

SUBMISSION
TO THE PRODUCTIVITY COMMISSION ON
INTERNATIONAL FREIGHT TRANSPORT SERVICES

FROM THE NEW ZEALAND CUSTOMS SERVICE

30 August 2011

The structure of New Zealand Customs Service submission

Part I

Information about Customs' role that informs our answers to the questions

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Part I

1. THE CUSTOMS ROLE WITHIN THE INTERNATIONAL SUPPLY CHAIN

1.1 **Context**

The New Zealand Customs Service operates in a global environment where governments, including New Zealand, exert their sovereignty at the border. Customs administers a broad and complex range of issues relating to trade and security outcomes and risks. Management of the border contributes to government's economic, social, environmental and international policy goals delivering greater prosperity, security and opportunities for all New Zealanders. The role requires careful balance between protection and compliance assurance, and the facilitation of legitimate trade.

Customs' business strategy, since the early 1980s, actively considers ways to reduce the impact border management has on the efficiency of international supply chains. It was one of the first administrations in the world to embrace paperless electronic border clearance. Goods processing went from paper based manual systems, that took 10 days on average to clear goods, to a national paperless computer processing system that takes less than 30 minutes. Computerisation also allows Customs to process ever increasing trade volumes, while systems continue to efficiently assess and collect import duties for government. (In 2009/10 Customs collected \$8.78 billion or 14 percent of Crown revenue. The value of annual trade was \$80.7 billion).

2.0 **Customs approach to efficiency**

Given that our approach to efficiency is integral to the way the border is managed, it is important to explain how the border system works, from principles to partnership.

2.1 **Operating principles for trade management**

Border management is guided by a set of operating principles recently agreed between Customs and MAF. The principles provide a framework for border agencies guiding their approach to the changing shape of the border environment, to increasing trade volumes and to changes in international transportation.

The principles are:

- High assurance, light touch.
- Risk is managed as early as practicable in the supply chain.
- Partnerships to manage risk benefit everyone.
- Rules are accessible and easy to understand.
- Resources are targeted to areas of greatest importance.
- Decision making is driven by complete, accurate and timely information.

The principles provide a high level of transparency and predictability for traders and transport operators. The message to supply chain participants is that agencies expect their co-operation and support to help eliminate risk. In

return, the cost of compliance for responsible businesses will reduce.

2.2 ***How Customs border clearance systems work***

Currently, all consignment information is submitted electronically by traders and screened to identify 'at-risk goods' for closer attention. All other goods are automatically released from Customs control, most before the craft's arrival. A time release study of sea cargo conducted by Customs in 2010 showed that over 76% of import declarations are received in advance of craft arrival, and all export declarations are cleared before the goods depart New Zealand. The study identified that less than 4% of import consignments are selected for closer attention, with less than half of these being physically examined.

The requirement to pay any fees, duties or levies on import or export declarations does not impede clearance. An automated debiting system allows any moneys owed to be charged to monthly accounts.

Transport operators are also required to account for cargo by lodging inward and outward cargo reports (*ICR/OCR/manifests*) in advance of arrival or departure. The cargo remains under Customs control either at the port, airport or in a licensed storage area until the individual consignments are cleared by way of entry declarations, or under a separate process that allows low-value consignments to be released directly against the inward cargo report.

In recent years, Customs has entered into export security screening arrangements with some of New Zealand's major trading partners to enhance the ease of access into their markets. The process gives an overseas importing administration confidence to quickly clear New Zealand exports on arrival. The current container security initiative undertaken in New Zealand involves a non-intrusive pre-load vetting process that has minimal impact on the export supply chain.

The requirement to security screen exports may expand further as other countries exert their own sovereign rights at their borders. Border agencies are currently examining a request by US border authorities to have all air cargo destined to USA, or travelling through US air space, screened before it departs New Zealand.

2.3 ***Efficiency through partnership***

Customs is keen to explore opportunities to develop partnership programmes¹. It recognises that cargo clearance processes need to be flexible as 'one size does not fit all'. The depth of checking done by Customs takes into account the wide variation in standards of security, reliability and efficiency of the different supply chains. Traders can take steps to help themselves as they are directly responsible for the quality of compliance controls they apply to the purchase and transportation of their goods. Clearance times and compliance costs at the border are largely driven by the confidence Customs has in the standards maintained within a supply chain.

