

BRIEFING FOR THE INCOMING MINISTER OF CUSTOMS

December 2011



NEW ZEALAND
CUSTOMS SERVICE
TE MANA ĀRAI O AOTEAROA

PROTECTING NEW ZEALAND'S BORDER

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Snapshot - the New Zealand Customs Service

- Customs uses a risk-based integrated approach to manage goods, people and craft across the border to deliver our core functions of facilitation, protection and revenue collection.
- Our engagement in trade and travel supply chains is critical for New Zealand's economic growth, integration with other countries and security of our border.
- The 'global village' is changing the nature of the border requiring more interaction with traders and travellers¹ prior to arrival and more engagement with our international customs and enforcement counterparts.
- The volume of transactions, the diversity of goods, people, craft and types of revenue, the complexity of trade and travel supply chains, and the expectations of faster and smoother processing have all significantly increased.
- Intelligence, technology, risk assessment and voluntary compliance underpin our ability to manage the flow of increasing volumes by minimising our interaction with low-risk goods, people and craft.
- Cross-agency and international engagement, technology and intelligence are essential to our ability to identify and manage risks and respond effectively to the increasing sophistication and complexity of transnational organised crime.
- The skills and expertise required of our staff will need to change in the future to maximise the value from the investment in our new technology.
- The nature and breadth of Customs' role and our distinctive competencies means we must continue to demonstrate leadership in border management.
- Border agencies agree there is a real opportunity to work on joint initiatives to generate value and support New Zealand's economic growth.

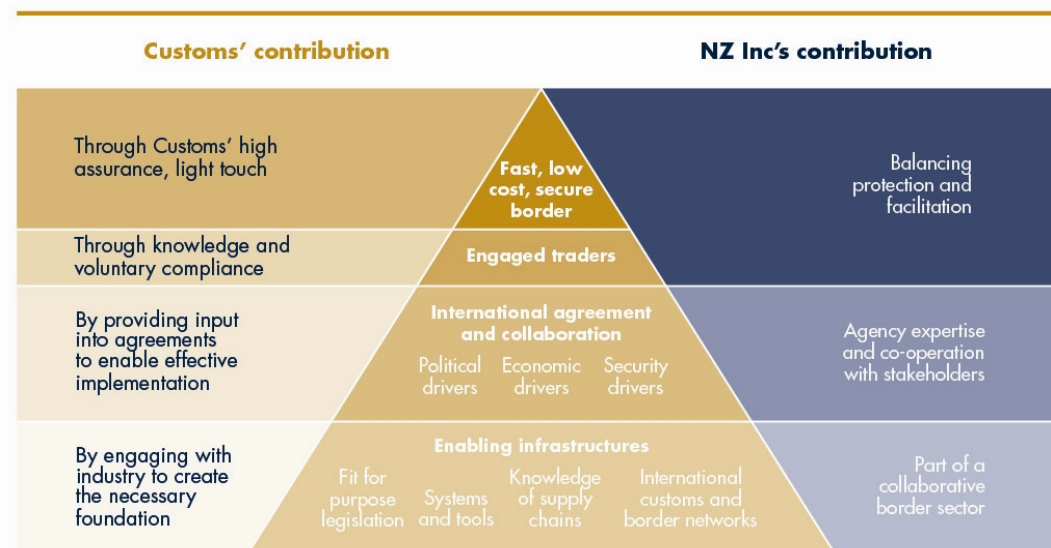
 TRADE	\$80 billion of trade cross NZ's border; growth has doubled since 2003	6-8 million import and export transactions in 2011/12	\$10.7 billion of Crown revenue will be collected in 2011/12	\$80 million duty saved on NZ's exports to China after FTA in 2010
 TRAVEL	10.5 million travellers will cross the border in 2011/12	133,000 Rugby World Cup players and visitors processed in 4 months	SmartGate is regularly being used by over 50% of eligible passengers	In 2010/11 25% of all passengers self-processed through SmartGate
 RISKS	700kg of precursors seized in 2010/11 avoiding \$80 million of potential harm	Mean per gram price of 'P' rose between 2006-2010 due to reduced supply	In 2010/11, 135,000 intellectual property interceptions; 2300+ border protection notices	In 2010/11 67% of serious investigation cases went to Court
 REPUTATION	In 2010, 84% of commercial clients found it very easy or easy to comply	86% of commercial stakeholders trusted Customs	81% of travelling public found information provided aided compliance	82% of travelling public trusted Customs

Source: Customs and Border Sector Secretariat documents

¹ 'Travellers' refers to both passengers and crew in the airline, cruise ship and small craft environment. 'Passengers' refers to members of the public and will include any non-working crew travelling.

Contributing to New Zealand's economic growth

The New Zealand Customs Service (Customs), as both a policy and operational lead at the border, plays an important role in supporting New Zealand's economic growth goals. The diagram below shows how Customs contributes by providing a robust infrastructure that supports traders and NZ Inc to achieve economic growth.



Trade

Recent studies have confirmed that there are strong economic benefits from efficient facilitation of trade and travel at the border.² Customs will contribute significantly to New Zealand's future economic growth through efficient facilitation of increased trade and travel volumes through the implementation of new technologies.

Over the next ten years, the implementation of the Joint Border Management-Trade Single Window system (JBMS-TSW)³ is expected to produce benefits worth \$526 million to the Government and \$191 million to industry.

Customs' international work, through supporting free trade agreements and other trade arrangements, is also a critical contributor to New Zealand's export growth. The New Zealand-China Free Trade Agreement, for example, has led to a 30 percent growth in New Zealand's exports to China in the last year.

Customs' policy work and relationship with China Customs has strongly supported this growth in trade. Customs' arrangements with the United States and Japan have also provided specific benefits to New Zealand exports, enabling members of our Secure Exports Scheme to receive streamlined border processing of their exports to those countries.

Travel

Efficient facilitation of travellers is a key element to New Zealand's economic growth – for both tourism and for business. Our role in processing 133,000 visitors (players

²Conducted by the Organisation for Economic Cooperation and Development, World Bank and Asia-Pacific Economic Cooperation.

³JBMS-TSW and the Secure Exports Scheme are explained later in this document and included in Annex 3: Glossary.

and supporters) for the Rugby World Cup demonstrates our capability in assisting NZ Inc with events of this nature.

Streamlining the process via smarter information collection and use of technology, such as SmartGate,⁴ is essential to manage the forecast growth in passenger numbers to 11 million by 2015 and offer a competitive advantage to business. A more intelligence-driven approach to passenger risk assessment is essential to improve facilitation and minimise unnecessary intervention with arriving passengers at the border. The implementation of JBMS will bring together a range of information and data to enable risk assessment to begin before the passenger has even departed for NZ.

Trans-Tasman travel, which accounts for most passengers, provides a safe test bed for initiatives due to the close relationship between the two countries. The initiatives can then be expanded to other growing tourism markets, eg Asia-Pacific and also to other markets as appropriate.

Border security and community protection

Criminal activity is becoming more complex and sophisticated, and there is an increasingly diverse range of external risks to New Zealand communities emerging at the border. Customs' current priorities are to increase the disruption of the criminal networks associated with illicit drugs, people smuggling and other serious risks to New Zealand.

The New Zealand Drug Harm index estimates that in 2010/2011, the potential harm avoided to this country by Customs' interception of methamphetamine precursors equated to as much as \$80 million. Customs plays a critical role in the Government's Methamphetamine Action Plan and actively works with other agencies to protect our border.

Enforcing intellectual property rights at the border contributes to economic growth by protecting the investment of our own manufacturers and as part of our global collaborative efforts with other markets.

Customs intelligence and risk management approach are essential tools to ensure border protection is efficient and effective. Our investment in JBMS-TSW, new surveillance technologies, and more effective co-ordination of our operational activity through the Integrated Targeting and Operations Centre will better enable us to respond to future risks.

