



Australian Government
Australian Customs Service

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FOI Document #1
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Ministerial No: 87716

05 / 3965

Minister for Justice and Customs

AMENDMENT TO THE CUSTOMS REGULATIONS – ENTRY THRESHOLDS

Deadline: URGENT - 28 September 2005 with EXCO for consideration at its meeting on Thursday 6 October 2005.

Proposed action

That you approve the two attached sets of regulations relating to the two entry threshold options currently being considered in readiness for submitting the selected option to the EXCO Meeting of 6 October 2005.

Reasons for proposed action

1. In 2000, the Productivity Commission investigated a complaint lodged by the Conference of Asia Pacific Express Carriers (CAPEC) into Customs treatment of Australia Post and concern for advantage given to postal consignments. One of the recommendations made in the report was to harmonise entry thresholds.
2. In May 2001, you responded to the report indicating you intended to harmonise the import entry thresholds when the imports components of the ICS commenced.
3. On 3 August 2005, you wrote to the Prime Minister advising him of the results of consideration of the various options by officials from the Departments of Communications, Information Technology and the Arts, Finance and Administration, the Treasury and Customs.
4. On 9 September 2005, the Prime Minister instructed the Treasury to consult with State and Territory governments on two of the options, indicating his preference – the harmonised entry and revenue collection threshold of \$1000. The results of that consultation are yet to be received. However, in order to be able to implement the selected option in time, proposed regulations for both options have had to be prepared in readiness for lodgement with Executive Council for the meeting of 6 October 2005.
5. The proposed regulations give effect to either:
 - I. raising the entry threshold value for goods arriving by air/sea cargo from \$250 to \$1000; or

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- raising the entry threshold value for goods arriving by air/sea cargo from \$250 to \$500 and setting the Express Mail Service entry threshold at \$500 – down from \$1000 – and retaining the threshold for other postal products of \$1000.
6. Both proposed regulations have been sent to the Office of Regulation Review for advice in relation to the need for a Regulation Impact Statement. At the time of writing a response had not yet been received.
 7. The regulations implement new import declaration thresholds – the CEO will give effect to the new revenue collection threshold (\$500 or \$1000) by amending a Customs By-law.

Resource Implications

Duty and GST impacts were canvassed in your letter to the Prime Minister (Ministerial No. 87424, 05/3351). Risk assessment previously carried out by Customs and AQIS using the more detailed information on import declarations will now need to focus on below-threshold documentation. The largest resource impact of the \$1000 threshold is cost-recovery. The Chief Financial Officer has drawn PM&C's attention to approximately \$19.4M per annum shortfall in import processing charges with effect from 2006/07. The Government will need to decide whether to increase charges or to supplement Customs appropriations.

Consultation

Internal

Financial Services Division, Cargo Systems Branch, Customs Legal Unit

External

Departments of The Prime Minister and Cabinet, The Treasury, Finance and Administration and Communications, Information Technology and the Arts; Conference of Asia Pacific Express Carriers (Aust) Ltd.

Expected reaction

Industry has been involved in discussions on the issue but is unaware of the specific options currently being considered. Implementation of Option I would be welcomed. Option II is likely to fall short of industry's expectations while Australia Post is concerned at the impact the lower entry threshold may have on EMS.

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Recommendation

That you approve both sets of draft Regulations and, if approved:

- (a) **sign** the Executive Council minute;
- (b) **sign** the proposed regulations;
- (c) **initial** each page of the Explanatory Memoranda for submission to the Executive Council; and
- (d) **initial** each page of the Explanatory Statements for circulation to members and Senators after the Regulation has been made.

SIGNED/CLEARED BY:

[Signature]
 Phil Burns
 National Director
 Cargo and Trade Division
 02.6275 6069
 26/9/05

ORIGINATED BY:

[Signature]
 Philomena Carnell
 National Manager
 Cargo Branch
 02.6275 5855
 26/9/05

ENDORSED BY:

[Signature]
 Kathryn Cole
 Counsel
 Customs Legal Unit
 02.6275 6752
 26/9/05

Approved/Not Approved

Minister for Justice and Customs
 / /

Feedback on Submission							
Timely	Yes	No	Length	Too Brief <input type="checkbox"/>	Right Length <input type="checkbox"/>	Too Long <input type="checkbox"/>	
Quality	Poor	1	2	3	4	5	Excellent
Comments							

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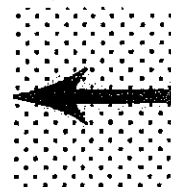
**MINISTER FOR JUSTICE AND CUSTOMS**

Departmental No.

