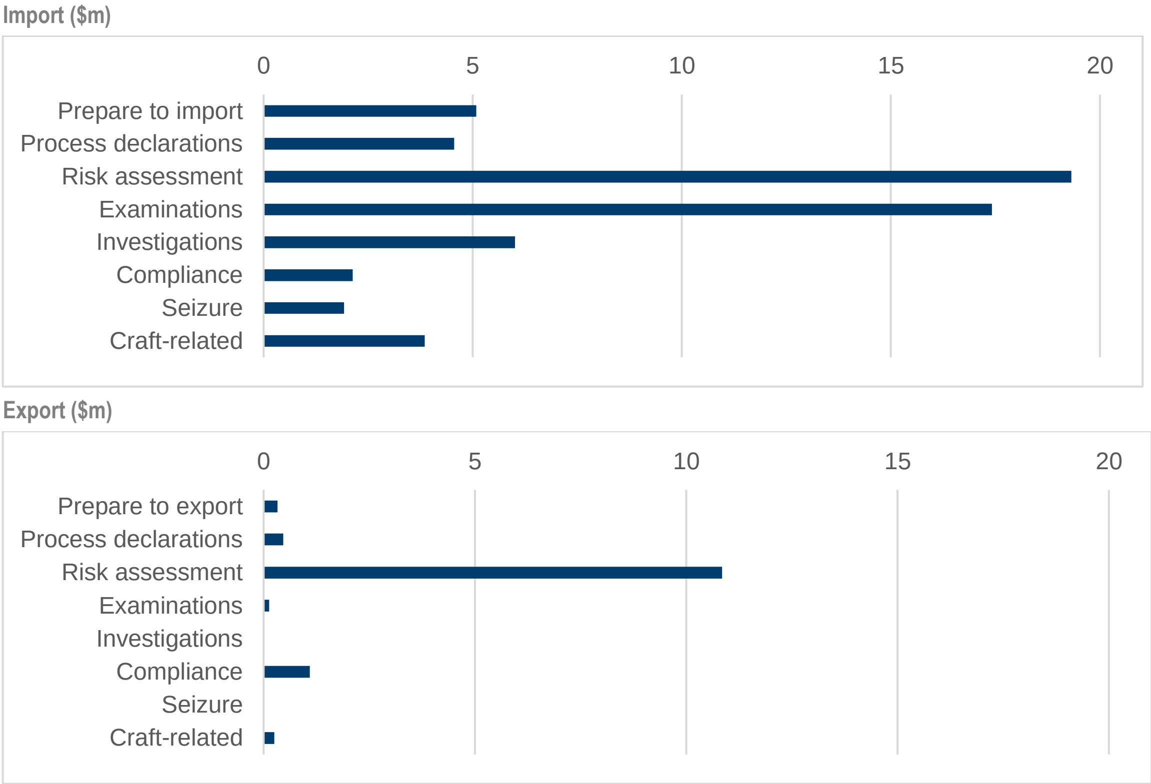
Table B1 – Cost breakdown of border protection services related to goods

Activity group	Summary of activities	Breakdown for imports	Breakdown for exports
Prepare to import or export	Process applications for a client code Process applications for Customs Rulings Liaising with industry	8%	3%
Process declarations	Process short-shipped goods Process regulated goods Process Temporary Import Entry Other declaration processing Responding to customer queries	8%	4%
Risk assessment	Analysis, targeting Electronic risk assessment Manually risk assess goods	32%	82%
Examinations	Examinations	29%	1%
Investigations	Investigations	10%	0%
Compliance	Audit of documents Manage abandoned goods Manage goods not pre-cleared	4%	8%
Seizure	Processing seized goods	3%	0%
Craft-related activities	Manually risk assess craft Maritime surveillance Check ship stores Search craft	6%	2%
Total		**100%**	**100%**

Based on budgeted costs for 2021/22.

2. The main drivers of costs for imports are risk assessment and examinations, while the main driver of costs for exports is risk assessment. This is shown in Figure B1.

Figure B1 – Breakdown of cost of border protection services related to goods



Based on budgeted costs for 2021/22.