¹ A partnership programme is an agreed arrangement between NZCS and traders, cargo handlers, or transport operators who commit to maintaining business 'best practice' standards that give Customs confidence about the businesses' regulatory compliance, safety and security in terms of their involvement with international trade.

Partnership programmes that generate compliance assurance throughout supply chains will deliver higher levels of predictability with minimal disruption. A significant component of any arrangement will be the trader's compliance history and commitment to provide quality and timely consignment information.

To do its job, it is essential that Customs knows what is being imported, who is involved in the transaction, and where the goods are coming from. It is in all parties' interest that Customs receives advanced, high quality information so that timely and effective risk assessments can be conducted in sufficient time to determine whether an intervention is required, and if so, to plan and co-ordinate the deployment of border resources.

3.0 **Customs' approach to performance and productivity**

Customs continually reviews and renews its border clearance systems and procedures to accommodate changing government and industry needs. It closely monitors the trends and behaviours of the border environment, including an awareness of the frequency and types of risks presenting at the border. It strikes a balance between compliance assurance and facilitation in order to satisfy government and industry expectations.

Border management productivity has been greatly enhanced over the years by government's investment in technology. A recent initiative to improve efficiency and effectiveness includes the use of cargo X-ray equipment to undertake risk screening. This substantially reduces the time and resources needed to open and inspect tightly packed cargo.

Another major development that will contribute to improved productivity is the recently announced Customs/Biosecurity 'joint border management system' (JBMS). This system will introduce improved risk targeting capability, co-ordinate agency processing, and streamline border agency information requirements. Traders will benefit as information will be submitted once through a single government channel for use by all border agencies.

Supply chain efficiency is in the forefront of Customs' involvement with international organisations such as the World Customs Organisation. It works with them to improve international standards for border processes and procedures. Customs ensures New Zealand's voice is heard on compliance and facilitation issues likely to impact on our traders.

Customs also maintains relationships with overseas border authorities so that it can share information where there is a joint interest. These relationships provide opportunities to work co-operatively on common issues, to get a better understanding of the threats occurring throughout supply chains, and to exchange information about risks.

4.0 Cost recovery for border clearance processing

Customs applies a cost recovery regime for processing shipping and trader reports and declarations. The Customs fees are:

Inward cargo transaction fee (from shippers)	<ul style="list-style-type: none">• \$359.82 per electronic cargo declaration for goods imported by sea;• \$30.66 per electronic cargo information declaration (ECI) for goods imported by air
Import transaction fee (from importers)	<ul style="list-style-type: none">• \$25.70 per import declaration
Outward cargo transaction fee (from shippers)	<ul style="list-style-type: none">• \$ 23.00 per ECI for sea• \$ 7.66 per ECI for air
Export transaction fee (from exporters)	<ul style="list-style-type: none">• \$14.66 per export declaration• \$10.22 per export declaration by an approved 'Secure Export Scheme' (SES) member

Actual figures showing the Customs processing cost 'per sea freight container' are not collected. This is because a trader declaration can cover a single consignment consisting of a number of containers, or can be for one of a number of consignments all packed within a single container. However, trade volume details collected during the 'Time Release Study' conducted by Customs in 2010 show on average that there were 1.56 import containers per import declaration, and 2.52 export containers per export declaration. Based on these ratios, the indicative Customs processing costs paid per container equates to approximately \$18 per import container, and \$3.50 (for SES partnership programme members) and \$7 (non- SES partnership programme members), per export container.

5.0 Future trends and opportunities

5.1 Trends in international trade

Two recent trends in international trade are likely to impact on future border management processes.

5.1.1 Growth in direct international internet shopping by consumers; -

This has security, public protection and revenue implications for border management. The clearance processes may need to be strengthened to cater for increasing transaction volumes by unknown purchasers from unknown suppliers. The current process of accepting un-codified² product information for low value shipments is a weakness that raises risk levels as volumes grow.

² Minimal information is provided by the courier company for those low value goods released on inward cargo reports. The goods description is written in 'plain English' and, unlike the import/export declaration, is not accompanied by a tariff item or other product identity number.

5.1.2 **Greater levels of pre-export assurance required by importing administrations;-**

In recent years global concerns about the risks posed by international trade has seen importing administrations require more detailed product and packaging information. As mention earlier, some administrations require pre-export security to be conducted in the country of export. For example, New Zealand currently screens all outward shipping reports for sea container exports to the USA.