Minute Paper for the Executive CouncilExecutive Council
Meeting No.**Subject***Customs Act 1901**Customs Amendment Regulations 2005 (No.)*

Recommended for the approval of His Excellency the
Governor-General in Council that he make Regulations in the
attached form.

Approved in Council

.....
P M Jeffery
Governor-General.....
Filed in the Records
of the Council.....
Secretary to the Executive CouncilChristopher Martin Ellison
Minister for Justice and Customs

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Customs Amendment Regulations 2005 (No.)

Select Legislative Instrument 2005 No.

I, PHILIP MICHAEL JEFFERY, Governor-General of the Commonwealth of Australia, acting with the advice of the Federal Executive Council, make the following Regulations under the *Customs Act 1901*.

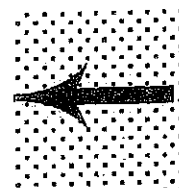
Dated

2005

Governor-General

By His Excellency's Command

CHRISTOPHER MARTIN ELLISON
Minister for Justice and Customs



Regulation 1

1 Name of Regulations

These Regulations are the *Customs Amendment Regulations 2005 (No.)*.

2 Commencement

These Regulations commence on the day after they are registered.

3 Amendment of *Customs Regulations 1926*

Schedule 1 amends the *Customs Regulations 1926*.

4 Transitional

(1) The amendment made by Schedule 1 applies in relation to:

- (a) goods that are on board a ship or aircraft that is due to arrive at its first port or airport in Australia from a place outside Australia at or after the import cut-over time; and
- (b) goods that are or were on board a ship or aircraft that arrives at its first port or airport in Australia from a place outside Australia, if the ship or aircraft was due to arrive at that port or airport at or after the import cut-over time; and
- (c) goods that are or were on board a ship or aircraft that arrives at its first port or airport in Australia from a place outside Australia at or after the turn-off time; and
- (d) a ship or aircraft that is intended to be imported into Australia at or after the import cut-over time.

(2) In this regulation:

Act means the *Customs Act 1901*.

import cut-over time has the same meaning as in the *Customs Legislation Amendment (Application of International Trade Modernisation and Other Measures) Act 2004*.

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turn-off time has the same meaning as in the *Customs Legislation Amendment (Application of International Trade Modernisation and Other Measures) Act 2004*.

Schedule 1 Amendment

(regulation 3)

[1] After regulation 31AB

insert

31AC Imported goods that are prescribed goods

- (1) For paragraph 68 (1) (e) of the Act, goods are prescribed goods if the goods:
 - (a) have a value over \$500; and
 - (b) are sent by EMS.
- (2) In this regulation:

EMS means a service:

 - (a) that is the subject of an agreement between Australia and another country; and
 - (b) that is available as the quickest postal service by physical means from that country to Australia; and
 - (c) under which goods sent by that service take priority over other postal items.

31AD Value of prescribed goods

For subparagraph 68 (1) (f) (iii) of the Act, \$500 is prescribed.

Note

1. All legislative instruments and compilations are registered on the Federal Register of Legislative Instruments kept under the *Legislative Instruments Act 2003*. See www.frli.gov.au.

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EXPLANATORY MEMORANDUM

Minute No. _____ of 2005 - Minister for Justice and Customs

Subject - *Customs Act 1901*

Customs Amendment Regulations 2005 (No.)

Subsection 270(1) of the *Customs Act 1901* (the Act) provides, in part, that the Governor-General may make regulations not inconsistent with the Act prescribing all matters which by the Act are required or permitted to be prescribed or as may be necessary or convenient to be prescribed for giving effect to the Act or for the conduct of any business relating to the Customs.

The purpose of the proposed Regulations is to raise the value of goods imported into Australia other than by post that have to be reported to the Australian Customs Service (Customs) on a formal import entry from \$250 to \$500. The proposed Regulations would also provide that certain goods sent by post using a service known as EMS have to be reported to Customs on a formal import entry if they have a value over \$500.

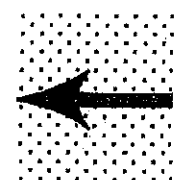
Section 68 of the Act provides, in part, that imported goods must be the subject of a formal import entry. However, paragraphs 68(1)(e) and (f) provide that the following goods do not have to be the subject of a formal import entry:

- (e) goods, other than prescribed goods:
 - (i) that are included in a consignment consigned through the Post Office by one person to another; and
 - (ii) that have a value not exceeding \$1,000 or such other amount as is prescribed; and
- (f) goods, other than prescribed goods:
 - (i) that are included in a consignment consigned otherwise than by post by one person to another; and
 - (ii) that are all transported to Australia in the same ship or aircraft; and
 - (iii) that have a value not exceeding \$250 or such other amount as is prescribed.

