

## LOW-VALUE IMPORTED GOODS: UPDATE AND NEXT STEPS

### Proposal

1. This paper provides an update on the work on the regulatory regime for the collection of revenue on low-value imported goods in New Zealand, and seeks agreement on the next steps.

### Executive Summary

2. Over the last year the New Zealand Customs Service (Customs) has been exploring whether it is possible to change the shape and level of the *de minimis* (the level under which duty is not collected) for physical goods, which is currently set at \$60 duty owing (GST plus tariffs). In November 2015 I reported back to Cabinet that further modelling and design work would be required to determine whether this would be feasible.
3. In November 2015, Cabinet agreed that Customs should undertake targeted consultation with key stakeholders on; changing to a value based *de minimis*, setting the level of the *de minimis* at \$200, and implications for industry in changing the *de minimis*. Cabinet also invited me to report back to this Committee with a discussion document and detailed business case on options for changes in the way revenue is collected on low-value goods (CAB-15-MIN-0225 refers).
4. Since November, Customs has created a financial model that allows for different levels of *de minimis* and associated Customs costs to be tested, conducted consumer research, tested current arrangements for the collection of duty on low-value goods in other jurisdictions, and undertaken targeted consultation with stakeholders on possible mechanisms to collect duty on imported low-value goods (consignments valued at less than \$1,000).
5. Three issues need to be balanced when determining what an appropriate level of the *de minimis* should be:
  - 5.1. ongoing erosion of the tax base as volumes of low-value imported goods continue to increase
  - 5.2. competitive neutrality for retailers
  - 5.3. the need for competitive disciplines on the retail market.

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6. Customs officials advise that it may be possible to lower the *de minimis* in the future (possibly from 2018/19), but this will require investment to address substantial logistical and workforce challenges and / or some level of system change for Customs and the Ministry of Primary Industries (MPI) (in relation to biosecurity activities and changes), as well as industry partners. It is also clear that significant improvements in international processes for the collection of data on postal parcels will be required to support cost effective and efficient collection mechanisms in the postal stream.
7. The scale of change required is illustrated by the analysis undertaken of whether it would be possible to move to a \$200 *de minimis*. In this scenario, the number of consignments would almost double (creating logistical challenges for freight companies, New Zealand Post, MPI and Customs) and the costs of processing these consignments would exceed the revenue gained. Delays in delivery of [REDACTED] could be expected.
8. The full scale of the system change and options for changing processes have yet to be fully worked through with industry. This is, in part, because industry is looking for a clear understanding about what changes we intend to make to the *de minimis*. In their initial engagements industry have advised that, if the Government decided to reduce the *de minimis* in the short-term, the only feasible option would be to shift to a system where consumers pay GST after the goods are delivered ('pay after delivery' model), moving responsibility for the collection process and risk to government.
9. Other options need more engagement with industry before a fully developed set of options can be developed into a business case. We also need there to be further progress in the ways these issues are being addressed in the international community.
10. Good data are required to make all of the new collection mechanism options work in the postal stream, and more effective tracking mechanisms for parcels in both the postal and freight streams. International organisations including the Universal Postal Union and the World Customs Organisation are working to determine how data can best be collected and used to support efficient processing of goods.
11. I therefore propose that at this time, we agree that I make a public statement confirming that the Government intends to:
  - 11.1. move to a *de minimis* defined by the value of the consignment rather than the amount of duty owing
  - 11.2. potentially make a reduction to the *de minimis* in the future, ie possibly in the 2018/19 financial year
  - 11.3. undertake further work with industry to fully develop new collection mechanisms to improve process efficiency and cost effectiveness.
12. Making this public statement will set a clear expectation about the need for changes in collection mechanisms to support a potential reduction in the *de minimis* and reassure retailers that we still intend to make a change that will further support competitive neutrality.