Customs generally expects the trend for increasing transaction volumes to continue as New Zealand's economy grows and expands into new and emerging markets. This would be consistent with transaction volumes over the last decade which increased by more than 50%. Experience also points to increased levels of compliance concerns due to the emergence of new and more sophisticated risks as markets diversify and trading patterns change.

5.2 **Opportunities**

Customs has listed a number of concepts it considers are likely to provide opportunities to improve current business practices and increase the efficiency of international supply chains.

5.2.1 **More efficient use and management of supply chain information –**

- a. **Recording and storing information once** – This concept proposes that a public-private-partnership be established to manage 'inter-connected cloud information repository systems', using international data standards that are accessible to supply chain participants as appropriate.
- b. **Product codification by producers** – This concept proposes that New Zealand join with other advanced economies to initiate discussion in international fora aimed at promoting a global coding standard for goods identification on all supply chain documentation/messaging. For example, the standard could be centred on the current global system used to identify products (eg. The GS1 barcode system). The product code, in conjunction with its tariff classification, could provide supply chain participants with a level of detail necessary to satisfy all regulatory, contractual and financial interests.
- c. **Establishing a legal base for paperless electronic supply chains** – There are numerous information paths between the components of international supply chains serving a range of contractual, financial and regulatory requirements. While the data elements used are largely common to each path the manner and purposes for exchanging trade information are complex and varied. Significant savings in costs and time would likely result from establishing a legal framework that allowed electronic data to be used, stored, and exchanged within supply chains and across borders in a manner that served and protected all interests. The first step for this initiative could be for a government/industry partnership to develop a structure and pilot it with a suitable overseas trading partner.

5.2.2 ***Transaction fee incentives within partnership programmes*** – Customs is interested in exploring ways of providing more predictability and transparency to border processing. Traders that demonstrate a commitment to supplying quality information and who undertake an agreed standard of regulatory compliance control within their own supply chains could expect to be rewarded with reduced processing fees and seamless border clearance. An example of this is the Secure Export System (SES) where members of the programme are charged a reduced export declaration processing fee.

5.2.3 ***Appropriate border management legislation*** – The current Customs and Excise Act 1996 was developed in the early 1990's. Since then, the trade environment and the types of risks confronted at the border have changed significantly. The legislation has been continually adapted and amended to enable systems and processes to respond to events as they occurred. However, a total review is likely to be required to enable efficiency gains from information management and compliance partnerships to be realised.

Part II

6.0 RESPONSE TO SPECIFIC QUESTIONS

Set out below is Customs comment on those questions raised in the 'Issues Paper' and considered to be relevant to border clearance services.

Overall Wellbeing Perspective 2.2

Q 1 "Are there important issues that may be overlooked as a result of adopting an economic efficiency perspective for this inquiry?"

Customs comment:

The economic efficiency of international supply chains cannot be assessed in isolation. Government also has a goal of managing risk at the border to prevent harm to New Zealand, its citizens and its trading partners. It is likely that the border will continue to be used into the future to protect New Zealand society and its internal economy from external risk, for ensuring the safety and security of its people, and for maintaining the country's reputation as an attractive tourist destination. The economic costs to New Zealand and the degradation of community wellbeing that could result from failure to detect and prevent criminal activity far out weigh the relatively low fees imposed at the border by Customs on traders and transport operators.

A Framework for Considering the Issues 3.2

Q 2. "Is the framework described in Section 3.2 appropriate for this inquiry?"

Customs comment:

Customs suggest that two additional sectors should be recognised within the framework of components being considered. These are:

1. Overseas importing authorities; and
2. The part of the financial sector linked to terms & condition of payment for international transactions (Banks, payment transfers, & letters' of credit.)

(1) **Overseas import authorities** should be recognised as a component of the framework as their regulatory requirements can directly impact on the clearance costs and time delays for New Zealand exports into those countries.

Customs is pro-active in developing inter-agency relationships with New Zealand's trading partners. It works with them through New Zealand's 'Free Trade Agreement' agenda to negotiate processes that reduce the administrative cost in their countries for our exporters. Where appropriate, it undertakes quality assurance processes such as security screening on behalf of an overseas importing administration before cargo is cleared for export from New Zealand. New Zealand exports are given low-risk status under these arrangements.

