NEW ZEALAND
CUSTOMS SERVICE
TE MANA ĀRAI O AOTEAROA

INFLATION ADJUSTMENT TO CUSTOMS' GOODS FEE RATES

STAGE 2 COST RECOVERY IMPACT STATEMENT

May 2023

AGENCY DISCLOSURE STATEMENT

1. This Cost Recovery Impact Statement (CRIS) has been prepared by the New Zealand Customs Service (Customs). It considers the immediate financial problem that Customs is forecasting deficits in its border protection services related to goods. This problem is resulting in forecast accumulated deficits that future importers and exporters will need to fund. For low-value air consignments where the Crown partly funds the costs, the problem is resulting in forecast unfunded costs.

2. This CRIS considers the option of adjusting the goods fees in line with changes in the consumers' price index (CPI) since Cabinet agreed the fees in December 2019 (the inflation adjustment option), as an interim measure while Customs carries out a comprehensive review of the goods fee. The CRIS assesses this option against the cost recovery principles of equity, efficiency, transparency and justifiability, and assesses the potential impacts on importers, exporters and the Crown. The inflation adjustment option would mitigate – but not fully resolve – the immediate financial problem.

3. The usual approach – of setting fee rates to fully recover costs – is not feasible to implement in 2023 as it would potentially go against the equity principle of cost recovery. Customs is reviewing potential problems with the equity of the fee structure, and that review cannot be completed until mid-2025 at the earliest. Setting fee rates to fully recover costs would also require time for more detailed analysis of Customs' costs and the impacts of the fee changes, and more extensive consultation.

4. The forecast size of the deficits referred to in paragraph 1 depends on forecasts of the number of lodgements, and of wage and price inflation. This CRIS uses the forecasts that were presented in the public consultation document released on 23 March 2023. The forecast number of lodgements are more uncertain than usual because the forecast relies on historical trends, and historical trends have been affected by COVID-19 and supply chain disruptions. Customs assumed that costs would change in line with forecast wage and price inflation. Customs included the forecasts in the public consultation and submitters noted them.

5. This CRIS contains sufficient analysis to inform Cabinet when considering the inflation adjustment option to mitigate the immediate financial problem of deficits in Customs' border protection services related to goods.

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SECTION 1: EXECUTIVE SUMMARY

1. Customs provides border protection services related to imported and exported goods. These services protect New Zealand from illegal activity related to those goods. In December 2019, Cabinet agreed to fee rates to fully recover the cost of these services for most goods. For low-value air consignments,[1] Cabinet agreed to fee rates that partly recover costs, with the Crown also contributing funding.

2. This CRIS considers an immediate financial problem where Customs is forecasting operating deficits in its border protection services related to goods. The deficits arise from changes since 2019 in how people import and export goods, and forecasts of wage and price inflation affecting Customs' costs. The immediate financial problem has resulted in:
   - **for services where Cabinet had intended to fully recover costs**: a forecast accumulated deficit of $28.7 million on 30 June 2025. Allowing large deficits to accumulate is contrary to Treasury guidelines, and they will need to be recovered from importers and exporters through higher fees in the future.
   - **for services related to low-value air consignments**: a forecast $1.6 million of unfunded costs over 2023/24 and 2024/25. To maintain the current standard of border protection services, either fee revenue or Crown funding would need to increase.

3. Customs is carrying out a comprehensive review of the goods fee structure, and aims to:
   - ensure the financial sustainability of border protection services related to goods
   - explore potential equity problems – potential mismatches between importers and exporters and the costs their fees are funding
   - explore the scope to simplify the fee structure
   - ensure fee rates are updated frequently to avoid the need for large increases
   - understand issues industry might have with the fee structure, options they might suggest, and the impact of options.

4. This CRIS assesses an 'inflation adjustment option' as an interim measure while carrying out the comprehensive review. The inflation adjustment option would:
   - increase fee rates on 1 October 2023 by 17 percent, in line with inflation since Cabinet agreed the fee rates in December 2019
   - further increase fee rates on 1 July 2024 in line with inflation in the year to March 2024.

[1] "Low-value consignment" 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. 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.

5. The inflation adjustment option would preserve the policy intent of Cabinet's 2019 decisions related to the goods fees by preventing the real value of the fee rates from declining from the levels that Cabinet agreed. It will mitigate – but not fully resolve – the immediate financial problem.

6. The usual approach – of setting fee rates to fully recover costs – would not be feasible to implement in 2023. It would be difficult to make substantial changes to fee rates at the same time as reviewing potential problems with the equity of the fee structure, but the comprehensive review cannot be completed until mid-2025 at the earliest. It would also require more detailed analysis of costs and the impacts of the changes, and more extensive consultation.

7. The inflation adjustment option would result in fee rates on 1 October 2023 shown in Table 1, with a subsequent increase on 1 July 2024 in line with inflation to March 2024.

Table 1 – Fee rates under the inflation adjustment option

Name of fee (and what it is paid on)	Current fee $ incl GST	Fee[2] on 1 October 2023 $ incl GST	Change $ incl GST	Illustrative fee[3] 1 July 2024 $ incl GST
Full-cost-recovery fees				
Import Entry Transaction Fee (paid per consignment of imports valued over $1,000)	33.03	38.53	5.50	40.11
Inward Cargo Transaction Fee Sea (paid per report on all goods on the ship, and per report seeking clearance of low-value sea imports)	520.00	606.66	86.66	631.56
Export Entry Transaction Fee:				
• Secure Exports Scheme (paid per consignment of exports under the Secure Exports Scheme)	3.27	3.81	0.54	3.97
• Other (paid per consignment of other exports valued over $1,000)	6.82	7.96	1.14	8.28
Outward Cargo Transaction Fee:				
• Outward Cargo Report Air (paid per report on all goods on the aircraft)	14.35	16.74	2.39	17.43
• Outward Cargo Report Sea (paid per report on all goods on the ship)	18.58	21.68	3.10	22.57
• Cargo Report Export Sea (paid per report seeking clearance of low-value sea exports)	5.57	6.49	0.92	6.76
Fees related to low-value air consignments				
Inward Cargo Transaction Fee Air (paid per report on all goods on the aircraft, and per report seeking clearance of low-value air imports)	77.00	89.84	12.84	93.53
Outward Cargo Transaction Fee for Cargo Report Export Air (paid per report seeking clearance of low-value air exports)	40.00	46.66	6.66	48.58

