

Rt Hon Jacinda Ardern, Prime Minister  
Rt Hon Winston Peters, Deputy Prime Minister  
Hon Grant Robertson, Minister of Finance  
Hon Andrew Little, Minister of Justice  
Hon Stuart Nash, Minister of Police  
Hon Ron Mark, Minister of Defence

BRIEFING FOR MINISTERS WITH POWER TO ACT			
<b>Priority</b>	<input checked="" type="checkbox"/> Urgent	<input type="checkbox"/> Time-Sensitive	<input type="checkbox"/> Routine
<b>Subject</b>	Regulatory settings for the buy-back scheme		
<b>Date</b>	27 May 2019	<b>Ref</b>	BR/19/47

### Executive summary

This paper seeks final policy decisions required to draft and enact regulations to support the buy-back scheme for prohibited firearms, parts and magazines.

The key remaining policy decisions required to establish the buy-back are the:

- pricing approach for prohibited firearms, prohibited parts and prohibited high capacity magazines
- approach to dealer compensation
- use of dealers as a collection agent during the buy-back
- process for valuation of unique or high value firearms
- other conditions for receiving compensation.

Following confirmation of these decisions, the Minister of Police will lodge a Cabinet paper and regulations to establish the buy-back scheme for the Cabinet meeting of 17 June. We propose this timeframe in order for the buy-back to commence on 21 June and be completed by 20 December 2019.

Mike Clement  
Deputy Commissioner, National Operations

<b>First contact</b>	s 9(2)(a)	
<b>Second contact</b>	Mike Clement, Deputy Commissioner, National Ops	s 9(2)(a)

# BRIEFING FOR MINISTERS WITH POWER TO ACT

## Regulatory settings for the buy-back scheme

### Purpose

1. This paper seeks agreement to the regulatory settings for the proposed buy-back scheme that will support amendments to the Arms Act 1983.

### Background

2. The Arms (Prohibited Firearms, Magazines, and Parts) Amendment Act 2019 implemented the new prohibitions and accompanying amnesty. It also created a regulation-making power to establish a compensation scheme for prohibited firearms, prohibited parts and prohibited high-capacity magazines, and the establishment of different compensation levels for different persons or licence holders.
3. The Prime Minister, the Deputy Prime Minister, the Ministers of Finance, Police, Justice and Defence have the Power to Act to make decisions on the development of a buy-back initiative [CAB-19-MIN-0105].
4. In April 2019,<sup>1</sup> you agreed some policy settings for the buy-back, including that:
  - the purpose of the buy-back is to get as many prohibited semi-automatic firearms out of the community as possible
  - the buy-back will cover lawfully held (at 21 March 2019) prohibited firearms, prohibited high-capacity magazines, and prohibited parts, excluding those aftermarket parts that are interchangeable with other firearms that are not prohibited
  - the buy-back will not cover unlawfully acquired property, items which are not prohibited, licence holders who apply for and receive an endorsement to possess that prohibited item
  - the buy-back would run for 6 months from the date of price announcement, aligning with the amnesty period.
5. You agreed to seek independent advice on:
  - the pricing approach and development of pricing schedules
  - settings for compensation for unique or higher value items outside the price list
6. Police undertook to provide further advice on compensation for dealers.
7. A tabulated summary of the independent advice (commissioned from KPMG in April) is enclosed. This provides a range of options for pricing approaches and price lists for prohibited items. KPMG's full report will accompany the proposed Cabinet Paper.

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<sup>1</sup> [BR/19/34 and BR/19/36]

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### Pricing approach for individual firearms

#### *Options for setting price*

8. The regulations need to describe the approach to determining the price of prohibited items. This ensures the approach is transparent to firearms owners, and mitigates risk of litigation by making it clear how value has been determined.
9. KPMG has provided the following pricing options:
  - a. **Single value:**
    1. *Zero compensation per firearm*
    2. *Single price per firearm regardless of make model or type*
    3. *Five categories of firearms types with a fixed price for each category*
  - b. **Make and model valuation**
    1. *Single price point per firearm based on common groups of types or brands*
    2. *Single price point per firearm in a detailed catalogue listing makes, models and types of firearms*
    3. *Apply a 50% reduction to the prices in the detailed catalogue*
    4. *Depreciation-based pricing at 20% per year until 0 at 5 years (tax depreciation rate)*
  - c. **Condition-based valuation**
    - 1a. *Apply a condition-based adjustment to the detailed price catalogue with five price points*
    - 1b. *Apply a condition-based adjustment to the detailed price catalogue with three price points*
    2. *Multiple US price points per firearm based on external condition (apply to either simplified or detailed catalogue)*
10. A table outlining these options with assessment of each option against a list of criteria and an indication of fiscal implications is attached at Appendix 1.
11. KPMG states that the price list they have developed reflects what New Zealand firearms experts believe is a fair market value as at 30 April 2019 for a firearm of a typical type in the typical condition that you might see in the market, and what an owner might typically spend to replace a firearm of any type. It could be expected that prices paid for firearms under the buy-back reflect the value as at approximately March 2019 prior to the ban.

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### *Preferred option*

12. Police recommends compensation based on the detailed price catalogue, with an adjustment based on the assessed condition of the firearm (three price points). This is consistent with earlier advice to Ministers and is aligned with the Australian approach to buy-back pricing. This is option C1b above and in the attached table.
13. Within this option, KPMG has proposed the three price points as:
  - *near-new condition* 95% of base price
  - *used condition* 70% of base price
  - *poor condition* 25% of base price
14. We have attached how KPMG describes these condition categories at Appendix 2.
15. Ministers have the option to adjust these percentage price points if they consider another percentage would more accurately reflect a 'used' or 'poor' condition.  
s 6(b)  

16. We consider these categories will reflect the majority of firearms. There will likely be some owners who are over-compensated and others who are under-compensated, however we think this approach strikes an appropriate balance between operational simplicity and perceived fairness by firearms owners.
17. Criteria to assess the condition of firearms will be published alongside the price list to ensure transparency with firearms owners, the regulations will specify that the criteria will be published with the base price list. Fewer categories are preferable to implement operationally, as this will require less subjective consideration at handover and result in less dispute from firearms owners over the compensation they receive for their firearm. KPMG perceives there is a risk of increased likelihood that firearms will be referred for expert valuation. We consider this risk can be mitigated by limiting the criteria for seeking valuation, as set out later in the paper.
18. The simplest option for Police to implement operationally would be a single price point per firearm, as this would not require any subjective assessment or potential for dispute when the firearm is handed in. However this option may not be perceived as fair by the wider public and may create a perception that the government is paying more for firearms which are in average or poor condition.
19. We do not recommend any of the other pricing options as some will be complex to administer (such as a five price point structure), whilst others will create significant winners and losers, such as offering a single price point for all firearms regardless of type, others such as zero compensation or depreciation-based pricing will be perceived as unfair by the firearms community.

