



Progress Against Our Strategy

Customs aims to be an agile organisation that can respond to the challenges and opportunities of the dynamic global and border environment to deliver services that protect and promote New Zealand across borders. This enhances New Zealand's reputation as a trusted, safe, and secure place to travel to and trade with, and contributes to the growth of the economy and the wellbeing of New Zealanders and their families.

We recognise that the vast majority of people comply with their customs obligations. Much of our work focuses on ensuring that compliant trade and travel is cleared with minimal intervention by Customs, by utilising our risk management systems and through increasing use of our automated service delivery processes. In 2018/19 we facilitated increased trade and travel volumes and continued to experience high levels of compliance.

Our role in protecting New Zealand from the harms associated with prohibited goods and people remained a strong focus of our work in 2018/19 as we experienced continued growth in the volume and sophistication of criminal offending and associated threats to the border. This was reflected in the increases in the volume of drugs seized, both by Customs at the border and our overseas partners offshore, and in the level of harm to New Zealanders prevented as a consequence.

Protection

Customs continues to protect New Zealand by identifying and managing a variety of risks and threats at the border in an increasingly complex and challenging environment. Our intelligence-led risk management approach enables us to focus on the minority of people, goods, and craft likely to present risks to our border or revenue.

Illicit drugs

Overseas-based organised crime groups are influencing and exploiting the New Zealand illicit drug market because of the money to be made here. New Zealand's 'street prices' for illicit drugs are among the highest in the world, meaning greater profit margins for them compared with most markets globally.

Customs must respond as criminals continue to become more sophisticated, globally connected, and innovative, and use a wider variety of smuggling methods. The suspected involvement of larger, influential organised crime groups in smuggling illicit drugs to New Zealand also means we are seeing sizeable quantities in some individual shipments.

We seized a total of 1,962.2 kilograms and 220.9 litres of illicit drugs² at the border in 2018/19.

Significant seizures of illicit drugs by Customs in 2018/19, and examples of smugglers' various concealment methods, include the following.

- The record 190 kilogram seizure of cocaine found by Customs in August 2018 in a shipment of bananas on a vessel from Panama. This was as a result of information from, and cooperation with, Australian law enforcement and led to the arrest of a man in Australia.
- 110 kilograms of methamphetamine (and two loaded handguns) hidden in batteries inside golf carts imported from the United States in January 2019. A Chinese national and a Taiwanese national were arrested.
- Almost 1 kilogram of cocaine smuggled by a Brazilian woman arriving at Auckland Airport in September 2018. The cocaine was hidden on her body and in pellets she swallowed.
- Around 15 kilograms of methamphetamine found in the four suitcases of two Canadian women arriving at Auckland Airport from Hong Kong in May 2019.
- Over 90 seizures of MDMA (ecstasy) of over 2 kilograms in weight, mainly at the International Mail Centre. This included seizing more MDMA in the first 12 days of January 2019 than in all of 2018.

² This includes all drug seizures with a weight in grams (the majority of these seizures are in powder and crystal form) or litres (including 197.5 litres of GBL and 6.1 litres of methamphetamine). These totals exclude other seizures, most of which are pills/capsules and seeds.



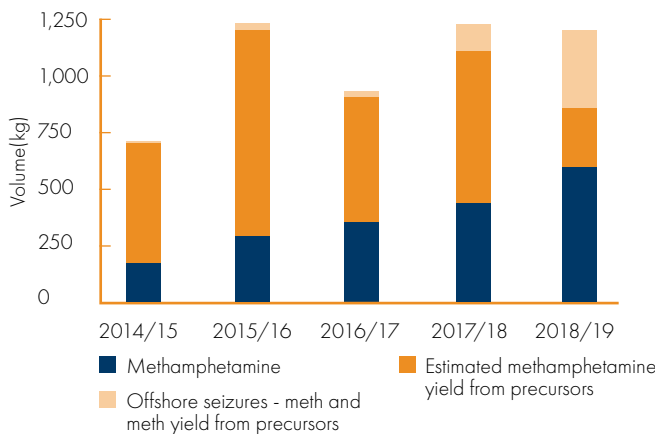
599.9
KG

of methamphetamine seized at the border

In 2018/19 Customs seized 599.9 kilograms³ and 6.1 litres of methamphetamine at the border, an increase in the powder/crystal weight of 35.0 percent from the 444.4 kilograms seized in 2017/18. The volume of methamphetamine precursors seized decreased by 59.6 percent from 896.0 kilograms (with an estimated yield of 672.7 kilograms of methamphetamine) in 2017/18 to 361.7 kilograms in 2018/19 (with an estimated methamphetamine yield of 270.8 kilograms). This reflects the shift to importation of the completed product.

A key part of our strategy to protect New Zealand is to disrupt drug networks offshore and stop illicit drugs before they reach our border (as discussed on page 10). We do this through our relationships with our international partners and our staff located overseas. The success of these efforts is seen in the increasing volume of drugs intercepted offshore. The offshore seizures⁴ in 2018/19 included 330.8 kilograms of methamphetamine (and 5.8 kilograms of precursors with an estimated methamphetamine yield of 4.4 kilograms).

Methamphetamine seizures



While methamphetamine continues to be New Zealand’s most commonly used drug, we saw indications in 2018/19 that organised crime groups are attempting to increase the market for cocaine and MDMA (ecstasy). Seizures of both those drugs increased significantly at the border and offshore.

Customs seized 480.2 kilograms (powder form), 7,587 tablets, and 5 litres of MDMA in 2018/19 compared with 31.6 kilograms and 4,050 tablets in 2017/18. We seized 210.8 kilograms of cocaine in 2018/19 (this includes the record 190 kilogram seizure found in a shipment of bananas), up from 58.7 kilograms in 2017/18.