Proposed item 1 of Schedule 1 to the proposed Regulations would insert new regulations 31AC and 31AD into the *Customs Regulations 1926*.

New regulation 31AC would prescribe for the purposes of paragraph 68(1)(e) those goods that are to be excluded from that paragraph and hence must be the subject of a formal import entry. They are goods that have a value over \$500 and are sent by EMS. EMS is a service that is the subject of an agreement between Australia and another country; that is available as the quickest postal service by physical means from that country to Australia; and under which goods sent by that service take priority over other postal items.

New regulation 31AD would prescribe a value of \$500 for subparagraph 68(1)(f)(iii) of the Act. This means that goods imported other than by post that have a value not exceeding \$500 would not have to be the subject of a formal import entry.



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These amendments would align the treatment of goods imported using equivalent services whether they be provided in the air/sea cargo environment or by the post.

The amendments are intended to address the recommendations of the Commonwealth Competitive Neutrality Complaints Office (CCNCO) Report No 5 of 2000 "Customs Treatment of Australia Post". This report commented on the imbalance in the Customs treatment of entry requirements for goods imported by air/sea compared with postal importations. Among the recommendations in the CCNCO's report was that the entry threshold values should be aligned to the greatest extent possible while remaining mindful of the need to strike an appropriate balance between revenue collection, risk management and administrative efficiency.

Application provisions would apply the proposed Regulations to the same goods to which the Act, as amended by the *Customs Legislation Amendment and Repeal (International Trade Modernisation) Act 2001* (the ITM Act) applies.

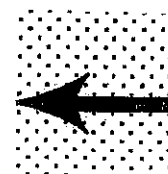
The Act does not specify any conditions that need to be satisfied before the power to make the proposed Regulations may be exercised.

The proposed Regulations would be a legislative instrument for the purposes of the *Legislative Instruments Act 2003*.

The proposed Regulations would commence on the day after they are registered.

The Minute recommends that Regulations be made in the form proposed.

Authority: Subsection 270(1) of the
Customs Act 1901



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EXPLANATORY STATEMENTSELECT LEGISLATIVE INSTRUMENTS 2005 NO.

Issued by the Authority of the Minister for Justice and Customs

Customs Act 1901

Customs Amendment Regulations 2005 (No.)

Subsection 270(1) of the *Customs Act 1901* (the Act) provides, in part, that the Governor-General may make regulations not inconsistent with the Act prescribing all matters which by the Act are required or permitted to be prescribed or as may be necessary or convenient to be prescribed for giving effect to the Act or for the conduct of any business relating to the Customs.

The purpose of the Regulations is to raise the value of goods imported into Australia other than by post that have to be reported to the Australian Customs Service (Customs) on a formal import entry from \$250 to \$500. The Regulations also provide that certain goods sent by post using a service known as EMS have to be reported to Customs on a formal import entry if they have a value over \$500.

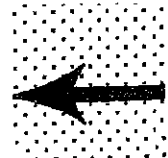
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- (e) goods, other than prescribed goods:
 - (i) that are included in a consignment consigned through the Post Office by one person to another; and
 - (ii) that have a value not exceeding \$1,000 or such other amount as is prescribed; and
- (f) goods, other than prescribed goods:
 - (i) that are included in a consignment consigned otherwise than by post by one person to another; and
 - (ii) that are all transported to Australia in the same ship or aircraft; and
 - (iii) that have a value not exceeding \$250 or such other amount as is prescribed.

Item 1 of Schedule 1 to the Regulations inserts new regulations 31AC and 31AD into the *Customs Regulations 1926*.

New regulation 31AC prescribes for the purposes of paragraph 68(1)(e) those goods that are to be excluded from that paragraph and hence must be the subject of a formal import entry. They are goods that have a value over \$500 and are sent by EMS. EMS is a service that is the subject of an agreement between Australia and another country; that is available as the quickest postal service by physical means from that country to Australia; and under which goods sent by that service take priority over other postal items.

New regulation 31AD prescribes a value of \$500 for subparagraph 68(1)(f)(iii) of the Act. This means that goods imported other than by post that have a value not exceeding \$500 will not have to be the subject of a formal import entry.



These amendments align the treatment of goods imported using equivalent services whether they be provided in the air/sea cargo environment or by the post.

The amendments are intended to address the recommendations of the Commonwealth Competitive Neutrality Complaints Office (CCNCO) Report No 5 of 2000 "Customs Treatment of Australia Post". This report commented on the imbalance in the Customs treatment of entry requirements for goods imported by air/sea compared with postal importations. Among the recommendations in the CCNCO's report was that the entry threshold values should be aligned to the greatest extent possible while remaining mindful of the need to strike an appropriate balance between revenue collection, risk management and administrative efficiency.