[2] This CRIS states that the CPI increase between December 2019 and March 2023 was 17 percent. This figure is rounded to the nearest percent. However, to calculate the fee rates on 1 October 2023, Customs used the unrounded CPI increase of 16.6666… percent.
[3] The table shows illustrative fee rates on 1 July 2024 based on Treasury's forecast of consumers price inflation between March 2023 and March 2024 (The Treasury, 2022a). Customs will calculate the actual fee rates after Statistics New Zealand releases the CPI for March 2024.

8. The inflation adjustment option would result in:

- current importers and exporters funding a greater proportion of Customs' costs related to their goods, leaving a smaller accumulated deficit to recover from future importers and exporters after the comprehensive review is completed. The accumulated deficit is forecast to be $14.8 million under the inflation adjustment option compared to $28.7 million under the status quo.
- fully eliminating the forecast unfunded costs related to low-value air consignments, enabling Customs to continue to deliver the current standard of border protection services
- minimal impact for most importers and exporters because the fee rate changes are small compared to the value of most imported and exported consignments – fee rates would increase by less than 0.08 percent of the value of most consignments.

9. Customs publicly consulted on options during March and April 2023 and received two submissions. The New Zealand Council of Cargo Owners (representing large importers and exporters) supported the inflation adjustment option. The Customs Brokers and Freight Forwarders Federation of New Zealand Inc suggested a smaller fee rate increase than the proposed 17 percent increase. Customs assesses that a smaller fee rate increase would leave a larger accumulated deficit to recover in the future. Neither submitter suggested changes to Customs' forecasts used to estimate the size of the immediate financial problem, or to Customs' estimates of the potential impacts of the options on importers, exporters and the Crown.

SECTION 2: STATUS QUO

Description of Customs' services

10. 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.

11. 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, 2023a) found:

- if goods are reported to Customs correctly, Customs usually clears them within seconds unless it has a reason to interact with the goods
- Customs clears most imports before they arrive in New Zealand, and most exports before departure.

12. Customs' goods fees recover, or partly recover, the costs of border protection services related to imported and exported goods other than:

- low-value mail consignments imported under the Universal Postal Convention[4]
- baggage that accompanies travellers; costs related to baggage are recovered through the Border Processing Levy
- diplomatic goods.

13. Border processing services related to goods 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
- carrying out investigations of illegal activity related to goods.

14. Customs' goods fees do not recover the cost of its revenue collection or trade access services nor certain costs related to border protection services such as:

- policy advice related to border protection
- Customs' enforcement activities after deciding to prosecute
- reviews of seizure.

15. This CRIS focuses on the border protection services for goods described in paragraph 13. All subsequent references to goods, border protection services and their associated revenue and costs relate solely to the activities described in paragraph 13.

[4] The Universal Postal Union is a specialised agency of the United Nations that regulates international postal services. The Universal Postal Convention embodies the rules applicable throughout the international postal service.

Statutory authority to charge goods fees

16. 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.

17. The Customs and Excise Regulations 1996 prescribe the current goods fees. The fees relate to certain lodgements (import and export entries and inward and outward cargo reports, with certain exceptions) submitted by importers, exporters, freight forwarders and craft operators. Some fees have more than one rate. For example, the Inward Cargo Transaction Fee has separate rates for air and sea cargo.

18. Table 2 sets out the Regulation prescribing each fee and the lodgement the fee is charged on, and describes the purpose of the lodgements and the current fee.

Table 2 – Regulations prescribing goods fees

Fee	Regulation	Lodgement the fee relates to	Purpose of the lodgement	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
• Other	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

Policy decisions related to goods fees

19. Customs has collected goods fees on import entries since 2002 and on export entries and inward and outward cargo reports since 2004.

20. Customs most recently reviewed the fees in 2019. Following public consultation, Cabinet agreed on 9 December 2019 to changes to the fee rates [DEV-19-MIN-0334]:

    - for most fees, setting fee rates to fully recover costs
    - 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 – increasing fee rates but still only partly recovering costs.

21. For the full-cost-recovery fees, Customs established a memorandum account to ensure that Customs does not under-recover or over-recover its costs. The memorandum account records the balance of surpluses and deficits in providing border protection services. Memorandum accounts are usually either in surplus or deficit, but the balance should trend towards zero over the long term (The Treasury, 2017).

22. For low-value air consignments, Cabinet did not set the fees to fully recover costs because that would have required large fee rate increases, and Customs was uncertain about the impacts such increases would have on importers and exporters. In the current financial year (2022/23), fee revenue is budgeted to recover 18 percent of the cost of border protection services related to low-value air consignments, and Customs has annual Crown funding of $25.6 million budgeted to partly fund the costs.

23. The fee rates Cabinet agreed in 2019 were implemented on 1 July 2021 by the Customs and Excise Amendment Regulations 2021, after a delay due to the COVID-19 pandemic.

24. During public consultation on the fee rates in 2019, some submissions signalled the need to look at the fee structure due to the disproportionate impact of certain fees on some importers and exporters. The Cabinet paper signalled those issues and noted that officials would review the fee structure two years after the fee rate changes were implemented.