3. Table B2 shows the actual, budgeted and forecast cost of Customs' border protection services related to goods.

Table B2 – Forecast costs of border protection services related to goods

2021/22 Actual	Costs related to:	2021/22 Actual $000	2022/23 Budget $000	2023/24 Forecast $000	2024/25 Forecast $000
Full-cost-recovery fees					
Import Entry Transaction Fee	Consignments over $1,000	35,435	37,608	39,444	41,057
Inward Cargo Transaction Fee Sea	Low-value consignments, craft	1,695	1,988	2,085	2,170
Export Entry Transaction Fee:					
• Secure Exports Scheme (SES)	SES consignments	534	551	578	602
• non-SES	Other consignments on entries	2,999	3,184	3,340	3,476
Outward Cargo Transaction Fee:					
• Outward Cargo Report Air	Processing the report	2,357	2,688	2,820	2,935
• Outward Cargo Report Sea	Processing the report	356	400	419	436
• Cargo Report Export Sea	Low-value consignments	163	171	179	187
Total for full-cost-recovery fees		**43,539**	**46,590**	**48,865**	**50,863**
Fees related to low-value air consignments					
Inward Cargo Transaction Fee Air	Low-value consignments	19,081	24,323	25,511	26,554
Outward Cargo Transaction Fee for Cargo Report Export Air	Low-value consignments	6,788	6,778	7,109	7,399
Total for fees related to low-value air consignments		**25,869**	**31,101**	**32,620**	**33,953**

4. For 2022/23, the costs are those Customs has budgeted to spend in the current financial year. The 2022/23 budgeted costs are higher than 2021/22 actual costs mainly due to increases in wage, facilities and depreciation costs.

5. To forecast costs for 2023/24 and 2024/25, Customs has assumed that:
   - the level of border protection services will be the same as in 2022/23
   - the cost of border protection services will be the same as in 2022/23, adjusted for Treasury’s (2022a) forecasts of wage and price inflation.
6. These assumptions result in forecast costs in 2023/24 and 2024/25 being higher than costs in 2022/23.

APPENDIX C: FORECAST DEFICITS AND MEMORANDUM ACCOUNT BALANCE

Forecast memorandum account balance

1. The goods memorandum account records the balance of revenue and costs related to the full-cost-recovery fees. Table C1 shows the actual, budgeted and forecast memorandum account balance for each fee.

Table C1 – Forecast memorandum account balance as at 30 June

Contribution of each goods fee to the memorandum account balance as at 30 June	2022 Actual $000	2023 Budget $000	2024 Forecast $000	2025 Forecast $000
Import Entry Transaction Fee	-72	-2,941	-6,867	-11,893
Inward Cargo Transaction Fee Sea	367	-89	-263	-142
Export Entry Transaction Fee:				
• Secure Exports Scheme	-113	-447	-794	-1,155
• Other	-725	-2,202	-3,868	-5,711
Outward Cargo Transaction Fee:				
• Outward Cargo Report – Air	-1,791	-3,974	-6,222	-8,514
• Outward Cargo Report – Sea	-173	-410	-657	-911
• Cargo Report Export – Sea	-81	-170	-255	-334
Total goods memorandum account balance as at 30 June	**-2,588**	**-10,233**	**-18,926**	**-28,660**

2. This table shows that deficits are accumulating for all fees. The accumulated deficit in the goods memorandum account is forecast to be $28.7 million by 30 June 2025.

Forecast shortfall related to low-value air consignments

3. There is a shortfall between fee revenue and the cost of border protection services related to low-value air consignments because, in 2019, Cabinet decided to set the Inward Cargo Transaction Fee Air and Outward Cargo Transaction Fee Cargo Report Export Air to partly recover costs. Table C2 shows the actual, budgeted and forecast Crown funding related to low-value air consignments.

Table C2 – Forecast shortfall related to low-value air consignments

Forecast shortfall in fee revenue related to:	2021/22 Actual $000	2022/23 Budget $000	2023/24 Forecast $000	2024/25 Forecast $000
Inward Cargo Transaction Fee Air	16,234	20,026	20,542	20,884
Outward Cargo Transaction Fee Cargo Report Export – Air	5,655	5,583	5,664	5,693
Total shortfall related to low-value air consignments	**21,889**	**25,609**	**26,206**	**26,577**

4. Customs is forecasting the shortfall between fee revenue and costs will increase, mainly because costs are increasing as discussed in Appendix B.