In 2018/19 our overseas partners seized offshore an additional 55.6 kilograms, 2.3 litres, and 1,054 tablets of MDMA (an increase from 7.2 kilograms in 2017/18), and 31.9 kilograms of cocaine (up from 27.7 kilograms in 2017/18), headed for New Zealand.

We also continued to intercept other illicit drugs such as synthetic cannabinoids and LSD at the border.

In 2019 New Zealand Police (NZ Police) announced the results of nationwide wastewater testing in the six months from November 2018 to April 2019, providing us with an early indication of illicit drug use at a national level for the first time. While these are initial results and do not yet provide a full picture, they reflect the seizures made by Customs at the border – with methamphetamine being by far the most commonly detected illegal drug, MDMA the second most common, and then cocaine.

³ All of the 2018/19 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 2017/18 totals are different from those reported in the *New Zealand Customs Service Annual Report 2018* as those were provisional and the 2017/18 totals have now been finalised. The final total includes a significant seizure of methamphetamine precursors in 2017/18 that was not included in the provisional totals.

⁴ The offshore seizures for 2014/15 and 2015/16 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.



Strategic targeting and disruption of illicit drug supply chains offshore

We work proactively with our overseas enforcement partners to identify and seize drugs destined for New Zealand. This approach is key to Customs’ strategy of disrupting risk as early as possible in the supply chain to prevent harm and cost to New Zealand. Offshore drug disruption prevents drugs coming to New Zealand, while apprehending criminals overseas reduces the impact on our justice system.

Customs received additional funding in Budget 2018 to deliver against this strategy, which we are doing through our Source to Shore Drug Disruption Programme. Customs is using the funding to:

- Increase our overseas engagement and presence. Having Customs people engaged overseas and also stationed in some of New Zealand’s embassies and consulates strengthens relationships, the exchange of information and intelligence, and on-the-ground coordination. The first of the new posts, the Consul in Los Angeles, started in March 2019.

- Add more New Zealand-based positions in key areas to detect drug smuggling activities, gather intelligence to support targeted investigations and disruption, and proactively investigate transnational criminal networks operating offshore.
- Set up a border-related financial crime unit (discussed on page 11).
- Develop an evaluation and measurement capability that will use data to better understand illicit drug smuggling networks and focus our efforts where they will have the greatest effect.
- Bolster our maritime and frontline work by acquiring new equipment including mobile x-ray technology and a rigid-hulled inflatable boat.

Working with our international partners, in 2018/19 there were more than 200 interceptions offshore of illicit drugs destined for New Zealand, avoiding potential harm to the country of over \$520 million.⁵ Most of the interceptions, and harm avoided, related to drugs coming from the Americas.

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.



Intercepting drugs at sea

In response to the illicit drug shipments detected in the South Pacific region in recent years, the Maritime Powers Extension Act 2018 was passed and came into force on 1 October 2018. The Act gives Customs the power to stop, board, and search ships suspected of being used for drug smuggling offences in international waters around New Zealand. Where evidence of offending is found, we are able to arrest individuals and direct the ship to New Zealand, where it may be seized.

Preventing financial crime

Cross-border cash transfers and trade-based money laundering are used by organised criminal groups looking to move the profits of criminal activity across borders and disguise the proceeds of crime. Customs is growing our capability in this area through a new financial crime unit. The unit will build intelligence and insights for trade-based money laundering and cash smuggling investigations, targeting the financial incentives for drug smuggling.

The movement of large sums of cash has been linked to illegal activities.⁶ One of Customs' roles is to ensure that money crossing our border is being carried for legitimate purposes. Our dual-trained detector dogs (that can detect cash as well as illicit drugs) are a valuable tool. In 2018/19 they detected the equivalent of NZ\$7.49 million in undeclared currency at the border, plus an additional \$0.99 million located when searching houses or vehicles under a Customs or NZ Police search warrant. Of the total undeclared currency detected, \$1.34 million was concealed through the person deliberately hiding the cash and not being forthcoming when questioned. The remaining \$7.14 million was willingly presented by the relevant person on questioning.

We also continue to look to prevent people entering the country who intend to carry out fraudulent activity such as credit card skimming.

⁶ 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 subject to forfeiture and seizure. 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 is subject to a range of penalties, including fines and imprisonment.



Combating objectionable material

In 2018/19 we continued our work on combating and reducing objectionable material and online offending, including that involving child sexual exploitation and abuse, and relating to terrorism or extremism. Customs' role includes identifying people carrying this material across New Zealand's physical border, and people accessing and uploading images and videos online across our cyber border.

Our work contributes to the Government's goals of 'improving the wellbeing of New Zealanders and their families', and 'making New Zealand the best place in the world to be a child'.

Customs works closely in this area with the Department of Internal Affairs and NZ Police – in 2018/19 this included supporting those agencies in relation to objectionable material connected with the attack on Christchurch mosques. Internationally we are part of a global network that aims to target offenders, reduce sexual exploitation of children through the creation and distribution of abuse imagery, and identify and rescue victims.

We captured over 305,000 objectionable publications in 2018/19,⁷ consisting of material on devices seized by Customs at the border or on search warrants, together with publications shared by New Zealand-based offenders using online, cross-border platforms. Five child victims have been identified, locally and internationally, from material we seized.

Arrests in 2018/19 as a result of Customs investigations and activity included the following people.

