Ministry for Primary Industries
Manatū Ahu Matua

NEW ZEALAND
CUSTOMS SERVICE
TE MANA ĀRAI O AOTEAROA

Cost Recovery Impact Statement: Recovering the costs of goods management

Decision sought	Cabinet's agreement to changes to charges, and to new charges, to recover Customs' and the Ministry for Primary Industry's costs related to imported and exported goods and commercial vessels.
Agencies responsible	The New Zealand Customs Service (Customs) and the Ministry for Primary Industries (MPI)
Proposing Ministers	Minister for Biosecurity, Minister of Customs
Date finalised	26 February 2025

The Ministers propose a package of amendments to regulations made under the Customs and Excise Act 2018 and the Biosecurity Act 1993 to:

- amend Customs' fee rates under the current fee structure to fully recover costs (for services intended to be fully recovered) and to maintain current services without additional Crown funding (for services that are partly Crown funded)
- prescribe separate Customs' rates for high-value air and sea cargo, and impose a charge on international transhipments and empty shipping containers
- impose charges (for Customs and MPI) per low-value consignment, per commercial vessel arrival and on international mail, at rates that fully recover costs.

The Ministers propose to implement this package by adjusting Customs' rates under the current fee structure from 1 July 2025 and setting rates that fully recover costs under the new structure from 1 April 2026.

Summary: Problem definition and options

What is the policy problem?

Customs and MPI carry out services to mitigate biosecurity and other risks related to imported and exported goods and commercial vessels.

Customs' current fees are not financially sustainable. In 2019, Cabinet agreed to fee rates to fully recover Customs' costs related to imported and exported goods (other than low-value air cargo where Cabinet agreed to only partly recover costs). Such rates should be adjusted regularly to ensure they continue to fully recover costs. In Budget 2023, Cabinet agreed that Customs would expand its maritime activities, with the costs being recovered.

Officials have identified that certain classes of feepayer are funding the costs of other feepayers. Currently, other feepayers partly fund costs related to high-value sea cargo, large consolidations of low-value goods, transhipments, empty shipping containers and commercial vessels. This is unfair to the classes of feepayer, especially shippers of high-value air cargo, who are funding costs unrelated to their goods.

The current charging arrangements do not fully align with the principle that the parties creating the need for agencies to mitigate risks should fund the cost. Importers, exporters and vessel operators create that need. In contrast with this principle, Customs' and MPI's costs related to low-value cargo are partly Crown funded, and for low-value mail the costs are fully Crown funded.

The problems described above reduce economic efficiency by misaligning prices and production costs, and require Crown funding the Government could alternatively spend on higher priorities.

Various submitters suggested the Crown should fund some or all of the cost because Customs' and MPI's services are a "public good" and because exports benefit the New Zealand economy.

Some submitters agreed with the principles that fees should fully recover costs without cross-subsidies among feepayers. However, most submitters focused on the impact of the indicative charges rather than on the principle of removing cross-subsidies.

After considering the submissions, officials affirm the assessment made in the Consultation Document that the proposed package better meets the cost recovery principles than the status quo.

What is the policy objective?

The objective is to:

- ensure Customs' financial sustainability by adjusting Customs' fee rates to reflect the intent of Cabinet's decisions in 2019
- improve fairness for feepayers and taxpayers by removing cross-subsidies between classes of feepayer, and moving to full cost recovery for low-value cargo and mail.

Measures of success include Customs' memorandum account balance trending towards zero as intended, and releasing 9(2)(f)(iv) [redacted] annual Crown funding for reallocation.

What policy options have been considered, including any alternatives to regulation?

Retaining the current fee structure and fee rates would result in unsustainable deficits in Customs' memorandum account. It would also continue the unfairness outlined above.

The first option considered would amend Customs' fee rates under the current fee structure to address Customs' financial sustainability. The second option (the proposed package) is preferred because it would, in addition to addressing Customs' financial sustainability, address identified cross-subsidies between classes of feepayer and move to full cost recovery for low-value goods and mail. The Consultation Document and submitters also described other options, but officials assessed them as either infeasible or inferior to the proposed package when assessed against cost recovery principles.

There are no non-regulatory options because the charges must be prescribed in regulations.

What consultation has been undertaken?

Customs and MPI undertook public consultation for eight weeks in 2024 and received 58 submissions, including from industry associations, freight forwarders, importers, exporters, and shipping lines. In addition, officials established groups of industry participants: a Stakeholder Reference Group while developing the consultation document, and a Low Value Goods Technical Advisory Group after the consultation when considering the implementation of options. Officials also engaged with individual businesses and industry associations that wished to meet with officials. The Minister of Customs made a speech at the 2024 Customs Brokers and Freight Forwarders Federation of New Zealand (CBAFF) conference drawing the proposals to attendees' attention. Officials held technical discussions with New Zealand Post Limited (NZ Post) about international mail.

