



COVID-19 Pandemic

Few events in Customs' 180-year history have had such an immediate, dramatic, and wide-ranging impact on New Zealand's border management as the COVID-19 pandemic.

From January 2020 the rapid spread of COVID-19 disrupted global travel and trade, as well as the movement of illicit drugs and goods. It presented new challenges for Customs, from the need to quickly respond to ever-increasing border entry restrictions, to significantly impacting our staff deployment, and the funding we had budgeted to receive.

The pandemic required Customs to be more agile, flexible, and resilient in 2019/20. It also required us to play our part, by contributing skills, knowledge, and resource to New Zealand's all-of-government response and recovery efforts.

Customs was an essential service during New Zealand's COVID-19 lockdown, due to our role controlling and facilitating the movement of people and freight across the border.

Major disruption to free flow of people and goods

The COVID-19 pandemic disrupted one of the hallmarks of globalisation – the free flow of people and goods across international borders.

The earliest impact on Customs related to international travel, with border measures restricting entry into New Zealand from 3 February 2020. As a consequence, there was a substantial reduction in traveller volumes.

Trade volumes were less impacted by the pandemic. While imports and exports dropped from February 2020, trade activity had returned by the end of the financial year to levels similar to 2018/19. That said, there continued to be a major reduction in the air freight capacity to and from New Zealand.

The impact of COVID-19 on international supply chains disrupted the trade in illicit drugs substantially, particularly in April and May 2020. We expect transnational organised crime groups to evolve their smuggling methods in response to the new travel and trade environments (see page 17).

Being prepared and agile

As the virus spread globally, Customs acted early, setting up an incident management structure on 21 January 2020 to coordinate our response to COVID-19. We used the New Zealand Influenza Pandemic Plan to inform our actions at the border and our business continuity planning. Our National Incident Response Plan was a foundation for strategic decision-making, including contributing to the all-of-government response and providing advice to the Government on operational and policy matters relating to border restrictions.

We had business continuity plans we could implement to maintain our operations as New Zealand moved through the COVID-19 Alert Levels. Our operational command structure also provided a strong framework for responding to challenges the pandemic presented.

Customs' investment in mobile and modern technologies enables staff to work from anywhere, and this was key to our ability to continue operating between March and June 2020. We rolled out Office 365 with Microsoft Teams in 2019/20, enhancing the ability of staff to undertake their roles, collaborate with colleagues, and stay connected while working from home.

Our comprehensive network of stakeholders, and strong business and industry relationships across New Zealand, meant we were able to quickly communicate and implement decisions in response to the pandemic. We could also receive valuable feedback on those decisions and ensured this information was considered by the Government.

Collaborative border management

A key part of the Customs response to COVID-19 has been implementing New Zealand's border entry restrictions.

To do this, we worked closely with the other government border agencies involved in protecting our country from COVID-19, including: the Ministry of Health, which leads public health screening processes at the border; Immigration New Zealand, which issues travel visas to New Zealand and determines the immigration measures to be put in place to implement border restrictions; and Managed Isolation and Quarantine, which is responsible for the facilities used by international passengers when they arrive in New Zealand.

Customs also worked closely with the many non-government organisations that operate at airports and seaports, to manage passengers, crew, and craft in line with the latest border entry requirements.

Our collaboration also extended to helping protect the Pacific from COVID-19, by providing information to the Ministry of Health and Pacific nations about passengers who had journeyed through risk countries, were suspected or confirmed to have COVID-19, or had not completed mandatory isolation before transiting through New Zealand.

Playing a leading role in response and recovery

New Zealand's all-of-government structure provided strategic oversight of the responses of government agencies to COVID-19. A key element of that structure was the grouping of agencies into pillars: Health; Welfare; Civil Defence Emergency Management; Economic; International; Law and Order; Education; Infrastructure; Workplaces; and Border, which Customs chaired.

Established in January 2020, the Border Sector Working Group² commissions work across border agencies to support the all-of-government response to the pandemic. This Customs-chaired group has facilitated rapid and coordinated operational activities, and provided an efficient and effective forum for proactive problem-solving. This includes matters arising from increased border restrictions at the sea border such as managing cruise ships still in New Zealand waters, and the ports vessels should use to arrive in, or depart from, New Zealand.

In addition, the chief executives of Customs, the Ministry for Primary Industries (MPI), the Ministry of Business, Innovation and Employment (MBIE – for Immigration New Zealand), and the Ministry of Transport met as the Border Sector Governance Group (BSGG).³ Throughout New Zealand's response to COVID-19, the Customs-chaired BSGG has met regularly to coordinate border responses to the pandemic. The agencies worked together to lessen the health risk presented by individuals at our air and sea borders, and undertook a range of new functions to ensure they play their part in the all-of-government response.

In June 2020 the BSGG was expanded to include chief executives from the Ministry of Health, Department of the Prime Minister and Cabinet, the Ministry of Foreign Affairs and Trade, and The Treasury. This recognised the broader range of

agencies with a role in the border response to COVID-19. Work being progressed includes potential safe travel and quarantine-free travel zones, and the financial sustainability of border and transport agencies.

Supporting businesses and keeping critical supplies moving

Since the introduction of New Zealand's COVID-19 Alert Level system in March 2020, Customs has focused on keeping international trade flowing, and providing much-needed support and guidance to importers and the freight and logistics industries. This included approving the movement of essential goods at the border to reduce bottlenecks, engaging with importers to help assess the country's overall supply of personal protective equipment (PPE), and helping to identify and expedite border clearance for critical goods, such as PPE and ventilators.

We supported our customers and the public by helping businesses impacted by COVID-19 and responding to enquiries. Our National Contact Centre and our website have played an important role in distributing and communicating COVID-19-related information during the pandemic response.

Importantly, our focus on 'cushioning the blow' included agreeing alternative payment arrangements for businesses with duty payable to Customs. We worked with other government agencies and industry representatives to identify and implement practical solutions to emerging trade challenges faced by New Zealand businesses.

The online channel, Trade Single Window, operated continuously during lockdown, enabling trade to be cleared. As a result, Customs was able to maintain its high standards for trade facilitation, and ensured that essential goods were cleared without delay.

The combined efforts of our whole team

Our committed, capable, and flexible team, together with union representatives, played a huge part in enabling us to respond quickly and effectively to changes in our operating environment due to COVID-19.

There were significant changes to our workstreams, workloads, and systems and processes due to the pandemic. This was true especially during New Zealand's COVID-19 lockdown, when many of our staff worked from home and our essential frontline

² The members of the Border Sector Working Group are Customs, MPI, Ministry of Health, Immigration New Zealand, Ministry of Transport, Maritime New Zealand, New Zealand Police (NZ Police), and the Ministry of Foreign Affairs and Trade.

³ Customs took over as chair of the BSGG (formed in 2007 to provide stewardship and governance for border sector work) from MBIE in April 2020.

workers carried out their responsibilities under additional health and safety and infection control protocols – measures which helped to keep 100% of our team safe from COVID-19 in 2019/20.

A large number of our staff from across the country were redeployed into alternative roles, both within Customs and in other government agencies. These staff exemplified the spirit of public service, with each and every member of our team playing their part.

Examples of the work not previously undertaken by our staff, to which our team ably contributed, included: supporting the Ministry of Health with contact tracing; assisting NZ Police with maritime patrols to educate the boating community about permitted Alert Level activities; helping other government agencies at managed isolation facilities; assisting in the National Crisis Management Centre; and working in MBIE's national contact centre.

The redeployment of our frontline staff as a result of reduced traveller volumes at the border has been done in such a way that they can return to passenger processing when traveller numbers increase. Our staff who continued to work at our international airports have undertaken a much wider range of duties (see page 26).

Additional Government funding due to reduced third party funding

Before the COVID-19 pandemic, we received about 60% of our total departmental revenue from third parties. However, the reduced volumes of international travellers and, to a lesser extent, goods crossing the border due to COVID-19 reduced our third party revenue considerably.

As a result, we received a \$30 million capital injection from the Government to replace our expected shortfall in revenue in the 2019/20 financial year. In July 2020 the Government approved additional Crown funding of \$84 million through operating funding, a capital injection, and a tagged capital contingency to cover our forecast decrease in third party revenue in 2020/21 (for more information see page 41).

The future – response and recovery

In 2020/21, and as long as necessary, Customs will continue to contribute to New Zealand's COVID-19 response and recovery. This will require us to undertake our core border management responsibilities, while progressing new initiatives and addressing new challenges.

On 30 June 2020, a COVID-19 Public Health Response (Maritime Border) Order⁴ came into effect, strengthening maritime border controls to further reduce the risk of the virus entering New Zealand. The Order restricts the vessels that may arrive into New Zealand by sea, and puts in place strict isolation or quarantine requirements for crew and passengers of vessels. Customs is leading coordination and implementation of the operational response and application of the Order (with the support of other government agencies). Our role includes monitoring compliance and working with government agencies to undertake enforcement.

Supporting New Zealand's economic recovery

The efficient flow of goods into and out of New Zealand will continue to be essential for the country's economic recovery. In late 2019/20, Customs started a programme of work to support that recovery. We will continue to provide support and guidance to importers and the freight and logistics industries, agree alternative payment arrangements for businesses with duty payable to Customs, and expedite border clearance for critical goods.

In 2020/21 we will also identify and progress activities that will help keep New Zealand businesses competitive in global markets, and support longer-term transformation of the economy.