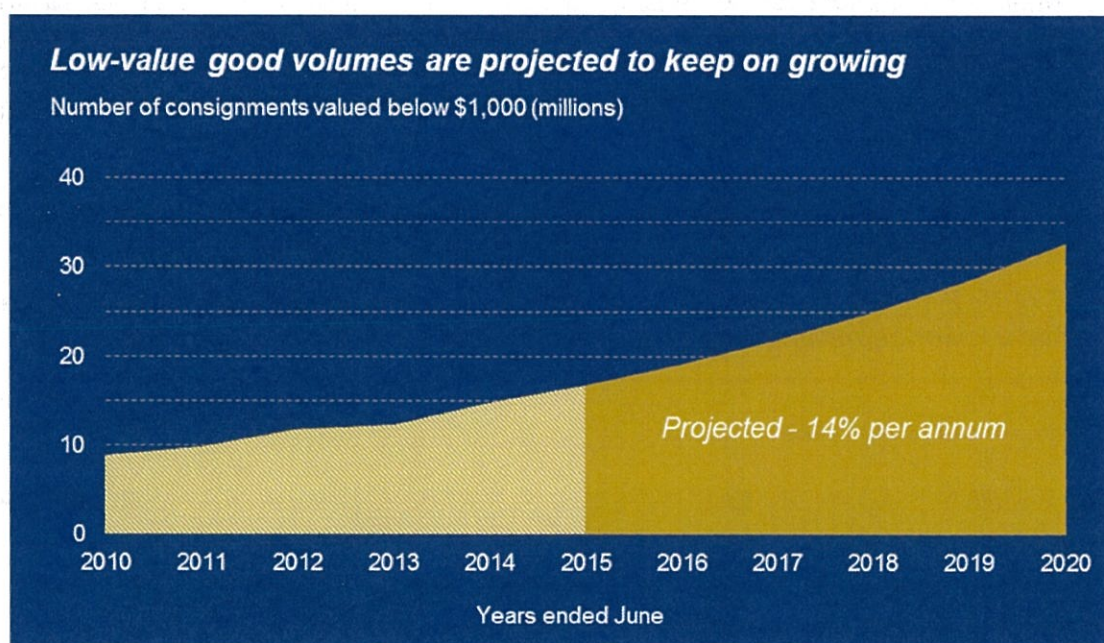


## Background

13. International obligations<sup>1</sup> require the setting of a threshold, known internationally as the *de minimis*, at which duties are payable on imported goods. New Zealand currently collects duty (GST and tariff duty) where \$60 or more of duty applies. This equates to a consignment value that varies between \$226 and \$400 according to whether tariffs are payable, and when freight and insurance costs are not considered. The level of the *de minimis* in New Zealand is set by regulation and public consultation is required if those regulations are to be changed.

### Volumes of low-value imported goods are rising...

14. The growth of e-commerce and just-in-time business models mean the volumes of low-value goods being imported into New Zealand have increased markedly in recent times. Based on a five year average, volumes are growing at about 14% per annum, a rate that is projected to continue for the next four or five years. The projected increase applies to both postal and fast freight streams see Figure 1.



**Figure 1: Historical and projected volume increase of low-value consignments**

15. The only published estimate of the forgone revenue from low-value imported goods was an Inland Revenue estimate of \$140 million per annum. This estimate was contained in the discussion document, *GST: Cross-border services, intangibles and goods* released August 2015.

<sup>1</sup> Protocol of Amendment to the International Convention on the Simplification and Harmonization of Customs Procedures (Kyoto Convention).

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16. Inland Revenue's estimate reflects "maximum potential revenues", and Customs considers it may not be fully realised. Reasons for this include:

16.1. a proportion of the GST will be earned on consignments that are valued below any foreseeable *de minimis* that can be economically collected

16.2. there are purchases from abroad on which GST is not being collected, such as goods accompanying passengers, items received as gifts, and undeclared or mis-declared goods that evade Customs revenue processes, and this is not accounted for

16.3. the imposition of duties may lower the demand for imported goods, which is not considered in this top down estimate based on current spending patterns.

### ... and we are not maintaining competitive neutrality or the integrity of the GST system

17. Competitive neutrality between offshore and domestic retailers can be improved by applying GST to a wider value range of imports. Local retailers are required to apply GST and are therefore at a competitive disadvantage to offshore suppliers of low-value goods. The purpose of GST is to tax consumption of different goods and services evenly and efficiently without distorting consumers' preferences for different goods and services. In effect, goods bought offshore should be taxed in a similar way to those purchased domestically.

### Countries with lower [REDACTED] levels of the *de minimis* are struggling to collect revenue effectively

18. Figure 2 shows that many countries with which we tend to compare ourselves have lower *de minimis* levels.



Figure 2: Selected international *de minimis* levels (in NZD equivalents at 1 May 2016)

19. Countries such as Canada, the United Kingdom, and France all have lower *de minimis* levels than New Zealand. Officials have visited these countries to understand how they collect duty to determine whether there are other processes used by these countries that could be introduced in New Zealand. They report that these other countries:





19.3. do not charge border clearance fees, but use postal organisations to collect revenue via pay-on-delivery allowing the postal organisations to add a charge for this service.