SECTION 3: FORECASTS RELATING TO SETTING GOODS FEES

25. 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.

Forecast number of lodgements and fee revenue

26. Customs collects a fee per import and export entry and inward and outward cargo report (with certain exceptions). Therefore, forecasts of the number of lodgements are used to predict the fee revenue that Customs will collect.

27. Customs has estimated the number of the lodgements 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 lodgements on which Customs charges a fee.

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

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

28. The number of lodgements 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 shows forecasts of each of the lodgements Customs charges a fee on.

29. Table 4 shows actual, budgeted and forecast fee revenue, based on the forecast number of lodgements discussed above.

Table 4 – Goods fee revenue

	2021/22 Actual[5] $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

30. Appendix A shows the forecast fee revenue by fee.

[5] Fee revenue in 2021/22 includes accounting adjustments. Therefore, changes in fee revenue between 2021/22 and 2022/23 do not necessarily mirror the change in the number of lodgements.

Forecast costs

31. 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, 2022b). Table 5 shows actual, budgeted, and forecast costs.

Table 5 – 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

32. Appendix B shows the forecast costs related to each fee.

Forecast balance

Full-cost-recovery fees

33. 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 – Balance of the goods memorandum account

	30 June 2022 Actual $000	30 June 2023 Budget $000	30 June 2024 Forecast $000	30 June 2025 Forecast $000
Memorandum account balance	-2,588	-10,233	-18,926	-28,660
Potential impact on future fee rates[6]	2%	9%	14%	19%

34. The memorandum account balance is budgeted to have an accumulated deficit of $10.2 million at 30 June 2023. The accumulated deficit is forecast to increase to $28.7 million by 30 June 2025, mainly due to forecast wage and price inflation.

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

[6] The percentage increase to fee rates that would be needed to recover the forecast accumulated deficit over three years, compared to the fee rates needed to recover ongoing operating costs.

Fees related to low-value air consignments

36. 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. Border protection services related to low-value air consignments are partly funded from these fees, and partly funded by the Crown. These services are outside the scope of the memorandum account so the annual costs must be fully funded on an annual basis.

37. Table 7 shows the actual, budget and forecast balance of cost and revenue for border protection services related to low-value air consignments.

Table 7 – Annual balance for services 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
Crown funding	21,889	25,609	25,609	25,609
Annual balance	**-**	**-**	**(597)**	**(968)**
Annual balance as a percentage of annual fee revenue	**-**	**-**	**9%**	**13%**

38. For 2021/22 and 2022/23, the Crown contributed enough funding for low-value air cargo services to avoid any unfunded costs. In 2022/23, Customs budgeted that fee revenue would be $5.5 million, and that the Crown would contribute $25.6 million. In 2023/24 and 2024/25, Customs has forecast that the Crown will continue contributing $25.6 million per year. However, Customs is forecasting that the cost of providing border protection services related to low-value air consignments will increase faster than fee revenue, resulting in $1.6 million unfunded costs. Appendix C shows these forecasts by fee.

SECTION 4: PROBLEM DEFINITION

Immediate financial problem

39. This CRIS considers the immediate financial problem that Customs is forecasting operating deficits in its border protection services related to goods. This problem has arisen because costs are forecast to increase due to wage and price inflation, and people have changed the way goods are imported and exported. For example, freight forwarders have been seeking clearance of more low-value consignments per cargo report, resulting in fewer cargo reports and less revenue from the fees charged per cargo report.

40. For services where Cabinet had intended to fully recover costs, the immediate financial problem has resulted in the forecast accumulated deficit in the memorandum account increasing from $10.2 million on 30 June 2023 to $28.7 million on 30 June 2025. This situation diverges from the Treasury guidance that memorandum accounts should trend towards balance over time (The Treasury, 2017). The implications of this situation are that:

- current importers and exporters are no longer covering the cost of mitigating the border risks posed by their goods
- future importers and exporters will need to fund the accumulated deficit left by current importers and exporters, in line with guidance from the Treasury (2017). Recovering the accumulated deficit would add an estimated 19 percent to fee rates.[7]

41. For services related to low-value air consignments, the immediate financial problem has resulted in a forecast $1.6 million of unfunded costs over 2023/24 and 2024/25. Section 8(b) of the Public Finance Act 1989 precludes Customs from spending more than its appropriations, so to maintain the current level of border protection services for low-value air cargo, Customs would need additional revenue, from either:

- higher fee rates, or
- Crown funding reallocated from other Customs' services, or
- new Crown funding.

Longer-term problems

42. Aside from this immediate financial problem, there are potential problems with the structure of the goods fees, potentially resulting in:

- risks to the financial sustainability of Customs' border protection services related to goods. Financial sustainability is necessary to ensure that Customs has sufficient funding to deliver border protection services to the level expected by New Zealanders. For example, although increases in the number of consignments creates pressures on services related to low-value air consignments, funding for those services is largely unrelated to the number of consignments.
- a potential mismatch between importers and exporters 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.

43. The previous Minister of Customs directed Customs to carry out a comprehensive review of its goods fees to explore these longer-term problems. The comprehensive review will involve detailed analysis and extensive consultation. The review cannot be completed and implemented before mid-2025 at the earliest. Appendix D has more information about the comprehensive review.

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[7] Assuming the fee rates were set on 1 July 2025 to recover the accumulated deficit as at 30 June 2025 over the following three years.

SECTION 5: OBJECTIVE, PRINCIPLES AND OPTIONS

Objective

44. The policy objective is to mitigate the immediate financial problem while preserving the policy intent of Cabinet's 2019 decisions on goods fees, as an interim measure while Customs completes the comprehensive review of good fees. This objective is intended to have the following effect:
    - for full-cost-recovery fees: reduce the forecast accumulated deficit as at 30 June 2025, to minimise the amount that Customs will need to recover from future importers and exporters when new fees are set following the comprehensive review of goods fees
    - for fees related to low-value air consignments: ensure there are no forecast unfunded costs.