### *Financial implications*



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20. KPMG estimates that this option could cost between \$170 to \$526 million using a 75<sup>th</sup> percentile valuation, and \$75 to \$233 million using a weighted average valuation. The weighted average valuation reflects some research into the market place that indicates there are considerably more of the lower value firearms in the New Zealand market than there are of the higher value firearms.
21. The attached table provides estimates for best middle and worst case scenarios for the different pricing options. It notes the difficulty in estimating the cost of the buy-back due to a lack of data sources and the need to make assumptions about the number of now prohibited rifles and shotguns. Due to the uncertainty about the number of prohibited firearms, the advice does not apply an estimate of the level of participation in the buy-back which will also have an impact on total cost.
22. We understand from discussion with KPMG and internal subject matter experts there may be some disquiet in relation to firearms with .22 calibre tubular high-capacity magazines. KPMG has been told that a small number of people have invested in high value high-capacity shotguns and rifles as a retirement fund, rather than invest in, for example, KiwiSaver. For example, KPMG sourced a price list from an auctioneer, where it observed some shotguns valued as high as \$100,000, with others on the list ranging from \$20-\$30,000. We are not able to ascertain how many of these prohibited firearms could be covered by the buy-back. Other limited market analysis also suggests there may be a considerable number of .22 tubular magazine lever or bolt action rifles in the civilian armoury that are now unlawful. The numbers of these firearms have been estimated at between 60,000 to 300,000 and have built up over the last 140 years. These firearms may, if the high end volume estimates are correct, go beyond the numbers of firearms previously estimated.
23. Police provided cost estimates for the buy-back in April 2019 [BR/19/34]. We estimated that if only newly prohibited firearms are compensated for, it could cost between \$48 million and \$149 million. If prohibited parts or accessories on firearms are compensated for, it could cost between \$79 million and \$249 million.
24. Initial cost estimates were based on numbers of known and estimated banned semi-automatic firearms and an estimate of their value based on average prices of commonly traded firearms in second-hand firearms sales data. We did not calculate an average price for every type, make and model of firearm, and instead focused on the average prices in the second-hand market for common types of firearms. This has the effect of lowering the cost estimates we provided. KPMG's price list includes higher end models which may not be traded as commonly. The key variables in the costing were the estimate of total semi-automatic rifles and shotguns and value of the firearms. We used a weighted average to represent an estimate of the market spread in different price points, based on what we know about the age of legally owned MSSAs in New Zealand.<sup>2</sup>

### Expert valuation of exceptional unique items

25. s 6(b)

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<sup>2</sup> As defined prior to 21 March 2019.

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s 6(b)

26. KPMG proposes the following criteria for firearms owners to access expert valuation of prohibited items:
  - The item needs to have been lawfully acquired;
  - The item is newly prohibited
  - The item is not already included in the price list; or is an item which is substantively different from those already on the price list
  - Once the item is submitted for evaluation it becomes the property of the New Zealand Police and will not be re-issued back to their previous owner.
27. KPMG also suggests the following price caps above which values should be determined by experts:
  - Centrefire semi-automatics: \$10,000
  - Rifles with capacity beyond 10 rounds: \$2,000
  - Shotguns with capacity beyond 10 rounds: \$5,000.
28. We consider this criteria is too broad and propose additional criteria to ensure that the advice is limited to valuing firearms by exception.
29. We also propose the regulations require the owner of the prohibited item to apply to the Commissioner of Police if they want their firearm valued, and the following grounds be met in order for the firearm to be valued separately:
  - The item is a lawfully acquired prohibited item, and
  - The item is not already included in the price list, or
  - The item is substantively different from the manufacturer model on the price list because it has been modified in some way, or is an antique or otherwise unique so that its value has increased by at least 30% or above the cap in the price list.
30. For items not already on the price list we propose that these can be added to the list to further limit potential future disputes in relation to that type of item. The regulations will enable price lists to be updated.
31. For items that are different to those listed in the price list, we would expect these to be significantly unique to the manufactured model in some way. However, owners of unique or antique items may be more inclined to try retain them and therefore could apply for a collectors' endorsement.
32. We also consider requiring a fee to access the expert valuation should apply, similar to the cost of an independent valuation, to lower the risk of opportunistic or vexatious claims.

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### Modification of firearms

33. We propose that regulations allow for compensation for the cost of modification to a firearm where its capacity is permanently reduced to lawful limits. Firearms able to be modified include those with integral tubular magazines greater than 10 rounds or greater than five rounds for shotguns. We recommend this is included for both the individual and dealer buy-back.
34. We understand that it costs between \$250-\$300 for a gunsmith to carry out this type of modification. Allowing the modification of firearms will make them lawful, enable people to retain them, and reduce the cost of the buy-back (although by how much is difficult to estimate given the uncertainty around the number of prohibited firearms). This supports the purpose of the buy-back to get prohibited weapons out of circulation and engenders more goodwill from firearms owners by giving them more options for surrendering their firearms.
35. We propose regulations enable a person to take their firearm to a gunsmith for permanent modification and that proof of modification be provided to Police. The gun owner would be reimbursed for the cost of modification, up to the value of \$300. There is an option to only compensate for the cost of modification for any firearm capable of being modified, though this option would likely be perceived as unfair by firearms owners, and it may be preferable to offer it as a choice. This approach would also maximise the number of firearms taken out of circulation.

### Prohibited parts

36. Ministers agreed to pay for prohibited parts on 8 April 2019 [BR/19/36]. Police recommended compensation for prohibited parts on the basis that these were no longer able to be possessed as a result of the new legislation, and that it would support the public safety objective of getting semi-automatic firearms out of circulation, given the ease with which firearms can be modified with a single part.
37. Police recommended that at a minimum, prohibited high-capacity magazines be included due to public safety risk.<sup>3</sup> We would still advocate for this if the decision to compensate for prohibited parts is revisited. This position is reflected in the KPMG advice.
38. KPMG notes that the componentisation of modern firearms (in particular MSSA's) creates a risk of 'asset-stripping' from firearms owners, seeking to hand in parts to receive more compensation than the whole firearm on its own. It also notes that paying for parts could significantly increase the cost of the buy-back and the complexity of the handling process at hand-in. The advice presents an option of not paying for parts under the assumption that owners will want to remain within the law so will hand them in and will already be receiving compensation for their firearms.
39. The unknown number of prohibited parts makes it difficult to provide a cost estimate for but we expect it would significantly increase the cost of the buy-back.<sup>4</sup>

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<sup>3</sup> BR/19/34 estimated \$2-17 million at a cap of 1 magazine per firearm.

<sup>4</sup> BR/19/34 estimated an increase of \$31.33 million - \$99.22 million if parts/accessories were compensated for, however a separate costing for parts has not been completed due to the number of unknowns.

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40. As identified by KPMG there are also risks in creating perverse incentives, such as stripping firearms into parts if there is a possible benefit in doing so. s 6(c)

For this reason we recommend any discount to the price list is applied equally to parts and that the parts pricing reduce the risk of 'asset-stripping'. Alternatively a simplified version of the price lists for parts could pay the a single price average across common parts rather than distinguishing between different manufacturers or models.