20. Australia is planning to reduce its *de minimis* from AUD\$1,000 to AUD\$0 from 1 July 2017 for offshore suppliers with turnover of more than AUD\$75,000. They will be required to register for GST in Australia. Details on enforcement and the tracking of payments remain unclear. Collection of GST will be the responsibility of the Australian Tax Office, not the Australian Border Force.

### **A set of responses to improve collection of duty on low-value goods**

21. In November 2015, Customs was provided with additional funding of \$0.840 million to improve financial modelling inputs and assumptions, perform scenario analysis, source market research on consumer behaviour and scope future costs.
22. Customs have identified five main dimensions to address current challenges associated with the collection of duty on low-value goods:
- 22.1. reducing **complexity** by moving to a *de minimis* that is based on the Free on Board value of the consignment
  - 22.2. **lowering** the *de minimis*
  - 22.3. the timing of implementation
  - 22.4. improving the **efficiency of collection mechanisms** through new process improvements
  - 22.5. reducing the cost to consumers.
23. We are not in a position to confirm all of these approaches and further work with industry is required. However, I recommend setting the direction of travel now by agreeing that we should work towards lowering the *de minimis*, potentially in 2018/19.
24. Customs' analysis is based on the following principles:
- 24.1. ensure efficient collection of Crown revenue – the system of taxing low-value goods should be fiscally positive or, at least, neutral across all of government and industry
  - 24.2. maintain the integrity of the GST system – GST should be applied evenly to all goods consumed in New Zealand, whether through domestic retail or low-value good import – failure to do this results in revenue leakage and tax distortions

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- 24.3. improve competitive neutrality – goods sold by offshore retailers and domestic retailers should ideally be treated equally
- 24.4. not inhibit consumer welfare and competition – in achieving the above principles, the system of taxes on low-value goods should neither unduly inhibit consumer access to markets nor prevent competition within New Zealand
- 24.5. manage border risk – the ability to manage risks related to biosecurity, and controlled and prohibited goods, should not be compromised.

### ***Change the current duty-based de minimis to one based on the value of the consignment***

- 25. Our *de minimis* is currently expressed as an amount of duty owing. For importers to identify if their goods will be subject to duty, they first need to know if their goods attract tariff duty (which differs based on product type and country of origin) and the rate of this tariff duty to calculate the tariff duty owing. This is then added to the consignment's value, and any shipping and insurance costs, in order to calculate the GST component. If tariff duty and GST are \$60 or higher duty is owing.
- 26. This complexity creates uncertainty and unnecessary transaction costs for consumers. Research into consumer knowledge found very limited levels of awareness about the *de minimis*.
- 27. Internationally the *de minimis* is more commonly based on the currency value of the consignment.
- 28. Moving to a value-based *de minimis* is supported by New Zealand Post, courier companies, Retail NZ and Consumer NZ. Research into consumer attitudes found that online shoppers, if aware of the *de minimis*, tend to already express it in terms of the value of the consignment.<sup>2</sup>