Principles and assessment criteria

45. Customs uses a framework to guide its approach to recovering the cost of its services. Customs' cost recovery framework aligns with guidelines developed by the Controller and Auditor-General (2021) and The Treasury (2017).
46. 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.
47. The principle most relevant to the analysis in this CRIS is equity between current and future importers and exporters, and equity for taxpayers.

Options

48. To mitigate the immediate financial problem described in paragraph 39, this CRIS considers two options:

   - the status quo: the fee rates would not change until the end of the comprehensive review, in mid-2025 at the earliest
   - the inflation adjustment option as follows:
     - increasing the goods fee rates on 1 October 2023 by 17 percent, in line with the change in the all-groups CPI between December 2019 and March 2023
     - further increasing the goods fees on 1 July 2024 by any further change in the all-groups CPI between March 2023 and March 2024 as follows:

$$Rate\ on\ 1\ July\ 2024 = rate\ on\ 1\ October\ 2023\ \times \frac{the\ March\ 2024\ CPI}{1218\ [the\ March\ 2023\ CPI]}$$

     - Customs will calculate the fee rates to apply from 1 July 2024 after Statistics New Zealand releases the CPI figure for March 2024. To avoid setting a rate that is forecast to over-recover costs, no rate will exceed the amount that is estimated to recover the sum of the estimated costs in 2024/25 plus the estimated accumulated deficit as at 30 June 2024 related to that fee.

49. The inflation adjustment option is intended to be a simple and transparent way of mitigating the immediate financial problem without changing the real value of the goods fees ahead of the comprehensive review of goods fees.

50. The usual approach – of setting fee rates to fully recover costs – would not be feasible to implement in 2023. It would be difficult to make substantial changes to fee rates at the same time as reviewing potential problems with the equity of the fee structure. It would also require more detailed analysis of costs and the impacts of the changes, and more extensive consultation.

51. This CRIS assesses the potential impacts of the inflation adjustment option on importers, exporters and the Crown. It also assesses the inflation adjustment option – compared to the status quo – against the cost recovery principles of equity, efficiency, transparency and justifiability.

SECTION 6: IMPACTS OF THE INFLATION ADJUSTMENT OPTION

Impact on current importers and exporters

52. Under the inflation adjustment option, the fees would increase by 17 percent on 1 October 2023 in line with changes in the CPI between December 2019 and March 2023, and on 1 July 2024 in line with changes in the CPI between March 2023 and March 2024.

53. Table 8 shows the 17 percent increase in fee rates from 1 October 2023 that would occur under the inflation adjustment option and illustrates the potential increases on 1 July 2024 using Treasury's inflation forecasts (The Treasury, 2022a).[8]

Table 8 – Fees rates under the inflation adjustment option

Fee	Current fee $ incl GST	Fee from 1 October 2023 $ incl GST	Illustrative fee 1 July 2024 $ incl GST
Full-cost-recovery fees			
Import Entry Transaction Fee	33.03	38.53	40.11
Inward Cargo Transaction Fee Sea	520.00	606.66	631.56
Export Entry Transaction Fee:			
• Secure Exports Scheme	3.27	3.81	3.97
• Other	6.82	7.96	8.28
Outward Cargo Transaction Fee:			
• Outward Cargo Report Air	14.35	16.74	17.43
• Outward Cargo Report Sea	18.58	21.68	22.57
• Cargo Report Export Sea	5.57	6.49	6.76
Fees related to low-value air consignments			
Inward Cargo Transaction Fee Air	77.00	89.84	93.53
Outward Cargo Transaction Fee for Cargo Report Export Air	40.00	46.66	48.58

[8] The illustrative fees on 1 July 2024 reflect the forecast change in CPI between March 2023 and March 2024 of 4 percent.

54. Table 9 shows the combined impact that the interim fee increases on 1 October 2023 and 1 July 2024 could have on individual import and export consignments.[9]

Table 9 – Illustrative impact of fee increases per consignment cleared

	Consignment cleared	Median value of consignment $ incl GST	Average number of consignments per lodgement	Illustrative combined fee increase per consignment $ incl GST	Illustrative combined fee increase compared to the median value of the consignment
Full-cost-recovery fees					
Import Entry Transaction Fee	Import > $1,000	13,000	1	7.08	0.06%
Inward Cargo Transaction Fee Sea	Low-value sea import	135	297	0.37	0.3%
Export Entry Transaction Fee:					
• Secure Exports Scheme (SES)	SES export	180,000	1	0.70	0.0004%
• Other	Other export >= $1,000	18,000	1	1.46	0.008%
Outward Cargo Transaction Fee:					
• Cargo Report Export Sea	Low-value sea export	1,018	2	0.60	0.06%
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	0.06%

55. Most fee revenue is collected on import entries valued over $1,000. For most of these consignments, the total of the two interim fee rate increases would be less than 0.06 percent of the value of the consignment. For export entries valued over $1,000, the fee rate increases would be less than 0.008 percent of the value of the consignment.

56. Most low-value consignments are imported and exported by air cargo. For most low-value air imports, the fee rate would increase by less than 0.08 percent of the value of the consignment. For most low-value exports, the fee rate would increase by less than 0.06 percent of the value of the consignment.

[9] The Outward Cargo Transaction Fee for Outward Cargo Reports is not shown in Table 9 because Outward Cargo Reports are not used to clear consignments.

Impact on future importers and exporters

57. Under both the status quo and the inflation adjustment option, fee revenue is forecast to be insufficient to recover forecast costs, with deficits accumulating in the memorandum account. Table 10 shows the forecast memorandum account balances.