Application provisions apply the Regulations to the same goods to which the Act, as amended by the *Customs Legislation Amendment and Repeal (International Trade Modernisation) Act 2001* (the ITM Act) applies.

Any change to the revenue threshold affects importers and their agents, the industry sector managing the importation of goods into Australia (express couriers, freight forwarders, customs brokers and the like), and the Australian Postal Corporation. Customs has been in detailed consultation about the threshold with stakeholders since early 2004.

The requirement for a revenue threshold is integral to the import module of the Integrated Cargo System (ICS). As part of the rollout of the ICS, the Minister for Justice and Customs has held a quarterly roundtable meeting with industry representatives. Discussion of the revenue threshold was an agenda item at these meetings, and industry was kept informed of the requirement for the Government to consider the administrative and revenue implications of a changed threshold.

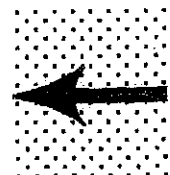
Customs (along with the Australian Quarantine and Inspection Service) meets quarterly with the Australia Postal Corporation as part of a tripartite agreement. As part of this forum, Customs has had ongoing discussions about business process matters, including workload implications under a changed revenue threshold.

Once a preferred position was arrived at for the revenue threshold the Commonwealth Government consulted with the State and Territory governments about the impact on Goods and Services Tax revenue, as part of the Inter Governmental Agreement.

As the threshold for reporting has increased significantly in the air/sea cargo streams, and has remained the same in the postal stream, this regulation promotes a 'reduction in red tape' for a large number of importers. Under this option, an increased proportion of EMS postal product will require a formal customs declaration. This requirement has the potential to slow the delivery of this product. Customs is working with the Australian Postal Corporation to develop business processes that reduce the impact of the threshold change on delivery times for EMS.

The Regulations commence on the day after they are registered.

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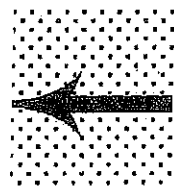
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CHRISTOPHER MARTIN ELLISON
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- (c) goods that are or were on board a ship or aircraft that arrives at its first port or airport in Australia from a place outside Australia at or after the turn-off time; and
- (d) a ship or aircraft that is intended to be imported into Australia at or after the import cut-over time.

(2) In this regulation:

Act means the *Customs Act 1901*.

import cut-over time has the same meaning as in the *Customs Legislation Amendment (Application of International Trade Modernisation and Other Measures) Act 2004*.

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turn-off time has the same meaning as in the *Customs Legislation Amendment (Application of International Trade Modernisation and Other Measures) Act 2004*.

Schedule 1 Amendment

(regulation 3)

[1] After regulation 31AB

insert

31AC Value of prescribed goods

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The purpose of the proposed Regulations is to raise the value of goods imported into Australia other than by post that have to be reported to the Australian Customs Service (Customs) on a formal import entry from \$250 to \$1,000.

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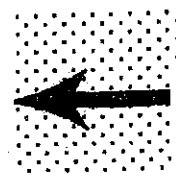
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New regulation 31AC would prescribe a value of \$1,000 for subparagraph 68(1)(f)(iii) of the Act. This means that goods imported other than by post, that is by sea and air, that have a value not exceeding \$1,000 would not have to be the subject of a formal import entry. This amendment would align the threshold value of such goods with the threshold value of goods imported into Australia by post.

This is intended to address the recommendations of the Commonwealth Competitive Neutrality Complaints Office (CCNCO) Report No 5 of 2000 "Customs Treatment of Australia Post". This report commented on the imbalance in the Customs treatment of entry requirements for goods imported by air/sea compared with postal importations. Among the recommendations in the CCNCO's report was that the entry threshold values should be aligned at levels that strike an appropriate balance between revenue collection, risk management and administrative efficiency.

Application provisions would apply this new threshold to the same goods to which the Act, as amended by the *Customs Legislation Amendment and Repeal (International Trade Modernisation) Act 2001* (the ITM Act) applies.



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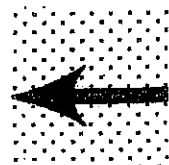
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The proposed Regulations would commence on the day after they are registered.

The Minute recommends that Regulations be made in the form proposed.

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EXPLANATORY STATEMENT

SELECT LEGISLATIVE INSTRUMENTS 2005 NO.

Issued by the Authority of the Minister for Justice and Customs

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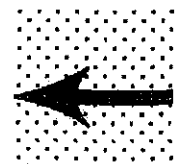
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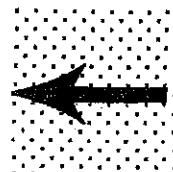
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Once a preferred position was arrived at for the revenue threshold the Commonwealth Government consulted with the State and Territory governments about the impact on Goods and Services Tax revenue, as part of the Inter Governmental Agreement.