41. There are ways to mitigate risk and set some parameters on the expected numbers of parts and magazines, such as:
  - requiring prohibited parts or prohibited high-capacity magazines to be handed in alongside a prohibited firearm, and/or
  - putting a cap on the number of prohibited parts or high-capacity magazines per person.
42. These options would be difficult for Police to administer and perceived as unfair by the firearms community. Given the number of unknowns around parts, it is difficult to assess the benefits of applying further conditions on compensation against the potential costs.
43. Police recommends maintaining the decision to include prohibited parts and prohibited magazines in the buy-back scheme. Police considers that assessing the condition of parts would require technical assessments and may result in a number of disputes. We therefore recommend reflecting the 'used' condition assessment value discount for all parts (other than those considered inoperable) and paying either at 70% or 25% of the values provided by KPMG.

## Dealers can play an important role in the success of the buy-back scheme

44. As planning for the buy-back scheme advances, it has become increasingly apparent that retail dealers can play an important role in the success of the scheme. Police is developing a network of dealers to support the buy-back and amnesty process. Good relationships with dealers will also support Police engaging with the firearms community during the second phase of firearms policy work as they are influential thought leaders and communicators.

## Options to pay dealers an administrative fee for use as collection agents during the buy-back

45. Police provided advice to the Minister of Police on 9 May 2019 recommending payment of an administration fee to support the use of some dealers as a collection channel. We expect a network of dealers will improve firearm surrender rates, as it will provide greater accessibility and more convenient locations and times for handing in, and because dealers are able to draw on community connections to encourage surrender.

s 6(c)



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Police is not proposing to promote police stations as channels for surrendering firearms, for safety and practical reasons. Use of dealers would further reduce the safety risk of concentration at stations or community collection points.

46. Paying dealers an administrative fee for acting as a collection point recognises the impact on their business of processing and storing a surrendered firearm, and will incentivise more dealers to support the buy-back. Police would privately contract with appropriate retail dealers who have adequate facilities to handle volumes of firearms. Regulations will specify the information Police requires dealers to collect to process the transaction so that Police do not have to contact the owner to request further information.
47. Police estimates that processing a firearm at a collection point would take two staff approximately half an hour, at a cost of approximately \$50. The below options are proposed for compensating dealers:
  - \$75 (estimated cost + a loading fee to recognise administrative costs such as collecting information, storage and insurance)
  - \$50 (estimated cost)
  - \$25 (portion of estimated cost)
  - no administration fee.
48. The proposed options have not taken into account if dealers are required to conduct an assessment of condition when the firearm is handed in. Feedback from dealers indicates they would not want to be involved in assessing condition of firearms due to the risk of perceived unfairness by their customers, and may lead to an unwillingness to participate. It may be possible to do some assessment of condition based on the photographs taken of the prohibited item when it is handed in to the dealer which wouldn't require the dealer to undertake this assessment. Should Ministers agree to dealers receiving an administration fee this would be by way of a contract with Police and would be separate to the regulations.
49. Police has estimated that the cost of paying dealers a \$50 fee per buy-back application (one per licence holder) could be up to \$6.22 million, assuming half of all licence-holders present to dealers.

### *Options for dealer compensation*

50. Police provided provisional advice to the Minister of Police on compensation for licensed dealers on 15 May 2019. The first policy decision is whether to compensate dealers. We recommend that government does compensate dealers to support the underlying purpose of getting as many prohibited semi-automatic firearms out of the community as possible, and in recognition that some dealers are holding stock which is now prohibited but was not prohibited at the time of purchase.
51. Not compensating dealers, or providing a level of compensation perceived as unreasonable, could carry risk including:

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- lengthy and costly civil litigation
  - loss of confidence in government by the firearms community
  - dealers becoming unwilling to assist in the buy-back process (receiving surrendered firearms and associated administration)
  - dealers not willing to partner alongside Police in the ongoing administration of the Arms Act and losing goodwill in relation to the broader firearm reform programme.
52. Compensation for stock held is consistent with the provision in the Act which allows regulations to exclude economic, consequential or business loss. This should be consistent with the scope of the individual buy-back; lawfully acquired prohibited items purchased prior to 21 March 2019.
53. Dealers making a compensation claim would be required to make only one claim which:
- demonstrates that they have taken reasonable steps to return their stock to an overseas supplier
  - proves their losses through producing records of their cost price and any direct additional cost such as freight but excluding fixed value overheads such as rent etc. This would also ensure that items were not purchased by a dealer after 21 March 2019; and
  - demonstrates that reasonable steps were taken to mitigate further losses,<sup>6</sup> such as cancelling import orders not yet shipped.
54. Police has considered the following criteria in developing options for dealer compensation:
- operational simplicity
  - fairness and effectiveness in meeting business costs
  - impact on willingness of dealers to engage as partners in the buy-back scheme and broader firearm reforms
  - risk of litigation.
55. There are several options for dealer (retailer/wholesaler/importer) compensation:
- *stock at wholesale price including or excluding freight* (and other actual proven costs associated with the stock but excluding sunk costs or business overheads like storage or insurance)

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<sup>6</sup> This is consistent with compensation arrangements under section 162A of the Biosecurity Act 1993 which provides that in certain circumstances where a person or business is entitled to compensation, reasonable steps must have been taken to mitigate any ongoing losses.

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- *stock at wholesale price + a nominal percentage as a proxy for freight and direct costs (Australian handgun buy-back approach)*
- *stock at wholesale price + a percentages (such as 10% or 20%) as a proxy for freight and direct costs as well as a 'lost business' element*
- *stock at full retail price or the valued identified by KPMG*

56. We understand Ministers have had initial discussions in relation to dealer compensation and indicated a preference to pay for stock at the wholesale price paid and any further costs directly related to that stock.
57. We recommend that compensation is also paid for actual proven costs associated with mitigating losses, such as freight to return stock to suppliers.

*It may be administratively costly to compensate for freight*

58. Compensation for freight may be difficult to estimate for some claims, given that prohibited items may have only been a small part of a freighted import consignment. There is a large variance between air freight and shipping costs. Our analysis of some recent import consignments shows that shipping is lower cost (a few cents per kilo) whereas air freight has an average of \$20 per kilo which could equate to \$60 for one firearm. We think that the administration of compensating for freight costs would be large, for a relatively small benefit payable to dealers. Our initial analysis suggests that freight could average out to be around 1% of the value of prohibited items held by dealers, though it would vary between individual claims.
59. In at least one Australian buy-back, dealers were paid a wholesale price plus 10 percent for items which they surrendered. The wholesale price in Australia was an average wholesale price determined by firearms experts in consultation with firearm dealers. Importers were paid the customs value plus 20 per cent for surrendered items. The customs value was determined by what was declared at the time of importation. We propose that the import price is based on the declared Customs value, if this is less than what was invoiced.
60. Compensating with an additional nominal percentage may be administratively simpler in some cases where freight and other direct costs are difficult for the dealer to prove.

s 6(c)

61. s 6(c)

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62. s 6(c)

### *Second-hand stock*

63. It is not clear what quantity of second-hand stock is held by dealers. For second-hand stock, we recommend a separate approach:

- for items purchased second-hand, the price paid applies if proven, as long as that is not greater than what is itemised in the individual pricing schedule
- for firearms received as trade ins, given that the price paid is not transparent, we recommend using the pricing schedule for the individual buy-back.

64. s 6(c)

### *Options for different types of dealers*

65. The options for dealers are focused on those who hold a dealer licence and operate as a 'dealer' such as retailers, wholesalers and importers. There are 493 dealer licence holders in New Zealand. Police estimates that approximately a quarter of these are dealers with retail businesses doing the majority of importing and trading.