Table 10 – Memorandum account balance under the status quo and the inflation adjustment option

	30 June 2022 Actual $000	30 June 2023 Budget $000	30 June 2024 Forecast $000	30 June 2025 Forecast $000
Memorandum account balance under the status quo	-2,588	-10,233	-18,926	-28,660
- Potential impact on future fee rates[10]	2%	9%	14%	19%
Memorandum account balance under the inflation adjustment option	-2,588	-10,233	-13,905	-14,814
- Potential impact on future fee rates	2%	9%	10%	10%
Impact of inflation adjustment option compared to the status quo	**-**	**-**	**+5,021**	**+13,846**

58. Under the status quo, Customs would need to recover the forecast accumulated deficit of $28.7 million at 30 June 2025 from future importers and exporters, in line with Treasury guidelines (The Treasury, 2017). Recovering this accumulated deficit would add an estimated 19 percent to fee rates.

59. The fee rates set after the comprehensive review would be lower under the inflation adjustment option than under the status quo because the accumulated deficit would be smaller. The accumulated deficit would be $14.8 million under the inflation adjustment option. Recovering this accumulated deficit would add an estimated 10 percent to fee rates.

[10] The percentage increase to fee rates that would be needed to recover the forecast accumulated deficit over three years, compared to the fee rates needed to recover ongoing operating costs.

Impact of the inflation adjustment option on the Crown

60. For border protection services related to low-value air consignments, there are unfunded costs under the status quo. Under the inflation adjustment option, fee revenue would be higher than under the status quo, and the costs would no longer be unfunded. Table 11 summarises this impact.

Table 11 – Unfunded costs related to low-value air consignments

Option	Unfunded costs related to low-value air consignments 2021/22 Actual $000	2022/23 Budget $000	2023/24 Forecast $000	2024/25 Forecast $000
Status quo	-	-	597	968
Inflation adjustment option	-	-	-	-

SECTION 7: ASSESSMENT AGAINST THE COST RECOVERY PRINCIPLES

Equity related to the full-cost-recovery fees

61. Under both the status quo and the inflation adjustment option, 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 importers and exporters because the deficits relate to current imports and exports, but future importers and exporters will be expected to fund them. The inflation adjustment option would involve less inequity because the inflation adjustment option is forecast to have smaller accumulated deficits than the status quo, as shown in Table 10.

Equity related to low-value air consignments

62. Fees related to low-value air consignments were set to partly recover costs. Customs has $25.6 million annual Crown funding budgeted to partly fund the border protection services related to low-value air consignments. 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. Equity issues related to using Crown funding for services related to low-value air consignments will be explored in the comprehensive review of goods fees, as discussed in Appendix D.

63. Under the status quo, costs of border protection services related to low-value air cargo are forecast to exceed revenue, resulting in unfunded costs in 2023/24 and 2024/25. This creates a risk that Crown funding would need to increase to maintain the current standard of border protection services. Any increase in Crown funding would exacerbate the existing inequity for taxpayers. This risk is resolved under the inflation adjustment option because the increased forecast fee revenue would be sufficient to cover the forecast unfunded costs.

The inflation adjustment option does not affect the other cost recovery principles

64. The inflation adjustment option does not materially affect the efficiency implications of charging fees. In particular, Customs assesses that the interim proposal would not materially affect the behaviour of importers or exporters. For most consignments, the change in fee rates under the inflation adjustment option would be less than 0.08 percent of the value of the consignment. Moreover, the fee rate increases are in line with inflation and prevent the real value of the fee rates from declining from the levels that Cabinet agreed in 2019.

65. The inflation adjustment option would not impact the transparency or justifiability of the fees because the inflation adjustment option affects fee rates and not the structure of the fees.

SECTION 8: CONSULTATION

Public consultation process

66. Customs released the consultation document, 'Options for making interim increases to Customs' goods fees', on 23 March 2023 and invited submissions by 18 April 2023 (Customs, 2023b). The consultation document set out, and sought feedback on:
    - forecasts related to the immediate financial problem, in particular forecasts of the number of lodgements and of Customs' costs
    - options for mitigating the problem:
        - the status quo
        - the inflation adjustment option (described in paragraph 48 above)
    - potential impacts of options
    - an implementation plan.

67. Customs informed stakeholders about the consultation by:
    - publishing the consultation document on Customs' website
    - publishing an 'Important notice' on Customs' website, and including an item in 'Customs Release', Customs' weekly newsletter sent to 1,900 subscribers
    - emailing industry associations and networks whose members are involved in importing and exporting, including:
        - New Zealand Council of Cargo Owners, representing large importers and exporters
        - ExportNZ, representing New Zealand exporters
        - Te Taumata, a network for Māori on trade between New Zealand and the rest of the world

- Customs Brokers and Freight Forwarders Federation of New Zealand Inc, representing customs brokers, freight forwarders and others who help importers and exporters to ship their goods
- Conference of Asia Pacific Express Carriers, representing large courier companies, who deliver goods for importers and exporters
- Board of Airline Representatives of New Zealand Inc, representing airlines that carry international air cargo as well as passengers.

68. Customs invited these industry associations to meetings to brief them on the inflation adjustment option and answer questions of clarification to help them to prepare their submissions. Customs held meetings on 3 April 2023 and 13 April 2023 with:
    - New Zealand Council of Cargo Owners
    - Customs Brokers and Freight Forwarders Federation of New Zealand (CBAFF)
    - Conference of Asia Pacific Express Carriers.

The submissions

69. Customs received two submissions, from:
    - New Zealand Council of Cargo Owners, whose members include many of New Zealand's largest importers and exporters
    - CBAFF, whose members include customs brokers, freight forwarders and others who help importers and exporters to ship their goods. CBAFF members ultimately pass any Customs fees on to importers and exporters.