Developing the world's smartest and safest border

In April 2020, the Prime Minister expressed a vision for New Zealand to have 'the smartest border in the world'. This vision includes a robust, science-led border response to protect New Zealanders from the 'new normal' of offshore health risks. The Government also wanted to look at how we organise ourselves at the border to ensure an appropriate balance of the need to keep threats out and the need to facilitate the flow of people and goods.

To progress this work, the BSGG commissioned the World's Smartest and Safest Border programme. Led by Customs, this programme seeks to identify ways in which New Zealand's border can remain amongst the world's safest and smartest as well as contribute to all-of-government efforts to establish safe travel zones when it is safe to do so. This work programme continues in 2020/21, and complements work being undertaken in collaboration with other border agencies internationally to define how borders will operate in the future.

⁴ The Order was made under section 11 of the COVID-19 Public Health Response Act 2020 by the Minister of Health.



Progress Against Our Strategy

Our *Rautaki Mana Ārai* strategy aims to ensure Customs is well-placed to protect New Zealand from risk and threats while helping the economy grow. We aim to respond to increasing and changing demands across borders, while building our capability to deliver world-class border management. We continued to deliver on that strategy in 2019/20.

Te Pou Tokomanawa

As the founding document of New Zealand, the Treaty of Waitangi underpins the relationship between Māori and the Crown. At Customs, the Treaty principles of kotahitanga, kaitiakitanga, and manaakitanga provide the foundations for what we do – our Pou Tokomanawa.

We talk about what this means for Customs in *Te Pou Tokomanawa Māori o Te Mana Ārai*, the Customs Māori Strategy. These principles are also reflected in our strategic plan, with our goals to ensure:

- relationships with Māori are founded on the principles of the Treaty of Waitangi
- Te Reo Māori me ōna tikanga (the Māori language and its customs) is normalised across Customs
- our workforce is representative of Māori in Aotearoa.

We focus on strengthening partnerships with Māori, protecting Māori communities, and actively contributing to Māori economic development. We work to ensure our policies and actions reflect the interests of Māori, whether as staff or our customers.

In 2019/20 we set up a new Northland maritime team based in Ōpua – the first step in partnering with Māori coastal communities to protect our borders through monitoring remote coastlines for illegal activity. The maritime team's new patrol boat was launched in May 2020. Its name Āraia is linked to Customs' name – Te Mana Ārai – and means to 'shield' or 'prevent' in Te Reo Māori. In 2020/21 we are expanding our engagement with Māori communities, hapu, and iwi to protect our borders.

To help increase our cultural competency and Te Ao Māori capability, we developed and introduced an online learning platform called Te Kura in 2019/20. Te Kura provides our staff with useful resources and e-learning modules about Te Reo Māori, tikanga Māori, Te Tiriti o Waitangi, and the ongoing Crown/Māori relationship. It aligns with the Māori Crown Relations Capability Framework developed by Te Arawhiti.

We want to normalise the use and visibility of Te Reo Māori. Some of the e-learning helps with this, and we encourage frontline staff to use Māori greetings with arriving travellers. We also support staff generally to use Te Reo Māori in written communication internally and externally.

The Te Arawhiti framework covers four levels of individual capability: unfamiliar, comfortable, confident, and capable. Our Te Kura e-learning helps those at the lower end of the framework. Customs encourages and supports those at the confident and capable end of the spectrum to undertake year-long Te Reo immersion courses.

Our efforts to build understanding and commitment in this area were reflected at the December 2019 meeting of the Customs Executive Board Focus Committee, discussing the Māori-Crown relationship (see page 34 for more on the Committee). Members visited the National Library's He Tohu exhibition to view both the Declaration of Independence of the United Tribes of New Zealand and the Treaty of Waitangi. They then shared examples of their involvement in the Māori-Crown relationship during their careers, and talked about how everyone at Customs can help the Crown to fulfil its responsibilities to Māori.

In 2020/21 Customs is looking to increase our support of Māori business and exporters, including providing tailored advice and assistance on trade matters such as joining the Secure Exports Scheme (see page 23), maximising the benefits of Free Trade Agreements, and supporting Māori businesses with critical supply chain issues.

We aim to increase the representation of Māori at Customs (see page 37 for more on Customs' efforts around inclusion and diversity). This will focus on recruiting Māori (including specialists with an understanding of Māori business), targeting Māori leadership for direct recruitment at senior levels, and developing opportunities for current Māori staff with leadership potential.

The year ahead

- Continue to develop and normalise the use of Te Reo Māori me ōna tikanga at all levels across Customs
- Outreach to Māori business to be a focus in economic recovery
- Increase the proportion of Māori staff and leaders.

Whakahaumarū PROTECTION

Our intention: Prevent risk reaching our borders

Customs continues to focus on protecting New Zealand from risks and threats at the border. This contributes to the country's future wellbeing by supporting healthier, safer, and more connected communities, and enabling people to fully participate in all aspects of society.

Our strategy is to protect New Zealand by preventing risk reaching our borders. While we continue to target and seize illicit drugs at our border, we recognise that the most effective way of preventing harm to New Zealand is to work with domestic and international partners to disrupt drug supply chains offshore, and intercept drugs at the point of export.

We have seen growing success in our efforts in recent years, reflected in the increasing volumes of illicit drugs seized offshore. This trend continued in 2019/20.

The COVID-19 pandemic disrupted international supply chains for illicit goods in the latter half of 2019/20, resulting in a slight decline in seizures at the border compared with 2018/19.

Strategic targeting and disruption of illicit drug supply chains offshore

New Zealand's 'street prices' for illicit drugs remain among the highest in the world, making the country an attractive and lucrative market for domestic and international crime groups. Criminal syndicates continue to employ new and sophisticated methods in their attempts to supply this illicit market. We use intelligence to understand and identify risk, and focus our efforts accordingly.

Having staff in key overseas locations means we can quickly exchange information and intelligence, enabling Customs and our partners to develop actionable intelligence on threats to the border and prevent drugs coming to New Zealand. It also supports joint investigations and operations to disrupt supply chains and dismantle transnational criminal networks. Customs received additional funding in Budget 2018 to deliver on our strategy of disrupting supply chains to prevent harm and cost to New Zealand. As part of this we have increased the number of staff and posts overseas, and plan to continue to do so in 2020/21.

Following a risk assessment, our counsellors in Asia returned to New Zealand at the beginning of the pandemic, but they continued their work remotely. Based on updated assessments, the counsellors in Hong Kong, China, and Bangkok returned to their posts in June and July 2020. Our other counsellors located in the United States, Australia, Brussels, and London remained in their posts.

Through working with our international partners, there were around 240 interceptions offshore in 2019/20 of illicit drugs (mainly methamphetamine, MDMA, and cocaine) destined for New Zealand. This avoided potential harm to the country of just under \$569 million,⁵ an increase from the \$520 million in harm avoided through such seizures in 2018/19. Most of the interceptions related to drugs coming from the Americas and Europe.

Harm to New Zealand avoided by offshore drug interceptions, by area



⁵ Based on the New Zealand Drug Harm Index, which quantifies the economic and social costs associated with illicit drugs.

Measuring progress against our strategic intention

Our Statement of Intent 2019–2023 records the indicators that will measure our success in delivering on our strategic intentions over those four years.

Strategic indicators:⁶ Total harm avoided through onshore and offshore drug seizures

Indicator	Performance					Five-year trend	Expected future trend
	2015/16	2016/17	2017/18	2018/19	2019/20		
Total harm avoided through onshore drug seizures	\$1.585 billion	\$1.184 billion	\$1.490 billion	\$1.909 billion ⁷	\$1.804 billion	↑	↔
Total harm avoided through offshore drug seizures	Not measured	\$31 million	\$205 million	\$520 million	\$569 million	↑	↑

Continued growth in the amount and proportion of harm avoided through offshore drug seizures shows the success of our strategy. We were on track to surpass the 2018/19 total for harm avoided through onshore drug seizures, and continue trending upwards, but COVID-19 affected illicit drug activity and seizures at the border (see page 17).

Strategic indicator: Proportion of interventions that yield the intended results

Our interventions aim to target, identify, and prevent harmful people and items from crossing our borders, while minimising the impact of our interventions on legitimate trade and travellers. We continue to refine our intelligence and data management systems so we can better understand the effectiveness of our interventions, and further enhance reporting against this measure.

Indicator	Performance					Five-year trend	Expected future trend
	2015/16	2016/17	2017/18	2018/19	2019/20		
Proportion of interventions that resulted in the interception of drugs or prohibited goods	3.9%	3.9%	3.7%	4.6%	4.7%	↑	↑

Interventions relating to import entries, electronic consignments, and passengers. In 2019/20 2,039 of 43,111 interventions (4.7%) concluded in the interception of drugs or prohibited goods.

⁶ For each strategic indicator in this Annual Report, the expected future trend takes into account both the indicator's five-year trend to 2019/20 and the currently-expected impact of COVID-19 on the indicator. This means the reported expected future trend differs for some indicators from the expected future trend outlined in our Statement of Intent 2019–2023.

⁷ This total differs from the \$1.795 billion reported in the *New Zealand Customs Service Annual Report 2019* as that total was based on the provisional totals for drugs seized in that year (as noted in footnote 9 on page 16).

Strategic indicator: Overall level of public trust and confidence in Customs' performance of protection role

We are most recognised for our role in border security and protection. We need the trust and confidence of the New Zealand public to undertake this role effectively.

