

Submission by



to the

**New Zealand Customs Service
and the
Ministry for Primary Industries**

On

**Recovering the Costs of Goods
Management Activities at the Border**

Joint Consultation Document

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Introduction

This submission is from Export New Zealand and Manufacturing New Zealand. Both are membership organisations and part of the Business New Zealand network (see Annex 1). By definition, members of ExportNZ send goods across the border from New Zealand, and many also receive goods from across the border. Many members of ManufacturingNZ export and/or import.

The role of Export New Zealand is to:

- Provide effective advocacy and lobbying on behalf of exporters,
- Inspire New Zealand firms to engage in exporting to expand their business horizons and grow internationally,
- Provide practical support programmes and networking events to help firms achieve these goals.

Manufacturing New Zealand works to provide the knowledge, information, contacts, training, support and services to help manufacturing businesses grow.

In preparation for this consultation, ExportNZ and ManufacturingNZ have consulted widely and have received comments from SMEs in the export and manufacturing sectors, industry association groups, and transportation services businesses.

The Case for Changing Fees and Levies on Exports and Imports

We recognise that there is a case for reviewing the way in which fees and levies associated with exporting and importing goods crossing New Zealand's borders. The fees and levies play an important role in supporting activities by the New Zealand Customs Service (Customs) and the Ministry for Primary Industries (MPI) help to keep the country safe from biosecurity hazards and the effects of crime, as well as meeting its international obligations.

We also understand that the level at which the fees and levies are currently set won't necessarily keep up with the cost of undertaking the activities, and there may be some unfairness in the structure of the fees and levies. Accordingly, we are satisfied that an occasional review is justified. However, as we explain below, we question whether opportunities for containing costs have been fully explored, and we also believe that there is a case for not setting the fees and levies at a level to recover the full cost of Customs' and the MPI's activities.

Current Landscape for Government Regulation and Cost Recovery Mechanisms

While not specific to just this consultation and cost recovery process, we are concerned that multiple cost recovery reviews and additional cost burdens on businesses and exporters are happening concurrently and without a complete understanding of what costs are increasing, the benefit to the businesses and the public, and the impact on growing businesses.

We have heard from both business and other industry groups about the impact these increasing costs have on their businesses and sectors.

One processed food exporter we spoke to talked about their first year's export revenue of \$50,000 and having to pay 25 per cent of that to MPI for audits, compliance, and certificates. They seriously questioned whether it was all worth the trouble to export their products.

An industry group also spoke about the multiple reviews they are having to submit on. While we recognise the need to review cost recovery mechanisms and for agencies to keep up with their costs, we do believe the government needs to take a holistic approach when loading costs on to businesses.

Therefore, we would encourage MPI, Customs, and other Government agencies to undertake a full review of the cumulative impact of increased cost recovery on businesses across all Government agencies. A review should take place before implementing any increase to the cost on businesses.

Guiding Principles for Setting the Fees and Levies

We believe that it is right that the way in which the level and structure of fees and levies are determined should be guided by a set of principles. It is evident that the paramount principle embodied in the proposals in the Consultation Document is that the costs of undertaking Customs' and the MPI's activities should be fully recovered through the fees and levies charged. Further, the Consultation Document argues that the fees and levies should be Financially sustainable; Equitable; Efficient; Transparent; and Justified.

However, we do not believe that it would be fair and reasonable to aim to recover the full cost of Customs' and the MPI's activities through the fees and levies charged. The Consultation Document proposes, in effect, to make importers and exporters responsible for paying the full cost of Customs' crime prevention activities, although exporters and importers are not responsible for the crimes. The activities conducted at the border by MPI and Customs involve a high level of public good, therefore the public (i.e. the taxpayer) should bear some of the cost to support such activities.

An analogous situation is where road freight businesses are not expected to pay the full cost of the work of New Zealand Police work to prevent crime where trucks are simply the vector. The road freight businesses contribute to policing costs, but they do not bear the full cost. Other actors, namely criminals, are responsible, and taxpayers in general bear the cost for the provision of a public good.

We do, however, support the principle that there should be no cross-subsidy according to transport mode, or according to exporting and importing.

Are the Costs of Delivery Being Sufficiently Contained?

It is disappointing that the projected cost increases shown in Table 1 in the Consultation Document are not fully explained. More specifically, it is not stated what assumptions were made to derive the projections.

Equally, the Consultation Document goes into some detail on the structure of the costs associated with Customs' and the MPI's activities, why they have increased, and why they are expected to increase further in the future. However, it is disappointing that there is a lack of detail on what has been done to contain the cost increases, and what potential there is for containing future increases. It might well be the case that there has been, and will continue to be, cost containment, but it is difficult to accept what is being proposed in the absence of full transparency.

We, therefore, recommend that Customs and MPI should provide the necessary details on the projected costs and cost containment measures before any revised fees and levies are introduced.

Exporting Creates a Greater Good

Another reason why we question whether the fees and levies should be set so as to fully recover costs is that the benefits of exporting are not wholly private. Rather, they are shared more widely with the population because exporting strengthens the economy. Exporting involves undertaking business activities that are subject to GST and incomes taxes, and these contribute to public services, such as health, which are enjoyed by all. In this respect, the fees and levies associated with exporting are unlike the fees charged for other public services, such as obtaining a passport or a motor vehicle licence, which can be for wholly private benefit.