As the threshold for reporting has increased significantly in the air/sea cargo streams, and has remained the same in the postal stream, this regulation promotes a 'reduction in red tape' for a large number of importers.

The Regulations commence on the day after they are registered.

0510442B





Australian Government
Australian Customs Service

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Ministerial No: 87424

05/3351

Minister for Justice and Customs

cc Attorney-General

REVENUE/ENTRY THRESHOLDS – LETTER TO PRIME MINISTER

Deadline: URGENT – the Prime Minister's decision is needed for a new Customs regulation and bylaw in time for the cut-over of the imports part of the Integrated Cargo System (12 October 2005).

Proposed action – that you write to the Prime Minister (copied to the Assistant Treasurer and the Ministers for Finance and Communications, Information Technology and the Arts) asking that he determine the revenue collection and Customs declaration thresholds.

Reason for proposed action

A single value threshold for import declaration and revenue collection purposes is critical for the successful clearance of cargo through the ICS, and to give effect to requirements under the *Customs Legislation Amendment and Repeal (International Trade Modernisation) Act 2001 (ITM Act)*.

Background

1. This issue has been on the policy horizon since the Competitive Neutrality Complaints Office (CCNCO) of the Productivity Commission completed its report in 2000 on *Customs Treatment of Australia Post*, in response to a complaint by the Confederation of Asia Pacific Express Couriers (CAPEC). [See previous briefing 202615/77397 of April 2001 and 85316/04/0451 of 2 November 2004, oral briefing on 15 November 2004, and continually since then for your Roundtable meetings with industry on the Integrated Cargo System].
2. The CCNCO recommended that that the '...value thresholds for formal screening by the Australian Customs Service of incoming and outgoing postal and non-postal items be aligned, at levels which strike an appropriate balance between revenue collection and risk management objectives and administrative efficiency considerations.' It also suggested that the Government consider imposing cost recovery charges for Customs' informal screening of postal consignments.

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3. The import *entry threshold* of \$250 applied unilaterally between 1975 and 1986, when a postal threshold of \$1000 was introduced by Customs to assist small business users of the postal system and to reduce processing costs for Australia Post and Customs.
4. A minimum revenue collection threshold of \$20 applied from 1985 until it was raised to \$50 by a change to the Customs bylaw in 1991 – to minimise delays in the clearance of mail and cargo, to reduce the import costs for business for low-value consignments and to take account of uneconomic collection of duty and taxes.
5. In May 2001 you advised the then Minister for Financial Services and Regulation (copied to the then Minister for Communications, Information Technology and the Arts – in the context of the ITM Bill) that you intended to ‘...harmonise the value thresholds for both incoming and outgoing postal and non-postal items at the time this legislation is implemented’.
6. The threshold for export reporting was raised from \$500 to \$2000 in July 2002, in preparation for the exports module of the ICS.

Issues

7. Although Customs (and the air cargo industry) therefore expected that the revenue collection and import declaration thresholds would be raised to \$2000, some compounding factors led that concept to be revisited in the years since you communicated your position to other Ministers and industry:
 - Government decisions (in response to foot and mouth concerns) to introduce 100% x-ray screening for postal parcels, and to apply 70% screening to air cargo – this resulted in more Customs staff being located in postal facilities;
 - the threat of terrorist activity since the US incident on 11 September 2001, and the related requirement for Customs to apply more labour-intensive intervention techniques;
 - the need to balance trade facilitation and the removal of ‘red tape’, against the basic tools required for Customs risk assessment – including information acquired through declarations by importers;
 - the Government decision not to support duty deferral for the Accredited Client Program, reflecting a ‘revenue-neutral’ preference;

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- the acquisition of revenue policy responsibility by the Department of the Treasury – Customs having previously taken decisions itself about revenue collection bylaws; and
 - initiatives by Australia Post to market some of its products as being in direct competition with the air cargo industry.
8. In the face of these dynamics, Customs embarked on a survey in Australia Post's international mail gateways in 2003, to assess the potential impacts of a range of thresholds between \$250 and \$1000. Following protracted negotiations with Australia Post about likely administrative implications, Customs attempted to engage the relevant policy agencies at the most senior levels to develop a preferred threshold level to be put forward for Government consideration.
9. The Department of the Treasury has undertaken analysis of the revenue implications – the main impact being on taxation revenue – and the Department of Finance and Administration has been deliberating with Australia Post on its resource impacts, and Customs on its administrative costs, for two potential options to be put to Government:
- aligning the revenue collection and declaration thresholds across-the-board (air/sea cargo and postal imports) at \$500 [Option 1 in the attached letter]; or
 - setting a revenue collection threshold across-the-board (air/sea cargo and postal imports) at \$500; and two different declaration thresholds – one for air/sea cargo [redacted] products at \$500; and the declaration threshold for other postal products at \$1000 [Option 2 in the attached letter].
10. Other options of \$250 and \$1000 were rejected reasonably early in the process because of the impact on clients or the revenue implications, but are outlined in the attached letter.
11. The imports module of ICS was designed for a single value threshold for revenue collection and entry declarations, in line with your 2001 letter.
12. Option 1 would result in 05-06 in a revenue (duty/GST) reduction of about \$4 million, additional administrative costs to Customs of \$2.5 million, and a reduction in import processing charges of \$7.2 million. [redacted]