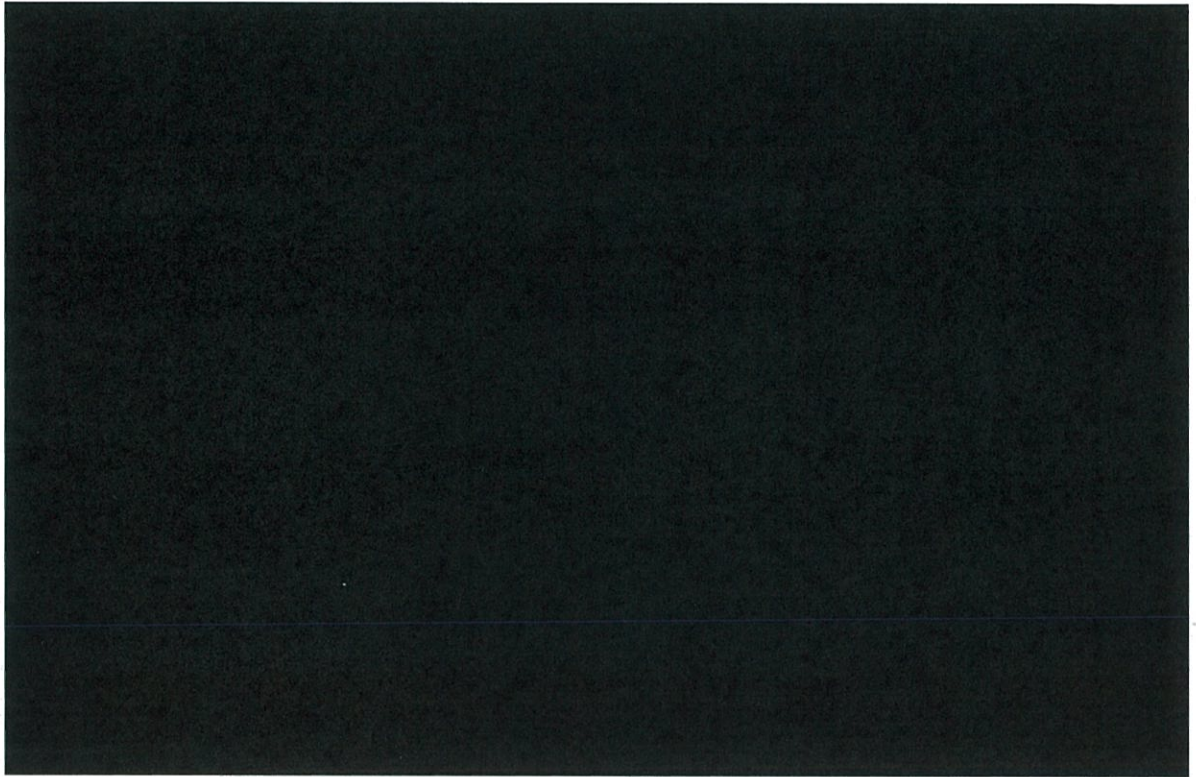
### ***We need to develop new and more efficient collection mechanisms***

- 29. The current low-value good clearance process is designed to:
  - 29.1. ensure imports and export control systems are complied with (including security-related controls)
  - 29.2. provide assurance the correct classification, origin and value of a good are declared
  - 29.3. detect error or fraud
  - 29.4. ensure appropriate duties are paid
  - 29.5. allow for a correct assessment of the refund, drawbacks and revenue.
- 30. [REDACTED]

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<sup>2</sup> UMR, *New Zealand Customs Low Value Goods Research Report*, March 2016





31. To improve competitive neutrality and address tax distortions, the development of alternative collection mechanisms is key to improving the process efficiency necessary to manage increasing volumes from current volume growth and lower *de minimis* thresholds. A suite of new mechanisms will be needed to operate between the mail and freight streams.
32. Customs is exploring and will potentially develop a combination of the following mechanisms in conjunction with industry:
  - 32.1. **Bulk collection** – duty is collected from freight companies based on information contained on cargo manifests
  - 32.2. **Offshore Supplier Registration (OSR)** (revenue collection by suppliers at time of purchase) – a Bill to implement it for intangible goods has been introduced, but no country currently applies it to physical goods. This revenue collection method is favoured by Retail NZ
  - 32.3. **Online portal** (proactive or reactive online revenue collection prior to delivery) – consumers pay duty owing online either before, or after, the consignment crosses the border, and before delivery
  - 32.4. **Pay on delivery** (courier companies or New Zealand Post collect revenue at the time the parcel is delivered) – this method is utilised in the United Kingdom, Canada, and France, but is strongly opposed by New Zealand Post and courier companies
  - 32.5. **Pay after delivery** (government charges consumers on proof of delivery) – this method was put forward by industry as a potential short term solution to collecting duties.