Revenue collection

Customs collects more than \$10 billion in revenue for the Crown each financial year. This accounts for at least 15 percent of the Government's revenue and provides important source of funding for the Government to meet its goals for New Zealanders. Customs focuses upon efficient and effective revenue collection by promoting voluntary compliance and working effectively with industry.

⁴ SmartGate and the Integrated Targeting and Operations Centre are expanded on elsewhere in this document and are also in the glossary (Annex 3).

Customs' priorities for 2011/12

Priority Area	What Customs is seeking to achieve	Key Focus for 2011/12
Joint Border Management System – Trade Single Window (JBMS-TSW)	A collection of shared services to support clearance of goods, people and craft, and a single electronic point of entry.	<ul style="list-style-type: none"> Continue to implement Tranche 1 of JBMS and the TSW. Implement risk management and intelligence capabilities. Deliver the agreed policy and legislative work programme for JBMS-TSW.
Trade	Streamline and simplify trade facilitation, and promote secure and efficient trade, particularly with Australia and China.	<ul style="list-style-type: none"> Promote secure and efficient international supply chains. Progress New Zealand's FTA agenda and implement completed agreements. Develop and implement initiatives to support New Zealand Inc strategies in major markets.
Travel	Implement efficient, secure and streamlined passenger facilitation.	<ul style="list-style-type: none"> Investigate and develop initiatives for efficient and secure trans-Tasman and Asia-Pacific travel. Increase the uptake of SmartGate and implement the additional capacity before the Rugby World Cup.
Protection	Increase disruption of supply and dismantle criminal networks, for illicit drugs and people smuggling, while maintaining responsiveness as risks change.	<ul style="list-style-type: none"> Deliver action plans for disrupting precursors in main source countries. Contribute to multi-agency action plan to strengthen NZ's resistance to organized crime. Implement the digitally enabled systems project to support investigations. Strengthen the policy and legislative setting for drug and organized crime enforcement. Combat people smuggling by participating in multi-agency preparedness exercises.

2011/12 Investment Deliverables, Benefits and Challenges

Key investment deliverables & benefits

The priority work programme includes delivering on the previous Government's significant investments in 2011/12:

- \$44m for Tranche 1 of the JBMS-TSW project (this is part of \$75.9m total for Tranche 1 from Budget 2010 over four years), with benefits of an estimated:
 - \$526 million over 10 years for Government
 - \$191 million over 10 years for industry through single entry processing
- \$4.4m for more SmartGate kiosks and gates (completed August 2011), with benefits of:
 - managing increasing passenger numbers within existing resources
- \$2.4m for digitally enabled systems (of a total \$5.9 million; completion due mid-2012), with benefits of:
 - Contributing to Government and Customs' strategic goal of breaking down organised crime and drug offending, while improving staff safety and resource efficiency.

Key challenges

- Implementing the JBMS-TSW to budget and on time, while managing:
 - risks to business as usual as a result of the demand for expertise from across Customs to ensure JBMS supports operations
 - dynamics of working in partnership with another agency
- Implementing the digitally enabled systems to budget and on time while maintaining business as usual operations.
- Managing the transition towards a more technologically capable organisation that is able to deliver on the benefits upon which these investments were predicated.

Challenges and opportunities

Our core business is maintaining a secure, compliant and competitive border, while facilitating goods, people and craft, enforcing the law, and collecting revenue due.

The global and national environments create a number of challenges and opportunities that Customs must respond to.

Challenges

Responsive nature of our service

Customs has to provide its services in response to the decisions of traders and travellers, and the competitive moves of carriers, air and sea ports, brokers, etc. We must also respond to unforeseen changes in trade and travel patterns such as the affects of the Christchurch earthquakes and South American volcanic ash.

Security and protection demands are also increasing as a result of changes in the profile of New Zealand's trade and travel with more high risk countries. Customs' *Strategic Outlook to 2017* forecasts the following changes for New Zealand's exports and imports that must be managed:

	Export growth	Import growth
2011	1.8%	10.2%
2012	3.2%	7.5%
2013	2.8%	4.9%

Source: NZ Customs Service. Strategic Outlook to 2017

* Projected

Our business model of automation, centralised intelligence gathering and analysis, coordinated operations and targeted interventions provides the required flexibility to manage changing demands, particularly at short notice. Other mechanisms, such as the proposed cost-recovery for new and restart airports⁵ will help manage the cost implications of business decisions, and Customs' Integrated Targeting and Operations Centre (ITOC) ensures a prompt and coordinated operational response to identified risks.

Increasing and more complex risks

The growth in service demand has a flow-on impact in Customs' frontline operations, such as resource levels, risk assessment, profiling and targeting areas, cargo inspections and travellers questioning and searches at airports and seaports.

For example, trade and travel growth present risks associated with:

- integrity and accuracy of documentation
- concealment in bulk cargo
- intentional and unintentional concealment of restricted and biosecurity-risk items in travellers' baggage.

Criminal activity is also becoming more global, complex and diverse as organised transnational criminal networks endeavour to establish operations in New Zealand.

⁵ Airports (Cost Recovery for Processing of International Travellers) Bill 2010, which is the responsibility of the Ministry of Agriculture and Forestry.

The priority risk areas for Customs are:

- illicit drug smuggling (particularly methamphetamine and its precursors)
- people smuggling
- objectionable publications
- weapons
- cash smuggling
- risks associated with major international events
- revenue leakage.

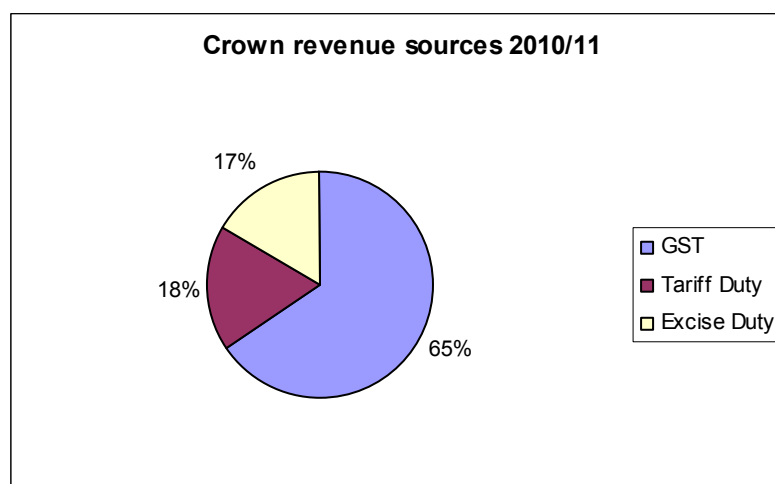
We are increasingly required to handle emerging risks at the border, such as new types of drugs.

Managing Crown and Customs revenue in changing economic environments

Crown revenue (GST, tariff duty, excise duty) is set by Treasury based on Customs' trade data. Customs revenue (or third party revenue) is from cost-recovery for Customs' services for the clearance of imports and exports. Customs also collects levies on behalf of other agencies, eg a levy on alcohol content of manufactured goods and imported goods under the Alcoholic Liquor Advisory Council Act 1976.

Crown revenue

Customs role in managing Crown revenue is to collect due revenue for the Crown as shown in the graph below. The bulk of Crown revenue comes from GST.