66. Others hold a dealer licence because they generate income, for example hiring firearms for theatrical or film production purposes, or they are only trading firearms between friends or clubs without a retail shop. Some will hold a dealer endorsement along with another endorsement eg collector. We expect that many in this situation will apply for one of the exemption categories under the new endorsement regime, such as a collector.

67. We propose applying the same approach to all dealer licence-holders, for example stock at wholesale price proved by records including freight. Where these types of dealer licence-holders cannot establish price paid, as the Act only requires them to keep records of some details relating to stock, we propose using the same approach as for other firearms owners.

68. There are a few manufacturers of prohibited parts and magazines in New Zealand who have complete and partially finished prohibited parts, such as AR15 barrels. Existing manufacturers may apply for a transitional exemption under the Amendment Act to continue to manufacture prohibited parts and magazines (for export) and test the firearm using prohibited items. We recommend the impacts on these businesses be considered as part of the second phase of firearms policy work.

### *Timing for dealer compensation*



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69. Police recommends that dealer compensation is managed in parallel with that of individual firearms owners. It is expected that dealers, especially smaller businesses, will want compensation as early as possible, for business cash flow reasons. For example, an importer may have borrowed to import a shipment of firearms and other items that became banned before they had the ability to sell the stock to retail dealers.
70. It is also a good faith measure to compensate dealers at the same time as individuals. In particular this would support the constructive role dealers are being invited to take to support Police in receiving surrendered weapons during the buy-back.
71. We note that dealers must surrender prohibited items and cannot retain them for sale to exempt persons because the new regime for supplying to exempt persons is not yet in place.
72. We recommend a final date is set by which time claims must be submitted. We recommend this is 6 months after the Regulations are in place, which aligns with the individual buy-back.

### *Financial implications*

73. There is limited information on the likely scale of compensation to dealers. This advice is based on the compensation being for those dealers who sell firearms. We understand these are approximately a quarter of licensed dealers in New Zealand. We do not have any information on what proportion of stock, if any, is likely to be able to be returned to suppliers.
74. A relatively small number of dealers do the majority of importing. Some are importer-wholesalers who supply to retail dealers and do their own online sales. Others, including the largest retailer, import direct for sale. Limited market analysis suggests that wholesalers apply around 45% mark up, and retail dealers apply around another 30%. Therefore if compensation is based on price paid, the level of compensation for the same item will depend on where in the supply chain the item is held in stock.
75. We have estimated a range of \$2.6 million to \$9.0 million for compensation for newly banned firearms, parts and magazines held by dealers, depending which option Ministers prefer. This range reflects the lower and upper limits across the options:
  - Stock at retail price
  - Stock at wholesale price plus a nominal percentage
  - Stock at wholesale price including or excluding freight.
76. This work has been undertaken without extensive engagement and limited consultation with a small number of affected parties relating to estimated volume and value of prohibited stock currently held. This limits the 'auditing' of the range of costs inherent in the system, leading to the need to undertake high level estimates. Police considers that the limited information available means that the figures are likely to be on the lower end of estimates.

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77. Stock holdings will vary between dealers. Many will be small operators not holding much stock, if any. However, medium size and large scale importers and dealers will require considerable Police resource to manage applications for compensation.
78. The administration costs relating to compensation, but not including surrender itself, covers Police time and independent agency costs relating to: inspecting and verifying stock being surrendered, assessment of the claim, including financial records, quality assurance, payment and audit processes.
79. The financial implications of administering the buy-back and amnesty for dealers are not yet known. Police is working to develop an estimate of these costs.

### *Dispute resolution*

80. We propose to use the existing provision in section 63 of the Arms Act which provides for appeal to a District Court Judge in respect of compensation. Section 64 provides the standard second appeal on points of law only to the High Court. These provisions apply to the buy-back generally, and we think that they will achieve the objective of public confidence in the scheme as well as natural justice

### **Tax and GST implications**

81. Police is working with Inland Revenue to develop a ruling relating to the GST implications of GST registered entities seeking compensation through the firearms buy-back. This ruling will apply to individuals as well as dealers.

### **Financial implications**

82. KPMG has estimated the cost of compensating for prohibited firearms using a condition-based price and a weighted average is between \$75 to \$233 million, with a mid point of \$131 million. Police estimated in April that if only newly banned firearms are compensated for, it could cost between \$48 million and \$149 million. We also estimated that if prohibited parts or accessories on firearms are compensated for, it could increase the cost between \$31 to \$99 million, taking this estimate to between \$79 million and \$249 million.
83. It is difficult to provide a further estimate of the cost for prohibited parts given the uncertainty over the numbers which may be covered by the buy-back. We estimated a range of \$2-\$17 million for high-capacity magazines at a cap of 1 per firearm. We have estimated a range of \$2.6 million to \$9.0 million for compensation for newly banned firearms, parts and magazines held by dealers, depending which option Ministers prefer. This estimate has been done with limited consultation with a small number of dealers in relation to estimated prohibited stock currently held and is likely to be at the low end of an estimate range.
84. Police is still working through the cost implications of administering the buy-back scheme.

### **Communications**

85. Police instigated a national mass media campaign following the Arms Act Amendment Bill coming into force in April. The mass media advertising campaign is integrated

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across a number of channels, including digital advertising, radio, social media, and print advertising. Police is also leveraging communications channels with key firearms stakeholders.

86. A national strategic communications and stakeholder engagement strategy has been developed, and copies shared with your office on 14 May. Police is engaging with firearms stakeholders, in addition to Police staff to ensure Districts are well-prepared for the amnesty and buy-back period.
87. Police's Public Affairs team will be in touch with your office regarding the buy-back announcement and communication support you may require.
88. Subject to your agreeing the role of dealers in the buy-back scheme, Police would like confirmation as to when it can initiate negotiation for contracts with appropriate dealers. Police recognises you may prefer such negotiations to begin following Ministerial announcement regarding the buy-back scheme.

### Consultation

89. Some agencies including the Ministry of Business, Innovation and Employment, Customs, Inland Revenue, have been consulted on parts of the advice relating to dealers. Portions of this paper relating to the independent advice has not been shared with agencies except for the Treasury.

### *Treasury Comment*

90. As identified in the KPMG advice, Ministers will need to balance a range of different factors in deciding on an appropriate approach to the buy-back. Treasury considers the KPMG advice puts disproportionate weight on firearm owners' perception of value in order to maximise compliance and insufficient weight on fairness to taxpayers. The advice does not provide any evidence to justify the assumption that price and compliance are highly correlated. We expect that many firearm owners will comply with the law, irrespective of the compensation paid.
91. KPMG's advice that firearms do not significantly depreciate indicates there is not an effective second-hand market in operation, either because there is limited trade in second-hand firearms or supply issues with certain types of new firearms. We therefore consider that using KPMG's option of paying its estimate of "market" price to be inappropriate. It also disregards the fact that there is now not a legal market for such weapons in New Zealand. Notwithstanding this, Treasury's considers using KPMG's detailed pricing catalogue as a base for the pricing approach is a useful way of demonstrating fairness to firearm owners, but that Ministers should choose an option that discounts the catalogue prices on the basis of not accepting the assumption that firearms do not significantly depreciate.
92. While the depreciation-based pricing option developed by KPMG has some attraction in that it is based on what the Government considers fair and reasonable for business tax depreciation purposes, it is unlikely to be perceived as fair by firearm owners as no compensation would be paid for a firearm more than five years old. On balance, Treasury agrees with Police that the best option presented is the detailed price catalogue with a discount based on three tiers of assessed condition. We consider

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discounting for condition is likely to be more reflective of a market price in a normal functioning market and reflects that firearm owners have enjoyed some use of the firearms. Ministers have the option of adjusting the 95%, 70% and 20% discount factors recommended by KPMG if they consider the pricing tiers do not balance the key criteria sufficiently.