An example of this is the highly effective container security screening arrangement negotiated with US Customs and Border Protection for exports from any sea port in New Zealand. This process ensures trade is treated as low risk saving traders the costs of inspections and time delays at destination. The economic benefit of getting product to market without undue delay is another consequence of such arrangements.

- (2) **The banking, insurance and financial sector** is another significant group that has a direct influence on the physical movement of trade. This group plays an important role in the transference of 'title' for the goods. Their assurance systems often rely on paper documentation to check compliance requirements before goods can physically pass along the supply chain.

Prioritising the inquiry's efforts 3.2

Q3. "What components and component interfaces warrant greater attention? What is the evidence that they are inefficient? What contribution could changes make to an improvement in the overall efficiency of the freight system?"

Customs comment:

Trade information - Supply chain information is an essential interface between and across all components.

All parties collect and use consignment data to sell/buy, pack/store, transport and account for trade. Some participants in the supply chain collect and use this data electronically, while others still maintain inefficient, costly paper based systems for various financial, contractual and ownership arrangement reasons. A concept to make trade data available through an 'inter-connected cloud information repository systems' based on international data standards, should be explored as part of any future supply chain management development. Such systems are likely to require legislation to protect their purpose, to assign appropriate levels of governance, and to provide the legal status currently recognised in paper documents.

While all participants would benefit from this approach it is unlikely that any single commercial participant would have the mandate to explore such a development. This could potentially be explored through a government led public-private-partnership.

What Affects Logistics Costs 3.6

Customs comment:

Table 2. makes incorrect reference to Customs charges. It lists three separate cost items that are directly attributed to fees charged by Customs.

As stated earlier, Customs charges the importer an "Import Transaction Fee" (ITF) of \$38.07 per declaration, and the shipper an inward cargo report fee of \$359.82 per report. The ITF fee collected by Customs is made up of \$25.30, which recovers Customs' goods clearance processing cost, and an amount of \$12.77

which is collected on behalf of MAF. These are transaction fees for processing declarations and reports, and cannot be directly attributed to the cost of clearing individual sea containers.

The Comptroller of Customs wrote to Martin Matthews, Chief Executive, Ministry of Transport on 28 July 2011 to correct Customs and Biosecurity cost details published in the Ministry's "Transport costs in freight logistics November 2010 publication". A copy of the letter was forwarded to Murray Sherwin, Chair, New Zealand Productivity Commission.

The fees charged by Customs are fixed cost for goods clearance processing. They provide certainty and transparency to all importers and shippers.

Efficiency of Individual components: Section 4

Ports 4.1

Port investment and rationalisation

Q14. "Does New Zealand have too many ports for a small country? If so, what barriers are inhibiting rationalisation?"

Customs comment

It should be noted that Ports of Auckland and the Port of Tauranga both operate 'inland ports' in the Auckland region. These inland ports are inter-modal hubs designed to reduce waterfront and central city congestion for import and export containers by providing accessible points of collection and discharge away from city congestion and closer to the domestic market. They are Customs controlled areas and are subject to security requirements in the same manner as a sea port.

Biosecurity & Customs 4.6

Customs comment:

Please see comments made in section 3.6 above. When the correct value of the Customs' fees are used to assess the Customs components, the proportion of the overall shipping and logistics costs attributed to Customs is significantly reduced. It should be noted that the fees charge by New Zealand Customs for goods clearance processing compare favourably with fees charged for import clearance by other overseas border agencies. For example:

- Australian Customs charge a processing fee of A\$50.00 per electronic import declaration.
- US Customs charge processing fees per declaration ranging from US\$25 to \$485 (based on value of the shipment)

Q46 & Q47

It is noted that these questions are directed at industry users.

Ease of trading across borders 4.6

Q48. “Does the World Bank’s analysis fit with the experience of importers and exporters? What opportunities are there to eliminate and/or streamline documents? Would this make a material difference in the total cost or speed of the logistics chain?”

Customs comment

Customs is not certain that the World Bank study is the most effective method of benchmarking supply chain efficiency. While the overall methodology is sound we have concerns about the quality and validity of the data collected.

The time taken to prepare documentation used for border crossing cannot be attributed solely for the use of New Zealand border agencies. Of the documents listed in this paper, New Zealand Customs only requires the electronic lodgement of the ‘Customs Export Declaration’ and the ‘Customs Import Declaration’. In both cases the lodgement of a declaration can be done in advance of the goods departure (at least 48 hours prior to export) and arrival (up to 5 days before importation). As stated earlier, legally compliant shipments are cleared in less than 30 minutes of lodgement.