70. Both submitters acknowledged the context for the immediate financial problem provided by the forecasts of lodgements, fee revenue and costs and the estimated impact of the options on importers, exporters and the Crown. Neither submitter suggested changes to those forecasts or the estimated impact of the options.

71. The New Zealand Council of Cargo Owners supported the inflation adjustment option. The Council noted that the consultation document and the consultation meeting provided useful context that informed their submission.

72. CBAFF noted that inflation may have affected Customs' costs but said that increasing fee rates by 17 percent (in line with CPI since Cabinet agreed the fees in 2019) was too great and would be unpalatable to importers and exporters. CBAFF suggested smaller increases in line with the current year's inflation only.

73. Customs assesses that CBAFF's suggestion would result in a greater accumulated deficit than the inflation adjustment option, with current importers and exporters passing on more of their costs to future importers and exporters. It would also result in unfunded costs in the processing of low-value air consignments, creating a fiscal risk. To avoid the need for large increases to fee rates in the future, the comprehensive review of goods fees will consider options for ensuring fee rates are updated frequently.

Consultation with other government agencies

74. The Treasury, Ministry of Transport, Te Puni Kōkiri, the Ministry for Primary Industries, the Ministry of Business, Innovation and Employment and the Ministry of Foreign Affairs and Trade were consulted. The Department of Prime Minster and Cabinet was informed.

SECTION 9: IMPLEMENTATION

75. If Cabinet decides to increase goods fees in line with inflation, the increases would be implemented by amending the fee rates prescribed in Regulations in two steps:
    - amendments with effect from 1 October 2023
    - further amendments with effect from 1 July 2024.

76. The fee rates to take effect from 1 October 2023 are shown in Table 1 and reflect the change in the CPI between December 2019 and March 2023.

77. If Cabinet agrees to the methodology for increasing fee rates on 1 July 2024, Customs will calculate the fee rates after Statistics New Zealand releases the CPI for March 2024, and Cabinet Legislation Committee would consider amendment regulations prescribing those new fee rates. The Committee would have the discretion to approve or decline the rate increase. This proposed implementation process is analogous to the process for annual tobacco and alcohol excise rate indexation.

78. The consultation document set out the implementation process and submitters did not signal any difficulties with it. Customs will inform industry of the proposed fee rates after Statistics New Zealand releases the CPI for March 2024 so they can prepare their systems for the rate changes. Customs would update its invoicing and computer systems to collect the fees at the new rates, and industry would likewise update their systems to pay the fees at the new rates.

SECTION 10: MONITORING AND REVIEWING THE FEES

79. Customs monitors the goods fees on an ongoing basis and reports annually on the performance of the goods fees. Customs recently released its report on the performance of the goods fees for the year ended 30 June 2022 (Customs and the Ministry for Primary Industries, 2023).

SECTION 11: CONCLUSION

80. This CRIS has considered an “inflation adjustment option” for mitigating an immediate financial problem – where border protection services related to goods are forecast to have operating deficits. The inflation adjustment option involves increasing fee rates in line with changes in the CPI since Cabinet agreed the fee rates in December 2019.

81. Table 12 summarises Customs’ assessment of the inflation adjustment option.

Table 12 – Assessment of the inflation adjustment option

Cost recovery principles	Inflation adjustment option compared to the status quo
For full-cost-recovery fees	
• Equity between current and future importers and exporters	Better equity
• Equity for taxpayers	No impact
For fees related to low-value consignments	
• Equity between current and future importers and exporters	No impact
• Equity for taxpayers	Better equity
For all fees	
Efficiency	No material impact
Transparency	No impact
Justifiability	No impact

82. Customs assesses the inflation adjustment option to be superior to the status quo. The inflation adjustment option would result in:
   - **for fees Cabinet intended to fully recover costs**: better equity for future importers and exporters because current importers and exporters would pay a greater share of their costs, leaving smaller deficits for future importers and exporters to fund
   - **for fees related to low-value air consignments**: better equity for taxpayers because it avoids unfunded costs and the risk of needing more Crown funding to maintain the current level of border protection services.

83. For most consignments, the inflation adjustment option would involve fee changes of less than 0.08 percent of the value of the consignment.

84. The New Zealand Council of Cargo Owners (representing large importers and exporters) supported the inflation adjustment option, while Customs Brokers and Freight Forwarders Federation of New Zealand Inc (whose members help importers and exporters to ship their goods) considered the increases would be unpalatable for importers and exporters.

APPENDIX A: FORECAST NUMBER OF LODGEMENTS AND FEE REVENUE

Forecast number of lodgements

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 the lodgements Customs charges fees on.

Table A1 – Number of lodgements on which Customs charges fees

Type of lodgement	Number of lodgements (in thousands)			
	2021/22 Actual	2022/23 Budget	2023/24 Forecast	2024/25 Forecast
Lodgements Customs charges full-cost-recovery fees on				
Import entries > $1,000	1,217	1,210	1,237	1,255
Inward Cargo Report sea	3	3	4	5
Export entry Secure Exports Scheme	75	76	81	85
Export entry Other	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
Lodgements on Customs charges fees related to low-value air consignments				
Inward Cargo Report air	41	64	74	85
Cargo Report Export air	32	34	42	49

2. In September 2022, the Border Executive Board (BEB)[11] approved a moderate scenario for the number of 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 scenario 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.

[11] 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 has only partly recovered. Customs has assumed that the number of cargo reports will gradually return to pre-COVID-19 levels.

4. It is more difficult than usual to forecast the number of lodgements because the forecasts rely on historical trends, and historical trends were affected by the COVID-19 pandemic and supply chain disruptions. The forecasts are described further in a performance report on goods fees and levies (Customs and the Ministry for Primary Industries, 2023).