APPENDIX D: COMPREHENSIVE REVIEW OF GOODS FEES

Purpose of the comprehensive review

1. Customs is carrying out a comprehensive review of its goods fees. The purpose of the comprehensive review is to:
   - improve the financial sustainability of Customs' border protection services related to goods
   - address a mismatch between some fee-payers and the costs their fees are funding.

2. The comprehensive review builds on the 2019 review of goods that resulted in Cabinet deciding to set goods fees to fully recover costs (other than two fees related to low-value air consignments). The review will ask fundamental questions about who should pay what, and on what basis. The review will use Customs' cost recovery framework described in Appendix E.

The current fee structure for low-value air consignments is not financially sustainable

3. Importers and exporters of low-value consignments can choose to lodge an entry, or alternatively have their consignment cleared on a cargo report. Fee revenue for low-value consignments does not cover costs because:
   - Cabinet agreed fees for air cargo reports that would only partly recover costs
   - there is no fee for import entries for low-value consignments.

4. Customs has a fixed amount of Crown funding budgeted to cover the shortfall between fee revenue and costs. The Crown currently funds $25.6 million of the cost of border protection services for low-value air consignments (82 percent of the cost). There are fiscal risks because increases in the number of low-value consignments and Customs' cost pressures will result in a periodic need for Customs to seek additional Crown funding to cover the shortfalls between fee revenue and costs related to low-value air consignments.

The current fee structure has equity issues

5. The current fee structure has issues of equity for importers, exporters and taxpayers.

6. There are equity issues for taxpayers because importers and exporters create the need for Customs to process their goods, rather than all taxpayers. However, taxpayers fund most of the cost of processing low-value air consignments.

7. There are equity issues between individual importers and exporters of low-value consignments because the impact of the fees on individual low-value consignments depends on the document used to seek clearance. For example, for low-value imports:

- there is no fee if the low-value consignment is cleared using an Import Entry or Simplified Import Declaration
- The Inward Cargo Transaction Fee is charged if an Inward Cargo Report is used to clear low-value consignments, but the impact of the fee per consignment depends on the number of consignments being cleared. An Inward Cargo Report can be used to clear up to 9,999 low-value consignments. Table D1 illustrates how the number of low-value consignments being cleared affects the impact of the Inward Cargo Transaction Fee on those consignments.

Table D1 – Impact of goods fees on low-value consignments cleared using Inward Cargo Reports

Number of low-value consignments cleared using an Inward Cargo Report	Impact of the Inward Cargo Transaction Fee per consignment
One consignment	$77.00
481 consignments (the average per Inward Cargo Report in 2021/22)	$0.16

8. There are equity issues between importers of air consignments valued over $1,000 and importers of sea consignments valued over $1,000. Customs charges the Import Entry Transaction Fee of $33.03 (incl GST) to recover the combined cost of border protection services related to air and sea import consignments valued over $1,000. However, preliminary estimates indicate that Customs’ costs related to sea import consignments valued over $1,000 are five times Customs’ costs related to air import consignments valued over $1,000. This difference is mainly due to a greater cost of examinations of sea consignments compared to air consignments, and because the costs related to sea consignments includes Customs’ border protection costs related to cargo ships.

The fee structure could be more simple

9. There could be scope to simplify the fees. For example, Customs charges the same Inward Cargo Transaction Fee for Inward Cargo Reports that serve two different purposes:

- reports by craft operators reporting on all the cargo on their craft
- reports by freight forwarders seeking to clear low-value consignments.

A comprehensive review cannot be completed before 2025

10. The issues described above are interrelated. Options to address them will need to form an integrated package. Customs is carrying out a thorough analysis of the issues and potential options. Customs intends to consult extensively with stakeholders to explore the issues and potential options and understand the likely impacts of those options.

11. The review is unlikely to be completed before mid-2025 at the earliest because of the time needed for thorough analysis and extensive consultation. By contrast, the current consultation document discusses issues that require immediate action because of:
   - deficits accumulating in the memorandum account for full-cost-recovery fees
   - shortfalls beginning to exceed the budgeted Crown funding for border processing services related to low-value air consignments.
12. The options in this consultation document are interim measures and do not fully resolve the immediate issues. Depending on the option chosen by Cabinet, however, an interim measure could reduce the size of the issues that will remain to be considered as part of the comprehensive review.