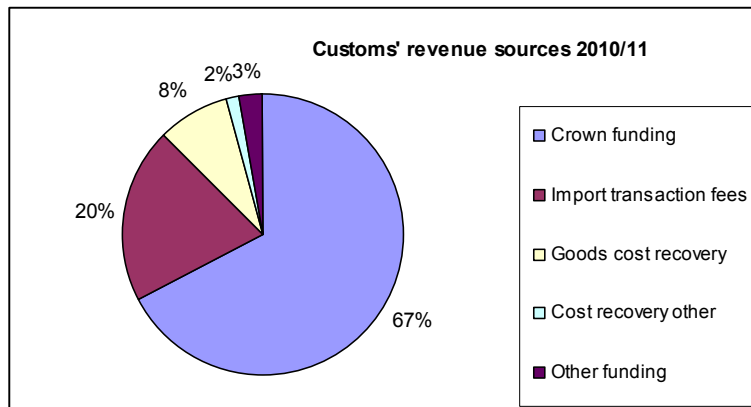


Source: NZ Customs Service. Annual report 2010/11 data

Under our trade assurance compliance model where 98 percent of goods are processed without intervention, we rely on traders to comply with their obligations to minimise delays for their goods at the border. The trade assurance role of assessing compliance through pre- and post-border entry audit activity is how we achieve this. Challenging economic environments can become evident in traders' practices.

Customs revenue

Goods cost recovery (GCR) third party revenue accounts for approximately 28 percent of Customs' total operating funding, as shown below.



Source: NZ Customs Service. Annual report 2010/11 data

The GCR revenue is mainly driven by the volume of import transactions, and a downturn in the number of transactions (as happened with the recession in late 2008) will impact negatively on the GCR revenue. Our response to downturns in GCR revenue is to first look for internal productivity and other savings to offset the reduced revenue, while maintaining resources focused on border security.

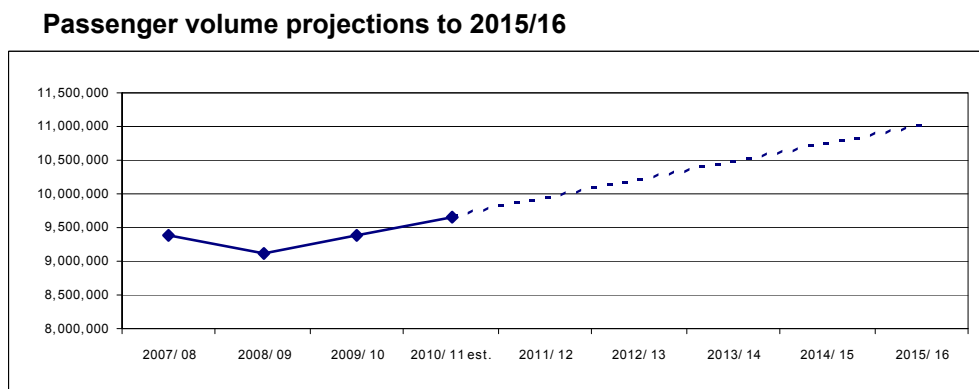
Standard passenger processing at the established international airports is funded by the Crown. Non-standard passenger services are funded by the requestor, eg clearance of passengers from first-class lounges or domestic airports that provide infrequent international services. Under the *Airports (Cost Recovery for Processing of International Travellers) Bill 2010*, new and restart international airports will be subject to an initial two year stand down from Crown funding.

Cost recovery for some portion of passenger processing continues to be a policy option. It was discussed by the previous Cabinet in January 2010 but not progressed as it was considered to be inconsistent with tourism objectives at the time.

Customs is scheduled to consult with industry early in 2012 to bring in the new goods cost recovery fees as a result of the implementation of the Trade Single Window.

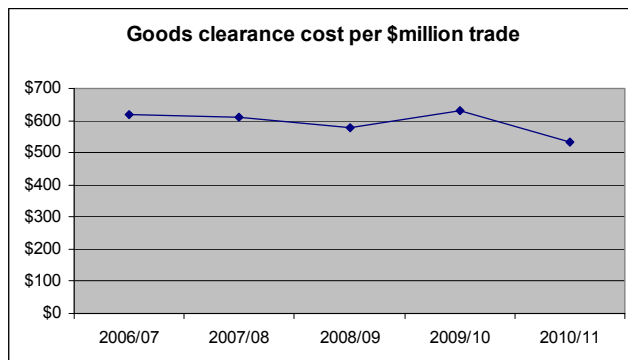
Increasing productivity to manage within reducing budgets

We will need to make significant productivity improvements to manage the forecast demand for our services within reducing budgets, eg passenger volumes are forecast to increase through to 2015/16 as shown in the graph below. As our costs are predominantly people-related and fixed costs, such as depreciation, leases, etc, we have limited options to make savings.

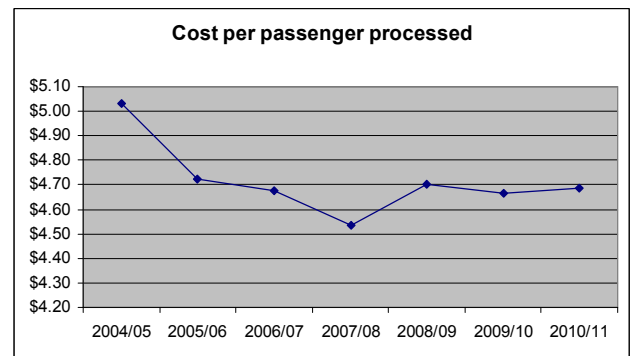


Source: NZ Customs Service

We have cost-effectiveness performance measures for processing goods and passengers. Our past performance is shown in the following graphs.



Source: NZ Customs Service. Based on Annual Report 2010/11

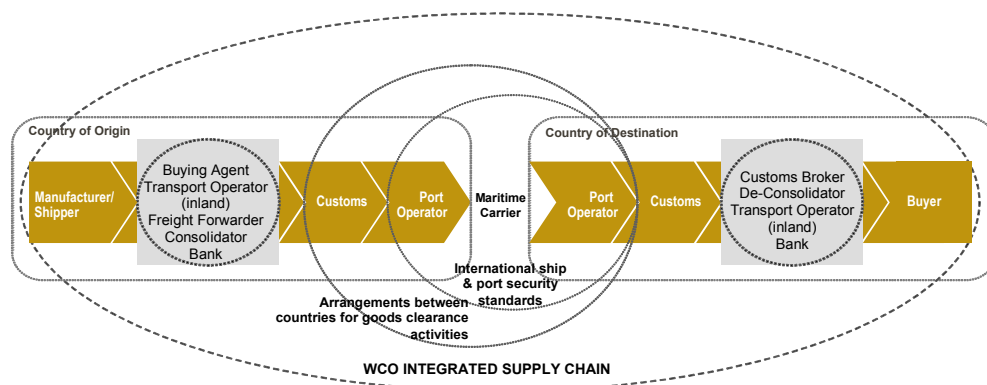


Source: NZ Customs Service. Annual Report 2010/11

Managing the impacts of global supply chain developments

Internationally customs, immigration, biosecurity, transport and trade organisations are recognising that border processes need to be coordinated to respond to converging interests across the whole supply chain – as shown in the diagram below. For example, traders and travellers want fast clearance at the border and border agencies want assurance on compliance and to manage risks. This requires a standardised approach to the provision and exchange of data.

The Global Supply Chain



Based on: World Customs Organization (WCO) Framework of Global Supply Chain Security and Facilitation Standards (June 2005)

Customs, given its broad border management role, seeks to influence and where appropriate lead these discussions. Advance involvement enables us to assess the implications for our current direction, priorities, legislative frameworks, processes and information systems. Early engagement also helps us highlight any implementation issues with policy proposals.

We will continue to collaborate with industry to streamline the supply chain processes in response to economic and security imperatives. An example of collaboration is the establishment of the Secure Export Scheme (SES). SES provides industry with faster processing and less downtime and enables us to provide assurance to customs agencies at the goods' destination. Arrangements with countries such as the United States and Japan have provided benefits to SES members in those markets.

Internationally, similar schemes are being introduced for 'trusted travellers' to enable differentiated processing for eligible travellers. Such schemes are resource intensive and, to date, we have not seen any benefit in introducing a scheme. New Zealand border agencies will need to consider how our facilitation processes (eg pre-arrival screening) and SmartGate automated border processing can work in this environment.

Opportunities

Crown investment in technology and our focus on key relationships places Customs in a good position to capitalise on a range of opportunities.

