

2 December 2003

Mr John Williams
Productivity Commission
PO Box 80, Belconnen
ACT
AUSTRALIA

Dear John,

The attached responds to the various questions raised in your email of 12 November concerning the compliance and administrative costs of the ANZCERTA Rules of Origin.

You will note that detailed information is not available for a number of questions you have asked. The breadth and depth of Customs' activity does not easily permit the isolation of one component from the numerous tasks we perform at the border.

Please also note that the Service is attempting to refine the data so as to provide a more focussed response to your third and fifth questions. I hope to be able to supply the actual number of entry lines entered under CER preference by the end of this week.

Yours sincerely

Mark Pigou
Manager, International Trade

QUESTIONS BY THE AUSTRALIAN PRODUCTIVITY COMMISSION ON NEW ZEALAND'S COMPLIANCE AND ADMINISTRATIVE COSTS OF THE ANZCERTA RULES OF ORIGIN

1. The costs to customs of informing firms about their rights and obligations in regards the ROO (i.e. of producing advisory material such as facts sheets & manuals, and providing direct advice about the ROO to firms);

The New Zealand Customs Service does not isolate costs for informing traders on the CER RoO from the wide range of information programmes it runs. Direct advice on CER RoO is usually conducted on a case-by-case basis (for example – after a claim of preference has been examined and declined). General Customs' publicity in this area has been significantly enhanced, by way of improved coverage and timeliness, through the loading of information onto the Service's website (www.customs.govt.nz).

2. The costs incurred by customs in providing rulings to firms on the preference eligibility of particular goods;

This question was answered previously but an error was made with respect to the amount of the "standard application fee". The correct response is:

Over the period January 2002 to October 2003, only one 'preference interpretation' ruling has been given under the Customs & Excise Act 1996 (Part IX - Customs Rulings). Customs' costs for this one ruling (against the CER rules of origin) were in the vicinity of NZ\$400 (in officer's time) less the standard application fee of NZ\$40."

3. The number of goods or entries which are checked for compliance against the ROO (i.e. the number of 'audits' undertaken);

Over the year ending June 2003, 490 imports from Australia claiming CER-preference were examined. Of these 490 examinations, 145 resulted in preferential entry being declined. This activity comprised a mix of both the physical examination of the goods at time of entry and under the Service's post-entry audit regime.

4. The costs incurred by customs in undertaking these audits (for example, the average cost of an audit, the range of audit costs, and/or the total costs to customs of compliance checking activity);

The auditing of preference claims may take the form of a physical inspection of goods as they are entered, document examination, or a company audit and costs would depend on the extent or depth to which the enquiries were taken. Audits also examine all aspects of the import declaration and may be initiated for other than checking claims of preference. Therefore, to attempt to arrive at a figure for costs incurred by Customs in undertaking CER RoO audits would be both misleading and unsubstantiated.

5. The total number of goods or entries from Australia (to make some judgement about the proportion of imports that are checked for compliance against the ROO);

Over the year ending 30 June 2003, the number of entry lines identified as originating from Australia totalled 611,585. It should be noted that this figure reports all goods originating from Australia. The New Zealand Customs Service is attempting to refine this figure so as to report only those volumes actually claiming preferential entry, viz. – where Tariff duty was not paid by virtue of CER preference. This refined figure should be available by 5 December.

6. The number of goods or entries that are found to be non-complying (to make some judgement about the level of compliance with the ROO); and

As commented in Question 3, of the 490 entry lines examined for entitlement to the CER preference claimed, 145 were declined preference. This equates to a 30 percent failure rate against targeted compliance testing of CER preference.

7. The basis for choosing goods for audit (i.e. are goods are chosen for audit on a random basis or if most audits are targeted at particular activities or sectors).

The New Zealand Customs Service operates a 'risk management' approach across the breadth of its compliance activities. Using risk management techniques, intelligence data and institutional knowledge, the Service identifies and audits importers / industries representing the most significant risk to government's expected outcomes. The matrix constantly shifts but it always includes industry assistance, revenue, community protection, prohibitions and restrictions as its core drivers.

The 'risk management' approach utilises planned and reactive audits, and in terms of both transactions and systems:

- *Planned audits – focus on a comprehensive range of documents or electronically stored data associated with a client's border transactions over a multi-year period. An annual audit programme is developed using risk-assessment techniques and intelligence methodologies.*
- *Reactive audits – mainly stem from trends disclosed in the course of planned audit activity, or from information otherwise received (such as 'industry complaints'), that requires attention to be focused on entities not initially included in the audit programme.*

The compliance audit programme aims to ensure that trends, behaviours and controls identified in the course of audit activity are monitored, thus ensuring audit recommendations are applied.

8. The Commission also understands that there is an enquires mechanism, established by a protocol on customs procedures (1995), that allows New Zealand firms to lodge complaints about the preferential entry of goods from Australia. We were wondering if data are available to show the number of complaints that have been lodged under this system and the outcome of

these complaints (i.e. whether or not the company is found to comply with the ROO).

Between Jan 2002 and Oct 2003, the Service received 11 complaints specifically relating to suspect claims of Australian preference. Of these 'industry complaints, five were in the Textiles Clothing Footwear (TCF) sector with three found to be unsubstantiated. A further six complaints related to claims of preference in other sectors, with three of these resulting in preference being declined.