- An Auckland man on charges including exporting, importing, possessing, distributing, and producing child sexual abuse publications as well as entering into a commercial agreement with an underage person for sexual services (some of the publications contained evidence from a trip to the Philippines in 2016). This resulted from a Customs search of his home in August 2018.
- A Nelson man in April 2019 who had traded child exploitation material through a social messaging app. A search of his home found further evidence of the export and distribution of publications. Our investigation resulted in additional Police charges.
- A New Zealand national, who lives overseas, in April 2019. On his arrival at Auckland Airport for a short holiday, we searched his phone and located child sexual abuse images and video.
- A Hamilton man in June 2019, following Customs searching his USB storage device and tablet on arrival at Auckland Airport and finding child sexual abuse images. A later search of his home located a large number of images and videos.

⁷ This total is not yet final as we continue to examine and categorise some material seized in 2018/19 and progress investigations.



Customs received \$10.2 million in funding (over four years) in Budget 2019 for the *Combating the Sexual Exploitation of Children Across our Cyber Border* initiative. It will enable us to hire additional specialised investigators and analysts, and acquire supporting analytical and forensic tools. This will strengthen our ability to detect and prevent the cross-border trade in child sexual exploitation material, target and investigate a greater volume of material, and work more effectively with partner agencies. The additional capability will enable us to better respond to the growing threats of peer-to-peer offending, live streaming, travelling sex offenders, and the DarkNet.

Attack on Christchurch mosques

Customs participated in the response to the 15 March 2019 attack on the Christchurch mosques by supporting NZ Police to build the intelligence picture and continuously assess the real-time threat. We also increased our presence by proactively deploying more uniformed officers to all international airports while the country's threat level was high. This was to manage risk and to reassure the public that, in an otherwise uncertain and fast-moving situation not previously encountered in New Zealand, the border was a safe and secure place.

We were the lead agency in repatriating deceased loved ones (in a manner adhering to Islamic traditions), and facilitating the arrivals and departures of grieving family and friends of victims at international airports, which we sought to do with sensitivity and speed.

We are now working cooperatively with the Royal Commission of Inquiry into the Attack on Christchurch Mosques on 15 March 2019.

Firearms and other weapons

Preventing illegal firearms and weapons from entering New Zealand is an important role for Customs.

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 following the attack in Christchurch changed the ownership and import permit requirements, and we implemented relevant changes at the border.

Customs made 4,355 interceptions of a total of nearly 500 firearms and over 5,700 other weapons (such as flick knives and knuckle dusters) in 2018/19.

Assurance model

We are continuing to develop an assurance model that will inform and refine our intelligence through the use of randomised sampling across the various import channels. This will help us to better understand levels of compliance and non-compliance. The work will provide us with a level of confidence about our intervention rate and our targeting of interventions, and inform and support data analytics and intelligence assessments of risk in each channel. It will also help inform decisions in the future about the allocation of our resources to address risk effectively.

We have been progressively developing, testing, and validating sampling methodologies in the import pathways of air passengers, mail, fast freight (courier), and sea cargo.

In 2018/19 we continued sampling in the air passenger, mail, and fast freight channels, with results showing high compliance levels by our customers – and non-compliance mainly related to misdeclaration and undervaluation. Sampling data from 1 July 2018 to 30 June 2019 indicates the following compliance levels:⁸

- air passengers: 95 percent
- mail: 91 percent
- fast freight: 91 percent.



We commenced work in 2018/19 on sampling development in sea cargo, and this continues in 2019/20 – with this import channel presenting more complexities in ensuring robust methodology and process. Preliminary development work has been undertaken on the sea passenger channel, and we are exploring the complexities and feasibility of how assurance over craft might be approached.

Infringement notice scheme

The Customs and Excise Act 2018 allowed for the creation of infringements for minor offending, issuing instant fines for breaching customs requirements.⁹ Infringement notices are an effective way of helping Customs protect New Zealand, and offer an alternative to prosecution.

The infringement notice scheme was rolled out in two phases. The first phase from 1 April 2019 included all work areas other than the International Mail Centre. In the six months before it started, we carried out an education campaign to inform the public and businesses of the new scheme. Following an assessment of the implications of issuing notices where the offender is not present and may be unknown, the scheme was introduced at the International Mail Centre from 1 July 2019.

We issued 207 notices between 1 April and 30 June 2019, mainly at international airports for a false declaration on an arrival card (usually with goods either not declared or not declared correctly).

Work with other agencies to target risk and share intelligence

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.

The Joint Border Analytics team hosted by Customs comprises staff from the Ministry for Primary Industries (MPI), Ministry of Business, Innovation and Employment (MBIE – Immigration New Zealand), and Customs. This enables the three agencies to combine data, expertise, and tools to better identify border risk and target our interventions more effectively. In 2018/19 Joint Border Analytics continued to develop analytical models and border insights across the different border streams – passenger, trade, and mail – addressing a range of risk types including drugs, prohibited and restricted items, and revenue.

In 2018/19 Customs and Immigration New Zealand (Immigration NZ) looked for more opportunities to work together to manage risk and deliver efficiencies. We undertook a pilot of a Collaborative Passenger Targeting unit in Customs' Integrated Targeting and Operations Centre (ITOC) in 2019, with both agencies using the same tools and collaborating more on the risk assessment of passengers. As trial results exceeded expectations, we are considering how to continue targeting risk together effectively in the ITOC.

⁸ All results are preliminary and indicative based on raw data, and compliance rates were calculated as simple averages of sampled interventions only. Full implementation of sampling is dependent on the creation of systems-generated random selections in each stream. Systems-generated selections are being progressively delivered from early 2019/20. Until the random selection tool is built and operating in-front of the transaction, officer selection bias remains a factor that impacts the data accuracy and statistical robustness.