Create value for border agencies and stakeholders through effective use of technology

Key technology opportunities are:

- Joint Border Management System and Trade Single Window (JBMS-TSW)
- Digitally Enabled Systems
- SmartGate automated border processing technology.

Joint Border Management System and Trade Single Window (JBMS-TSW)

The JBMS-TSW project undertaken by Customs and Ministry of Agriculture and Forestry (MAF) will ensure a more effective and efficient linkage with other government agencies and with industry to the benefit of New Zealand's economy and security. The business case identified that:

- up to 18 documents might be required by border agencies
- border processes were not well integrated or aligned and clients must interact with multiple processes
- multiple systems existed with differing data requirements, requiring multiple transactions.

These factors are slowing down the supply chain, causing higher-than-necessary compliance costs and industry frustration. JBMS-TSW will eventually replace the two existing systems used by Customs and MAF to undertake their business and reduce the compliance burden for compliant traders. The system will be implemented in two stages over a four year period.

Tranche 1

Tranche 1 will implement a new system infrastructure and new business functions, including the transactional components of the Trade Single Window, improved risk and intelligence (through profiling and risk-rating) and integrate the MAF passenger processes into CusMod.⁶

MAF Pax, which enhances CusMod to enable MAF to access advance passenger information, input alerts, and record their passenger processing activity and results, was completed in November 2011. In addition to the detailed design and testing work underway, other key tasks in 2011/12 include:

- Undertake consultation with industry on the new electronic messages they will need to adopt for reporting and clearance of craft and cargo under TSW, in late 2011
- Complete drafting of supporting primary legislation changes, by 28 February 2012

⁶ Customs' existing IT system for processing goods, people and craft.

- Obtain Cabinet approval by 31 March 2012 to undertake consultation with industry on cost recovery proposals and complete the consultation over March/April 2012.

Tranche 2

Tranche 2 involves fully retiring the existing CusMod and Quantum systems, completing the TSW and risk and intelligence solutions, and providing further functions to complete the JBMS and deliver the full benefits. It also includes linking with DOL's immigration system to better manage traveller risks and interventions, supporting the passenger facilitation strategy, further streamlining trader-related functions, including revenue assessment and collection. Work to confirm the scope will identify any additional requirements arising from the Tranche 1 design process and any changes in the business environment.

Three paragraphs have been withheld under section 9(2)(g)(i) of the Official Information Act 1982 in order to maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any department or organisation in the course of their duty.

Links with other border systems

A critical intersection for JBMS is with the Immigration Global Management System (IGMS) being developed by the Department of Labour (DOL) (Immigration New Zealand). IGMS will be DOL's business system for managing immigration processes. The business case for IGMS was approved by Cabinet in October 2011.

Customs and DOL have agreed that while separate systems are necessary to manage separate essential functions, the two agencies will work together to ensure that the JBMS and IGMS will be interoperable with no duplication.

Digitally Enabled Systems

This project, approved in Budget 2010, involves implementing sophisticated electronic technology to enable a much needed step-change to Customs' and other law enforcement agencies' investigations into drug trafficking and other border-related criminal activity.

The investment will significantly contribute to previous Government's Methamphetamine Action Plan and other enforcement initiatives by providing effective tools that can be used to disrupt supply chains, target organisers and dismantle criminal networks. Implementation is due to be completed in mid-2012.

SmartGate automated border processing technology

SmartGate was implemented in phases between December 2009 and August 2011. Eligible passengers⁷ can use SmartGate kiosks and gates for arrival and departure at Auckland, Wellington and Christchurch international airports. SmartGate is critical to productivity improvements in passenger facilitation. SmartGate was implemented on time and within budget, and is now used regularly by over 50 percent of eligible passengers at arrival.

We have set a goal to have three million departing or arriving passengers processed through SmartGate annually by 2015. With a number of initiatives underway to increase uptake, we are on track to achieve this goal.

⁷ Eligible passengers are New Zealand and Australian electronic passport holders over 18 years.

Further streamline and enhance trans-Tasman relationship and border processes

The special nature of the trans-Tasman relationship continues to provide opportunities to streamline processes and achieve productivity improvements for agencies and industry. The New Zealand border sector and the Australian Customs and Border Protection Service have jointly commissioned a study on developing a new model for streamlined passenger processing between our two countries.

The aim is to achieve a 'domestic like' experience for trans-Tasman travel. This would achieve for passengers what CER has achieved for goods – very quick border processing. While there is a long term aspiration for a common trans-Tasman border there is not a formal commitment from either government or in agency work programmes.

Modernising the legislative framework for collaboration and supply chain facilitation

The Customs and Excise Act 1996 has been updated on an annual basis for the last few years. The frequent updates reflect the rapidly changing nature of the border environment and its interaction with industry.

Work has begun, at a preliminary level, to scope the need for future legislative changes. The nature of future legislation will be determined by how stakeholders see the shape of border management in the future.

Improving the cost-effectiveness of border management functions

Increasing collaboration among border sector agencies is a necessity to manage border demands and fiscal constraints. In addition to JBMS and ITOC collaboration is also occurring in the following areas.

- Streamlining trans-Tasman travel: implementation of SmartGate, biosecurity direct exit paths, and investigating other improvements with Australia.
- Many staff are co-located and operational processes are being streamlined
 - Approximately 20 MAF biosecurity staff are located in The Customhouse alongside our Wellington port staff.
 - MAF biosecurity staff are co-located in Customs' facilities in Auckland, Opuha, Napier, New Plymouth, Nelson and Invercargill.
 - Customs staff are co-located in MAF facilities at Mangere.
- Working closely with Auckland Airport to improve the passenger experience.
- The Department of Internal Affairs' Passport Data Validation Service means data holdings can be better utilised by community, business and government.

Future direction for the border sector

Government Border agencies have been working together since 2007 under the auspices of the Border Sector Governance Group to create a more integrated and responsive border management system. Getting border management right generates value for New Zealand, but managing the border is complex.

The Joint Border Management System (JBMS) will consolidate the major customs and biosecurity IT systems to enable Customs and MAF to provide significant benefits to industry through streamlined border processes. The Immigration Global Management System (IGMS) will provide a new user friendly platform for immigration services.

Border sector agencies have also made good progress with projects such as streamlining trans-Tasman travel through SmartGate and direct exit lanes for biosecurity. We have officers from different agencies co-located at most ports.

The New Zealand Customs Service, the Department of Labour and the Ministry of Agriculture and Forestry are looking at what further improvements the border sector can make to support New Zealand's economic growth strategy. The border agencies believe that the real opportunity now lies not only in enhancing the efficient facilitation of people, goods and craft, but through embedding a strategic and economic-oriented approach to what we are doing.

New Zealand's economic prosperity relies on supply chain efficiency and facilitation of access to overseas markets, so the border agencies will be looking at joint initiatives that add value in these areas.

Collaborative border management

New Zealand's economic growth driver and the global focus on the early identification and management of risks to improve facilitation of trade and travel requires Customs, and the border sector as whole, to have a global end-to-end view of the supply chains.