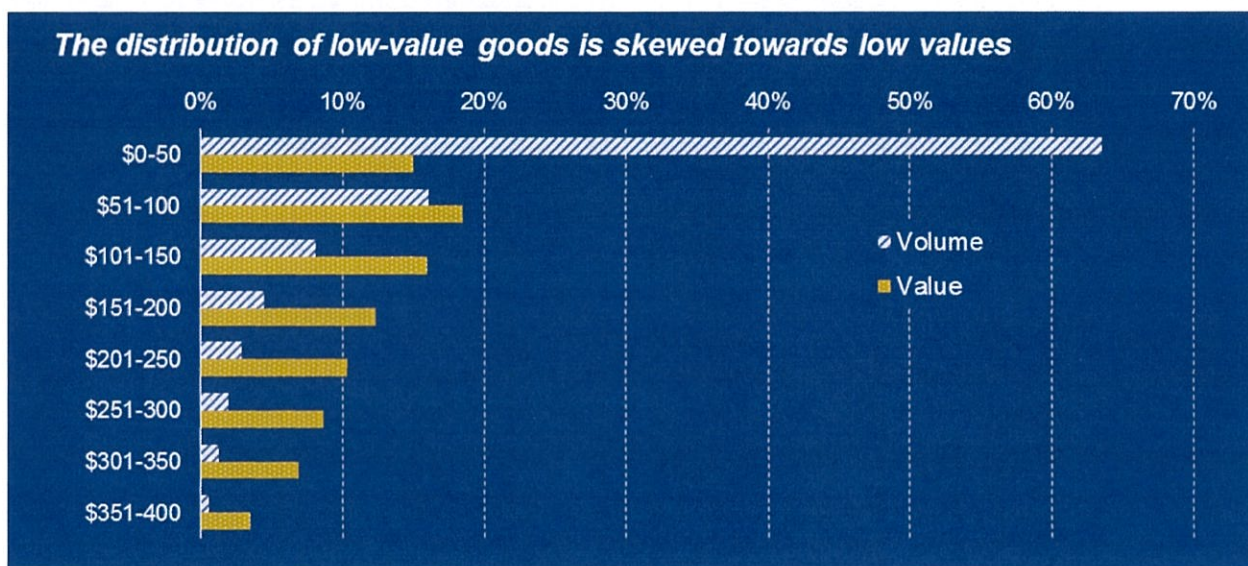


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33. Good data is required to make all of these options work in the postal stream, and more effective tracking mechanisms for parcels in both the postal and freight streams. International organisations including the Universal Postal Union and the World Customs Organisation are working to determine how data can best be collected and used to support efficient processing of goods.
34. Increasing amounts of electronic data are expected in the postal stream. In 2016 New Zealand Post expects to start receiving data from systems developed by the Universal Postal Union. Risk related data is expected to accompany consignments greater than 2kg from about 2018, with further data expected from 2020.

### *Reduce the de minimis in the future (from 2018/19)*

35. Consumer research, parcel sampling, and freight data all identify that the distribution of low-value goods is strongly skewed towards low values. Figure 4 illustrates the freight stream data.



**Figure 4: Value distribution of consignments valued below \$400 (freight stream data only)**

36. A lowering of the *de minimis* can dramatically increase the volume of consignments that will have duty collected on them, highlighting the importance of developing new and more efficient collection mechanisms. As further work is required with industry to design and develop new collection mechanisms, a definitive view about the appropriate level of the *de minimis* is unable to be made by Customs at this time.

### **The timing of change at this level**

37. Current collection methods could be used at some lower *de minimis* levels, although Customs and industry would require considerable new staff, brokerage resources and storage space. Whilst industry has provided some indication of the costs they would face, Customs consider these need further testing.



38. At reduced *de minimis* levels, new and efficient collection mechanisms are likely to be required to enable improved delivery times, lower fees for consumers (assuming they continue to meet all costs of processing consignments falling above the *de minimis*), and to ensure marginal revenues continue to exceed marginal costs.
39. An implementation date beyond two years would be needed to:
  - 39.1. provide more manageable timeframes for New Zealand Post, the fast freight industry, Customs, and MPI to focus on delivering significant system changes
  - 39.2. allow for the international development and domestic adoption (or independent domestic development) of improved collection methods.
40. Developing new collection mechanisms and lowering the *de minimis* will provide a meaningful step towards improving the tax base, addressing competitive neutrality for domestic retailers and maintaining the integrity of the GST system noting that, for domestic retailers this will not occur soon enough or be big enough from a competitive neutrality perspective.

**Moving to a \$200 *de minimis***

41. I did consider whether an interim step to \$200 in 2017 would be viable. However, I do not consider that it is at this time as it would:
  - 41.1. almost double the number of consignments required to be processed and the costs of processing these to Customs and industry would exceed the revenue gained by \$2 million in the first year of implementation (this also does not include capital costs required to upscale operations)
  - 41.2. provide significant logistical challenges to Customs, New Zealand Post, and courier companies to upscale operations in time – causing delivery delays and impacting risk assessment (for example, freight companies have indicated that there could be a delay of [REDACTED] in the delivery of parcels)
  - 41.3. present significant cost to industry who would look to recover these costs from consumers – this includes [REDACTED]
  - 41.4. mean that industry would be required to make two significant adjustments in a short space of time – refer to the Appendix for more detail on the results of stakeholder consultation.