⁹ These are all low-level offences that are strict liability (no intent needs to be proven). Examples of offences include making a false declaration on a passenger arrival card, refusing to answer questions from a Customs officer, and importing or exporting prohibited goods. The prescribed infringement fee is \$400 for an individual and \$800 for a body corporate. Customs could issue fines for petty offences under the previous Customs and Excise Act 1996, but this was limited in how and where it was applied.



Measuring progress against our strategic intentions

Our focus is on preventing risk from reaching our borders through targeted risk management. Effective risk management and clearly enforcing the law underpin all our work in trade, travel, and revenue.

Our aim is to prevent criminals from operating across our borders while maintaining high public confidence in the performance of our protection role.

Customs' Statement of Intent 2019–2023 records the indicators we will monitor to measure our success in delivering on our strategic intentions over that four-year period.¹⁰

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

Our efforts to protect New Zealand by preventing illicit drugs crossing our borders 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.

Indicator	Performance					Five-year trend	Expected future trend
	2014/15	2015/16	2016/17	2017/18	2018/19		
Total social harm avoided through onshore drug seizures	\$870 million	\$1.585 billion	\$1.184 billion	\$1.490 billion ¹¹	\$1.795 billion	↑	↑
Total social harm avoided through offshore drug seizures	Not measured	Not measured	\$31 million	\$205 million	\$520 million	↑	↑

¹⁰ For each indicator, the expected future trend is over the four years from 2019 to 2023.

¹¹ This total differs from the \$1.336 billion total reported in the *New Zealand Customs Service Annual Report 2018* as that total was based on the provisional totals for drugs seized in that year (as noted in footnote 3 on page 9) whereas the updated harm avoided figure reflects the finalised drug totals seized in 2017/18.



Strategic indicator: Proportion of interventions that yield the intended results

Customs' 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 are looking to refine our intelligence and data management systems to help enable us to better understand the effectiveness of our interventions, and further enhance reporting against this measure in future. We expect the work being undertaken in the Source to Shore programme discussed on page 10, and the progressive implementation of the assurance model discussed on page 13 will help us to measure our effectiveness.

Indicator	Performance					Five-year trend	Expected future trend
	2014/15	2015/16	2016/17	2017/18	2018/19		
Proportion of interventions ¹² that resulted in the interception of drugs or prohibited goods ¹³	4.6%	3.9%	3.9%	3.7%	4.6%	↔	↑

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

Customs is 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
	2014/15	2015/16	2016/17	2017/18	2018/19		
Overall level of public trust and confidence in Customs' performance of protection role	-	-	-	-	52.2% ¹⁴	N/A	↑

¹²Interventions relating to import entries, electronic consignments, and passengers.

¹³In 2018/19 2,551 of 54,946 interventions (4.6%) concluded in the interception of drugs or prohibited goods.

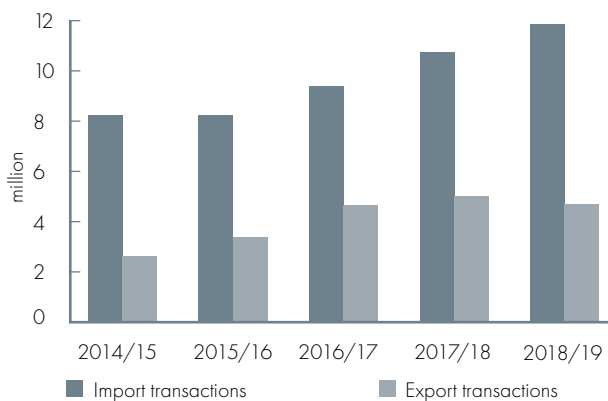
¹⁴Measured as part of a public survey undertaken on Customs' behalf by UMR Research in June 2019. This is the first year that the survey asked about the public's combined trust and confidence.

Trade

Customs works to ensure that goods crossing the border comply with domestic and international requirements, and legitimate trade flows across borders freely and efficiently. As a result, we contribute to New Zealand's economic competitiveness and growth.

In 2018/19 we processed 11.930 million import transactions,¹⁵ an increase of 9.9 percent from the 2017/18 total. The growth in recent years has largely been due to online shopping and the resulting increase in imports of low-value goods. We also processed 4.790 million export transactions, a decrease of 6.9 percent from 2017/18.¹⁶

Trade transactions cleared



Promoting and facilitating trade

Customs promotes and facilitates secure and efficient trade through formal agreements with other customs administrations, participating in the negotiation of Free Trade Agreements, and providing support to traders so they benefit from those agreements.

Agreements with other customs administrations

Customs continues to build and maintain effective relationships with other customs administrations around the world, including with key trading partners.

Our Secure Exports Scheme (SES) is acknowledged globally as a model of the World Customs Organization standards for securing and facilitating cargo. In 2018/19 35.4 percent of export trade was covered by the SES.

A Mutual Recognition Arrangement (MRA) is a formal arrangement between customs administrations through which each country recognises exports from members of the other country's supply chain security programme as posing low security risk. Through MRAs, New Zealand exporters who are SES members benefit from faster cargo clearance, fewer document checks, and lower inspection rates in the partner country, as well as priority following a major adverse event that disrupts trade.

Customs already has a number of MRAs with key trading partners. Following negotiation, we signed new MRAs with Canada and Singapore in June 2019, expanding the SES benefits for members to those export markets.

The SES has applied only to sea freight, as processes for recognition of air cargo have not been fully developed in most countries. We started work in 2018/19 to extend the SES to airfreight, which would enable exporters of the time-sensitive perishable goods generally sent via airfreight to access the trade facilitation benefits offered by the SES.