73

[REDACTED]

13. Option 2 is not palatable for AP because it may have a detrimental effect on [REDACTED] and it would prefer that its current \$1000 threshold be maintained or increased.

14. CAPEC continues to press the Government for a decision that addresses its competitive neutrality arguments – preferably closer to the \$2000 export declaration threshold.

15. The Department of the Prime Minister and Cabinet has taken an interest in this issue since both AP and CAPEC started lobbying the Prime Minister's office, and it realised that the delay in any Government position on the issue would impact adversely on the implementation of ICS. PM&C asked that Treasury and DoFA finalise its deliberations in time for you to write to the Prime Minister (copied to relevant Ministers) in the week commencing 11 July 2005. Those deliberations were completed on 18 August 2005, despite urging by PM&C.

16. Customs is concerned that if there are many more delays in resolving this issue, it has the potential to adversely impact on the cut-over date. It has advised PM&C that, if a decision were not made in time, Customs will set a combined air/sea cargo revenue collection and declaration threshold in ICS of \$500 – leaving postal declarations at \$1,000 and revenue collection in the postal area at \$500 [Option 2].

17. There is benefit to having a consistent approach to revenue collection and import declaration, irrespective of the mode of transport. However, the advantages of equity, simplicity and transparency need to be weighed against the immediate community and revenue impacts.

18. Unless/until mail is able to be reported electronically by clients before arrival in Australia at a sufficiently detailed level to allow Customs to risk-assess articles, Customs accepts that there will continue to be some differential treatment applied to Australia Post clients. We will keep addressing business processes to bring them into line with those in air/sea cargo and to make them more efficient. Our hope is that the proposed new x-ray technology that the Government is funding for postal areas will provide scope for more effective Customs controls.

Resource Implications

The detailed financial impacts are set out in *Attachment C* to your letter to the Prime Minister. DoFA estimates that Option 1 (\$500 across-the-board) would result in additional costs of \$13.7 million in 2005-06, [REDACTED]

72

Option 2
 (\$500 revenue collection and declaration for air/sea cargo [redacted]
 \$1000 declaration and \$500 revenue collection for other postal products) is
 forecast to result in additional costs of \$13.2 million, [redacted]
 [redacted] Customs will continue to undertake resource-intensive clearance
 arrangements for postal products.

Consultation – PM&C, the Treasury, DOFA, DCITA, Australia Post;
 Financial Services Division, Customs Legal Unit

Expected reaction

Some potential impacts mentioned above. Customs, industry and Australia Post would like to see resolution of the issue ASAP. The community would benefit from a simple, transparent and equitable revenue collection and entry threshold, but the Government needs to weigh up the impacts on clients, revenue collection [and GST relationships with the States/Territories], administration and resources.

Recommendation - that you sign the attached letter to the Prime Minister.

SIGNED / CLEARED BY:

[Signature]
 Phil Burns
 National Director
 Cargo and Trade Division
 6275 6070
 18 August 2005

ORIGINATED BY:

[Signature]
 Philomena Camell
 National Manager
 Cargo Branch
 6275 5855
 18 August 2005

Approved/Not Approved or Noted/Please Discuss

Minister for Justice and Customs

23/8 05

*Discussed with Phil Burns - amended
 letter to be signed.
 [Signature]*

Feedback on Submission						
Timely	<input checked="" type="radio"/> Yes	<input type="radio"/> No	Length	Too Brief <input type="checkbox"/>	Right Length <input checked="" type="checkbox"/>	Too Long <input type="checkbox"/>
Quality	Poor	1	2	3	4 <input checked="" type="radio"/>	5 Excellent
Comments						

23 AUG 2005 23 AUG 2005

~~CABINET-IN-CONFIDENCE~~

PRIME MINISTER
CANBERRA

222633

Senator the Hon Chris Ellison
Minister for Justice and Customs
Parliament House
CANBERRA ACT 2600

My dear Minister

I refer to your letter of 23 August 2005 seeking my agreement to an alignment of revenue collection and Customs declaration thresholds for cargo (including mail) imported into Australia.