***Consider how fees are charged on low-value goods***

42. If, and when, the *de minimis* is lowered, there will be implications for the Customs Import Entry Transaction Fee (IETF) of \$25.44 (\$29.26 including GST), which is payable for any dutiable consignment.
- [REDACTED]

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43. It is important that the fees charged at the border should be reasonable in relation to the price of the goods being imported and the GST collected.
44. The Ministry for Primary Industries also charges a \$19.98 (inclusive GST) Biosecurity System Entry Levy (BSEL) on all consignments attracting an IETF. Customs collects the BSEL on MPI's behalf at the same time as the IETF. Consequently there are implications for MPI if changes to the *de minimis* are progressed.
45. Under current collection arrangements, lowering the *de minimis* could mean that the BSEL applies to a much wider range of goods and result in significant over-recovery for MPI. [REDACTED]  
[REDACTED]. Any changes to collection mechanisms may also have impacts.
46. Further work is required to fully assess the impacts and develop options to manage them.
47. I have asked Customs to work with MPI to work through these issues and to manage the cumulative impacts on consumers, while ensuring sufficient resources are available to meet the costs of delivering services.

### Customs has also considered...

#### ...making changes to refunds and drawbacks...

48. As low-value imports grow so too will the rate of requests for refunds. Customs is already receiving increasing numbers of requests from private importers to refund duties if they return goods purchased on-line from offshore suppliers. The Customs and Excise Act provides that duty can be refunded in a limited range of circumstances. Customs is considering its position on these circumstances.

#### ...penalties

49. Good quality information on goods is essential to Customs' efficiently clearing low-value goods and meeting statutory obligations to collect taxes at the border.
  50. Some users, knowingly or not, inaccurately declare the value of their goods to avoid duty owing. Appropriate sanctions are therefore needed to deter people from providing mis-information.
  51. Part 13 of the Customs and Excise Act provides penalties on importers for inaccurate declaration of value of imports. However, the current penalties may not be appropriate. For instance, a prosecution when an importer mis-declares
- [REDACTED]



the value of a good may seem excessive when relatively small amounts of duty are involved.

52. Customs proposes establishing an infringement notice scheme as part of the scheduled changes to the Act. Infringement offences and fees are still to be developed. Customs will be developing this work in early 2017, and will consider infringement notices for low-value goods.

**...tariffs on low-value goods**

53. New Zealand Post and the fast freight industry support a move towards simplifying the current 11-digit New Zealand tariff codes to the internationally standard 6-digit code, as this would simplify systems and reduce reliance on scarce freight brokers. Customs supports such a change in principle. However, Customs and the Ministry for Primary Industries use 11-digit tariff codes (the first six digits of which match the international standard code) on consignments above the *de minimis* for risk assessment, and Statistics New Zealand uses them for statistical purposes. These will be used until an appropriate alternative can be developed.
54. The Ministry of Business, Innovation and Employment is carrying out a review of tariff policy in 2016 for potential implementation after June 2017. The outcome of this review could impact the amount of tariff revenue collected by Customs. Cost efficiencies are not expected to be realised until the requirement for, and the form of, tariff codes is addressed.

55.



56.



**Setting the future direction for low-value goods**

57. There is considerable interest in the Government's approach to changing the system for low-value goods. I recommend that the Government agree that I make a public statement that sets the Government's intentions for change. Specifically, the statement will identify that:

57.1. any change to the *de minimis* will occur for reasons of fairness – GST should be paid on everything that is consumed in New Zealand (noting that constraints exist, such as the costs of collection are not to exceed the duty revenue gained, and the risk screening procedures of MPI and Customs should not be negatively impacted)

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- 57.2. we need to enable new technologies that provide for more effective implementation and lower processing costs
- 57.3. we intend to move to a *de minimis* defined by the value of the consignment rather than duty owing
- 57.4. we will look to make a reduction to the *de minimis* in the future, possibly in 2018/19, after new collection mechanisms have been developed in consultation with industry.
58. Doing this will ensure that stakeholders have a clear understanding of the Government's expectations, while ensuring that Customs is able to continue to work through the more detailed matters that will inform final decisions confirming the level of the *de minimis* and the approach to cost recovery.
59. I propose that Customs be directed to report back to Cabinet in April 2017 on progress in developing new collection mechanisms with industry, and the costs for implementation of these.

## Consultation

60. Since November 2015 Customs has held discussions with New Zealand Post, CAPEC,<sup>5</sup> Toll Priority, Retail NZ, and Consumer NZ, as part of a stakeholder working group that explored in depth the implications for each of lowering the *de minimis*.
61. The following agencies have been consulted on this paper and their views are reflected: Ministry for Primary Industries, the Ministry of Foreign Affairs and Trade, the Ministry of Business, Innovation and Employment. The Department of the Prime Minister and Cabinet has been informed.
62. The Ministry for Primary Industries has participated in the stakeholder working group and is represented on the low-value goods steering committee that has overseen activities and advice. The two agencies will continue to work closely to manage the impacts of any changes to the *de minimis* or collection mechanisms.