Free Trade Agreements

Free Trade Agreements (FTAs) reduce trade barriers and improve access to trading partners' markets. They contribute to our economy by helping New Zealand businesses be more competitive in overseas markets.

Customs leads the negotiation of the customs-related aspects of New Zealand's FTAs. In 2018/19 we continued to take part in the negotiations of the Regional Comprehensive Economic Partnership, Pacific Alliance FTA, and New Zealand-European Union FTA, as well as the upgrade of New Zealand's existing FTA with China.

As well as our involvement in those negotiations, we worked with other agencies to develop the regulations and tariff changes necessary to support New Zealand's ratification of both the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which came into force on 30 December 2018, and the PACER Plus agreement with Pacific countries.

¹⁵ 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.

¹⁶ Export transactions include export entries, drawback entries, and export ECIs – but exclude export mail items. The decrease in the total for 2018/19 is principally due to a decrease in the number of ECI (low-value) transactions representing exports to China.

Supporting traders

In 2018/19 Customs continued our outreach programme through which we engage with exporters across New Zealand to inform them of the benefits of FTAs and being a member of the SES.

Through the enhanced relationships they develop with local customs administrations and governments, our liaison officers around the world help to reduce the risk of disruption to trade.

Customs has a key role to play in New Zealand's response to Brexit given our role in facilitating trade and streamlining customs procedures. As a result, we launched a multi-faceted response to support exporters in advance of the United Kingdom's scheduled exit from the European Union.

This included posting a Customs Counsellor to London from January 2019. This role has been critical in better understanding UK border agency preparations and how they might affect New Zealand exports. Our new London and existing Brussels Counsellors have been working together to understand how border control processes and intelligence targeting in both the UK and EU will change after Brexit, which could have implications for New Zealand goods going into those markets. We negotiated a new customs-to-customs agreement with the UK, signed on 1 August 2019, to ensure we have the right cooperation frameworks in place after Brexit.

We also have a multi-channel communications strategy in place, including industry outreach and our website and social media, to provide consistent and reliable information on Brexit to our stakeholders. This has been well received by industry.

Streamlining trans-Tasman trade

In 2018/19 we continued to progress Single Economic Market initiatives to create a seamless trans-Tasman business environment.¹⁷

Secure Trade Lane

The purpose of the Secure Trade Lane (STL) initiative is to streamline border processes and make low-risk trans-Tasman trade more efficient and cost-effective for authorised traders.

The digital trial designed to test technological solutions developed for the STL originally planned for 2019 was delayed at the request of the Australian Department of Home Affairs. Australian and New Zealand officials met in April 2019 to reconsider the strategic vision of the initiative. We wanted to ensure it would provide benefits to trusted traders and government, and could be tailored to help streamline trade with our other MRA partners in the future.

The project team now plans to conduct a trans-Tasman exercise to identify 'pain points' and opportunities in the import/export process between selected ports in Australia and New Zealand. We currently expect to conduct a live digital STL trial with key industry partners in early 2020.

eCommerce Green Lane

Customs continues to work with New Zealand Post (leading the project in New Zealand), MPI, and the Australian Department of Home Affairs to develop and implement an eCommerce Green Lane. This would be a permanent arrangement streamlining border clearance of goods travelling by mail between New Zealand and Australia.

In 2018/19 both countries worked on developing the required IT capability and operational frameworks to allow mail data from eSellers to be exchanged between postal agencies, then made available electronically to border agencies. Customs is completing a project to receive Electronic Advance Data from New Zealand Post, and provide clearance directions in response (using the message standard agreed between the World Customs Organization and the Universal Postal Union). Once this capability and Australia's equivalent are in place, a live trial is expected to be conducted.

¹⁷ These initiatives, and the new MRAs discussed on page 17, are relevant to section 439 of the Customs and Excise Act 2018, requiring reporting on initiatives or steps taken to reduce the costs of complying with this Act for businesses with a strong record of compliance with the Act. This reporting is on page 101.

Measuring progress against our strategic intentions

Our focus is on enabling New Zealand's legitimate trade to flow efficiently across borders. We aim to make trade facilitation accessible and beneficial to all New Zealand businesses.

Customs' Statement of Intent 2019–2023 records the indicators we will monitor to measure our success in delivering on our strategic intentions over that four-year period.¹⁸

Strategic indicator: Percentage of trade transactions that are compliant

We aim to achieve high levels of voluntary compliance. Trade compliance¹⁹ remains high, even as the number of lodgements has increased (as noted on page 17).

Indicator	Performance					Five-year trend	Expected future trend
	2014/15	2015/16	2016/17	2017/18	2018/19		
Percentage of import transactions deemed compliant	97.6%	98.3%	98.5%	98.8%	98.8%	↔	↑
Percentage of export transactions deemed compliant	99.7%	99.8%	99.8%	99.8%	99.8%	↔	↑

Strategic indicator: Ease of compliance

Customs aims to provide a simple, fair, equitable, and transparent system that is easy for all users to work with. 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
	2014/15	2015/16	2016/17	2017/18	2018/19		
Commercial goods clients' ease of compliance	81.8%	76.6%	72.7%	65.9%	71.0%	↓	↑

The five-year trend reflects business customers reporting (in our annual survey of goods clients) it taking more effort to deal with Customs. The staged roll-out and increasing uptake of Trade Single Window during this period is likely contributing in part to this result, as traders adapt to the new information requirements. We have worked with industry to identify and make improvements to the user interface for clearing goods via Trade Single Window Online. We have also progressed work to make compliance easier for customers through electronic and digital channels, including updating the Customs website and reviewing the Customs 0800 contact service. We continue to work on a series of initiatives to make it easier for all businesses to work with us.

¹⁸ For each indicator, the expected future trend is over the four years from 2019 to 2023.