Forecast fee revenue

5. Customs charges fees on the lodgement shown in Table A2.

Table A2 – Lodgements and related fees

Fee name	Lodgement	Fee rate $ 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
• Other	Export entry Other	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 lodgements.

Table A3 – Fee revenue

Fee name	Fee revenue			
	2021/22 Actual[12] $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	421	217	231	241
• Other	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**

[12] Fee revenue in 2021/22 includes accounting adjustments. Therefore, changes in fee revenue between 2021/22 and 2022/23 do not necessarily mirror the change in the number of lodgements.

7. Overall, fee revenue is forecast to increase between 2022/23 and 2024/25. However, fee revenue in 2021/22 was less than was forecast in 2019 when Cabinet agreed the fees rates, as shown in Table A4:

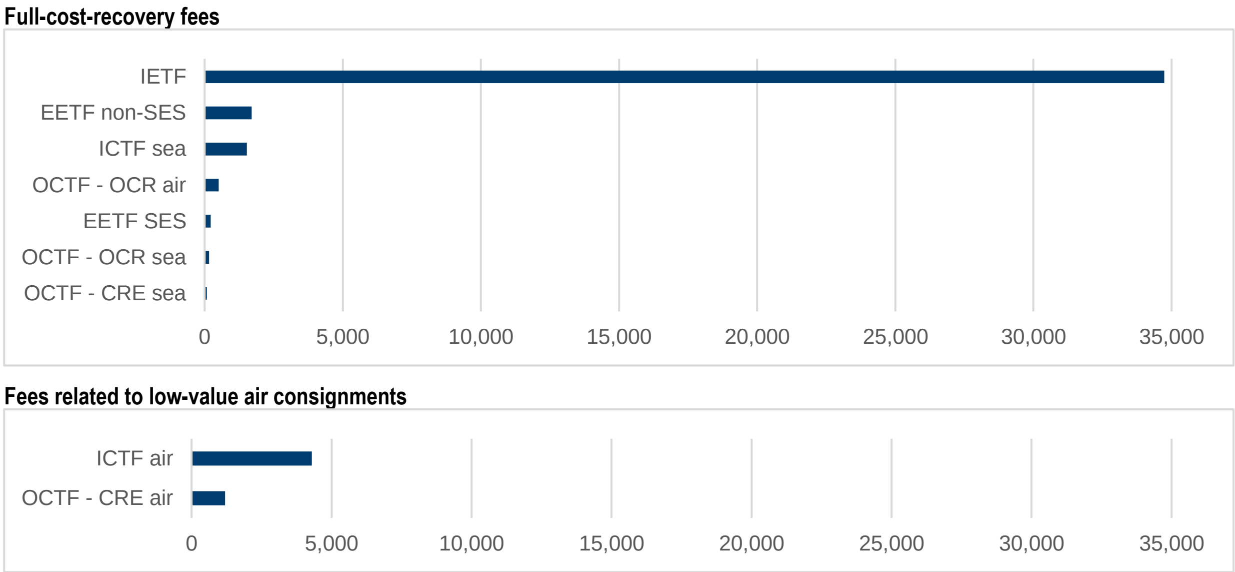
- For full-cost-recovery fees, fee revenue in 2021/22 was 8 percent less than forecast.
- For low-value air consignments, fee revenue in 2021/22 was 55 percent less than forecast because the number of air cargo reports was less than forecast. One reason for this is that freight forwarders have been seeking clearance of more low-value consignments per cargo report, on average.

Table A4 – Comparison of forecast and actual fee revenue in 2021/22

	2019 forecast $000	Actual $000	Variance $000	Variance percent
Revenue from full-cost-recovery fees	44,732	40,951	-3,781	-8%
Revenue from fees related to low-value air consignments	8,837	3,980	-4,857	-55%

8. 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.

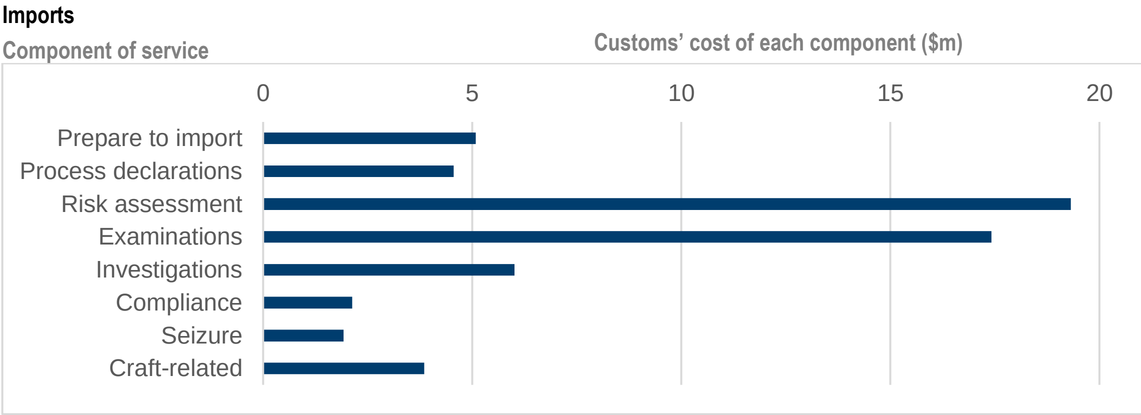
Table B1 – Cost breakdown of border protection services related to goods, as budgeted for 2021/22