93. While acknowledging the considerable uncertainty associated with the costings, Treasury considers the weighted average costs calculated by KPMG to be the most appropriate indicator of costs. The option recommended by Police and Treasury therefore has an estimated cost range of \$75 - \$233 million, with a mid-point of \$131 million. These costs are for the firearm buy-back only and decisions taken on parts, dealer compensation, and administration fees for collection will be in addition to this cost. Adding Police's initial estimates of parts and dealer compensation costs would increase the overall cost of this buy-back option (excluding administration fees) to \$109 - \$341 million if all prohibited parts are included and \$80 - \$259 million if only high-capacity magazines are included.
94. Treasury also agrees with Police that paying for modification of firearms is warranted as this is likely to reduce the overall cost of the buy-back scheme, and we are also supportive of the proposed compensation scheme for dealers.
95. Treasury has concerns about the potential cost of compensation for parts. It is supportive of paying compensation for prohibited high-capacity magazines but it does not support paying compensation for a wider range of parts given the potential cost and incentives for asset-stripping.

### Next steps

96. Confirmation of decisions is required from Ministers by 29 May to issue final drafting instructions to PCO, to have regulations drafted and lodged on 13 June for the Cabinet meeting on 17 June.



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### Recommendations

It is recommended that Ministers with Power to Act:

#### *Previously agreed settings*

- a) **note** the purpose of the buy-back is to get as many prohibited firearms out of the community as possible
- b) **note** that you have agreed the buy-back will cover lawfully acquired prohibited firearms, prohibited parts and prohibited high-capacity magazines
- c) **note** that prohibited parts includes those as defined in the Act but exclude those 'aftermarket' parts that are interchangeable with other firearms that are not prohibited
- d) **note** you have agreed the buy-back will not cover unlawfully acquired property or prohibited items which are lawfully held under an exemption
- e) **note** that you agreed to receive independent advice on the pricing approach and price list and these are enclosed and outlined in recommendations (f)-(h) below

#### *Pricing approach*

- f) **agree** the pricing approach for prohibited firearms will be: Yes/No
  - a. **A1.** Zero compensation per firearm; OR
  - b. **A2.** Single price per firearm regardless of make model or type; OR
  - c. **A3.** Five price categories based on the type of firearm; OR
  - d. **B1.** Single price point per firearm based on common groups of types or brands; OR
  - e. **B2.** Single price point per firearm in a detailed catalogue listing makes, models and types of firearms; OR
- g) **agree** to use the detailed catalogue in (e) as the base price list which takes into consideration advice received on fair market value and what an owner might spend to replace that type of firearm at March 2019; AND Yes/No
  - a. **B3.** Apply a 50% reduction to the price list; OR

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- b. **B4.** Depreciation-based pricing at 20% per year until 0 at 5 years (tax depreciation rate); OR
  - c. **C1a.** Apply a condition-based adjustment to the price list (five price points); OR
  - d. **C1b.** [PREFERRED] Apply a condition-based adjustment to the price list (three price points); OR
  - e. **C2.** Multiple US price points per firearm based on external condition applied to the price list
- h) agree** if a condition-based approach is preferred, to use the three condition categories recommended in the enclosed independent advice: Yes/No
- a. near-new condition: 95% of base price
  - b. used condition: 70% of base price
  - c. poor condition: 25% of base price
- i) agree** to use the base price list provided by KPMG for prohibited parts and prohibited high-capacity magazines and apply a used condition adjustment of 70% of the base price in the list for prohibited parts and magazines and 25% of the base price in the list for prohibited parts and magazines in poor condition; Yes/No
- j) agree** that there will be a separate compensation option that will cover costs of modification of firearms which are capable of being modified, with agreement of the owner, to permanently reduce their capacity to make them not prohibited firearms: Yes/No
- k) agree** that compensation paid in relation to firearms capable of being permanently modified, either that: Yes/No
- a. there will be compensation will be paid for the price of the firearm in the list capable of being modified if the owner does not want it to be modified and surrenders the firearm to Police; OR
  - b. compensation paid is not more than the cost of modification of the firearm up to a maximum of \$300
- l) agree** that owners of exceptional prohibited items may apply to the Commissioner for valuation and the following criteria must be met: Yes/No
- a. the item is a lawfully acquired prohibited item; AND
  - b. the item is not already on the price list; OR

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- c. the item is substantively different from the model on the price list because it has been modified, is an antique or is otherwise exceptional; AND
- d. this has increased the value by at least 30% above the base price list or above the price caps recommended by KPMG
- m) **note** that the regulations will enable price lists to be updated to add new prohibited items
- n) **agree** that owners will be charged a fee to access valuation, similar to the cost of getting the prohibited item valued privately
- o) **note** that this fee is intended to limit the cost associated with vexatious claims Yes/No

### *Dealers compensation*

- p) **agree** that licenced dealers may claim compensation for lawfully acquired prohibited firearms, prohibited magazines and prohibited parts that is stock in hand or under the control of Customs or Police, purchased or ordered before 21 March 2019 Yes/No
- q) **agree** the regulations will specify that compensation would not account for economic, consequential, business loss Yes/No
- r) **agree** that dealer claimants must produce records of what they paid for the prohibited items when making a claim for compensation Yes/No
- s) **agree** that claimants must demonstrate that they took reasonable steps in order to mitigate any losses, in particular that they cancelled import orders not yet shipped, and attempted to return items to the supplier Yes/No
- t) **agree** that claimants be permitted to make only one compensation claim, unless there are extenuating circumstances Yes/No
- u) **note** that the Minister of Police will receive advice on the delegated financial authority for making payments
- v) **agree** that the claimant must accept the offer of compensation before the compensation is paid Yes/No
- w) **agree** that the pricing approach for compensation is Yes/No
  - a. Stock at full retail price OR
  - b. Stock at import or wholesale price, plus 10% OR
  - c. Stock at import or wholesale price, including freight (and other direct costs associated with the stock but excluding overhead costs) OR

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d. Stock at import or wholesale price, excluding freight

**x) agree** that second hand and trade-in items may be compensated for at price paid (no higher than the price list) or the price in the base list (where no records of price are held or it is not transparent) Yes/No

**y) agree** that where imported stock is returned to a supplier at a discounted rate, that compensation will be paid for the difference between the price paid and the discounted price refunded by the supplier, as well as freight costs incurred re-exporting to the supplier Yes/No

**z) agree** that applications for compensation to dealers will fit with the general buy-back timeframe, concluding six months after the Regulations are in place Yes/No

### *Use of dealers as collection agents*

**aa) agree** that dealers who are contracted by Police as a collection agent may receive an administration fee per successful buy-back application (one application per licence-holder), of: Yes/No

a. \$75; OR

b. \$50; OR

c. \$25; OR

d. \$0

**bb) indicate** whether Police may begin contracting appropriate dealers following confirmation of the decisions in this paper and ahead of the compensation regulations being announced Yes/No

### *Next steps*

**cc) note** decisions from Ministers are required by 29 May 2019 in order for Regulations to be approved by Cabinet on 17 June

**dd) authorise** officials to issue drafting instructions to PCO for Regulations to implement decisions made in this paper Yes/No

**ee) note** this will enable announcements of the buy-back by 21 June and the end date will be 20/21 December 2019

### *Financial implications*

**ff) note** the estimated cost of compensating for prohibited firearms based on the independent advice using a weighted average is between \$75 million to \$233 million.