¹⁹ Compliance relates to trade deemed compliant based on risk assessment and for which Customs does not action further intervention. Further action may include, but is not limited to, document inspection, screening, or search.

Strategic indicator: Economic value of trade promotion and facilitation

New Zealand businesses and consumers benefit from the international relationships Customs has brokered with our key trading partners. Trading arrangements, such as 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. These arrangements and other trade facilitation measures have an economic impact that can be measured through a positive impact on New Zealand's Gross Domestic Product (GDP), trade balance, and consumer wellbeing.

Indicator: Benefit to New Zealand of current bilateral agreements ²⁰	Performance					Five-year trend	Expected future trend
	2014/15	2015/16	2016/17	2017/18	2018/19		
Real GDP	-	-	-	-	\$552m		
Trade balance	-	-	-	-	\$128m	N/A	↑
Consumer wellbeing	-	-	-	-	\$667m		

²⁰This is the first year of reporting this measure. Customs commissioned the New Zealand Institute of Economic Research (NZIER) in 2018/19 to assess the potential economic benefits from our MRAs, which provide benefits to SES members. The study examined the potential economic benefits of the six MRAs in place in 2018/19 (with Australia, China, Japan, Republic of Korea, the United States, and Hong Kong). This study modelled an annual impact on the New Zealand economy, in terms of GDP, trade balance, and consumer wellbeing, from the trade facilitation benefits in the MRAs and SES, compared with a base case of no MRAs or SES. We will further refine these measures in 2019/20.

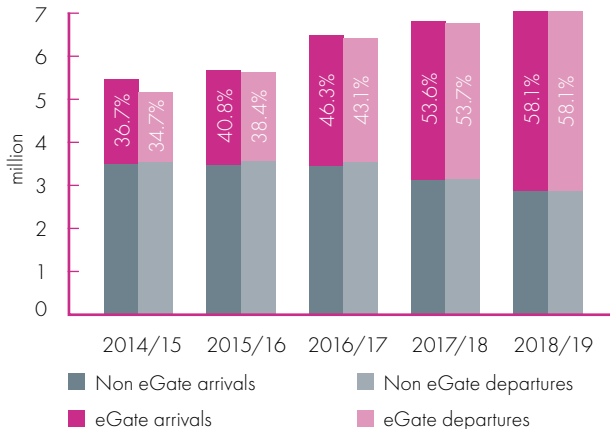
Travel

We continue to focus on limiting our interaction with, and delivering a streamlined experience for, compliant travellers while managing risk. Our work includes making compliance simple by enabling self-service and providing clear information to educate travellers on their obligations. Increasing compliance levels will enable us to better target those travellers presenting the most risk.

This is particularly valuable as travel volumes continue to grow. In 2018/19 Customs processed a record 14.464 million international passengers,²¹ an increase of 3.5 percent from the 2017/18 total of 13.977 million.

Most travellers are arriving and departing air passengers (13.950 million in 2018/19 – up from 13.538 million in 2017/18). Our processing of these passengers is assisted by the increasing proportion using eGate at our international airports.

Air passenger arrivals and departures



eGate automated passenger processing

The self-service processing option offered by eGate is taken up by an increasing proportion of passengers each year – 58.1 percent of arriving and departing commercial air passengers used eGate in 2018/19. That represented 8.095 million passengers, an 11.6 percent increase from 2017/18. eGate provides a streamlined passenger experience while enabling Customs to manage the growing volumes and focus on those travellers who might present a higher risk.

Customs works collaboratively with MBIE (Immigration NZ) to make eGate available to more nationalities. As part of the New Zealand-Singapore Enhanced Partnership, eligibility was formally extended to Singapore in February 2019. In 2018/19 we also progressed (through risk assessment and biometric performance testing of passports) extending eligibility to more nationalities.

We also continue to improve the software and systems to ensure the effective operation of eGates into the future. Customs received a Red Hat APAC Innovation Award in November 2018, recognising our two-year project to deliver open source technology to eGates, which has enabled faster and more reliable processing of passengers at the border.

Review of eGate

While eGate enables self-service by travellers, we still seek to identify and interact with those presenting risk at the border. A person of interest to another agency departed New Zealand in January 2019 through eGate using a genuine passport belonging to another person.

We undertook an internal review of our eGate processes to identify, and remediate if necessary, the issues that resulted in the person being able to depart. The review identified a number of improvement actions; we implemented most of those in 2018/19 and will complete the longer-term actions in 2019/20.²²

²¹ This includes all people arriving in and departing New Zealand by air or sea excluding crew (crew amounted to a further approximately 0.82 million).

²² The review reports are available from the Customs website at <https://www.customs.govt.nz/globalassets/documents/misc/eGateReviewReports.pdf>.

Improved processing of cruise ship passengers

Cruise passenger numbers have steadily increased in the last few years with the growing number of visits by larger cruise ships. Over 241,000 passengers (those permanently disembarking the vessel in New Zealand and those visiting on their cruise) arrived on cruise ships in 2018/19, compared to around 138,000 in 2014/15.

We are focused on making the experience for arriving cruise ship passengers who are permanently disembarking in New Zealand more like that currently experienced by air passengers. We are looking to do this through the receipt and assessment of advance passenger information to identify risk, and improving the processing experience for those passengers.

Customs worked closely with Immigration NZ, the Australian Department of Home Affairs, and the Australian Border Force in 2018/19 to enhance the arrival experience for cruise ship passengers travelling to New Zealand from Australia.