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<sup>5</sup> CAPEC is an industry group formed by four courier companies operating in New Zealand (FedEx, TNT, DHL Express, UPS-Fliway).



***Treasury and Inland Revenue comment***

65. The Treasury and Inland Revenue have been consulted and have the following concerns.
66. Any proposals to lower the *de minimis* appear to be reliant on the adoption of one or more of the alternative collection options. However, it is not yet known whether, or to what extent, the collection options may:
  - 66.1. lower the cost of collecting GST
  - 66.2. improve revenue collection
  - 66.3. impact importers (compliance costs, estimated import fees, and waiting times)
  - 66.4. impact operations for Customs, New Zealand Post and couriers.
67. The Treasury and Inland Revenue officials do not consider that there should be an announcement about a reduction in the *de minimis* level. There is a risk that any announcement signalling a reduction may not be achievable in the timeframes suggested or would result in substantial costs on industry and consumers.
68. An announcement to reduce the *de minimis* level could instead be deferred until the alternative collection mechanisms have been considered in more detail and a preferred option(s) has been identified. At this point, the costs and revenue impacts of the preferred collection option would be better understood and a more realistic assessment of the *de minimis* level could be made as well as any associated fees that may be charged.
69. The Treasury and Inland Revenue officials are concerned that an announcement would not include any detail about the level of the IETF. Consumers may be concerned that they may face high levels of fees if the *de minimis* is lowered. For example, at lower *de minimis* levels, the current processing fees may exceed the GST owing. Officials understand that lower fees are likely but the level will be dependent on the collection options adopted.
70. Customs has also drafted a discussion document to consult on its IETF level with the aim to fully recover its costs of border activities. The Treasury and Inland Revenue officials consider that the IETF level has a direct impact on importers, particularly if the *de minimis* threshold is lowered. Because the two are interdependent, we recommend that consultation on the IETF also be deferred until a preferred collection mechanism(s) is identified.

***MBIE (Commerce and Consumer Affairs) comment***

71. MBIE is concerned that lowering the *de minimis* will lead to a further weakening of already muted competitive disciplines on New Zealand retailers. The smallness and isolation of the New Zealand economy means that New Zealand retailers are not subject to the same intensity of competition on the ground as their counterparts offshore. This makes exposure to online import competition particularly important for New Zealand's economy.

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72. Research commissioned by Customs found that price is the most important reason for offshore purchases and suggests that demand for low-value goods is relatively elastic. Adding GST and other border fees to imports would increase the cost of low-value goods and is therefore likely to reduce the volume of goods imported by consumers. If small consignments of consumer-imported goods face full border duties/fees, they will be facing proportionally greater border costs per item than consignments of goods intended for resale by retailers.
73. Even if forecasts of efficiencies gained by suggested improvements to cost structures and collection mechanisms are realised, some common consumer goods could significantly increase in price if the *de minimis* is lowered (particularly those to which tariffs still apply). Hypothetical examples could include:
- 73.1. Shoes from UK – current cost \$150, could increase to **\$209.01** (a 39.34% increase, includes 10% tariff)
- 73.2. Clothing from US – current cost \$100, could increase to **\$145.76** (a 45.76% increase, includes 10% tariff).<sup>6</sup>
74. MBIE supports:
- 74.1. improving the efficiency of duty collection before any consideration of whether the *de minimis* should be lowered
- 74.2. [REDACTED]
- 74.3. exploring options for designing cost recovery fee structures that reduce the cost to low-value import goods, thereby minimising the impact on import competition.

## Implications

75. This proposal has no implications in the following areas:

Human Rights Implications	Not Applicable
Gender Implications	Not Applicable
Disability Implications	Not Applicable
Financial Implications	Not Applicable
Legislative Implications	Not Applicable

## Regulatory Impact Analysis

76. A Regulatory Impact Statement will be prepared when decisions are being sought.

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<sup>6</sup> These examples assume the *de minimis* would be lowered to a point where these goods would be subject to duty, and are based on Customs' modelling of potential efficiency gains.