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**gg) note** the estimated cost of compensating dealers for prohibited items held as stock is estimated to be between \$2.4 to \$9.0 million at a minimum but that this is considered a low estimate based on limited data

**hh) note** that it has not been possible to fully estimate the potential costs of compensating for prohibited parts and prohibited high capacity magazines, but initial estimates were between \$2 to \$17 million at 1 magazine per prohibited firearm, and that parts could increase the cost of the buy-back between \$31.33 - \$99.22 million

**ii) note** Police has estimated that the cost of paying dealers a \$50 fee per buy-back application could be up to \$6.22 million, assuming half of all licence-holders present to dealers.

**Ministers' comments and signature**

**Ministers' comments and signature**

..... / / 2019 ..... / / 2019

Rt Hon Jacinda Ardern  
Prime Minister

Rt Hon Winston Peters  
Deputy Prime Minister

**Ministers' comments and signature**

**Ministers' comments and signature**

..... / / 2019 ..... / / 2019

Hon Grant Robertson

Hon Andrew Little

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Minister of Finance

Minister of Justice

**Ministers' comments and signature**

**Ministers' comments and signature**

..... / / 2019 ..... / / 2019

Hon Stuart Nash  
Minister of Police

Hon Ron Mark  
Minister of Defence

PROACTIVE RELEASE

## Appendix C: long list of pricing options

The table in Appendix C provides a summarised description of pricing options that could be considered.

### Data Sources

The data in the pricing options table is based on the following sources:

- Firearms volume data provided by NZ Police
- Assumptions previously made by NZ Police relating to the proportion of rifles and shotguns that are now prohibited
- Indicative firearms volume data provided by an NZ firearms retailer – this provided a distribution ‘shape’ of the relative number of firearms at different price points
- The base price list of firearms contained in Appendix A

### ‘Overall Cost’ Assumptions

One of the challenges in determining the overall cost of the buy-back is a lack of data relating to the actual firearms that are in public ownership. Even major firearms retailers have only been able to provide highly indicative data about the volume of firearms in public ownership at different price points. In addition, it is not known what proportion of rifles and shotguns that are in public ownership are now prohibited.

We have therefore provided two comparative sets of estimates that indicate the ‘Overall Cost’ of the buy-back:

- i. **Based on 75<sup>th</sup> Percentile Valuation:** The first column is the more conservative estimate of ‘Overall Cost’. Because there is no detailed firearms volume data, we developed ‘Overall Cost’ estimates using the 75<sup>th</sup> percentile value of all firearms listed in the base price list. This assumes an average firearm value of approx. \$4,331.
- ii. **Based on Weighted Average Valuation:** The second column provides a view on ‘Overall Cost’ that reflects an approximated distribution of firearms volumes across different price points. Data provided by an NZ retailer offered a high-level indication that there are more firearms of lower value in public ownership than at higher values. Based on this data, and applying it to the base price list, we estimated that the average value of firearms could be approx. \$1,920.

The Best Case, Mid Case and Worst Case ‘Overall Cost’ estimates are based on the following firearms volumes and levels of prohibition:

	Best Case	Mid Case	Worst Case
<b>MSSAs</b> Approx stock 14,286	100% of overall stock classed as prohibited	100% of overall stock classed as prohibited	100% of overall stock classed as prohibited
<b>Rifles</b> Approx stock 758,811	5% of overall stock classed as prohibited	10% of overall stock classed as prohibited	20% of overall stock classed as prohibited
<b>Shotguns</b> Approx stock 379,405	1% of overall stock classed as prohibited	2% of overall stock classed as prohibited	2% of overall stock classed as prohibited

Note that ‘Overall Cost’ estimates are based on mean values of firearms and do not take into account the actual mix of firearms in public ownership. These estimates also assume that all prohibited firearms are redeemed. Note that the ‘Overall Cost’ figures do not include any firearms that are referred to the Exceptions Panel and do not include the cost of parts.

Valuation Type	Option	Description	Effectiveness in removing firearms from the public	Fairness to owners	Fairness to public	Transparency	Administrative simplicity	Overall cost	
								Based on 75 <sup>th</sup> Percentile Valuation	Based on Weighted Average Valuation
Single value	A1. Zero compensation per firearm	No compensation paid for any firearm or part. Assumes owners will hand in firearms to avoid criminal activity.	Unclear how many owners would comply using this regime. Perceived as high risk approach to remove firearms from the community, especially the higher value items.	Highly likely to be seen as unfair by the firearm owning community.	Even members who do not own firearms may consider this approach unfair.	Easy to understand and communicate.	Easy to administer, with no additional resources required from the NZ Police.	No cost	
	A2. Fixed compensation per firearm	Single price-point paid for all firearms with some 'winners' and some 'losers'. Could be highly effective for low value .22 rifles. Less effective for MSSAs and other centrefire semi-automatics because of the very wide range of values.  If compensation is set too low there is a risk the Exceptions Panel may have a very high volume of firearms to process.	Depending on the price-point, this approach could be effective at removing large quantities of firearms from the community.  However, might also create bias towards handing in lower quality firearms.	Compensation may be higher than the value of some firearms, while being considerably lower than the price of higher-value items.	Members of the public might see certain levels of compensation as a bit high for lower value items.	Easy to understand and easy to communicate. However, this approach is unlikely to be seen as transparent, as some firearm owners will receive compensation that is disproportionately higher than the value of their firearm, while others will lose value on their higher quality firearms.	Easy to administer, with no additional resources required from the NZ Police.  However, there would be a high likelihood that a high volume of firearms valued above the fixed compensation level would be referred to the Exceptions Panel.	Likely cost - approx. \$87M at \$500 per firearm - approx. \$173M at \$1,000 per firearm - approx. \$261M at \$1,500 per firearm - approx. \$346M at \$2,000 per firearm  Additional option to limit costs would be to define a fixed budget and to pay out on all firearms until the budget is consumed.  Exceptions Panel volumes could also impact the overall cost, especially at the lower fixed price points.	
	A3. Fixed compensation based on the type of firearm	A flat rate based on the general type of firearm. The rate would be set at the 75 <sup>th</sup> percentile price, based on the following types: - MSSA; - A-CAT Centrefire; - Rimfire; - Shotgun – Semi-Automatic - Shotgun – Pump Action.	If the price is set above the likely median, this approach should provide effective incentives for most firearm owners. However, there is a risk that those with the highest value firearms will appeal to the Exceptions Panel.	While the compensation may not fully match the price of some firearms, this approach will be closer to the perceived value for most firearms. This overpays for lower price firearms and underpays for higher price firearms.	Does not account for the condition, or the make/model, which the public could perceive as too high.  Cost likely to be far higher than public expectations. This overpays for lower price firearms and underpays for higher price firearms.	Easy to understand and communicate. However, unlikely to be seen as transparent, as some firearm owners may receive compensation disproportionately higher than the value of their firearm, while others will lose value on their higher quality firearms.	Straightforward to identify the type of the firearm.  There is a risk that those owners with higher value firearms will appeal to the Exceptions Panel.	Likely cost approx. \$752M  This scenario, at the 75 <sup>th</sup> percentile price, is based on a weighted average prices of: - MSSAs at \$4,440 - A-CAT Centrefires at \$4,440 - Rimfires at \$4,400 - Shotgun – Semi-Automatic at \$2,000 - Shotgun – Pump Action at \$2,000  Difficult to estimate to cost based on unknown mix of firearms in public ownership.  Exceptions Panel claims also likely to impact the overall cost.	