APPENDIX E: COST RECOVERY FRAMEWORK

How Customs calculates fees

1. Customs uses an activity-based costing methodology to understand the cost of its services. This involves a multi-step process for allocating costs:
   - allocating Customs' corporate activities to the resources that use them. For example:
     - Customs prepares operational documents for frontline staff to follow when they are carrying out processes. The cost of preparing these documents become part of the resource costs that go with the frontline staff who carry out those processes.
     - The cost of providing corporate services such as payroll, training, finance, accommodation and information services becomes part of the resource costs that go with the Customs staff for whom these corporate services are provided.
   - allocating the costs associated with people to the activities they carry out, and allocating the cost of other resources (premises and equipment) to the activities that use them. For example, if a Customs officer spent (say) 50 percent of their time working with detector dogs, 50 percent of their resource costs would be allocated to detector dog activity.
   - allocating Customs' activities to the services to which they contribute. For example, if (say) 10 percent of drug detector dog activity related to examining goods in Customs Controlled Areas, 10 percent of the costs related to drug detector dog activity is allocated to the border protection services for goods.
   - distributing the cost of business sustaining activities across all services. Business sustaining activities do not directly contribute to delivering services but are necessary for Customs to operate. For example, statutory reporting is a business sustaining activity. It is an activity that all organisations are required to undertake.

2. This activity-based costing methodology enables Customs to determine the cost of its border protection services related to goods. PricewaterhouseCoopers (2019) reviewed the methodology and found it to be "comprehensive and based on sound logic and reasoning".

3. To calculate goods fees, Customs uses the forecast cost of the border protection services related to goods, the accumulated surpluses or deficits, and the forecast number of fee payments.

Customs' cost recovery framework

4. Customs' cost recovery framework guides it in deciding who should fund its services. It is based on guidelines published by the Controller and Auditor-General (2021) and The Treasury (2017). Customs' cost recovery framework has the following principles:
   - equity – Customs' services are funded by those who use them
   - efficiency – Customs delivers high service standards at a sustainable cost

- transparency – Customs provides clear and easily understood information about funding decisions, including the costs and charges
- justifiability – Customs recovers only the costs of delivering the service.

Assessing border processing services against the principles

5. In determining who should fund border processing costs in accordance with these principles, Customs considers the following questions:
   - Equity:
     - What is the purpose of the service? Are the outputs designed to deliver benefits to the users of the service or mitigate risks created by the users? What are these benefits and risks?
     - If the service is designed to deliver benefits to the users, which individuals or groups benefits directly from the service. Is the service best characterised as a private, club or public good?[6]
     - If the service is designed to mitigate risks, which individuals or groups create the need for this service?
   - **Efficiency**: is it administratively efficient to charge the individuals or group identified?
   - **Transparency**: can the costs be identified and allocated to the service?
   - **Justifiability**: are there situations where cost recovery may not be justified?

Mitigating border risks

6. Customs undertakes activities to mitigate border-related risks including: assessing the risk of travellers or goods, targeting travellers and goods of interest, examining and seizing goods, and investigating apparent illegal behaviour.
7. Both travellers and people involved in the importation and exportation of goods create a potential risk and generate the need for Customs' activities to mitigate that risk.
8. Customs has determined that, in line with its cost recovery principles, it is equitable to charge travellers, importers and exporters for the costs Customs incurs for border protection services. They are the people most directly related to these activities and are often best placed to take action to minimise the need for Customs to perform these activities.