Indicator	Performance					Five-year trend	Expected future trend
	2015/16	2016/17	2017/18	2018/19	2019/20		
Trust and confidence in Customs' performance of protection role	-	-	-	52.2%	-	N/A	↑

Our annual Public Trust and Confidence survey was not conducted in 2019/20 due to COVID-19. It was scheduled for May 2020. However, if conducted at this time it would have been difficult for the public to differentiate between the Government's COVID-19-related policy at the border, and Customs' execution of that policy and our wider border protection role. We decided the survey results would be of limited use for performance reporting as they would not compare directly with results generated in a 'normal' environment.

Colmar Brunton carried out its Public Sector Reputation survey in March 2020 which showed a positive rise in Customs' overall reputation to third out of the 54 agencies included – up from ninth place last year. We also scored second in trust, up from fifth place last year. This result indicates that the public has trust in Customs.

The year in review

Illicit drug seizures at the border

We seized a total of 1,806.2 kilograms and 488.0 litres of illicit drugs⁸ at the border in 2019/20.

Significant seizures of illicit drugs by Customs in 2019/20, and examples of smugglers' various concealment methods, include the following.

- A record 469 kilograms of methamphetamine found in August 2019 at the Ports of Auckland in a shipment of 60 electric motors from Thailand. Two Canadian nationals and a New Zealander were arrested. Subsequent search warrants across Auckland found another 15 kilograms of methamphetamine, a hand gun, and a large quantity of cash.
- 13 kilograms of ephedrine found in July 2019 after Customs officers on patrol at the Tauranga port saw and grew suspicious of a crew member from a merchant vessel – he was attempting to smuggle 12 kilograms by strapping it to his torso. Another kilogram was then found on searching the ship, and the Chinese national was arrested. Further investigations linked him to another foreign national; NZ Police arrested this man (and found a further 12 kilograms of ephedrine in his vehicle).
- 2.5 kilograms of cocaine hidden in the lining of five puffer jackets in the baggage of a United States woman arriving at Christchurch Airport in September 2019.
- 34 kilograms of methamphetamine on a commercial vessel arriving in Tauranga in November 2019. Our search of the vessel located the drugs hidden in bags across the ship. Two Fijian nationals were arrested.
- Around 46 kilograms of MDMA, 6 kilograms of ephedrine, and 1 kilogram of methamphetamine that arrived by mail or air freight, hidden in items such as LED lights, clothing, ornaments, toys, and thermos flasks. A Chinese national was arrested after our investigation connected him to drug packages we seized between July 2019 and February 2020.
- 20 kilograms of methamphetamine at Auckland Airport in May (while in Alert Level 3) in the carry-on suitcase of a New Zealand national. Search warrants led to an additional New Zealand man being arrested.

⁸ This includes all drug seizures with a weight in grams (the majority of these seizures are in powder and crystal form) or litres (including 409.5 litres of GBL, 35.8 litres of cannabis oil, and 15.3 litres of opium). These totals exclude other seizures, most of which are pills/capsules and seeds.

In our fight against illicit drugs we work closely with NZ Police, including the National Organised Crime Group. This includes sharing intelligence and proactively targeting criminal networks through joint operations.

In 2019/20 NZ Police continued its nationwide wastewater testing (except for a period due to COVID-19), providing us with an indication of illicit drug use in New Zealand. The results continued to reflect the seizures we made at the border – methamphetamine by far the most commonly detected illegal drug, MDMA the second most common, and then cocaine. Given the level of cocaine use compared with the volume seized at our border and by our offshore partners, it appears a significant proportion of the cocaine seized might have been intended to transit through New Zealand to another country, rather than intended for the New Zealand market.

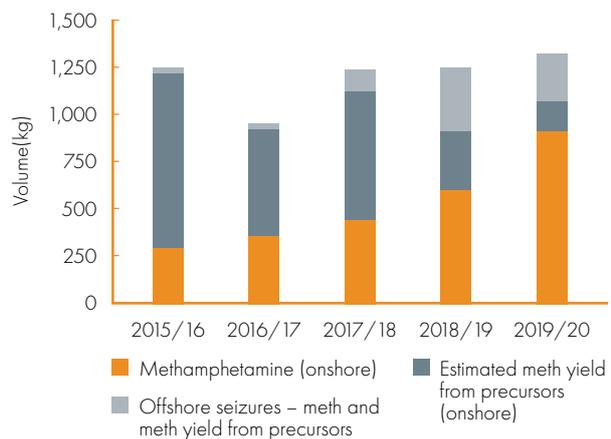
Drug seizures by type

Methamphetamine continues to be New Zealand’s most commonly used drug. Other illicit drugs continue to be seized at our border and offshore, however. This includes growing volumes of MDMA (ecstasy) and GBL (gamma-butyrolactone, commonly known as the ‘date rape drug’) in the last couple of years.

In 2019/20 Customs seized 905.5 kilograms⁹ and 6.1 litres of methamphetamine at the border, an increase in the powder/crystal weight of 51.1% from the 599.3 kilograms seized in 2018/19. The volume of methamphetamine precursors (ephedrine and pseudoephedrine) seized fell by 47.8%, from 411.7 kilograms in 2018/19 (with an estimated yield of 308.3 kilograms of methamphetamine) to 214.8 kilograms in 2019/20 (with an estimated methamphetamine yield of 160.2 kilograms). This reflects the continued shift in the last few years to importing the completed product.

The offshore seizures in 2019/20 included 247.2 kilograms of methamphetamine.¹⁰

Methamphetamine seizures by Customs and offshore partners



Seizures of other significant illicit drugs are in the table below. The increasing volumes seized offshore show the success of our strategy to stop illicit drugs before they reach our border.

Drug type	2018/19		2019/20	
	At NZ border	Offshore	At NZ border	Offshore
Cocaine	248.8kg	31.9kg	21.1kg	56.8kg, 3,000ml
MDMA	501.8kg, 8,060 tablets, 5,000ml	55.6kg, 1,054 tablets, 2,250ml	479.4kg, 3,460 tablets, 10,380ml	170.8kg, 8,915 tablets
GBL	3.4kg, 300,334ml	10.8kg	20.1kg, 409,459ml	34.7kg, 36,500ml

⁹ All of the 2019/20 drug totals in this report (including precursor totals), and the associated drug harm figures based on those totals, are provisional figures based on our initial weighing and recording of interceptions. These figures may change; for example, quantities may be updated after substances are further tested and/or the drugs are reweighed as an investigation progresses. The 2018/19 totals are different from those reported in the *New Zealand Customs Service Annual Report 2019* as those were provisional and the 2018/19 totals have now been finalised.

¹⁰ The offshore seizures for 2015/16 contained in the graph are based on data from a World Customs Organization database in which overseas agencies recorded interceptions. Customs’ system was updated to more effectively track offshore seizures from 2016/17.



Effect of COVID-19 on drug smuggling

While the number of seizures and volume of illicit drugs seized fluctuates from month to month, COVID-19 appears to have had an impact, particularly in April and May 2020. We made 61 seizures in April and 92 in May, compared with a minimum of 148 and an average of 225 in the other 10 months of the 2019/20 financial year. However we still seized illicit drugs in that two month-period, including nearly 30 kilograms of methamphetamine and over 6 kilograms of MDMA and 6 litres of GBL.

We expect this drop in seizures was the result of worldwide disruptions in the supply chain of these drugs due to the pandemic. While in the short-term the border travel restrictions in New Zealand and worldwide might have constricted the supply of illicit drugs into New Zealand, transnational organised crime groups will be looking at other ways to smuggle illicit goods across borders. We expect those groups have been adapting – for example, moving away from drug couriers in the passenger stream to alternative pathways.

Despite COVID-19 affecting the global environment and activity at the border, risks to our border continue and we remain vigilant. We continue to respond as methods of importation evolve.

Preventing financial crime

Organised criminal groups use cross-border cash transfers and trade-based money laundering to move the profits of their illegal activity across borders, and make them appear legitimate.

Our Financial Crime Unit (FCU) enhances our financial intelligence and investigative capability to reduce cash smuggling and trade-based money laundering, and in doing so reduce the incentives driving drug smuggling.

Following a successful trial in late 2018/19, the FCU grew in size, capability, and experience in 2019/20. We undertook a number of investigations into potential trans-border money laundering during the year, including instances of cash smuggling detected at the border.

The FCU also enhanced our relationships with local and international partners, increasing the visibility and reputation of Customs in the financial crime arena. In New Zealand this liaison includes with the NZ Police Financial Intelligence Unit, Money Laundering Team, and Asset Recovery Unit. Customs hosted experts from our Border Five partners (Australia, United Kingdom, United States, and Canada) at the inaugural Border Five Trade-Based Money Laundering Conference in Auckland in October 2019. We also signed a Memorandum of Understanding with the United States Department of Homeland Security that strengthens the cooperative relationship and data sharing between our two agencies. This will enable the FCU to carry out more sophisticated trade data analysis for targeted investigations of trade-based money laundering.

The movement of large sums of cash has been linked to illegal activities.¹¹ One of Customs' roles is to ensure money crossing our border is being carried for legitimate purposes. In 2019/20 our dogs detected the equivalent of NZ\$7.60 million in undeclared currency at airports, and \$0.08 million in premises or vehicles being searched under a Customs or NZ Police search warrant.

We continue to look to prevent people importing equipment to carry out fraudulent activity such as credit card skimming, or entering the country with that intention.

After executing a search warrant in January 2020, with NZ Police assistance, Customs officers arrested two Romanian nationals in Auckland for importing card skimming equipment to fraudulently withdraw money from ATMs. The pair was charged under the Customs and Excise Act with being knowingly concerned in the importation of goods that are for a dishonest purpose.