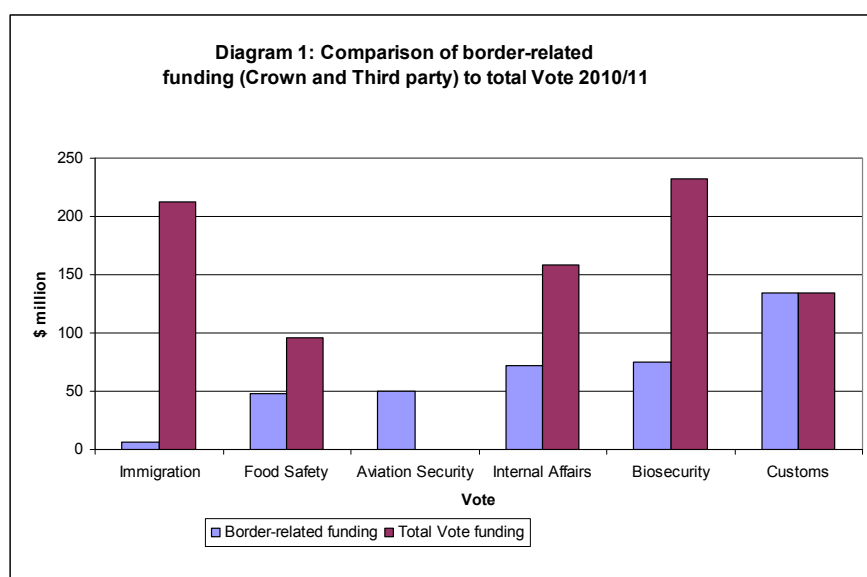
The nature of Customs' border management functions enables us to provide a collaborative leadership role in the sector involving all agencies, industry and global partners.



Border sector agencies

Customs, MAF and DOL are the core border agencies in terms of determining who and what crosses the border. The Department of Internal Affairs (DIA) and the Ministry of Transport also have key roles in terms of providing identity documents for New Zealand citizens and security and safety of aircraft, ships and travellers. The chief executives of these agencies form the Border Sector Governance Group (BSGG) and there are forums at other levels.

Border agencies are diverse. Only Vote Customs is fully dedicated to border activities, as shown in the graph on the following page for 2010/11.



Source: Border Sector Secretariat collated data

Our relationship with MAF and DOL is especially critical to effective border operations. All three agencies have converging interests at the border and a collaborative approach is essential for a whole-of-government perspective.

Customs role in the Border Sector Governance Group

Customs' Chief Executive as the Comptroller of Customs has chaired the BSGG since the Group was established in 2007. This role has been important for Customs to demonstrate leadership in the border sector and leverage off broad government support for its activities.

Other government agencies

In addition to the border sector agencies, Customs interacts with a wide range of other agencies in facilitating and enforcing their policy and operational border management and security interests at the border. Agencies include Economic Development, Foreign Affairs and Trade, Environment, Health, Social Development, Inland Revenue, Transport, Police, Justice, Defence, Security Intelligence Service, Statistics New Zealand and Tourism.

We work closely with these agencies on policy and legislation development to ensure both Customs' and their needs are met, while ensuring that the wider border processing requirements and security risks are managed. However, there are administrative inefficiencies as a result of the increasing volume and diverse range of goods that require various interventions at the border.⁸ Addressing these inefficiencies will be an area of focus for border agencies.

Customs has well-established relationships with agencies to achieve wider border security objectives, and this includes Customs staff being based in border-related operational units with other agencies, such as the National Drug Intelligence Bureau (located with Police) and the National Maritime Coordination Centre (located with the New Zealand Joint Defence Force Headquarters).⁹

⁸ The diversity of goods managed on behalf of other agencies range from: drugs to dangerous dogs, food to firearms, hazardous waste to hot water bottles, radioactive material to toothfish and toheroa.

⁹ National Maritime Coordination Centre's funding and reporting link to Customs is expanded in Annex 2.

Collaboration with industry

Improving the efficiency of border management processes requires the engagement and proactive cooperation of the trade and travel supply chains. Voluntary compliance and accurate self-assessment of compliance against the regulatory framework comes from a partnership approach with all parts of the supply chain.

Customs actively engages with a variety of industry forums, such as the Border Sector Industry Stakeholder Forum to maintain and develop the collaborative relationship.¹⁰ This engagement will become increasingly important as current and future initiatives progress and require business process changes.

Border management – the international setting

Our international engagement is prioritised towards countries and regions that have the greatest influence on New Zealand's trade, security and border settings. Customs' priority international relationships are with Australia, the United States, China, the Pacific, Southeast Asia and the World Customs Organization.

A second tier of important relationships covers Korea, Japan, European Union, Canada, Hong Kong, United Kingdom and key organisations such as APEC, World Trade Organization, and border-related groups that include our key customs agency partners. We also monitor emerging markets for New Zealand such as India, the Middle East, South Africa, Russia and Latin America.

We contribute to achieving 'New Zealand Inc's' international goals and are involved in developing and implementing the New Zealand Inc country and regional strategies.

Customs Counsellors are located in five offshore posts: Canberra (covering Australia), Brussels (Europe), Bangkok (South East Asia), Beijing (North Asia), Washington DC (the Americas). These posts are critical to supporting our policy engagement and operational activity across trade, security and enforcement objectives at a Customs and New Zealand Inc level.

We have signed customs cooperative arrangements with a range of customs administrations to facilitate cooperation and information sharing. We have also signed three Mutual Recognition Arrangements that provide benefits to members of the Secure Exports Scheme and have a number of agreements and related statements of cooperation that provide for project, operational and science and technology cooperation.

There are a range of forums that impact on border management where Customs is not directly represented. For example, the Ministry of Transport is New Zealand's representative agency with the International Airline Transport Association (IATA) and the International Civil Aviation Organisation (ICAO). There is the potential for us to play a more visible role at IATA and ICAO in liaison with the Ministry of Transport and Australian Customs and Border Protection Service (ACBPS). Through its involvement, ACBPS has been able to progress initiatives important to them.

¹⁰ The Forum provides BSGG chief executives and key industry stakeholders with an avenue for understanding and aligning interests and strategic directions. The Forum is made up of the BSGG and representatives from key private sector industries with border interests. Representation is at Chief Executive or senior industry level.

Customs' changing focus

Customs has been responding to changing environments since it was established in 1840. In recent times, border security has been an area of particular focus, as demonstrated by the following two examples.

- '9/11' changed the global security environment for goods, people and craft and increased our focus on intelligence gathering and analysis, risk assessment and enforcement.
- 'P' (methamphetamine) and its precursors, and the resulting harm to New Zealand communities, resulted in a heightened focus on this particular risk and an increased focus on international organised criminal networks and the associated financial supply chain.

Now, the focus is moving to balancing security and economic growth to ensure both goals are met. International trade and travel is a major contributor to economic growth for New Zealand. Increasing trade and travel means, however, that the volume of risks that must be managed at the border is also increasing. The risks result from different, and emerging, source countries of goods and travellers, some with less robust border management systems than our own, and more complicated trade and travel routes.

Customs has made significant changes to increase the effectiveness and efficiency of border management policies and procedures for both trade and travel. The changing dynamics of the operating environment mean that we, in tandem with other New Zealand border agencies and partner customs agencies in other jurisdictions, must continue to innovate to increase our effectiveness. Investment in technology is critical to future success.

The changing dynamics are evident in the following areas.

Increasing use of intelligence-driven and technology-supported processes

Increasingly, intelligence-driven and technology-supported border management processes are necessary to process growing volumes without diminishing border security or creating unacceptable and costly delays in trade or travel.

Investment and capability in the collection and analysis of advance information for goods, people and craft is a key focus of our current technology projects.

Increasingly, frontline Customs officers:

- must be enabled and supported by high quality and timely intelligence-based risk assessment and targeting to manage increasing risks from growing trade and travel volumes
- will need to further refine how we focus on high risk goods, people and craft, while using technology to enable pre-clearance and self-service by those confirmed as low-risk or trusted travellers and traders
- will operate in increasingly sophisticated electronic and technically-focused mediums requiring changes to future recruitment practices for emerging skill areas
- must be in a position to recognise and respond to rapidly evolving risks, such as:

- new drugs, changing routes, new methods of concealments
- emerging financial crime, money laundering, use of shell companies
- pervasive organised transnational crime in all areas – from drugs to lizards.

Border management integral to internationally focused growth strategies

Our border management role extends beyond the processing of goods, people and craft to the wider foreign affairs and trade policy environment.