All other documents are either required commercially within the supply chain or required by an overseas border administration. The only additional regulatory document required by a border agency is the ‘Biosecurity fumigation order’, and this is only required for a very small proportion of shipments.

In terms of component interface inefficiency, please refer to earlier comment in Q3 on the use of trade information throughout the supply chain.

Wider security costs 4.6

Q49 “Are there any measures that New Zealand could undertake to reduce the security-related costs imposed on exporters and importers? “

Customs comment

Security has a value and the costs of ensuring security need to be commensurate with that value. For Customs, security measures that promote our low security risk status are part of a wider trade relationship strategy designed to ensure access to export markets with minimal costs and time delays. This approach is consistent with the trend for exporting countries to provide a level of product stewardship as part of export assurance.

Customs has been pro-active in entering into security arrangements with a number of overseas administrations. It has invested significant resources in the development of systems and processes that meet the security needs of New Zealand’s trade partners.

The arrangements we have entered into with other countries have produced the following benefits for members of our partnership programme:

- *For trade to the USA:*
Sea containers are 3¹/₂ times less likely to be subject to security checks or inspections. This is equivalent to tier 2 status for their partnership programme.

- *For trade to Japan:*
An initial Japanese study shows that the clearance time for partnership programme members' cargo is 60% faster than other cargo. Members of New Zealand's programme should be receiving this benefit.

Tariffs 4.6

Q50 "What transaction costs are associated with import tariffs? Are there administrative or other changes that could improve the efficiency of tariff collection?"

Customs comment

The Harmonised System nomenclature is a codification system used by over 170 countries to classify goods. Governments use the international tariff as a base document to categorise goods primarily to assign rates of import duty. The Tariff Act 1988 is New Zealand's legal instrument.

Although import duties are being progressively removed, the requirement to classify traded goods into over 13,000 tariff items remains important for a number of reasons. Government needs to know what goods are crossing New Zealand's borders to screen them for risk, to check for compliance with a wide range of government policies, and to collect trade statistics. The tariff item is also used to screen out low risk goods enabling these consignments to be channelled for speedy release.

As stated earlier, opportunities to use other forms of goods identification more familiar to supply chain participants (*Bar-coding and RFID etc*) could be explored as part of any future efficiency and effectiveness evaluation.

Efficiency of interfaces between components 5.0

Cost of time in transit 5.1

Q53 "What are the costs of transit time to importers and exporters?"

Q54 "What sources of delay contribute to transit time? How might those delays be efficiently reduced?"

Customs comment

Customs has little impact on the time it takes for goods to move through the supply chain. As stated earlier, traders can choose to clear their goods pre-arrival, and if selected for inspection, can book an inspection time in advance of arrival to coincide with the availability of their cargo.

Efficiency of the logistics chain 6.0

Logistics Performance 6.1

Q63 "Where in the logistics chain is time delays occurring, and how might they be addressed?"

Customs conducted a time release study of cargo movement between New Zealand and Australia in 2009 and updated it in 2010. The study concluded that Customs' procedures and process do not impede trade. It highlighted the importance of advance lodgement of consignment declarations by traders if they wish to benefit from early cargo clearance.

Air Freight Logistics Chain 6.3

Q67 "What measures might improve the overall system efficiency of the logistics chain for international air freight?"

Customs comment

It should be noted that government agencies are currently exploring the options for responding to a USA requirement to have all air cargo security screened prior to loading for export to, or through USA airspace. This requirement is likely to have a direct impact on the cost of air freight and export clearance times.

Likely Future Trends in Markets and Technology 6.5

Q69 "Is there scope for increased sharing of operational data between transport firms to achieve improved coordination and efficiency? How might this be achieved?"

Customs comment

Please see Customs comment on 'Trade information' under Q3. A public-private-partnership may provide the mechanism to link and protect commercially sensitive data.

Strategic Planning 6.6

- "planning led by central or regional governments."

Customs comment

Any central or regional government planning should involve border agencies.

Next steps 7.0

Q78 "Has this issues paper covered the key issues? What other questions need to be asked?"

Customs comment

Possible additional questions relating to international organisations:

- What are the appropriate international organisations that could assist/influence supply chain efficiencies?
- What parts of the supply chain do they impact on?
- How could they contribute to supply chain efficiency?