## Publicity

77. I propose releasing a statement in the week of 27 June setting out our intent to move to a *de minimis* defined by the value of the consignment rather than duty owing, and look to make a reduction to the *de minimis* in the future after new collection mechanisms have been developed.
78. At that time, Customs will proactively release redacted versions of this paper, and externally produced reports from the New Zealand Institute of Economic Research Inc., Techspace, and UMR Research on its website. This will provide transparency of our decision making process and provide greater levels of information for industry and stakeholders to support their ongoing engagement with Customs on this issue.

## Recommendations

The Minister of Customs recommends the Committee:

- 1 **note** that on 16 November 2015 Cabinet invited me to report back on options for changes to the way revenue is collected on low-value imported goods [CAB-15-MIN-0225];
- 2 **note** Customs was provided with additional funding of \$0.840 million to improve financial modelling inputs and assumptions, perform scenario analysis, source market research on consumer behaviour and scope future costs;
- 3 **note** that Customs has undertaken significant sampling and research to refine its financial model and understand what the potential elasticities will be for consumer demand of a lower *de minimis* but consider that further work with industry on new collection mechanisms must be completed before Customs is able to confirm an appropriate new level of *de minimis*;
- 4 **note** that implementation from 2018/2019 would provide industry and Customs time to develop collection mechanisms that are more efficient and will have less impact on users;
- 5 **note** that the tax base will continue to be eroded if the *de minimis* remains unchanged;
- 6 **note** that sending a clear signal to industry that we intend to reduce the *de minimis* will support engagement with them on more efficient collection mechanisms for duty on low-value goods;
- 7 **agree** that the Minister of Customs make a public statement confirming that the Government intends:
  - 7.1 moving to a *de minimis* defined by the value of the consignment rather than duty owing;
  - 7.2 to pursue making a potential reduction to the *de minimis*, possibly in 2018/2019;

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- 7.3 to undertake further work with industry on developing new collection mechanisms to improve process efficiency and cost effectiveness;
- 8 **direct** Customs to continue to work with industry to fully develop alternative collection mechanisms and to report back to Cabinet in April 2017 on progress;
- 9 **agree** to the release of a redacted version of this paper, and reports from the New Zealand Institute of Economic Research Inc., Techspace, and UMR Research.

Hon Nicky Wagner  
**Minister of Customs**

Date: \_\_\_\_/\_\_\_\_/\_\_\_\_



## Appendix: Stakeholder consultation

1. Customs engaged with a stakeholder working group comprising New Zealand Post, freight and courier companies (FedEx, TNT, DHL Express, UPS-Fliway, and Toll Priority), Retail NZ, and Consumer NZ. Officials from Inland Revenue and the Ministry for Primary Industries were also involved.
2. This group provided valuable feedback on the costs and lead time required to collect revenue from greater volumes, the size of the step required to start addressing competitive neutrality concerns, and the impact on New Zealand consumers of current and potential future changes to the *de minimis*.

### **Constraints for industry**

3. Should the *de minimis* be lowered to \$200 in 2017, the costs to industry to collect revenue would be prohibitive under current collection mechanisms. Industry also faces constraints in the form of set-up times for new systems, infrastructure, staff recruitment, and training. Processing backlogs and delivery delays are also likely. If given a considerably longer lead time they could consider more options.
4. For New Zealand Post, lowering the *de minimis* to \$200 in 2017 would be difficult unless the government (Customs or Inland Revenue) took responsibility for collecting any revenue after delivery of the consignment. The constraints on New Zealand Post stem from its use of manual processes and a new \$6 million automated warehouse would be needed to manage the volumes. It is also unclear whether sufficient labour would be available to implement an expanded manual process.
5. CAPEC highlighted a significant shortage of customs brokers in New Zealand, who have specialist skills in applying and interpreting tariff codes.
6. As a result of the above constraints, an October 2016 implementation date that coincides with the start of Inland Revenue's offshore registration for cross-border services and intangibles is not achievable for industry. Implementation in 2017 is just as difficult given the time required to build new warehouses and employ and train staff.
7. Industry's preference is that any lowering of the *de minimis* be implemented in April or July to avoid the annual October quarter peak in freight volumes.

### **Domestic retailers want quicker action**

8. Retail NZ would like to see a low *de minimis* implemented as soon as possible and expects this to have minimal effects on retail supply chains. It considers the *de minimis* needs to be lowered to \$50 or less to improve competitive neutrality. The principle of competitive neutrality suggests that competitors should compete on equal terms, with none advantaged over others.
9. Consumer NZ is concerned that there is a lack of understanding amongst New Zealand consumers related to revenue obligations for low-value goods. It is also concerned that domestic retailers should not be prioritised over consumer welfare.