Following a successful trial in early 2018, we implemented from 23 October 2018 a new process for facilitating most passengers²³ permanently disembarking in New Zealand from a cruise ship arriving from Australia. Customs' risk assessment of those passengers is undertaken before they arrive in New Zealand by using the departure data captured by the Australian Border Force. This means passengers do not need to present their passports and go through immigration processing on arrival; they need only present their arrival cards to a Customs officer for checking any declarations.

As well as improving the passenger experience by reducing their processing time, the new process has benefits for Customs. It allows us to focus resources on those passengers who present a risk, and enables us to better manage the expected growth in cruise ship passenger numbers.

Departure card removal

Customs worked with Immigration NZ and Stats NZ on removing the departure card. This aligns with international best practice and improves the experience for travellers departing New Zealand. The requirement to fill in the card was removed from 5 November 2018.

This freed up our Customs officers from card collection and sorting, but meant we had to capture relevant information in another way and make travellers aware of their border cash reporting requirements. We installed signage in airport departure areas to make sure travellers were aware of the requirement to declare if they were carrying currency or cash to the value of NZ\$10,000 or more (as discussed on page 11). We also implemented changes to ensure we captured departing passengers' data electronically.

Improvements to arrival card

The arrival card needed to be re-issued from 1 October 2018 because of the new Customs and Excise Act 2018, so we took the opportunity to improve the customs questions to make it clearer when medicines needed to be declared. As a result, most travellers carrying their prescribed personal medications no longer have to declare they are bringing them into New Zealand. This means quicker processing for those travellers while enabling us to more effectively target those travellers carrying medicines (and other prohibited or restricted goods) of interest to us.

Customs also teamed up with MPI in 2018/19 to develop a Chinese translation of the arrival card in both a simplified and traditional version to improve the experience for Chinese travellers to New Zealand. These translations were then provided to Chinese airlines and Air New Zealand in January 2019 to start handing out with arrival cards on flights from China. The Customs/MPI Asian staff network provided the translations, illustrating the benefits to Customs of such networks (discussed on page 36).

²³ Those travelling on a New Zealand, Australian, or visa waiver-eligible passport, representing more than 98 percent of cruise passengers travelling to New Zealand from Australia.



Measuring progress against our strategic intentions

Our focus is on delivering a streamlined experience for travellers across borders. We aim to deliver high-quality border management across all modes of travel through more intergrated and automated processes.

Customs’ Statement of Intent 2019–2023 records the indicators we will monitor to measure our success in delivering on our strategic intentions over that four-year period.²⁴

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

Customs aims 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 travellers, while ensuring potential risks at our border are correctly identified and mitigated.

Indicator	Performance					Five-year trend	Expected future trend
	2014/15	2015/16	2016/17	2017/18	2018/19		
Proportion of arriving international air passengers processed within 45 minutes	96.4%	95.5%	94.3%	95.9%	96.0%	↔	↔
Air passenger satisfaction	91.8%	91.9%	92.0%	90.0%	92.9%	↔	↑

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

We are continually considering the appropriateness of our risk settings and systems. The assurance model currently being developed will further inform and refine our intelligence (as discussed on page 13). Reporting against these indicators is expected to start in the 2020/21 year.

Strategic indicator: Degree of meaningful collaboration and engagement

Customs collaborates with other agencies and stakeholders to lift the quality of service provided to legitimate travellers and ensure potential risks are identified and prevented at our ports of entry. Several of our key collaborative initiatives in 2018/19 are discussed on pages 14 and 22.

²⁴For each indicator, the expected future trend is over the four years from 2019 to 2023.



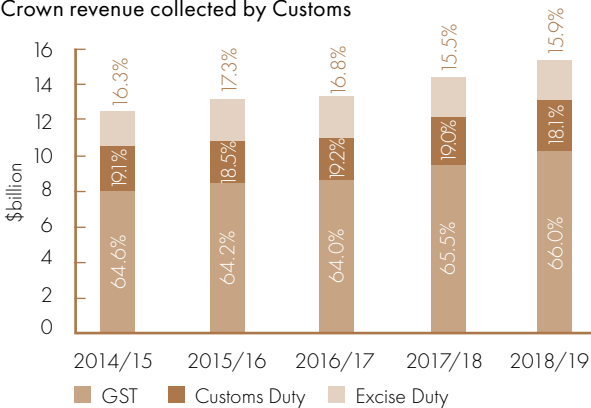
\$15.543
billion
in revenue on behalf
of the Crown

Revenue

Customs contributes to the Government’s accounts by collecting around 18 percent of core Crown tax revenue each year. We collect revenue for the Crown 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.

In 2018/19 we collected a record total of \$15.543 billion of this revenue, an increase of 8.1 percent on the 2017/18 total of \$14.379 billion.

Crown revenue collected by Customs



We also collected \$8.3 million for the Crown by way of the Synthetic Greenhouse Gas levy on imported goods, together with a total of \$361.1 million in levies at the border on behalf of other agencies.²⁵

Our collection of revenue is based on self-assessment of duty liability by traders (importers, exporters, and licensed manufacturers of excisable goods), reinforced by our assurance activity.²⁶ As a result, our focus is on increasing the level of voluntary compliance with revenue obligations and improving our revenue risk management. This includes ongoing engagement with, and education of, traders.

We continually revise and improve our trade assurance strategy and programme so that we achieve greater assurance in the self-assessment processes, and address identified risks such as non-compliance with revenue requirements – and recover any outstanding revenue. In 2018/19 we continued to undertake intelligence-led, risk-based audits to ensure traders complied with legislation and paid the correct revenue. Customs also carries out random verifications of trader-entered data – where we find a trader has not complied with requirements, our response ranges from working with the trader to encourage voluntary compliance, to auditing them to assess the correct level of revenue owed, to prosecuting them.