Our relationships with the trade and travel industry, customs and border enforcement agencies (both domestically and internationally) and international organisations (such as the World Customs Organization), enable us to monitor developments, manage risks and influence national and international policy and standards. We do this through:

- working with the Ministry of Foreign Affairs and Trade to develop, effectively implement and monitor free trade and other international agreements that support our exporters and domestic industry, while maintaining border security
- our established relationships with border agencies in other jurisdictions that create a level of engagement that provides benefits directly to industry and for other agencies
- collaborative initiatives with core New Zealand border agencies, such as MAF and DOL to streamline border processes, eg JBMS-TSW
- working with other agencies to respond to a diverse range of government interests at the border (ie, over 60 separate Acts that Customs enforces at the border).

Border management combines regulator and facilitator roles

Border management combines the regulator and global supply chain facilitator roles to align efficiency and security requirements to advance New Zealand's economic interests. Maintaining the efficiency of these supply chains is essential to ensure that increasing security requirements do not undermine economic prosperity.

The balance between regulator and facilitator places Customs on both sides of the border – effectively linking the domestic environment and international obligations. Our understanding of the international border and trade environments, and our relationships with our counterparts overseas and with New Zealand industry stakeholders, make us important players in supply chain processes.

Physical borders are becoming virtual borders

Physical borders are becoming, in effect, virtual borders as clearance and enforcement processes take place in different locations (both onshore and offshore) for goods, people and craft.

The need to account for goods, people and craft at the border has always had the potential for delays. Our focus over several decades has been to remove that potential for delay for all but those goods, people and craft that we have an interest in. Initially this was through electronic processing of goods, and now includes automated self-service processing of eligible passengers.¹¹

¹¹Only New Zealand and Australian electronic passport holders over 18 years are able to use the SmartGate automated self-service processing option in New Zealand.

In response to growing volume, approval processes to enter or depart (for goods, people or craft) are increasingly determined by access to advance information and assurance, prior to the actual act of crossing the border, by:

- expanding trade and travel supply chain management schemes to provide assurances that will improve access to markets for business
- enabling more of the required information to be collected prior to entry or departure
- differentiating the physical entry processes based on level of assurance already provided on the goods, people or craft
- using intelligence-based risk assessment to stop only those goods, people and craft presenting an identified risk.

Customs portfolio

Customs performs the following broad services in delivering its three core functions under Vote Customs: **protect** New Zealand's border, **facilitate** legitimate trade and travel, and **collect** Crown revenue, while managing related risks.

- Clearance and enforcement for people, goods, and craft crossing New Zealand's border
- Collection of Crown revenue for Customs and other agencies; revenue assurance, and credit and debt management
- Delivering information, intelligence, and risk assessment services to external clients.
- Providing strategic and operational policy advice and services supporting international relationships, obligations and assistance.

These functions are reflected in the Customs and Excise Act and Regulations 1996, and over 60 other enactments that Customs enforces at the border on behalf of other agencies. Refer to Annex 1 for a list of principal and other relevant Acts.

Minister's responsibilities in Customs portfolio

Under Customs' legislation the majority of powers have been delegated to the Comptroller and department. The Minister of Customs has a limited statutory role to play in day-to-day business. This role mainly relates to administration duties under the Customs and Excise Act, and some other legislation such as Trade Marks Act 2002 and the Copyright Act 1994.

Under the Customs and Excise Act 1996 only the Minister may consent to the importation of motor vehicles with inaccurate or no odometers or the exportation of unprocessed pounamu.

The Minister of Customs has been the chair of the Border Sector Ministerial Group since it was formed. This group is responsible for the leadership and strategic direction in the context of government goals. A list of regular meetings and events that the Minister of Customs attends is in Annex 2.

Comptroller's responsibilities

As Chief Executive of the New Zealand Customs Service, the Comptroller has formal accountabilities to the Minister of Customs under the State Sector Act 1988. The Customs and Excise Act 1996 (1996 Act) states that the chief executive shall be known as the Comptroller of Customs. The term 'Comptroller' comes from the traditional focus on the revenue gathering role of customs organisations. Comptroller and Deputy Comptroller are the currently used designations for the top two tiers of management in Customs.

The Comptroller has a large number of delegable functions, powers or duties under the 1996 Act as well as a range of other enactments. The majority of powers have been delegated within Customs. The Comptroller has the sole delegation to make rules to administer various obligations and requirements under the 1996 Act.

Customs organisation structure and regional locations are in Annex 2.

Customs Appeal Authority

The Customs Appeal Authority is an independent judicial body administered by the Ministry of Justice. It hears appeals against the decisions, rulings, determinations or

directions of the Chief Executive of Customs and can confirm, reverse, or amend a decision by the Chief Executive of Customs.

The Authority consists of one person appointed by the Governor-General on the recommendation of the Customs Minister and the Minister of Justice. Hearings are held throughout New Zealand.

Organisational performance

Our organisational performance has received the following ratings in the past year:

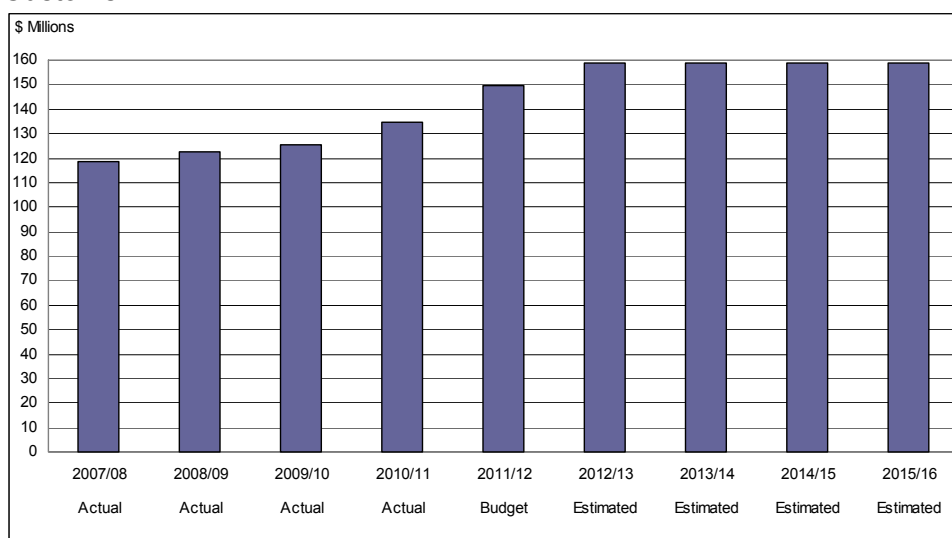
- Audit New Zealand management report year ended 30 June 2011
 - *Very good* – management control environment
 - *Good* – financial information, systems and control
 - *Good* – service performance information and associated systems and controls.
 - Good procurement and project management practice and appropriate accounting for JBMS and DES projects.
- Departmental Internal Control Evaluation: our score of 4.15 (Good) has improved slightly each year. We are rated excellent on two of our key functions – Crown revenue collection and working capital management.
- Capital Asset Programme Management: first department to undergo a Treasury-commissioned independent assessment of Customs asset management practices. The assessment of our asset policies, plans and practices provided assurance of an appropriate level of asset management capability for an organisation of our size and complexity.

Customs' support for the Minister

A Customs staff member is seconded to the Minister's office to act as Private Secretary. We currently meet with the Minister weekly, and report weekly on current activity, with a quarterly report on performance.

Vote Customs

The graph below shows the past and future trends in total operating expenditure for Vote Customs.



Source: NZ Customs Service

The increases over the last two years result from capital expenditure projects, such as SmartGate, and into 2012/13, from JBMS and the digitally enabled systems as they become operational.

Capital expenditure for 2011/12 is \$58.2 million. The bulk (\$50.8 million) is for Tranche 1 of the JBMS-TSW project, SmartGate expansion and the digitally enabled systems project. The remainder is for replacement of existing assets.