¹¹ While it is not illegal to carry large sums of money into and out of New Zealand, the law requires that travellers declare cash in any currency or form if it is equivalent to NZ\$10,000 or more, so authorities can check that the money is being carried for legitimate purposes and is not linked to illegal activities. Undeclared or misdeclared cash can be forfeited and seized. Not declaring cash or providing false or misleading information is an offence under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 and carries a range of penalties, including fines and imprisonment.



Combatting objectionable material

We continued work in 2019/20 on combatting and reducing objectionable material and online offending; the bulk of this relates to child sexual exploitation. Our role includes identifying people carrying images and videos across New Zealand's physical border, and those accessing or uploading them online across our virtual border.

We work closely with the Department of Internal Affairs (DIA), NZ Police, and overseas enforcement agencies to catch offenders, and identify and protect child victims. This includes sharing intelligence to target perpetrators, as well as information on trends, practices, and technology used by offenders and law enforcement.

Budget 2019 provided Customs with \$10.2 million over four years to boost resourcing and capability to combat child exploitation across our cyber and physical borders. The funding enables us to employ more specialist staff and buy more analytical and forensic tools. We can then target and investigate a greater volume of objectionable material, and work more effectively with our partner agencies.

In 2019/20 we bought two additional mobile forensic laboratories equipped with the latest tools for finding digital evidence. These specialist vans enable us to forensically examine electronic devices at the border or at search warrants, and quickly take action based on what is found.

We also employed four additional investigators and analysts in 2019/20 and intend to add more in 2020/21.

Customs captured around 85,000 objectionable publications in 2019/20.¹² These were material on devices we seized at the border or at search warrants, together with publications shared by New Zealand-based offenders using online, cross-border platforms. Six child victims were identified and safeguarded, locally and internationally, from material we seized.

Arrests in 2019/20 as a result of Customs investigations and activity included the following people.

- A Paraparaumu man in September 2019 on charges of exporting, distributing, and possessing child sexual exploitation publications (an overseas agency detected him and notified us).
- An Auckland man on charges including importing and possessing objectionable material. On his arrival at Auckland Airport in January 2020, we searched his phone and found images and video depicting child sexual abuse.
- Three youths (one in Hamilton, one in Auckland, one in Dunedin) had formal interventions with us after detection of import, export, distribution, and possession offending using internet-based social media applications. We sought alternative youth justice processes for these young people in preference to charging them with serious offences.
- A Northland man was charged (in October and December 2019) with exporting, distributing and possessing child sexual exploitation material following a referral to us from an overseas internet service provider. After further investigation and forensic analysis of seized devices, production of abuse imagery by the man was identified. The joint-agency victim identification Taskforce Ruru (Customs, NZ Police and DIA) subsequently identified six local children who had been abused and recorded. A joint Customs-Police prosecution resulted in 71 charges ranging from possession of drugs and weapons to abduction for sex and unlawful sexual connection with children.

¹²This total is not yet final as we continue to examine and categorise some material seized in 2019/20 and progress investigations.

Firearms and other weapons

Preventing illegal firearms and weapons from entering New Zealand is an important role for Customs. We made 1,585 interceptions of a total of nearly 500 firearms, nearly 5,200 firearm parts, and over 1,500 other weapons such as flick knives and knuckledusters in 2019/20.

We manage the importation of lawful and restricted firearms and firearm parts subject to permits issued by NZ Police, and detain and seize any prohibited firearms or parts. Amendments to the Arms Act 1983 soon after the 15 March 2019 mosque attacks in Christchurch changed the ownership and import permit requirements, and we implemented relevant changes at the border. The Arms Legislation Act 2020 made further changes (from June 2020) that will help Customs officers apply and enforce the Arms Act at the border.

Assurance programme

Our Assurance programme will inform and refine our intelligence through randomised sampling across various import streams. Over time it will enable us to refine our targeting and increase our success rate with fewer interventions.

In 2019/20 the programme verified compliance levels are reasonably consistent in all streams. From the sampling undertaken, the indicative compliance levels were:¹³

- air passengers: 97%
- mail: 97%
- fast freight: 96%
- sea cargo: 95%
- air cargo: 93%.

During 2019/20 we continued to further develop and embed the Assurance programme. We made significant progress by fully implementing automated sampling in all cargo streams, developed a sampling engine for the air passenger stream, and progressed to a trial phase in the sea passenger stream.

New tools and approaches

We continue to develop and implement new tools and initiatives to assist in our targeting of risk and protection role:

- *The Joint Border Analytics (JBA) team:* This is a border sector initiative with staff from Customs, MPI (Biosecurity New Zealand), and MBIE (Immigration NZ). It enables the three agencies to share data science expertise, tools, and methodology to help identify border risk and target interventions. In 2019/20 the JBA team developed analytical products using a range of data science techniques to support the all-of-government response to COVID-19, as well as intelligence and targeting functions across the border sector.

- *The frontline mobility application (Customs On Line – COLIN) for work-issued smartphones:* COLIN was completed and rolled out in phases to our frontline officers inspecting freight and mail, and searching passengers in 2019/20. The app enables them to capture reporting on interventions in a standardised format, in real time and anywhere. This delivers efficiencies and, over time, improved data quality. It also benefits customers as compliant cargo can be released directly via the app following the inspection.
- *Building relationships with Customs-controlled Area operators:* Teams in Christchurch and Auckland are proactively working with Customs-controlled Area operators to identify and address vulnerabilities, and make it harder for criminals to exploit their operations. Following a successful pilot in Christchurch in 2018/19, an additional team started in Auckland in November 2019. This work is producing results through actionable information.

The year ahead

- Assess the impact of COVID-19 on illicit drug markets and supply chains, and respond as smuggling methods evolve.
- Lead the implementation of New Zealand's response to mitigating the risk of transmission of COVID-19 across the maritime border.
- Expand our overseas presence as part of our work to identify and seize illicit drugs offshore.
- Continue developing our Assurance programme to assess levels of compliance and inform targeting.
- Further build our capability to combat objectionable material, particularly child sexual exploitation material.

Hokohoko TRADE

Our intention: New Zealand's trade flows efficiently across borders

Customs plays an important role in facilitating and promoting trade, and so growing New Zealand's economy.

We aim to ensure low-risk trade flows efficiently with the minimum of disruption (in time and money) to traders. We develop agreements to improve cooperation between customs administrations, negotiate and support Free Trade Agreements (FTAs), and support traders to benefit from those agreements.

We worked hard to support exporters and importers as the COVID-19 pandemic started to affect traders and the economy. Our immediate focus during Alert Levels 3 and 4 was on continuing to facilitate imports, exports, and critical supplies, and assisting businesses experiencing financial difficulties. This continues as we work through subsequent stages of the response and recovery.

¹³ All results are preliminary and indicative, and calculated as simple averages of sampled interventions only. Compliance data for 2019/20 excludes the period 27 March to 21 May 2020 (sampling activity was a non-essential function during the COVID-19 lockdown), and sampling for the air cargo stream started from 1 October 2019. Full implementation of sampling is dependent on the creation of systems-generated random selections in each stream.

Measuring progress against our strategic intention

Our Statement of Intent 2019–2023 records the indicators that will measure our success in delivering on our strategic intentions over those four years.

Strategic indicator: Percentage of trade transactions that are compliant

We aim to achieve high levels of voluntary compliance to underpin the efficient flow of trade. Trade compliance remained high in 2019/20, even as the number of transactions (import and export) transactions increased 14.4% from 2018/19. The proportion of transactions processed without requiring further intervention after risk assessment remained high throughout the year.

Indicator ¹⁴	Performance					Five-year trend	Expected future trend
	2015/16	2016/17	2017/18	2018/19	2019/20		
Percentage of import transactions that do not require further intervention after risk assessment	98.3%	98.5%	98.8%	98.8%	99.0%	↑	↔
Percentage of export transactions that do not require further intervention after risk assessment	99.8%	99.8%	99.8%	99.8%	99.9%	↑	↔

Further intervention with a transaction may include, but is not limited to, document inspection, screening, or search.

Strategic indicator: Ease of compliance

We aim to provide a simple, fair, equitable, and transparent system that is easy for all users. We provide education and information for all traders on their rights and obligations to make complying with border clearance requirements quick and easy.

Indicator	Performance					Five-year trend	Expected future trend
	2015/16	2016/17	2017/18	2018/19	2019/20		
Commercial goods clients' ease of compliance	76.6%	72.7%	65.9%	71.0%	-	↓	↑

We did not conduct our survey of goods clients (importers and exporters) in 2019/20. This was planned for late 2019/20 but we wanted to limit the load on businesses in a time of stress due to COVID-19, and the survey is designed for a business-as-usual environment.

Previously the slight downward trend was attributed in part to the gradual uptake of Trade Single Window (TSW) and the new information requirements to which customers needed to adapt. TSW has now become the standard for all traders and was available continuously in Alert Levels 3 and 4. When the survey is next conducted, we expect to see the positive trend from 2018/19 continue.

¹⁴The wording of these measures has been changed to avoid confusion with assurance-based compliance measures now being reported (see page 19). These measures were previously 'Percentage of import/export transactions deemed compliant'. In all other respects the measures remain unchanged.