Valuation Type	Option	Description	Effectiveness in removing firearms from the public	Fairness to owners	Fairness to public	Transparency	Administrative simplicity	Overall cost	
								Based on 75 <sup>th</sup> Percentile Valuation	Based on Weighted Average Valuation
Make and model valuation	B1. Single NZ price point per firearm (simplified catalogue)	Simplified catalogue grouping many types and brands together, with a single price point regardless of condition. Challenge is to identify a price point that drives the right behaviour without over-paying for a range of firearms. For example, a single make and type may have a number of 'models' which can differ in price by as much as \$2000.	Likely to be more effective than the fixed compensation approach.  Effectiveness increases at the higher end of each price range.	While the compensation may not fully match the price of some firearms, this approach will be closer to the perceived value of the firearms.	Level of compensation may be perceived as too high for poor quality/condition items	A short price list could be easy to comprehend for the public. However, this approach does not fully account for the variation in quality that may exist between different models of the same brand	Very straightforward to quickly identify the make and type of any firearm.  Exceptions Panel volumes could be increased where high-end models seem under-valued.	<b>Worst Case \$639M</b> <b>Mid Case \$360M</b> <b>Best Case \$205M</b>	<b>Worst Case \$283M</b> <b>Mid Case \$159M</b> <b>Best Case \$91M</b>
	B2. Single NZ price point per firearm (more detailed catalogue)	More detailed catalogue listing types, brands and models, with a single price point regardless of condition.  Discount can be applied by differentiating between current, superseded and discontinued models.	Likely to be highly effective, as the level of compensation should closely match perceived value of most firearms.	Likely to receive support from the firearm-owning community, based on previous interactions with a stakeholder reference group.	This approach does not account for the condition of the firearm which can create perception that the government is paying more than the face value for some of the firearms.	Level of granularity will be seen positively by firearm owners as it shows understanding of differences by government.	Requires some additional time for NZ Police to assess the firearm to determine the model. Should be straightforward with right training and guidance documentation.	<b>Worst Case \$752M</b> <b>Mid Case \$423M</b> <b>Best Case \$242M</b>	<b>Worst Case \$333M</b> <b>Mid Case \$188M</b> <b>Best Case \$107M</b>
	B3. Discount single NZ price point by discount factor to fit buy-back within a budget	Take pricing from long catalogue and apply discount factor that means total cost of buy-back fits in a budget.  Alternative option is just to discount high volume of low-value firearms or low volume of high-value firearms.	Highly unlikely to achieve the intended effect other than through fear of penalties.	Level of compensation is unlikely to be seen as fair by the firearm owners. Only owners of poor quality firearms will be fairly compensated.	The overall cost is likely to match public expectation for the overall level of compensation the firearm-owners should receive. However, part of the community may see compensation as too low to be fair.	Same level of transparency as the long-catalogue option.	Same level of administrative complexity as the long-catalogue Option B2.	<b>Worst Case \$376M</b> <b>Mid Case \$212M</b> <b>Best Case \$121M</b>	<b>Worst Case \$167M</b> <b>Mid Case \$94M</b> <b>Best Case \$54M</b>
	B4. Depreciation-based pricing	Initial value of the firearm is based on the detailed catalogue (brand, type and model), but the price depreciates at 20% per year from the year of purchase. After 5 years, the firearm is deemed to have fully depreciated.	Likely to be effective at removing firearms purchased in the past two years. However, it is unlikely to act as an incentive for owners of older firearms, and the success will heavily depend on effective enforcement.	Lack of compensation for firearms older than 5 years (many of which may still be in working order), and a more aggressive depreciation curve is likely to be seen as unfair by a large group of current owners.	Fiscally conservative approach is likely to be acceptable to the wider public.  However, some groups of non-firearm owners will see this approach as unfair on the firearms community.	Similar level of transparency as the long-catalogue option, although firearms community likely to claim this pricing scheme shows a lack of understanding of firearm valuation.	Same as the long list catalogue. Plus imposes additional requirements on the firearm owners to prove age of the firearm.	<b>Worst Case \$150M</b> <b>Mid Case \$84M</b> <b>Best Case \$18M</b>	<b>Worst Case \$68M</b> <b>Mid Case \$43M</b> <b>Best Case \$18M</b>
Estimates depend upon mix of firearms in public ownership and are based on the base price list.  Exceptions Panel volumes could also impact the overall cost.									
Estimates depend upon mix of firearms in public ownership and are based on the base price list.  There may also be additional administrative costs on NZ Police to conduct assessments.									
Estimates depend upon mix of firearms in public ownership and assume 50% discount factor applied to the base price list.  There may also be additional administrative costs on NZ Police to conduct assessments.									
Important caveat: this option assumes only 20% of prohibited firearms will be eligible for buy-back payment, i.e., only 20% of firearms are less than 5 years old and have receipts.									