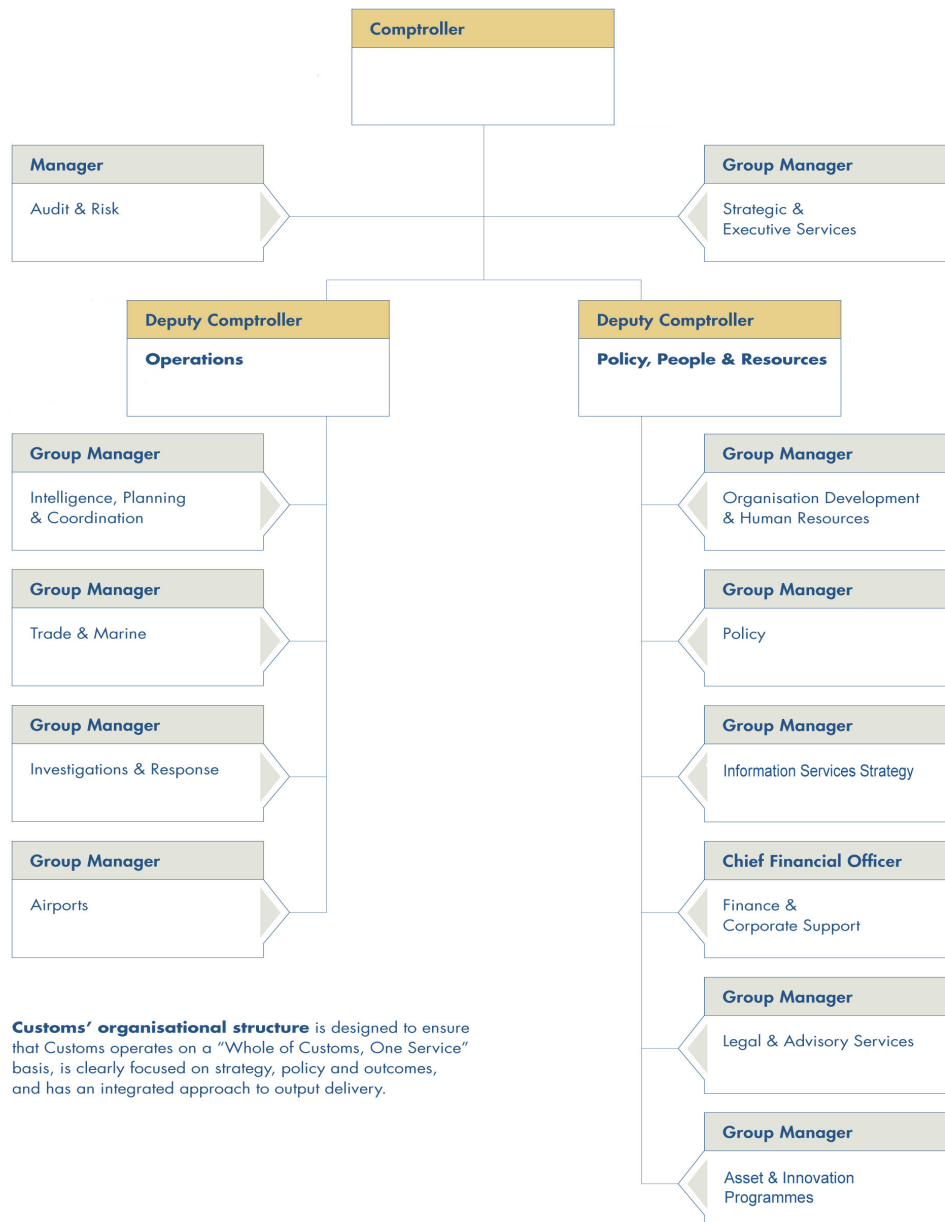
Customs is one of the capital intensive agencies in the Treasury's capital asset management programme. Planning has begun on a ten year capital investment plan to ensure that sufficient funding is available to meet schedule replacements of assets.

Annex 1: Principal and other relevant legislation

<i>Principal legislation: used by New Zealand Customs Service to take actions for border management and protection purposes</i>	
Alcohol Advisory Council Act 1976 Animal Products Act 1999 Animal Welfare Act 1999 Anti-money Laundering and Countering Financing of Terrorism Act 2009 Anti-personnel Mines Prohibition Act 1998 Arms Act 1983 Chemical Weapons (Prohibition) Act 1996 Children, Young Persons & Their Families Act 1989 Cluster Munitions Prohibition Act 2009 Commerce Act 1986 Companies Act 1993 Conservation Act 1987 Consular Privileges and Immunities Act 1971 Copyright Act 1994 Crimes Act 1961 Customs and Excise Act 1996 (also Customs Act 1908 for limited actions) Dairy Industry Restructuring Act 2001 Diplomatic Privileges and Immunities Act 1968 Dog Control Act 1996 Dumping and Countervailing Duties Act 1988 Evidence Act 2006 Fair Trading Act 1986 Films, Videos, and Publications Classification Act 1993 Food Act 1981 Forests Act 1949 Goods and Services Tax Act 1985 Hazardous Substances and New Organisms Act 1996 Heavy Engineering Research Levy Act 1978 Human Assisted Reproductive Technology Act 2004	Human Assisted Reproductive Technology Act 2004 Immigration Act 2009 Imports and Exports (Restrictions) Act 1988 Kiwifruit Industry Restructuring Act 1999 Land Transport Act 1998 Marine Mammals Protection Act 1978 Maritime Security Act 2004 Maritime Transport Act 1994 Meat Board Act 2004 Medicines Act 1981 Mercantile Law Act 1908 Misuse of Drugs Act 1975 New Zealand Horticultural Export Authority Act 1987 Ozone Layer Protection Act 1996 Passports Act 1992 Postal Services Act 1998 Protected Objects Act 1975 Radiation Protection Act 1965 Smoke-free Environments Act 1990 Statistics Act 1975 Summary Proceedings Act 1957 Tariff Act 1988 Telecommunications (Residual Provisions) Act 1987 Temporary Safeguard Authorities Act 1987 Terrorism Suppression Act 2002 Trade in Endangered Species Act 1989 Trade Marks Act 2002 Transit New Zealand Act 1989 United Nations Act 1946 Wildlife Act 1953 Wine Act 2003
<i>Other relevant border protection legislation: NZ Customs Service assists other agencies to enforce this legislation</i>	
Aviation Crimes Act 1972 Biosecurity Act 1993 Civil Aviation Act 1990 Cook Islands Act 1915 Fisheries Act 1996 Health Act 1956	International Finance Agreements Act 1961 Motor Vehicles Sales Act 2003 Niue Act 1966 Ship Registration Act 1992
<i>Legislation applicable to NZ Customs Service as a public sector agency</i>	
New Zealand Bill of Rights Act 1990 Official Information Act 1982 Privacy Act 1993	Public Finance Act 1989 State Sector Act 1988