Strategic indicator: Economic value of trade promotion and facilitation

New Zealand businesses and consumers benefit from the international relationships we have brokered with key trading partners. Trading arrangements, such as Mutual Recognition Agreements (MRAs) and Customs Cooperation Agreements, reduce customs clearance times and enhance the flow of trade across the border, reducing the costs for business and increasing trade flows as a result. In 2018/19 Customs commissioned the New Zealand Institute of Economic Research (NZIER) to assess the potential economic benefits from our MRAs. This research found that MRAs had a significant positive impact on New Zealand's gross domestic product (GDP) and consumer welfare.

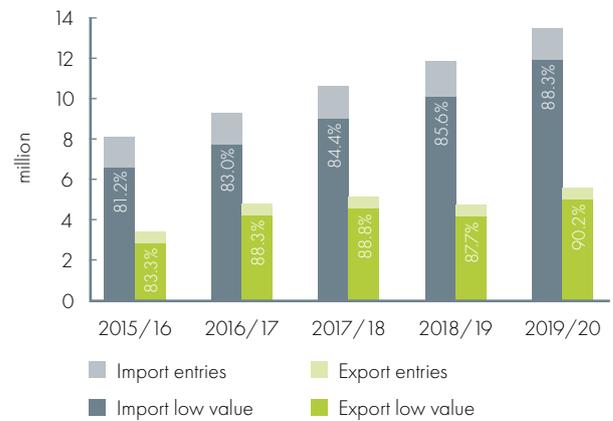
In 2019/20 NZIER tested the underlying assumptions of the original research by conducting a series of face-to-face meetings with exporters and logistics companies to better understand and quantify the time saving impacts for different commodities. As a result, NZIER refined its economic modelling assumptions and is more confident in the results produced in 2019/20.¹⁵

NZIER found that over the long term (7 to 10 years) the benefits delivered by our current MRAs (particularly the time savings through domestic and overseas customs and border clearances) increase New Zealand's GDP by US\$310 million and consumer welfare by US\$200 million annually. This is through stronger international competitiveness of New Zealand exports together with decreases in import costs, which result in increased consumption opportunities for New Zealand consumers (purchasing power from falls in prices), and productivity improvements of importing firms.

The year in review

The number of trade transactions processed increased in 2019/20. We processed 13.518 million import transactions,¹⁶ an increase of 13.3% from the total in 2018/19, and 5.615 million export transactions,¹⁷ an increase of 17.2% from the 2018/19 total. The growth in total transactions resulted from the significant increase in the number of low-value (under \$1,000) import and export transactions in 2019/20 because of the continued rise of e-commerce in recent years.

Trade transactions cleared



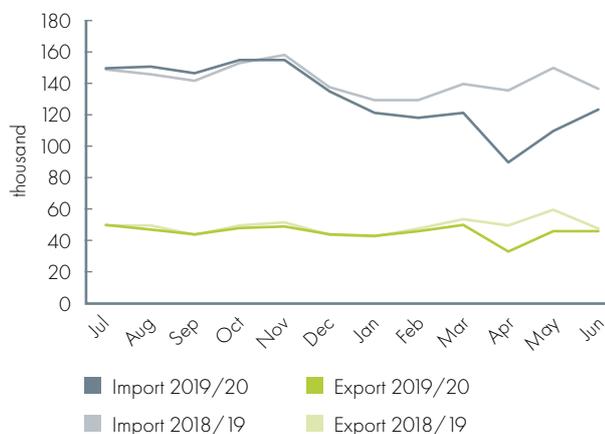
COVID-19 had a major disruptive impact on international supply chains, with a corresponding impact on New Zealand import and export volumes. In particular, trade with New Zealand's largest trading partner, China, decreased in the early stages of the pandemic, and air freight volumes were heavily affected by the loss of available flights.

This affected the number of transactions, particularly the import and export entries (the higher-value trade transactions). However, by the end of 2019/20 these were returning to levels similar to 2018/19 (in relation to sea freight, while air freight capacity continued to be significantly reduced).

¹⁵ On the economic benefits of the eight MRAs in place in 2019/20 – with Australia, China, Japan, Republic of Korea, the United States, Hong Kong, Canada, and Singapore.
¹⁶ Import transactions include standard import, simplified import, sight import, periodic import, temporary import, and private import entries, together with import and tranship Electronic Cargo Information transactions (ECIs). However, the import transactions total excludes import mail items.
¹⁷ Export transactions include export entries, drawback entries, and export ECIs – but exclude export mail items.



Trade entries (excludes low-value transactions)



Trade facilitation and critical supplies

When Alert Level 4 started in New Zealand, we helped keep international trade flowing, and provided support and guidance to importers, exporters, and the freight and logistics industry. Our efforts included:

- approving the movement of essential goods at the border, as well as non-essential goods when they hindered the movement of essential goods
- helping identify and expedite the border clearance of critical supplies such as personal protective equipment (PPE) and ventilators
- contacting around 80 importers of PPE to help assess supply and support needs (to inform the all-of-government response)
- supporting businesses with storage problems created by oversupply and congestion at the ports
- providing guidance to importers and exporters to ensure non-essential goods that could be moved from ports to storage areas met the necessary health precautions.

We worked across government and industry to come up with practical solutions to any issues emerging from disruption to the supply chain. We continue to provide expedited trade clearance arrangements with overseas customs administrations to clear critical supply chain shortages and barriers to essential imports and exports.

We have advocated for New Zealand exporters in ensuring shipments of essential goods are processed without delay at overseas ports. We have also engaged with our international partners on COVID-19 about lessons learned and any collective response to trade (and travel) issues.

The Trade Single Window (TSW) was available continuously throughout Alert Levels 3 and 4. This was key to keeping trade flowing over this period. The TSW enables cargo and excise industries to meet the information requirements of Customs and other border agencies (and receive responses) through a single electronic channel.

Business financial support

Under Alert Levels 3 and 4, we:

- worked with the Ministry of Business, Innovation and Employment, and urgently implemented a temporary tariff concession allowing the duty-free importation of hand sanitiser, and testing kits and reagent. We also fast-tracked tariff concession requests from businesses related to challenges arising from COVID-19
- supported excise manufacturers wishing to assist health efforts by using ethanol to manufacture hand sanitiser with no excise duty payable.

Our primary efforts with businesses were to cushion the immediate impact of COVID-19 by providing support and relief in meeting their obligations to pay duty, GST, and other levies to Customs. We invited all whose ability to pay on time was adversely affected by COVID-19 to contact us to discuss options.¹⁸

We assisted more than 350 businesses in 2019/20 by negotiating new payment dates, providing deferred payment options and a streamlined application process, and setting up instalment plans to assist clients better manage their cash flows. We received feedback this was invaluable in helping some businesses to trade out of the economic conditions and to retain staff. The number of clients with which we had adjusted payment arrangements (and the associated revenue payable to us) peaked at the end of May; by 30 June 2020 it had dropped to around 260 businesses.

So as to not penalise businesses struggling to pay their duty on time, the Government also agreed to remit or refund interest and penalties for late payment.¹⁹

¹⁸ Customs has flexibility to defer payments under the Customs and Excise Act 2018.

¹⁹ Through an amendment to the Customs and Excise Regulations 1996 that came into effect on 29 May 2020. It applies to duty interest and penalties arising on payments due on or after 25 March 2020 if specific criteria are met, and for up to two years.



Due to the lockdown's impact on the hospitality industry, and the expected flow-on effect for payers of excise on alcohol, we contacted all alcohol manufacturers to establish their needs and discuss options for managing their cash flow and payments on a case-by-case basis. We also worked with them to license new storage areas, or expand those areas already licensed, to store excess product that would normally have been sold.

In March 2020, to further help export and import businesses and protect jobs from the COVID-19 impacts, the Government suspended fee rises and pricing reviews by agencies that charge fees at the border for the next 12 months. This meant the planned increases to Customs' goods clearance fees, due to start on 1 June 2020, were deferred for 12 months.

Relationships with other customs administrations

We maintain relationships with other customs administrations around the world, supported by agreements with those administrations, and our counsellors in overseas posts.

Customs Cooperation Agreements (CCAs) are typically the first formal agreement we negotiate, helping to build relationships and trust between customs administrations and facilitate the subsequent negotiation of Mutual Recognition Arrangements (MRAs).

As a result of the UK's exit from the European Union (EU), we negotiated a new agreement with the UK to ensure we have the right cooperation frameworks in place beyond Brexit. The new CCA was signed in August 2019.

Customs has a multi-faceted response to support exporters and promote broader NZ Inc. interests in response to Brexit. This includes a counsellor in London. Our London and Brussels posts are working together to understand how the UK and the EU will redesign their border control processes and intelligence targeting post-Brexit, which could have implications for New Zealand goods going into those markets. We also have a multi-channel communications strategy, including industry outreach and our website, to provide consistent and reliable information on Brexit to our stakeholders.

In November 2019 we signed an amendment to the CCA with Australia, formalising the exchange between our customs administrations of passenger information on trans-Tasman cruise ship routes. This enables passengers to be pre-cleared before arrival in New Zealand, and provides a basis for future trans-Tasman seamless travel initiatives.

We have a number of MRAs with key trading partners. Through MRAs, customs administrations recognise each other's supply chain security programme, and treat exports from MRA members as low-risk. This provides trade facilitation benefits and lower compliance costs for programme members, including fewer border checks and reduced documentation requirements, and increased speed to market in the partner country, as well as priority in trade recovery situations.

New Zealand's supply chain security programme, the Secure Exports Scheme (SES), had applied only to sea freight. We expanded the SES to airfreight in 2019/20 to enable exporters of the time-sensitive perishable goods generally sent via airfreight to access the trade facilitation benefits offered. The first business using air freight joined the SES in October 2019.