²⁵ This includes MPI’s portion of the Border Clearance Levy, which we collect on behalf of MPI. The largest proportion annually is the Accident Compensation Corporation (ACC) levy.

²⁶ Self-assessment enables trade to flow without undue delay, but with compliance assurance checks and post-clearance audit activity to provide assurance.

Provisional values scheme

The Customs and Excise Act 2018 introduced this scheme from 1 October 2018. It allows registered importers to use a provisional value (that is a reasonable estimate of the value) on an import entry when they cannot establish the Customs value of the goods at the time of importation. The provisional value is used to calculate what is payable to Customs at the time of import.

Importers then finalise the actual value by the end of the next financial year. If the final value is more than the provisional value, the trader is not charged compensatory interest on any additional duty owed.

Customs has worked with industry around the scheme and actively encouraged importers to join. By 30 June 2019, 85 companies had been approved to use the scheme.

Investigating fraud and revenue evasion

Customs maintains a strong focus on identifying and addressing revenue evasion and fraud-related offending. Illicit tobacco is tobacco on which the required excise duty has not been paid. In 2018/19 we saw an increase in revenue evasion through illicit tobacco smuggling, particularly at the International Mail Centre, and the use of concealment methods often used for drugs.

We made 2,009 interceptions of over 4.6 million cigarettes and nearly 642 kilograms in loose tobacco in 2018/19 – preventing the evasion of payment of a total of \$6.2 million in duty and GST. This is a significant increase from the 1,368 interceptions of over 2.8 million cigarettes and almost 293 kilograms in loose tobacco in 2017/18.

With New Zealand having the second-highest tobacco price in the world (second only to Australia), there has been growth in larger interceptions of smuggled tobacco, indicating that illicit trade is increasing and new organised crime groups are getting involved.

Following a six-month Customs investigation after we identified a company suspected of smuggling cigarettes inside sea containers, four search warrants were executed in Auckland in November 2018, resulting in the seizure of 1.8 million cigarettes and over \$4 million in cash. This investigation detected what we believe to be the largest tax evasion case to date involving smuggled cigarettes, with the tax evaded being almost \$2 million. As a result of the investigation, NZ Police also restrained properties, luxury cars, and bank accounts.

Collecting duty on low-value goods

Customs and other agencies have been working jointly on how GST on low-value goods imported into New Zealand could be more efficiently collected. This has led to the Government's decision to introduce an Offshore Supplier Registration system from 1 December 2019. Under the new system, those suppliers will charge GST on low-value goods, and remit it to Inland Revenue.

Customs will collect and share data on low-value imports with Inland Revenue, enabling that agency to monitor and ensure payment. We will also continue to collect GST and other duty on all imports of alcohol and tobacco (these are not subject to the new system) and on consignments valued over \$1,000. Customs will continue to assess the risk of all imports to protect New Zealand from non-revenue risks.

Measuring progress against our strategic intentions

Our focus is on collecting all due Crown revenue through high voluntary compliance and ensuring that all non-compliance is addressed. We also aim to maintain public trust and confidence in our collection of revenue.

Customs' Statement of Intent 2019–2023 records the indicators we will monitor to measure our success in delivering on our strategic intentions over that four-year period.²⁷

Strategic indicator: Compliance rate of audited companies

Customs undertakes activity to ensure that 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 (as discussed on page 50). Risk audits²⁸ 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
	2014/15	2015/16	2016/17	2017/18	2018/19		
Random sampling compliance rate (1,596 import entries)	90.0%	89.8%	88.7%	90.3%	90.9%	↔	↑
Compliance rate (428 risk audits)	–	–	–	–	37.6%	N/A	↑

The risk audit programme is developed using a combination of industry intelligence, assessed risk, trade volume, and voluntary disclosures. The expected rate of compliance therefore 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 2018/19 (99.3 percent) was unintentional, with only two instances of deliberate non-compliance.²⁹

²⁷ For each indicator, the expected future trend is over the four years from 2019 to 2023.

²⁸ 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).

²⁹ One instance of deliberate non-compliance was found in each of the risk and inherent risk audit streams.

Strategic indicator: Appropriateness of response to non-compliance

The vast majority of revenue is compliant in that it was collected on time (99.1 percent, as recorded on page 58). In those rare instances where due revenue is still outstanding after standard follow-up processes, Customs responds by working with entities to agree payment plans or by pursuing debt recovery methods. In 2018/19 there were 30 such responses relating to \$4.45 million in debt. We seek to limit, and over time reduce, the amount of overdue outstanding revenue.

Indicator: amount of outstanding revenue by response ³⁰	Performance					Five-year trend	Expected future trend
	2014/15	2015/16	2016/17	2017/18	2018/19		
Payment plans (13 responses)	-	-	-	-	\$0.652m		
Statutory demands served (6)	-	-	-	-	\$0.494m	N/A	↑
Summary judgments sought (11)	-	-	-	-	\$3.103m		

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

Customs is a core Crown tax revenue collector and it is essential the New Zealand public has trust and confidence that we undertake our revenue collection role effectively.

Only 47 percent of respondents to our public stakeholder survey declared they had 'a lot' or 'a fair amount' of knowledge about Customs' revenue collection role, suggesting this function is less widely understood than our more high-profile protection role.

Indicator	Performance					Five-year trend	Expected future trend
	2014/15	2015/16	2016/17	2017/18	2018/19		
Public trust and confidence in Customs' revenue collection role ³¹	-	-	-	-	45.0%	N/A	New measure

³⁰This is the first year of reporting this measure.

³¹Trust and confidence in Customs' revenue collection role was part of our stakeholder survey in 2018/19 for the first time.

