



NEW ZEALAND
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PROTECTING NEW ZEALAND'S BORDER

25 October 2012

Mr Murray Sherwin CNZM
Chair
New Zealand Productivity Commission
PO Box 8036
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NEW ZEALAND

Mr Gary Banks AO
Chairman
Australian Productivity Commission
GPO 1428
Canberra City, ACT 2601
AUSTRALIA

Dear Chairmen

**SUBMISSION TO: *STRENGTHENING TRANS-TASMAN ECONOMIC RELATIONS*
(DISCUSSION DRAFT)**

The New Zealand Customs Service (Customs) welcomes the opportunity to provide a submission to the New Zealand and Australian Productivity Commissions' (the Commissions) study on strengthening trans-Tasman economic relations.

Our comments fall into two areas:

- the shape of the trans-Tasman customs/border management relationship
- specific comments on recommendations in the study.

The shape of the New Zealand-Australia customs/border management relationship

Our specific comments on your report need to be understood in the wider context of Customs' relationship with our Australian counterparts. This relationship is one of the most important that we have - economically, strategically, and politically.

In the customs/border management environment, New Zealand and Australia's outlook on many issues is similar, with New Zealand experiencing many benefits from working towards greater policy, strategy and operational coherence between our two administrations (for example, the benefits of both using SmartGate technology).

Our close working relationship with the Australia Customs and Border Protection Service (ACBPS) includes work to meet the strong expectation from both of our governments that their border agencies will work closely together to reduce the visible impact of borders on trans-Tasman travel and trade.

However, specific trans-Tasman projects are only part of our overall relationship with Australia. Another key component is sharing the challenges and issues we face as border managers. As sophisticated, modern border management agencies Customs and ACBPS share similar challenges and issues. We gain great value from mutual discussion of these issues and challenges and, where relevant, seeking mutually beneficial solutions. Solutions can range

from joint strategy development, the development of complementary policies and operational work such as joint operations.

Another component of our relationship is our joint work in our region and in regional and multilateral fora. For instance, in the South Pacific our agencies seek similar outcomes and have agreed to work cooperatively to support capacity building in the region. At times this may include joint projects but often we seek to act in complementary ways. We also coordinate our positions in forums such as the World Customs Organization.

Given the shape of the trans-Tasman customs relationship, Customs believes that we already work in the way the Commissions recommend – our two government agencies consider opportunities for trans-Tasman coordination on a case-by-case basis. The impact on the Australia relationship and/or how that relationship can assist us to achieve our objectives is a key consideration in all of Customs' work.

Overall, Customs is comfortable that we are on the right track with our Australia relationship. We are reassured that the initiatives proposed in the Commissions' draft report do not signal the need for further substantive work in the border sector, including for Customs. We do, however, have three specific comments to make on various aspects of the report and we outline these below.

Comment on two proposed initiatives: Rules of Origin and SmartGate

Trade in goods: abolish CER 'Rules of Origin' for all items with tariffs at 5 percent or less

Customs has two points to make on this proposed initiative. While we support the intent to reduce compliance costs, and consider this issue is worth exploring further, we are not convinced that this initiative will result in significant cost savings for business.

Firstly, we query the evidence for the claim that traders are incurring costs in complying with CER Rules of Origin (RoO). We note that this is largely based on a study undertaken in the mid 1990s. Compliance costs are an area that we closely monitor; in recent years we have not received any feedback from traders that the cost of proving country of origin is greater than the value obtained from the RoO. We note that the two countries have simplified CER RoO through two recent reviews.

We do note that the Commissions mention that costs of indirect shipment between the Parties are likely to exceed any 5 percent tariff margin. We wonder if the Commissions consider this a factor in calculating the compliance cost, though we note that while the costs of indirect shipment may exceed a 5 percent margin, CER no longer has a direct-shipment requirement.

Customs also notes that abolishing CER RoO may not have a significant impact upon compliance costs relating to business records or other documentary requirements. Exporters, producers and manufacturers will still need to maintain business records and documentary requirements for products they manufacture, as this is required to evidence RoO under other free trade agreements.

The second point is an unintended consequence of removing RoO from CER. If RoO are removed from CER, the likelihood increases that third-country goods will benefit from CER's tariff-free entry. A process would then be required to ensure that third-country goods do not transit Australia to benefit from CER preference into New Zealand (and vice versa). This concern is diminishing as we work on more Free Trade Arrangements but will remain an issue while some notable exceptions continue (for example, goods from the United States entering New Zealand through Australia or goods from China entering Australia through New Zealand).

People mobility: progress roll out of SmartGate and associated systems where cost effective

SmartGate has delivered a step change in trans-Tasman border processing. Customs is continuing to invest in SmartGate, including the next generation of SmartGate that will deliver further benefits for passenger experience.

While further investment in SmartGate will deliver incremental progress towards a 'domestic-like' passenger experience, Customs believes that there are potentially greater benefits to be gained by broadening the approach to people mobility to include streamlining airline and airport processes, in particular check-in and bag claim.

Customs and ACBPS are working together to develop ideas that will map out the future of passenger processing beyond SmartGate. Further work is required to evaluate the feasibility, costs and benefits of new ideas to further streamline travel.

Some questions around governance

Customs agrees that we need to get governance arrangements right to build on trans-Tasman economic integration. We also agree that it would be valuable to build on already existing structures.

A key success factor will be ensuring that governance doesn't focus on monitoring a long list of activities, but is instead focused on the achievement of high-level objectives. With the introduction of high level objectives a board-like structure could be used to oversee the entire relationship.

Finally, it is not clear how the suggested initiatives will be funded. Current arrangements rely on each government prioritising activities in its own budget process. Our experience has been that government priorities in the border management area are not aligned, and that this impacts on available funding for some projects.

Customs trusts this information will help the Commissions finalise the joint report and we look forward to seeing the final version.

Yours sincerely

Carolyn Tremain
Comptroller of Customs