We proactively engage with exporters to inform them of the benefits of being an SES member (and of FTAs). In 2019/20 we progressed targeting non-SES exporters in the top 250 exporters by value (for air and sea freight), as well as Māori businesses and small to medium enterprises, especially in the regions.

In 2019/20, 40.9% of New Zealand's export trade was covered by the SES, an increase from 35.4% in 2018/19.

The strengthened connections and trust our overseas counsellors develop with local customs administrations help to resolve barriers to trade for New Zealand exporters quickly and effectively.

Examples of assistance by our overseas posts to assist exporters in 2019/20 include:

- In May 2020 an export of Manuka honey to the Netherlands via Singapore was held at the Rotterdam port. Our counsellors in Brussels and Bangkok resolved the issue with Singapore Customs and the relevant Dutch authority, enabling honey to be on shelves in the Netherlands two days later instead of being returned to New Zealand.
- Our Jakarta-based counsellor played a key role in unlocking a complex and long-standing non-tariff barrier in one of our export markets in South East Asia. This was causing disruption and financial hardship for a number of New Zealand exporters, and for one exporter the additional duty amounted to around NZ\$8 million. Following our intervention, the customs administration agreed to refund the duty, and changed its approach so our exporters would not be impacted by this issue again.



Free Trade Agreements

FTAs contribute to our economy by helping New Zealand businesses be more competitive in overseas markets. They provide the parties with favourable tariff rates and reduced trade barriers.

We lead negotiation of the customs-related aspects of New Zealand's FTAs. In 2019/20 we took part in negotiations of the Regional Comprehensive Economic Partnership, Pacific Alliance FTA, and New Zealand-European Union FTA, as well as the upgrade of the existing New Zealand-China FTA.

The Joint Electronic Verification System (JEVS) with China Customs provides assurance to China that our exports qualify for tariff preferences under the FTA. It does this by enabling data to be exchanged electronically by our customs administrations to validate certificates of origin. This streamlines and accelerates clearance procedures with our largest trading partner. As part of the New Zealand-China FTA upgrade, we negotiated a new system for approved exporters to self-declare origin data to obtain preferential access to China. This will lower costs for exporters and develop a more favourable trust-based trading relationship with China. Development of the new self-service capability within the JEVS platform started in late 2019/20.

After an FTA is signed, we proactively support exporters to understand and take up the opportunities offered by the agreement. We have an 'outreach' programme to educate traders about the benefits available and how to comply with FTA requirements.

Streamlining trans-Tasman trade

The Secure Trade Lane (STL) initiative²⁰ aims to streamline border processes and make low-risk trans-Tasman trade more efficient and cost-effective for authorised traders. In 2019/20 a data discovery and analysis exercise by the STL project team identified 'pain points' and opportunities in the import/export process between selected ports in Australia and New Zealand. The team also consulted industry to understand its perspective.

That information fed into the digital STL trial with key industry partners. Phase one began on 1 March 2020 – COVID-19 affected the progress and scope, but we received sufficient data to demonstrate the potential benefits. We provided our phase one report to the Australian Border Force to collate with its findings. The project team will move into phase two of the trial in 2020/21.

The year ahead

- Continue to support traders affected by COVID-19.
- Continue to expedite the border clearance of critical supplies such as PPE and ventilators.
- Progress initiatives to support New Zealand's recovery from COVID-19.
- Expand the Secure Exports Scheme to more businesses, particularly those using airfreight.

Tāroi TRAVEL

Our intention: A streamlined experience for travellers across borders

Our focus is on streamlining the process for compliant travellers to improve the customer experience, while managing risk and maintaining border security. We aim to deliver high-quality border management across all modes of travel through more integrated and automated processes.

The COVID-19 pandemic had a deep and wide-ranging impact on international travel in 2019/20. Border restrictions imposed from early 2020 substantially reduced the number of international travellers and required a strong focus on managing health risk at the border. This shifted our emphasis in the latter half of 2019/20 from facilitating passengers to managing border risk as part of the broader all-of-government response to COVID-19.

We are also supporting the recovery from COVID-19. Work is underway with relevant agencies to put in place COVID-safe travel zone arrangements so that selected international commercial passenger air travel can resume when it is safe to do so. We are also leading work to define future border settings for travel through the World's Smartest and Safest Border initiative.

²⁰The STL initiative; our efforts to expand SES and increase SES membership; and the actions taken to support traders in the COVID-19 environment are relevant to section 439 of the Customs and Excise Act 2018. This requires reporting on initiatives or steps taken to reduce the costs of complying with the Act for businesses with a strong record of compliance. See page 109 for the reporting.

Measuring progress against our strategic intention

Our Statement of Intent 2019–2023 records the indicators that will measure our success in delivering on our strategic intentions over those four years.

Strategic indicators: Timeliness of passenger movements through Customs controls, and passenger experience

We aim to process international air passengers across the border in a manner that passengers experience as both timely and satisfactory. We achieve this by minimising the degree of interaction and delay for legitimate and compliant travellers, while ensuring potential risks are correctly identified and mitigated.

Indicator	Performance					Five-year trend	Expected future trend
	2015/16	2016/17	2017/18	2018/19	2019/20		
Proportion of arriving international air passengers processed within 45 minutes	95.1%	93.8%	95.5%	95.6% ²¹	94.4%	↔	↓
Air passenger satisfaction	91.9%	92.0%	90.0%	92.9%	–	↔	↔

The border restrictions due to COVID-19 included closing eGates to all arriving air travellers in March 2020. This resulted in more travellers being processed through manual screening and a significant increase in the average processing time for arriving passengers.²² In the eight months from 1 July 2019 to 29 February 2020, 95.5% of arriving air passengers were processed within 45 minutes. From 1 March to 30 June 2020, this figure was only 86.1%; this had a minimal impact on the overall 2019/20 result due to the drastic drop in overall passenger numbers during the same period.

We did not conduct our survey of international air passengers in 2019/20. The survey was originally planned to be undertaken in March 2020 based on a sample of passengers arriving in January but this was deferred due to the unfolding COVID-19 situation. We subsequently decided in late May 2020 to cancel the 2020 survey as the original sample was too dated and, due to international travel restrictions, there were insufficient numbers of passengers to generate a viable new sample.

Strategic indicators: Intervention rate and intervention effectiveness by level of risk

We continually consider whether our risk settings and systems are appropriate. The assurance model currently being developed will further inform and refine our intelligence (see page 19). Reporting against these indicators is expected to start in the 2020/21 year.

Strategic indicator: Degree of meaningful collaboration and engagement

Border sector agencies have been working together under the Border Sector Governance Group (BSGG – which provides leadership and strategic direction) since 2007 to lift our quality of service to legitimate travellers and ensure we identify and prevent potential risks at our ports of entry. The COVID-19 global pandemic has required us to take on new functions and work together to manage the health risk from individuals crossing our air and sea borders.

Customs chairs the BSGG (since April 2020) and the Border Sector Working Group (since January 2020). These collaborative multi-agency groups have met regularly since the start of the pandemic to support the all-of-government response (see page 9 for more on the groups). They have been imperative for maintaining New Zealand's strong border response, and are important to the recovery, including through pursuit of the World's Smartest and Safest Border.

²¹ The results for 2015/16 to 2018/19 differ from those included in the *New Zealand Customs Service Annual Report 2019* – we have identified that the previous values were those processed in less than or equal to 45 minutes (so less than 46 minutes) rather than less than 45 minutes.

²² Due to social distancing requirements resulting in passengers being escorted off arriving flights in staggered groups, undergoing health and temperature checks, and being separated from other incoming flights before Customs processing.

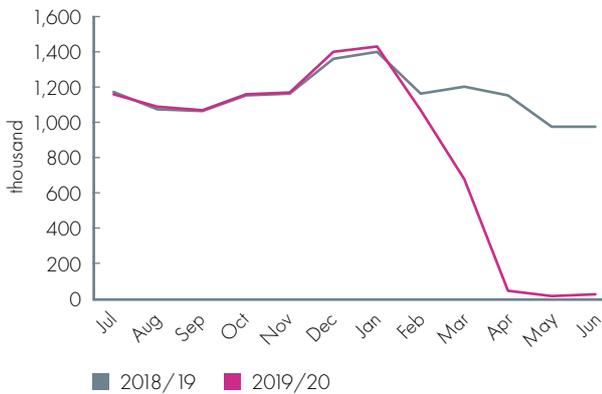
The year in review

In 2019/20 we processed 10.777 million international passengers,²³ a drop of 25.5% from the record 14.464 million in 2018/19. Most travellers are arriving and departing air passengers (10.395 million in 2019/20, down from 13.950 million in 2018/19). Border restrictions introduced due to COVID-19 had a significant effect on traveller volumes.

The Government introduced the first border restriction for air travellers on 3 February 2020 (relating to foreign nationals travelling to New Zealand from, or transiting through, mainland China). Other changes followed to border measures restricting entry to New Zealand, until entry was prohibited (subject to exceptions) from 19 March 2020 for all but New Zealand residents and citizens (and their children and partners).

Cruise ships were banned from entering New Zealand's territorial waters from 11.59pm on 14 March 2020.

Commercial air passengers (arriving and departing)



Some staff have been redeployed from passenger processing to other work while volumes remain low due to COVID-19 and border restrictions, but in such a way that they can return to processing when traveller numbers increase.