Having considered the options presented in your letter, I have formed the view that the Commonwealth should press strongly in negotiations with the states and territories for the adoption of option three (that is, aligning the revenue collection and declaration thresholds across-the-board at \$1,000). ^{s47C}

^{s47C} I have also taken into consideration the government's commitment to reduce the burden of regulation. This point, in particular, should be emphasised in negotiations with the states and territories.

I recognise in arriving at my decision that option three represents a greater potential loss in GST revenue to the states and territories than either of the other options canvassed in your letter. If state and territory agreement to option three is not forthcoming under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA), I would reluctantly support falling back to option two.

If option two is ultimately agreed upon by the Commonwealth, states and territories, the declaration by you ^{s22 - Irrelevant} will require the agreement of the Treasurer ^{s22 - Irrelevant} ^{s22 - Irrelevant} The ^{s22 - Irrelevant} Australian Customs Service will be responsible for implementing and administering the process for declaring an ^{s22 - Irrelevant}

~~CABINET-IN-CONFIDENCE~~

~~CABINET IN CONFIDENCE~~

It would be desirable for relevant agencies and industry operators to be advised of the proposed changes to the thresholds in advance of the cut-over time for import elements of the Integrated Cargo System on 12 October 2005.

Accordingly, I ask that you commence discussions with the states and territories immediately and advise me of the outcome as soon as possible, but no later than the end of this month.

This letter has been copied to the Treasurer,

s22 - Irrelevant

s22 - Irrelevant

s22 - Irrelevant

Assistant

Treasurer for their information.

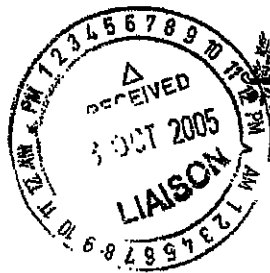
Yours sincerely

Signed

- 9 SEP 2005

(John Howard)

~~CABINET IN CONFIDENCE~~



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06 OCT 2005	
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<input checked="" type="checkbox"/> Chief of Staff	
<input checked="" type="checkbox"/> Senior Adviser	
<input checked="" type="checkbox"/> Received by	

224218

PRIME MINISTER
CANBERRA

Senator the Hon Chris Ellison
Minister for Justice and Customs
Parliament House
CANBERRA ACT 2600

My dear Minister

I refer to my letter of 9 September 2005 regarding your request to align the revenue collection and Customs declaration thresholds for cargo (including mail) imported into Australia.

The Minister for Revenue and Assistant Treasurer has, I am advised, consulted the states and territories regarding the GST implications of the proposed alignment.

s22 - Irrelevant

s22 - Irrelevant

I am further advised that the necessary regulations setting out the relevant thresholds need to be approved by Executive Council at its meeting on 6 October if the 12 October start date for the Integrated Cargo System (ICS) is to be met.

Approval is therefore given to you preparing the necessary regulations setting out across-the-board revenue collection and declaration thresholds at \$1,000 for the 6 October 2005 Executive Council meeting. The regulations should be drafted so as to provide the maximum amount of time possible for the states and territories to respond formally to the proposal.

You should inform me of your proposed approach in the event that one or more jurisdictions formally oppose the \$1,000 threshold noting the Australian Government's commitments under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*. Your advice should include the scope for the implementation of the ICS to be delayed into early November if it is necessary so as to obtain at least majority state and territory support for the threshold proposal.

Refers to
222873
222633

This letter has been copied to the Treasurer

s22 - Irrelevant

s22 - Irrelevant

s22 - Irrelevant

and Assistant

Treasurer for their information.

Yours sincerely

Signed

5 OCT 2005

(John Howard)



**MINISTER FOR REVENUE AND
ASSISTANT TREASURER**

The Hon Mal Brough MP

PARLIAMENT HOUSE
CANBERRA ACT 2600

Telephone: (02) 6277 7360
Facsimile: (02) 6273 4125

assistant.treasurer.gov.au

The Hon John Howard MP
Prime Minister
Parliament House
CANBERRA ACT 2600

06 SEP 2005

Dear Prime Minister

I refer to the letter to you dated 23 August 2005 from the Minister for Justice and Customs, Senator the Hon Chris Ellison, concerning the alignment of revenue declaration and Customs declaration thresholds for postal and courier imports. I am writing on the Treasurer's behalf in relation to this matter.

As there is a discrepancy in the treatment of postal consignments carried by private couriers and identical consignments carried by s22 - Irrelevant the Australian Government Competitive Neutrality Complaints Office recommended in 2000 that the import entry thresholds be aligned.