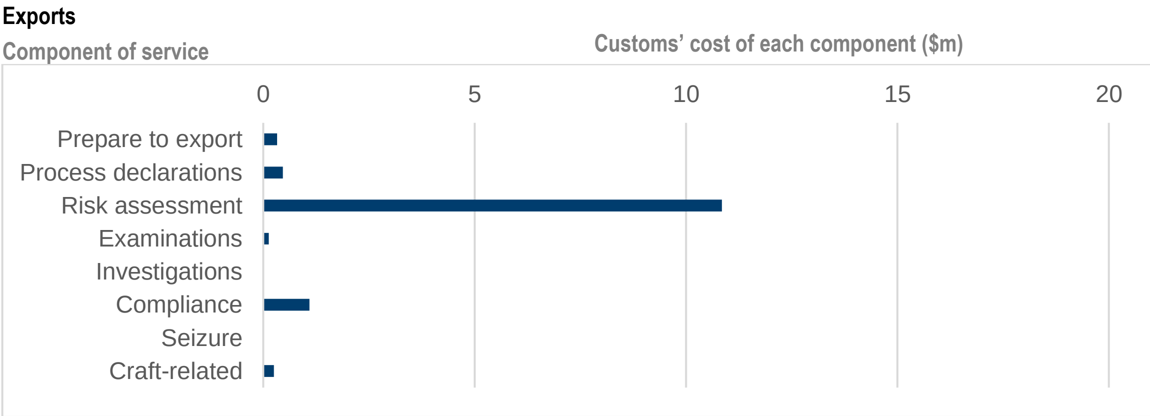
Activity group	Summary of activities	Breakdown for imports	Breakdown for exports
Prepare to import or export	Process applications for a client code Process applications for Customs Rulings Liaising with industry	8%	3%
Process declarations	Process short-shipped goods[13] Process regulated goods Process 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 lodgements 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%**

[13] "Short-shipped goods" means, "… goods that were manifested for shipment to a port or airport in New Zealand but which were not shipped, the fact of which is certified by the owner of the craft or its authorised agent." (New Zealand Customs Service, 2022).

2. The main costs of Customs border protection services related to imports are for risk assessment and examinations, while the main cost of border protection services related to exports is risk assessment. This is shown in Figure B1.

Figure B1 – Breakdown of 2021/22 budgeted cost of border protection services related to goods





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

Table B2 – Costs of border protection services related to goods

Fee name	What the costs relate to	Cost			
		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
• Other	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. 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 (2022b) 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 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 – Memorandum account balance

Fee name	Memorandum account balance related to each fee			
	30 June 2022 Actual $000	30 June 2023 Budget $000	30 June 2024 Forecast $000	30 June 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	**-2,588**	**-10,233**	**-18,926**	**-28,660**
Potential impact on future fee rates[14]	**2%**	**9%**	**14%**	**19%**

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.

[14] The percentage increase to fee rates that would be needed to recover the forecast accumulated deficit over three years, compared to the fee rates needed to recover ongoing operating costs.

Forecast annual balance related to low-value air consignments

3. 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 related to low-value air consignments, with the Crown funding part of the cost. Table C2 shows the actual, budgeted and forecast costs and revenue related to low-value air consignments.

Table C2 – Annual balance related to low-value air consignments

	Annual balance			
	2021/22 Actual $000	2022/23 Budget $000	2023/24 Forecast $000	2024/25 Forecast $000
Inward Cargo Transaction Fee Air				
Cost	19,081	24,323	25,511	26,554
Fee revenue	2,847	4,297	4,969	5,670
Crown funding	16,234	20,026	20,026	20,026
Annual balance	**-**	**-**	**-516**	**-858**
Outward Cargo Transaction Fee Cargo Report Export – Air				
Cost	6,788	6,778	7,109	7,399
Fee revenue	1,133	1,195	1,445	1,706
Crown funding	5,655	5,583	5,583	5,583
Annual balance	**-**	**-**	**-81**	**-110**
Combined annual balance for fees related to low-value air consignments	**-**	**-**	**-597**	**-968**
Unfunded costs as a percentage of annual fee revenue	**-**	**-**	**9%**	**13%**

4. Customs is forecasting $1.6 million of unfunded costs over 2023/24 and 2023/25, driven by the impact of forecast inflation on costs as discussed in Appendix B.

APPENDIX D: COMPREHENSIVE REVIEW OF GOODS FEES

1. The previous Minister of Customs directed Customs to carry out a comprehensive review of its goods fees to explore potential problems with the structure of the fees.

Purpose of the comprehensive review

2. The purpose of the comprehensive review is to:
    - ensure the financial sustainability of Customs' border protection services related to goods
    - explore, and if necessary address, a potential mismatch between importers and exporters and the costs their fees are funding
    - explore the scope to simplify the fee structure
    - consider options for ensuring fee rates are updated regularly to avoid the need for large increases
    - consult with industry to understand issues they might have with the current fee structure and options they might suggest, and to understand the impact of options.

3. 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). During public consultation on the fee rates in 2019, some submissions signalled the need to look at the fee structure due to the disproportionate impact of certain fees on some importers and exporters. The Cabinet paper signalled those issues and noted that officials would review the fee structure two years after the fee rate changes were implemented.

4. The comprehensive review will ask fundamental questions about who should pay what, and on what basis. The review will use Customs' cost recovery framework referred to in paragraph 45 of this CRIS.

A comprehensive review cannot be completed before 2025

5. The problems with the current fee structure are interrelated. Options to address them will need to form an integrated package. Customs is carrying out a thorough analysis of the problems and potential options. Customs intends to consult extensively with stakeholders to explore the problems and potential options and understand the likely impacts of those options. In submissions, both the New Zealand Council of Cargo Owners (representing large importers and exporters) and the Customs Brokers and Freight Forwarders Federation of New Zealand signalled their interest in the comprehensive review.

6. The review cannot be completed and implemented before mid-2025 at the earliest because of the time needed for thorough analysis and extensive consultation.

7. The inflation adjustment option considered in this CRIS does not fully resolve the immediate financial problem described in paragraph 39 of this CRIS. However, it would reduce the size of the problems that will remain to be considered as part of the comprehensive review.

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