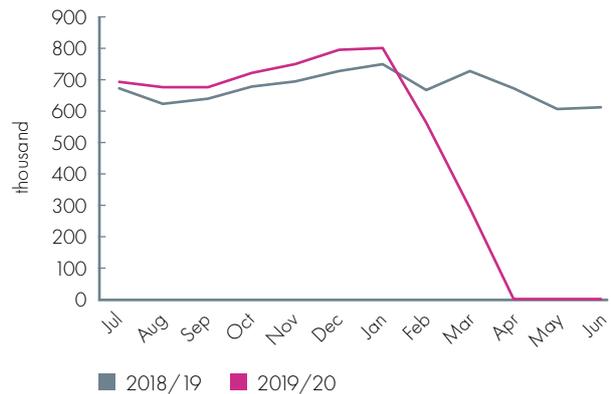
Our staff still at airports are undertaking a wider range of duties than the usual passenger processing. This includes escorting arriving passengers from the aircraft through the health, customs, and biosecurity processes and to the transport to managed isolation facilities.

eGate passenger processing

An eGate is an automated way to get through passport control. This self-service option provides a streamlined passenger experience while enabling us to focus on those travellers who might present a higher risk. It has been particularly valuable in recent years as traveller volumes continued to rise and eligibility was extended to more nationalities, meaning eGate was being used by an increasing proportion of travellers.

Due to COVID-19, restrictions on eGates were introduced in February 2020 (only eligible passengers on flights from particular countries were able to use them). In March eGates were closed to all travellers. As a result, 6.000 million arriving and departing passengers used eGate in 2019/20, a drop of 25.9% from 2018/19 (8.095 million).

Passengers using eGate



We continued to work with MBIE (Immigration NZ) in 2019/20 on making eGate available to more nationalities. Eligibility was formally extended to Japanese ePassport holders in September 2019 and South Korean ePassport holders in October 2019. Our work on extending eligibility further was put on hold once the border restrictions were introduced and eGates closed.

²³This includes all people arriving in and departing New Zealand by air or sea excluding crew. Crew amounted to a further 0.665 million approximately.



Digital arrival card/declarations

In 2019/20 Customs led a project, with MPI and MBIE (Immigration NZ) and external stakeholders, to assess the feasibility of a digital arrival card to replace the current paper card. Benefits of an e-declaration include passengers not having to fill out the same personal information each trip, border agencies being able to provide better information and guidance to passengers (than can fit onto a reasonably-sized physical card), and the declaration data being able to be transferred electronically to relevant agencies. The COVID-19 pandemic also reinforced the advantage of a non-physical card.

In 2019/20 we undertook a trial to assess the viability of a digital arrival card and identify changes required to border agency processes. The trial report reflects general support for the concept, and a digital arrival card is likely to be viable. Further work and trialling is required to develop the best end-to-end design, particularly as a result of COVID-19.

The World's Smartest and Safest Border initiative (see page 10) is looking to address the future of passenger processing, including digital declarations, and the trial report will inform that work.

COVID-safe travel zones

We have been involved in work across relevant agencies relating to COVID-safe travel zones. A zone would only be put in place once necessary border, health, transport, and other protocols have been developed and met.

We have worked with MBIE (Immigration NZ), the Ministry of Foreign Affairs and Trade, the Ministry of Health, the Ministry of Transport, the Department of the Prime Minister and Cabinet, and a number of private sector organisations, including airlines and international airports in New Zealand and Australia, to identify solutions and develop advice on possible safe travel zones.

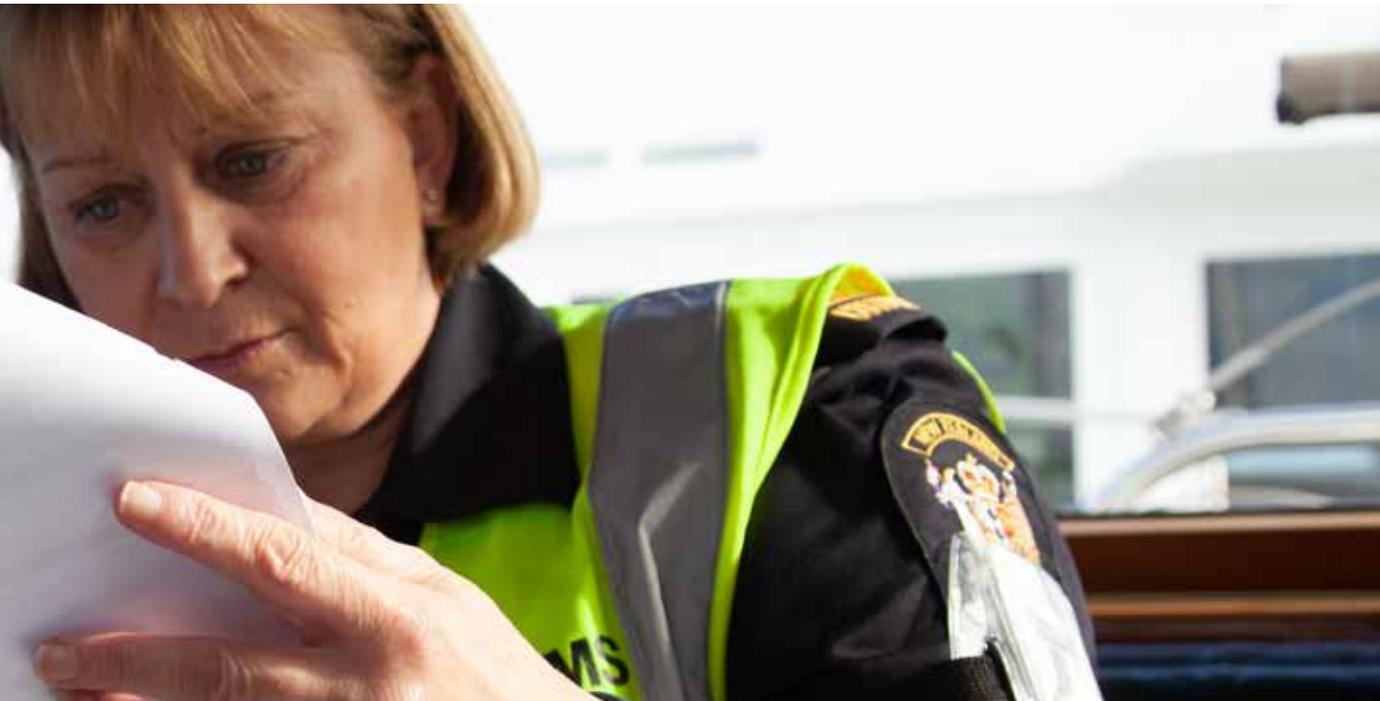
Initial work in 2019/20 centred on achieving a trans-Tasman COVID-safe travel zone or 'travel bubble' by easing restrictions between Australia and New Zealand. As part of this we regularly engaged with our Australian counterparts (particularly the Department of Home Affairs and the Australian Border Force), and provided advice to the Government. That work continues in 2020/21, taking into account the continually changing situation.

Agencies also progressed work on a mechanism and processes for bringing the Cook Islands, Niue, and Tokelau, with which New Zealand has a special relationship,²⁴ into a quarantine-free travel zone.

The year ahead

- Continue to work on the World's Smartest and Safest Border initiative.
- Participate in developing safe/quarantine-free travel zones, and implement relevant processes for any zones created.

²⁴As countries in the Realm of New Zealand.



Kohinga tāka REVENUE

Our intention: Collect all due revenue

We contribute to the Government's accounts by collecting around 18% of core Crown tax revenue each year. We do this by way of customs duty (including tariffs) and GST on imports together with excise duty on domestically manufactured alcohol, tobacco, and petroleum products, and excise equivalent duty on the same products imported into New Zealand.

Our focus is on collecting all due Crown revenue through high voluntary compliance and addressing all non-compliance.

Our revenue collection was affected by the COVID-19 pandemic in the latter half of 2019/20. Lower trade volumes in early to mid-2020 resulted in a slight decline in the Crown revenue collected in 2019/20. We worked proactively with businesses to help mitigate the business impacts of the pandemic, using the mechanisms available to us to provide support and relief to businesses experiencing cash flow challenges. This was balanced against our obligations to collect all revenue due, and includes us proactively managing debt.

Measuring progress against our strategic intention

Our Statement of Intent 2019–2023 records the indicators that will measure our success in delivering on our strategic intentions over those four years.

Strategic indicator: Compliance rate of audited companies

We undertake activity to ensure importers, exporters, and licensed manufacturers of excisable goods comply with legislation, and the correct duties and taxes are paid. Random sampling of import entries provides assurance of compliance through the transactional verification process (see page 22). Risk audits²⁵ serve the dual purpose of identifying non-compliance and providing education to encourage future voluntary compliance.

Indicator: compliance rate	Performance					Five-year trend	Expected future trend
	2015/16	2016/17	2017/18	2018/19	2019/20		
Random sampling compliance rate (1,413 import entries)	89.8%	88.7%	90.3%	90.9%	91.4%	↑	↑
Compliance rate (299 risk audits)	–	–	–	37.6%	47.8%	N/A	↑

The risk audit programme is developed using a combination of industry intelligence, assessed risk, trade volume, and voluntary disclosures (meaning the compliance rate is expected to be, and is, lower than that found through random sampling). This means the expected rate of compliance depends on the type and scope of audits conducted and the degree of non-compliance observed. We expect the rate of risk audit compliance to improve over time from the benchmark established in 2018/19. Most non-compliance observed in risk audits in 2019/20 was unintentional (98.1%), with only three instances of deliberate non-compliance.