Submitters supported removing cross-subsidies between high-value air and sea cargo. For low-value goods and vessels, CBAFF agreed that a charge per low-value consignment would be fairer than a flat charge per cargo report, and that it was better for vessel owners to fund costs related directly to vessels than for goods to fund those costs. However, most submitters opposed the proposed changes related to low-value goods and commercial vessels because of the impact on their businesses. For example, exporters of low-value goods said they sell into price-sensitive markets and cost increases might hinder the viability of their business models. Submitters supported recovering costs related to mail because goods shipped by mail compete with goods shipped as air cargo.

Freight forwarders and exporters recommended allowing 12 to 24 months for industry to change computer systems and pricing models, to sign new contracts with clients after current contracts expire, and to adjust to operating in an unsubsidised environment.

Is the preferred option in the Cabinet paper the same as the preferred option in the Cost Recovery Impact Statement (CRIS)? Yes.

Summary: Minister's preferred option in the Cabinet paper

Costs

Outline the key monetised and non-monetised costs, where those costs fall.

There would be modest transitional costs for Customs and freight forwarders to update their computer systems and make related changes to reflect the proposed structure of charges. Customs would incur minor ongoing costs involved in manually invoicing commercial vessels operators.

Benefits

Outline the key monetised and non-monetised benefits, where those benefits fall.

The main benefit of the package is that shippers of goods, and vessel operators, would fund the costs of Customs' and MPI's activities related to their goods or vessels, rather than over-paying or under-paying for those costs. The package would also ensure that Customs can deliver the current level of services related to goods in a financially sustainable manner.

The total cost of Customs' and MPI's services would not change. The distributional impacts of ending under-charging and over-charging are:

- more would be charged for high-value sea cargo, transhipments and empty shipping containers, most low-value goods, low-value mail, and commercial vessels
- less would be charged for high-value air cargo and some low-value goods
- importers and exporters of low-value goods and mail would fully fund their costs, and taxpayers would pay 9(2)(f)(iv) [redacted] less per year.

Economic efficiency would improve as consumers and businesses (such as exporters of low-value goods) adjust their trading behaviour to reflect an unsubsidised environment.

Balance of benefits and costs

Does the RIS indicate that the benefits of the Minister's preferred option are likely to outweigh the costs? Do the benefits outweigh the costs when considering qualitative evidence?

Officials assess that benefits described above outweigh the costs.

Implementation

How will the proposal be implemented, who will implement it, and what are the risks?

Implementing the package would involve amending the Customs and Excise Regulations 1996 and the Biosecurity (System Entry Levy) Order 2010, and making new levy orders under the Customs and Excise Act 2018 (subject to the passage of the Customs and Excise (Levies and Other Matters) Amendment Bill 2024) and the Biosecurity Act 1993.

Customs currently collects the charges on behalf of itself and MPI. Customs would change its computer systems to reflect the charges and rates proposed to be set on 1 July 2025, 1 April 2026 and 1 July 2027. The cost would be funded via the proposed charges. Industry participants signalled they would update their pricing models, billing systems and contracts to pass the charges on to their clients.

Limitations and Constraints on Analysis

The analysis in this CRIS is limited by uncertainty about the impact of the proposed charges on the volume of:

- low-value exports. Independent economic analysis estimated that the changes in the charge would have a moderate impact on the volume of low-value exports. We published the economic analysis and did not receive any specific feedback on it
- transhipments. We did not commission economic analysis due to data limitations. We assess the impact of the proposed charges on the volume of transhipments to be small because the proposed charge is small compared to the value of transhipments
- vessel arrivals. We did not commission economic analysis due to data limitations. We assess the impact of the proposed charges on the number of arrivals to be small because the proposed charge is small compared the cost of a voyage to New Zealand.

We will report on the performance of the charges and continue to engage with industry and monitor the impact of the package including any unintended consequences.

Another limitation is that we consulted on indicative rates knowing that the final proposed rates would differ from those indicative rates. As a result of updated forecasts of volumes and costs, the final proposed rates for high-value imports are higher than the indicative rates. We assess the increases in these two rates do not materially change the impact of the charges because the changes are small relative to the median value of the goods concerned.

I have read the Regulatory Impact Statement and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the preferred option.

Kathryn MacIver Group Manager Policy and Strategy New Zealand Customs Service	Bruce Arnold Director Cost Recovery Ministry for Primary Industries
26 February 2025	26 February 2025

Quality Assurance Statement	
Reviewing Agencies: Customs, Ministry for Primary Industries	**QA rating:** Meets
Panel Comment On 4 February 2025, a joint Customs/MPI regulatory impact analysis panel (the panel) reviewed the Stage 2 CRIS 'Recovering the Costs of Goods Management' prepared by Customs and MPI. The panel considers the CRIS meets the Quality Assurance criteria. The limitations on the analysis in our view will not have a material effect. The panel considers the structural changes to fees need proactive monitoring to ensure unintended consequences are identified quite early and the risk of over-recovery or under-recovery of costs is identified.	