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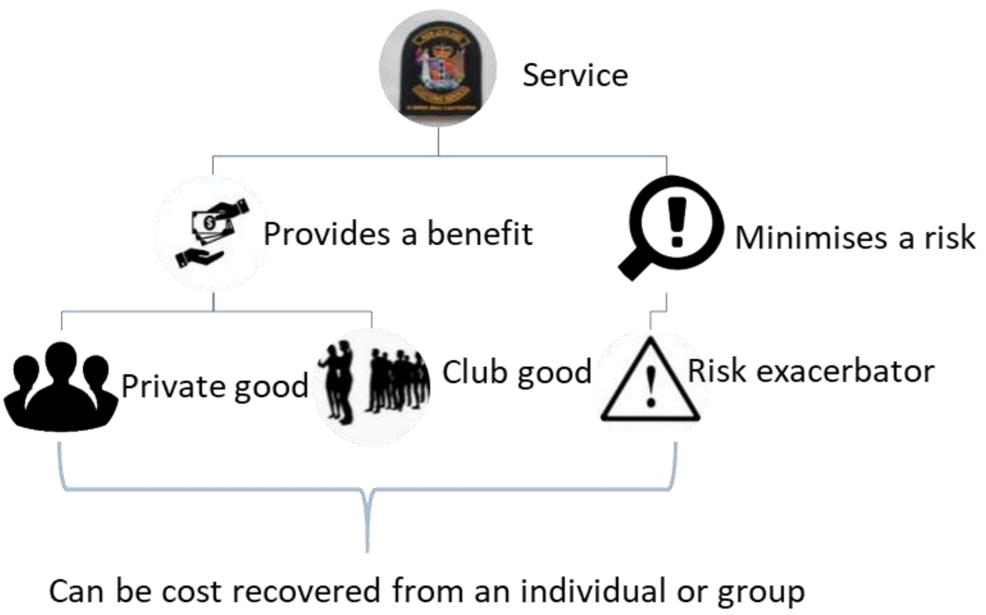
[6] A **private good** is a good or service that is used by one party and is not available to others. For example, when an importer requests Customs to carry out specialist work related to their goods outside standard working hours.
A **club good** is a good or service available only to a certain group of people, where use by one member of the group does not detract from its use by another, for example, a Mutual Recognition Arrangement between New Zealand and another country that benefits people exporting goods to that country.
A **public good** is a good or service where excluding people from its benefits is either difficult or costly, and its use by one person does not detract from its use by another, for example, Customs' border protection services benefit New Zealand as a whole by making our country safer and more secure.

9. It is difficult, or may be inappropriate, to recover from an individual traveller, importer and exporter the costs they individually create for Customs. Customs therefore recovers its costs from all travellers and importers and exporters other than specific exemptions. For example, human remains do not require an entry and therefore no goods fee is paid.

10. Figure E1 illustrates the relationship between the purpose of a service (to provide a benefit to the users or mitigate risks created by the users) the people who use the service (people receiving a private good or club good, or risk exacerbators),[7] and whether cost recovery may be appropriate. For border protection services related to goods, the purpose of the service is to mitigate the risks related to illegal goods, and importers and exporters are risk exacerbators.

Figure E1 – Process for determining if a service could be cost recovered



[7] 'Risk exacerbator' means an individual or group that creates a risk.

Other factors to take into account

11. There are specific situations where a service relates to an individual, but rather than recovering the cost from that individual it may be more appropriate to charge the group to which the individual belongs (eg to charge all importers), or for the Crown to fund that activity. These situations include:

    - where charging individual fees is inconsistent with government policy, or stands in the way of Customs achieving its wider objectives (eg charging a fee to refund overpayments of duty and negotiate international trade arrangements)
    - where the administrative cost or inefficiency in charging the individual outweighs the revenue
    - where Customs' or New Zealand's international obligations prevent charging
    - where charging would not align with the principles of natural justice (eg charging individuals for reviews of Customs' decisions relating to them, or for investigations or prosecution activities against them).

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CONSULTATION QUESTIONS

Forecasts relating to the fees

1. Do you consider that Customs' forecast of the number of documents is reasonable? If not, please explain why not. If possible, please provide the forecast numbers of documents that you consider reasonable, and the assumptions your numbers are based on.

2. Do you consider that Customs' forecasts of the cost of its border protection services related to goods are reasonable? If not, please explain why.

Options for increasing costs

3. Are there any changes you would suggest to the details of Option 2 (interim fee increases in line with the CPI)? If so, please describe the changes you would suggest, and your reason for suggesting them.

4. Are there other options Customs should consider for addressing the immediate issues described in paragraphs 42 and 43 of this consultation document?

Assessment of the options

5. What do you think about Customs' assessment of the impacts of the options on fee payers?

6. What do you think about Customs' assessment of the impacts of the options on the Crown?

7. What do you think about Customs' assessment of the options against the cost recovery principles?

8. Is there anything else Customs should consider when assessing the options? If so, please explain what should be considered and what your assessment is?

9. Which option do you prefer, and what are the reasons for your preference?

Implementation, monitoring and review

10. Are there implementation issues Customs should consider? If so, please explain.

11. What do you think about Customs' approach to monitoring and reviewing any fee adjustments agreed by Cabinet?

12. What do you think about Customs carrying out a comprehensive review of its goods fees?

Final question

13. Is there anything else that Customs should consider when providing advice to Ministers about interim options to increase the goods fees?