²⁵ Risk audits include both comprehensive audits (all elements of a company's trading activity) and partial audits (focused on specific elements of a company's trading activity).

Strategic indicator: Appropriateness of response to non-compliance

Most revenue is collected on time (98.0%, as recorded on page 66). In those rare instances where due revenue is still outstanding after standard follow-up processes, Customs responds by working with organisations to agree payment plans or by pursuing debt recovery methods.

Indicator: amount of outstanding revenue by response	Performance					Five-year trend	Expected future trend
	2015/16	2016/17	2017/18	2018/19	2019/20		
Payment plans (262 responses in 2019/20)	-	-	-	\$0.65m	\$58.27m		
Statutory demands served (1)	-	-	-	\$0.49m	\$0.07m	N/A	↓
Summary judgments sought (11)	-	-	-	\$3.10m	\$3.70m		

The number of responses (30 in 2018/19) and associated amount of outstanding revenue significantly increased in 2019/20. This was due to us working with businesses to reach alternative payment arrangements and defer payments where appropriate to ease the effects of COVID-19 on New Zealand businesses (see page 22). At the end of December 2019, prior to COVID-19, we were seeking only \$0.81 million of outstanding revenue. By the end of May 2020, when adjusted payment arrangements peaked, outstanding revenue had increased to \$126 million. However, as New Zealand moved down Alert Levels and business operation resumed, the amount of outstanding revenue reduced. As at 30 June 2020 there were 274 responses to outstanding revenue relating to \$62.04 million in debt.

Strategic indicator: Overall level of trust and confidence in Customs' revenue collection

As a core Crown tax revenue collector, it is essential New Zealanders have trust and confidence that we undertake our collection role effectively.

Indicator	Performance					Five-year trend	Expected future trend
	2015/16	2016/17	2017/18	2018/19	2019/20		
Trust and confidence in Customs' revenue collection role	-	-	-	45.0%	-	N/A	↑

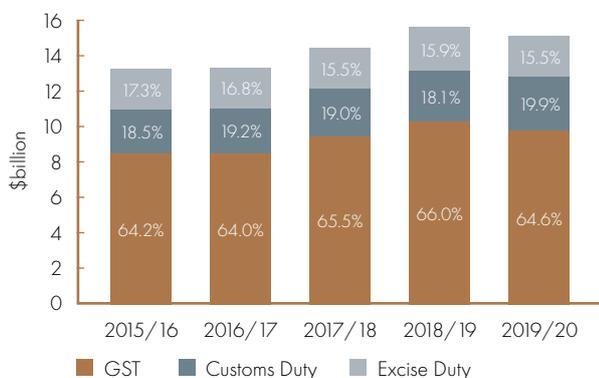
Our Public Trust and Confidence survey was not conducted this year due to the effects of COVID-19 (see page 15). Colmar Brunton's 2020 Public Sector Reputation survey showed positive movement, with Customs ranking third in overall reputation and second in trust.

The year in review

In 2019/20 we collected \$15.108 billion of revenue by way of customs duty, excise duty, and GST, a decrease of 2.8% from the 2018/19 record total of \$15.543 billion.

This drop in revenue represents in part the effect of COVID-19 on trade. To a lesser extent, it reflects our arrangements with traders to delay payment of revenue to us as part of our assistance to those the pandemic adversely affected (see page 22).

Crown revenue collected by Customs



We also collected a total of \$352.2 million in levies at the border on behalf of other agencies,²⁶ together with \$7.6 million for the Crown through the Synthetic Greenhouse Gas levy on imported goods (\$7.4 million) and infringement notices (\$0.2 million).

Our collection of revenue is based on self-assessment of duty liability and voluntary compliance by traders (importers, exporters, and licensed manufacturers of excisable goods), reinforced by our assurance activity.²⁷ As a result, we focus on increasing the levels of voluntary compliance with revenue obligations and improving our revenue risk management, while also delivering efficiencies.

We continually revise and improve our trade assurance strategy and programme. We do this to achieve greater assurance in self-assessment processes, and address identified risks such as non-compliance with revenue requirements. We also then recover any outstanding revenue.

A primary part of our strategy is ongoing engagement with, and education of, traders to encourage and improve voluntary compliance when they calculate and declare the amount of revenue owed to Customs. As part of this, we completed a new Customs Valuation Guide, published on our website in May 2020. The Guide was designed as an accessible resource to help businesses understand the rules and principles around valuing goods imported into New Zealand, and so how to determine a Customs value for their goods.

In 2019/20 we continued intelligence-led, risk-based audits to ensure traders complied with legislation and paid the correct revenue. Although our in-person audit visits were limited for a time due to COVID-19 Alert Levels, we were able to continue with electronic-based, document audits. We also carry out random verifications, using a wider range of transactions, of data entered by traders. If a trader has not complied with requirements, our response ranges from educating traders to encourage voluntary compliance, to auditing and prosecution.

The Joint Border Analytics team used data analytics and anomaly detection to identify a discrepancy in the declared versus expected weight of an import of alcohol in 2019/20, leading to uncollected due revenue of over \$0.3 million. The relevant company was then audited, uncovering more uncollected revenue (and Customs applied an administrative penalty to the company).

Investigating fraud and revenue evasion

We maintain a strong focus on identifying and addressing revenue evasion and fraud-related offending.

A Dunedin businessman was arrested in November 2019 following a Customs investigation into systematic undervaluation of machinery imports using altered invoices, resulting in underpayment of at least \$1.4 million in GST. The charges included defrauding Customs revenue and obtaining by deception. NZ Police also restrained property worth around \$6 million.

²⁶This includes MPI's portion of the Border Clearance Levy, which we collect on behalf of MPI. The largest proportion annually is the ACC levy.

²⁷Self-assessment allows trade to flow without undue delay, but with compliance assurance checks and post-clearance audit activity to provide assurance.

Tobacco

New Zealand has one of the highest retail prices in the world for tobacco products. This means organised crime groups and individuals have strong incentives to target New Zealand due to the profits in illicit trade. Tobacco products are only illegally imported to evade taxes. We have seen an increasing volume of illicit tobacco products at the border in recent years, including tobacco leaf being imported in growing quantities. While we have seen large-scale smuggling through air and sea freight, we have also seen a growth in low-level smuggling of small quantities through the mail system.

We made over 4,000 interceptions of over 4.9 million cigarettes and nearly 638 kilograms in loose tobacco in 2019/20 (this does not include the tobacco abandoned at the border by those who did not want to pay the taxes). This is an increase from the 2,000 interceptions of over 4.6 million cigarettes and nearly 642 kilograms in loose tobacco in 2018/19.

Stronger regulatory controls were introduced at the border through the Customs and Excise (Tobacco) Amendment Act 2020, which came into effect on 1 July. Tobacco products (including tobacco leaf and refuse) became prohibited imports unless a business or individual obtained a Customs permit to import the products. The Act also prohibits their importation through international mail, closing off an import channel used by smugglers.

To reduce the costs of processing border seizures of illicit tobacco, the Act provides for a simplified seizure process. Before 1 July, Customs had to prove the importation was intended to evade excise tax before the tobacco could be seized or significant enforcement action taken (such as a prosecution). The Act gives us the authority to seize and destroy illegally-imported tobacco products, and tobacco leaf and refuse, on the spot. This frees up resources and reduces costs.

Collecting duty on low-value goods

On 1 December 2019 the Government implemented the Offshore Supplier Registration system (OSR). Offshore suppliers are required to register, collect GST on items valued at or below \$1,000 supplied to New Zealand consumers, and remit the revenue to Inland Revenue.

Arrests in 2019/20 as a result of Customs' investigations and activity included:

- An Auckland businessman in August 2019 charged with defrauding Customs revenue by smuggling 483,600 cigarettes in a shipping container of foodstuffs, evading payment of \$0.54 million in Customs duty and GST.
- A man at Auckland Airport in November 2019 following an investigation by Customs with the Cook Islands Customs Service and Financial Intelligence Unit. The investigation identified a family-based criminal enterprise operating out of Auckland and manipulating travellers into illegally bringing tobacco into New Zealand. We believe the offending spanned at least 10 months and involved evasion of over \$0.1 million in revenue. Following search warrants, a woman was also arrested.
- In January 2020 we examined a sea cargo consignment of 'new household items' and discovered 75,000 undeclared cigarettes, involving the evasion of over \$80,000 in revenue. Our investigation linked the shipment to an Auckland man and showed the use of a number of storage facilities and PO Boxes across Auckland opened using false identities – likely used to facilitate illegal imports. We executed search warrants in Auckland in June, resulting in the man's arrest and the seizure of about 3,000 cigarettes and \$14,000 in cash.

From that date Customs did not collect revenue on imported consignments (parcels) valued at or under \$1,000, unless they included alcohol or tobacco (these are not subject to the new system). Under the OSR, Customs only collects GST and duty (together with our import entry transaction fee and MPI's biosecurity system entry levy) on consignments over the \$1,000 threshold. We do not collect GST if documentation shows it has already been charged offshore. Customs shares data on low-value imports with Inland Revenue, enabling that agency to monitor and ensure payment.

We continue to assess all consignments entering New Zealand for non-revenue risks, regardless of value or who collects the GST.

The year ahead

- Keep supporting clients adversely affected by COVID-19 through alternative payment arrangements, while continuing to collect all possible Crown revenue due.
- Assess the impact of the Customs and Excise (Tobacco) Amendment Act 2020 on tobacco smuggling, and action any resulting changes to processes and procedures.