Valuation Type	Option	Description	Effectiveness in removing firearms from the public	Fairness to owners	Fairness to public	Transparency	Administrative simplicity	Overall cost	
								Based on 75 <sup>th</sup> Percentile Valuation	Based on Weighted Average Valuation
Condition-based valuation	C1a. Compensation based on the detailed catalogue (Option B2), with a discount based on the assessed condition of the firearm (five price tiers)	Compensation based on the more detailed catalogue listing types, brands and models, with the final level of compensation based on external condition. Inspection can be rapid in the hands of a trained individual and easy to make consistent across multiple cases. Use NRA-based guidelines for five tiers of condition estimates: - New, Perfect and Excellent - Very Good - Good - Fair - Poor.	Likely to be effective at removing firearms from the community. However, the degree of uncertainty about the level of compensation may create a bias towards surrendering high quality models, while retaining older/damaged models.	Owners will receive a price that similar to what they could have sold the firearm for prior to the law changes.	Public is likely to intuitively understand a quality based approach. Some may be surprised by high retained value of used firearms.	NZ firearm owners and the public will understand the concept of reduced quality resulting in reduced price. If a common template is used the process will be less subjective.	To ensure expedient assessment, NZ Police will need to develop clear criteria that are easy to apply consistently. Additional training may be required for NZ Police staff to ensure they are applied consistently across the country.	<b>Worst Case \$601M</b> <b>Mid Case \$338M</b> <b>Best Case \$194M</b>	<b>Worst Case \$267M</b> <b>Mid Case \$150M</b> <b>Best Case \$86M</b>
	C1b. Compensation based on the detailed catalogue (Option B2), with a discount based on the assessed condition of the firearm (three price tiers)	Compensation based on the more detailed catalogue listing types, brands and models, with the final level of compensation based on external condition. Inspection can be rapid in the hands of a trained individual and easy to make consistent across multiple cases. Use guidelines for three tiers of condition estimates: - Near-New - Used - Poor.	Likely to be effective at removing firearms from the community. However, the degree of uncertainty about the level of compensation may create a bias towards surrendering high quality models, while retaining older/damaged models.	Broad "used" tier might result in many owners seeking valuation from the Evaluation Panel.	Public is likely to intuitively understand a quality based approach. Some may be surprised by high retained value of used firearms.	NZ firearm owners and the public will understand the concept of reduced quality resulting in reduced price. If a common template is used the process will be less subjective.	Simpler approach than C1a, but still requires clear criteria that are easy to apply consistently. However, there would be a high likelihood that a high volume of firearms would be referred to the Exceptions Panel.	<b>Worst Case \$526M</b> <b>Mid Case \$296M</b> <b>Best Case \$170M</b>	<b>Worst Case \$233M</b> <b>Mid Case \$131M</b> <b>Best Case \$75M</b>
	C2. Multiple US price points per firearm based on external condition (apply to short or long catalogue)	Use US 'Blue Book' to determine prices. Condition evaluation as per Option C1a.	Hard to predict how this would be received by the NZ firearms community, but likely push-back in that US market has higher levels of supply meaning that prices are lower.	US values are generally lower than NZ equivalents. Condition variables may cause some contention and inconsistency.	Likely to be seen as fair by the public, as it matches international standards.	Blue Book is transparent, but requirement to evaluate condition leaves process open to inconsistency.	Requires additional time to assess the firearm and check it against the Blue Book. The Blue Book also include historical value of some firearms, which may need to be backed out of the compensation price.	<b>Cost likely to be 10% to 20% lower than Option C1a based on US pricing being lower than NZ. Very difficult to estimate because of the complex nature of the Blue Book.</b>  Estimates depend upon mix of firearms in public ownership and are based on the base price list.  There may also be additional administrative costs on NZ Police to conduct assessments.	

## Appendix E: candidate three-tier grading system

A three-tier grading system could be implemented with much broader condition bands than used in the five-tier system described in Appendix D.

A three-tier grading system offers straightforward implementation to NZ Police than the five-tier model. It is likely that its broader condition bands would allow NZ Police to make more rapid evaluations.

In its application, a three-tier grading system would also use NRA-style categories (like the five-tier model) but would group them in broader ranges, as follows:

1. **Near-New Condition:** These are firearms that have seen little to no use and have been maintained to a high standard by their owners. It would be hard to determine if the firearms was brand new or had been fired a few times before. Most of the firearms in this category would either be collector items or purchased in the last 5 years and not been used.

**RBP:** 95% of base price point. Most firearms of this quality would sell for their original sales price, regardless of the fact they are technically 'second hand'.

**Expected number of total firearms:** 5%-10%

2. **Used Condition:** These firearms are ones that have seen some-to-regular use but still operate as effectively as a new firearm due to the fact it has been well maintained by its owner. These firearms will display some superficial wear and tear but not to the extent that it interferes with the safe and comfortable operation of the firearm.

**RBP:** 70% of base price point. Most firearms of this quality still sell at a high price due to the fact their operation effectiveness is no noticeably lower than that of one in near new condition.

**Expected number of total firearms:** 70%-80%

3. **Poor Condition:** These firearms are inoperable or in a condition where their operation is not safe or comfortable. Firearms will display significant wear on key areas that will impact performance. Corrosion and pitting will be seen throughout the firearm. Work from a gunsmith or replacement parts would normally be required to restore firearm to a safe level of operation. The most common cause of a firearm being in this condition would be either an impactful event or low levels of maintenance.

**RBP:** 25% of base price point. Firearms in this condition are normally brought by dealers to strip for parts.

**Expected number of total firearms:** 15%-20%

However, having a broader range of firearm conditions valued at single price may cause greater dissatisfaction from owners. It is likely that a greater proportion of owners will believe that their firearm is under-valued using this model and that this could increase the levels of referral to the Exceptions Panel.

It is not uncommon for a firearm to be purchased and then not used for a year or two after purchase. Many firearms will fire few as 8 to 20 rounds per year, unless used for sporting activities. There is very little reduction in performance based on a rifle's age. On average it takes about 10,000 rounds fired to start seeing a drop in performance. However a lack of regular maintenance (cleaning and oiling) will cause the relatively rapid onset of degradation. The degradation of a firearm is also greatly impacted by brand and model. For example, a high quality brand firearm that is well maintained will be in better condition after 15 years and 10,000 rounds fired than a far newer lower quality brand that has been poorly maintained.

## Three-Tier Firearms Grade Criteria

<b>Near-New Condition</b>	<i>New or near-new condition with little to no use. Would be difficult to determine if firearm has been used before.</i>
Operation	Pass functions test, action is completely smooth with no resistance or impairment. All safety features function.
Barrel	No muzzle wear. Bore is shiny.
Working Surfaces	No damage or wear. No pitting. No corrosion.
Internal Components	No damage or wear. No pitting. No corrosion.
Main Body	Perfect condition, no scratches or visible wearing
<b>RBP</b>	<b>95% of base price point</b>

<b>Used Condition</b>	<i>Safe working condition, has seen superficial wear and tear that does not impact the firearm's safe and comfortable operation. Firearm has been regularly maintained.</i>
Operation	Pass functions test, action is somewhat smooth with little resistance or impairment. All safety features function.
Barrel	Some muzzle wear. Some wearing on bore.
Working Surfaces	Some superficial wear. Minimal pitting. Minimal corrosion.
Internal Components	No damage that would impair function of firearm. Minimal wear. Minimal pitting. Minimal corrosion.
Main Body	Minimal wearing/ scratches on all surfaces. Some minor corrosion
<b>RBP</b>	<b>70% of base price point</b>

<b>Poor Condition</b>	<i>Inoperable or in unsafe working condition. Rust present on firearm. Components damaged or missing. Work would be needed to restore firearm to a safe level of operation. Would normally be sold to a dealer for parts.</i>
Operation	Fails functions test. Safety features do not function.
Barrel	Bore visibly damaged. Barrel has damage or cracks.
Working Surfaces	Damaged to a degree that impairs safe and comfortable operation.
Internal Components	Components missing or damaged to such an extent that they significantly impact the safe operation of the firearm.
Main Body	Metal deeply pitted. Significant corrosion present. Wood cracked, dented or broken to an extent it will impact the safe and comfortable operation for the firearm.
<b>RBP</b>	<b>25% of base price point</b>