Annex 2: Organisational overview of Customs

Organisation structure

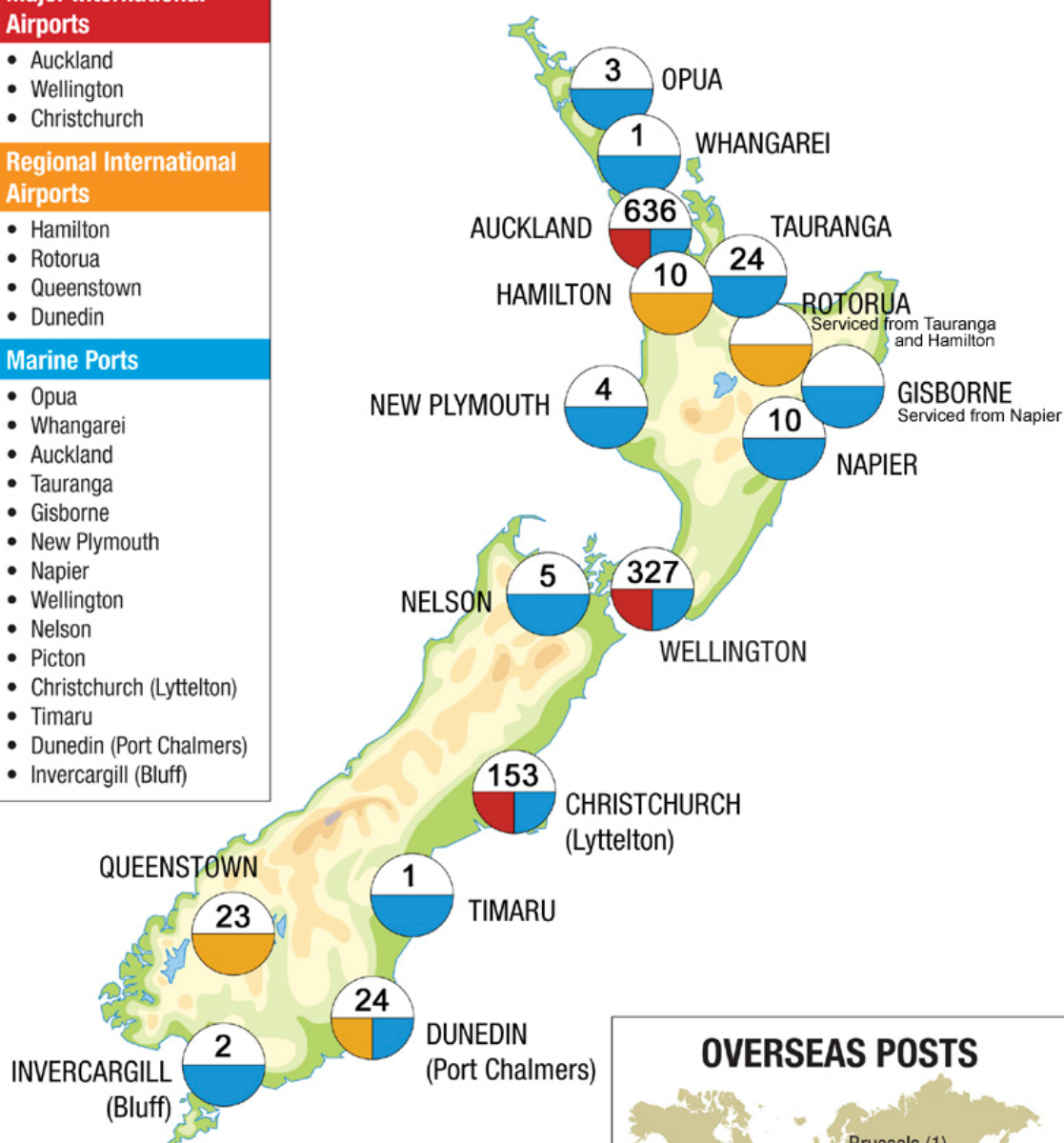


The National Maritime Coordination Centre (NMCC) is an operational unit working on behalf of a range of government agencies. It is funded through Vote Customs with direct responsibility and reporting lines to the Comptroller Customs. The Centre is operationally independent and is supported by a multi-agency framework of governance rules. The NMCC provides a whole-of-government coordination service to maximise the efficient and effective use of government's maritime patrol and surveillance assets, and related information, for civilian purposes.

Regional locations and staff

NEW ZEALAND CUSTOMS SERVICE LOCATION AND STAFF NUMBERS

PORTS	
Major International Airports	
<ul style="list-style-type: none"> Auckland Wellington Christchurch 	
Regional International Airports	
<ul style="list-style-type: none"> Hamilton Rotorua Queenstown Dunedin 	
Marine Ports	
<ul style="list-style-type: none"> Opuia Whangarei Auckland Tauranga Gisborne New Plymouth Napier Wellington Nelson Picton Christchurch (Lyttelton) Timaru Dunedin (Port Chalmers) Invercargill (Bluff) 	



Appendix 3: Glossary

Term	Explanation
Customs cooperative arrangements (CCAs)	<p>CCAs give customs administrations a basis for working together to combat customs offences and international organised crime. They are usually between two customs administrations, and provide a framework for those administrations to share information to identify, prevent and investigate customs offences.</p> <p>Through CCAs, customs administrations also commit to working together to exchange ideas on new procedures or techniques and resolve problems with trade between their countries.</p> <p>From New Zealand's perspective, these arrangements are important for three main reasons:</p> <ol style="list-style-type: none"> 1. they promote cooperation and information sharing between customs administrations, which is critical to customs' business because almost everything we process has either come from, or is going, overseas 2. they show that both administrations consider their relationship to be an important one 3. they meet our legal requirements for disclosure of information overseas.
CusMod	Customs current operating system, implemented in the mid 1990s, supports all border processing systems for goods, people and craft.
Digitally enabled systems	Includes sophisticated electronic technology to support intelligence and investigation processes.
Integrated Targeting and Operations Centre (ITOC)	<p>ITOC is located in the Auckland Customhouse and is designed to provide all of the information necessary for effective border security management in one location, 24 hours a day.</p> <p>ITOC's mission to support the command and coordination of border sector operations, across New Zealand's layered border enforcement strategy.</p> <p>Key border agencies have a presence in the ITOC so they can work together closely and efficiently in planning and executing operational activity.</p>
Joint Border Management System-Trade Single Window (JBMS-TSW)	<p>Joint Customs and MAF system to manage the processing of goods, people and craft and which will eventually replace the agencies' aging existing systems. A single point of contact (Trade Single Window) will be available to traders to complete both agencies' requirements.</p> <p>Once completed the system will provide all trade and passenger processing, risk and intelligence, and enforcement functionality. The system will also provide performance reporting, feedback processes and resource management tools.</p>
Mutual Recognition Arrangements (MRA)	MRAs are formal arrangements between the New Zealand Customs Service and customs services in other countries with similar supply chain security standards. Through MRAs the other customs service acknowledges that New Zealand Customs has met high quality standards for supply chain security, and recognizes Customs' Secure Exports Scheme (SES) in

Term	Explanation
	<p>which exporters maintain these same standards over their export trade.</p> <p>The mutual cooperation assured by MRAs can be of great benefit to our SES partners. In practice this means that our MRA partners treat imported goods from SES partners as 'low security risk'. New Zealand Customs has signed MRAs with the United States, Japan and Korea.</p>
Secure Export Scheme (SES)	<p>The SES is designed to give New Zealand exporters greater certainty at international borders by minimising Customs delays and by giving exporters priority in trade recovery situations. The scheme is a voluntary agreement between Customs and exporters. It is open to all exporters regardless of what is exported and the methods used.</p> <p>The purpose of the scheme is to protect exports from being tampered with, sabotaged, smuggled, or subjected to other trans-national crimes. SES partners must maintain an agreed level of security and data integrity in their day to day operations.</p>
SmartGate	<p>Passenger processing technology currently used by eligible passengers in all international airports in New Zealand for arrivals and departures. Eligible passengers are NZ and Australian electronic passport holders over 18 years of age.</p> <p>A <i>kiosk</i> collects the required information from each passenger from the electronic passport and answers to on-screen questions. The passenger passes through a <i>gate</i>, which confirms that the passport and the passenger match.</p>
World Customs Organization (WCO)	<p>The WCO is an intergovernmental organisation exclusively focused on customs matters. New Zealand has had a high profile in the WCO (as the previous Comptroller was Chair) and a positive reputation for engagement.</p> <p>The WCO is increasingly moving beyond a purely technical focus on trade and enforcement to include a more strategic direction. The WCO's commitment to growing its profile and relevance on the global stage is demonstrated through its partnerships with key international organisations such as the World Trade Organisation, the United States' Department of Homeland Security and the International Civil Aviation Organisation.</p> <p>A current area of focus for the WCO is air cargo security. New Zealand is participating in this work to ensure that any resulting global standards align with our existing processes.</p>