We are also concerned that the way in which fees and levies are charged can make it difficult for small businesses in New Zealand to become exporters, and so make a contribution to the strength of the economy and the greater good. We understand, for example, that small-scale processed goods exporters have to pay a number of different fees to the MPI to enable them to export. The exporters in question acknowledge that the MPI's work is important and is undertaken well, but the charges make it difficult for them to operate profitably in overseas markets. These charges should be abated for new or very small-scale exporters.

Moving From Per Report to Per Consignment Charging

The Consultation Document makes the argument that moving from charging on a per-report basis to charging on a per-consignment basis would be fair and would align more closely with costs. This would lead to a reduction in fees for reports with few consignments and an increase for reports with many consignments.

Feedback From SME Manufacturers and Exporters

However, for many small manufacturers and value-added goods exporters that rely on imported components, this change could be debilitating.

One manufacturer/exporter said:

"This is going to affect the cost of small items that we add into our assemblies or sell alongside them, possibly making us uncompetitive on those components. We would try to pool purchases as much as we can to minimise the impact, but this may lead to holding of higher stocks (capital and risk impact)."

Another manufacturer/exporter responded:

"A per-consignment charge on NZ exporters would be debilitating and adds a further penalty/hurdle for us, given we are already inconveniently located for our customers vs some competitors. We would have to eat this and would not be able to pass it through, as it adds no value to our customer."

Feedback from Express Carriers

"New Zealand e-commerce businesses export up to 20,000 shipments per month, which would equate to approximately \$70,000 per month, and \$840,000 per annum."

While this amount may seem insignificant to some, for small businesses these kinds of costs can add up, strain limited budgets, impact growth potential, and ultimately small businesses' ability to compete in international markets.

There are also the added complications and costs involved with implementing a new system to pass on the charges from the freight carrier to the importer/exporter. We understand that express carriers currently absorb the cost of these charges; however, they would not be able to do so should Customs move to a per-consignment charging system.

We expect the costs passed on to carrier users to exceed the indicative fees on page 52 of the consultation document. This is because freight carriers must invest in new processes, payment systems, and additional warehousing to manage goods and process consignments.

Therefore, we are concerned that the proposed move from "per report" to "per consignment" cost recovery could dramatically impact New Zealand businesses that need to import or export large

numbers of low-value items. We reject the proposed move to a “per-consignment” charge rate and recommend that Customs and MPI continue to adopt a “Per-Report” charging framework.

Conclusions and summary of recommendations

In summary, we have concerns about the changes to Customs and MPI fees and levies, as set out in the Consultation Document. **We, therefore, recommend that any changes should be put on hold for the time being, and that the agencies involved;**

- Undertake a full review of the cumulative impact of increased cost recovery on businesses across all Government agencies.
- Provide the necessary details on the projected costs and cost containment measures,
- Measure the public good of the MPI and Customs activities and ensure that exporters and importers do not bear the costs of criminal activity or biosecurity risks for which they are not responsible.

More widely, we recommend that the MPI consider abating some of their compliance charges for new and very small exporters to assist them in growing their contribution to wider economic well-being.

Lastly, we reject the proposed move to a “per-consignment” charge rate and recommend that Customs and MPI continue to use the “Per-Report” charging framework with a reasonable increase after consideration has been given to the above recommendations.

For information or questions, contact:

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ANNEX 1.

ABOUT BUSINESS NEW ZEALAND

[BusinessNZ](#) is New Zealand's largest business advocacy body, representing:

- Regional business groups [EMA](#), [Business Central](#), [Business Canterbury](#), and [Business South](#),
- [Major Companies Group](#) of New Zealand's largest businesses,
- [Gold Group](#) of medium-sized businesses,
- [Affiliated Industries Group](#) of national industry associations,
- [ExportNZ](#) representing New Zealand exporting enterprises,
- [ManufacturingNZ](#) representing New Zealand manufacturing enterprises,
- [Sustainable Business Council](#) of enterprises leading sustainable business practice,
- [BusinessNZ Energy Council](#) of enterprises leading sustainable energy production and use,
- [Buy NZ Made](#) representing producers, retailers and consumers of New Zealand-made goods.

BusinessNZ is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy and services for enterprise, BusinessNZ contributes to Government, tripartite working parties and international bodies including the International Labour Organisation ([ILO](#)), the International Organisation of Employers ([IOE](#)) and the Business and Industry Advisory Council ([BIAC](#)) to the Organisation for Economic Cooperation and Development ([OECD](#)).

ABOUT EXPORT NEW ZEALAND

ExportNZ is a national industry association representing a diverse range of exporters throughout New Zealand. ExportNZ is a division of BusinessNZ, New Zealand's peak business advocacy body.

We are a membership organisation and have approximately 2,000 export members around the country.

ExportNZ advocates for, inspires, connects, and celebrates New Zealand exporters. We aim to build a thriving ecosystem that supports each other.

We are exporters helping exporters.