In order to strike a balance between revenue considerations and administrative simplicity, I note that Minister Ellison has proposed to set the revenue collection threshold at \$500 across the board (air/sea cargo and postal imports) with two different formal declaration thresholds — one for air/sea cargo and s22 - Irrelevant products at \$500 and one for other postal products at \$1000. s22 - Irrelevant This is described as Option 2 in Minister Ellison's letter.

From a tax revenue (customs duty and GST) perspective, I note that there is no difference between this option and Option 1 (Option 1 would also set the revenue collection threshold at \$500 across the board, but has a single formal declaration threshold set at \$500). While Option 1 has the attraction of simplicity, it is estimated to bring an additional 88,000 parties, mainly private, into the formal system of customs entry. The corresponding figure for Option 2 is 39,000 which is significantly lower, but is nevertheless an increase.

I consider it is desirable to minimise the exposure of private parties to additional complexity and cost, particularly where there is no effect on tax revenue.

Removing many parties, both business and private, from the requirement for formal or informal customs entry would occur by implementing a \$1000 across-the-board threshold (described as Option 3 in Minister Ellison's letter). However, this option is estimated to result in a greater revenue loss, consisting of customs duty (\$12 to 13 million per year) and GST (\$8 to 9 million per year). I note that it took over 12 months to obtain the agreement from states and territories to change the passenger duty free concessions which had an estimated annual GST cost of \$17 million per year, despite the fact that the tourism industry and airports within their jurisdictions saw benefits in the revised regime and made representations to the states and territories accordingly.

~~PROTECTED~~

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Moreover, I note that in accordance with usual procedures for costings of this type, the Treasury costing does not take into account behavioural change, which could increase the cost significantly over time. The implementation of a \$1000 across-the-board threshold could create an incentive for consumers to import low-valued products (of less than \$1000) from overseas to avoid paying Australian taxes, which in turn could have an adverse impact on Australian businesses.

Taking all these factors into account, I favour Option 2 proposed by Minister Ellison as it strikes a balance between revenue considerations, administrative simplicity and likely acceptance by the states and territories. I note that while it is estimated that 39,000 parties will be brought into the formal system under this option, this will most likely reduce over time as the community adjusts to the new threshold levels [REDACTED] s22 - Irrelevant

[REDACTED] s22 - Irrelevant

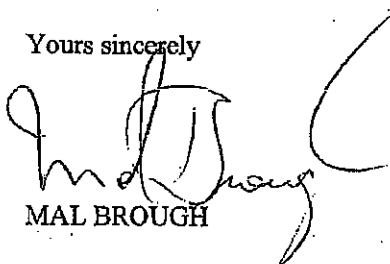
Under the Intergovernmental Agreement (IGA) on the Reform of Commonwealth-State Financial Relations, the states and territories would need to be consulted because the amount of GST collected would be reduced by a small amount as a result of this option. If you agree to Minister Ellison's proposal, I will write promptly to the states and territories to seek their agreement.

However, as you may be aware I expressed my concern in my letter to Minister Ellison of 17 August 2005, that there may be insufficient time to obtain the agreement from states and territories given that Minister Ellison has announced that the existing customs systems will cease to be available past 12 October 2005. The Integrated Cargo System (ICS) would not be able to accommodate the existing thresholds. I remain concerned that the timing of state and territory approval poses an issue. Minister Ellison's suggestion to disregard the provisions of the IGA if the agreement of the state and territories is not obtained by mid-September would have wider ramifications and would need careful consideration.

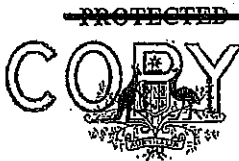
I have copied this letter to the Minister for Justice and Customs, the Treasurer, [REDACTED] s22 - Irrelevant

[REDACTED] s22 - Irrelevant

Yours sincerely


MAL BROUGH

~~PROTECTED~~



Document 11361

102

**MINISTER FOR REVENUE AND
ASSISTANT TREASURER**

The Hon Mal Brough MP

PARLIAMENT HOUSE
CANBERRA ACT 2600

Telephone: (02) 6277 7360
Facsimile: (02) 6273 4125

assistant.treasurer.gov.au

06 SEP 2005

The Hon John Howard MP
Prime Minister
Parliament House
CANBERRA ACT 2600

<input type="checkbox"/> Priority A (date.....)	<input type="checkbox"/> Reply by Ellison
<input type="checkbox"/> Priority B	<input type="checkbox"/> Reply by Ruddock
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K2/MSB/CG

Dear Prime Minister

I refer to the letter to you dated 23 August 2005 from the Minister for Justice and Customs, Senator the Hon Chris Ellison, concerning the alignment of revenue declaration and Customs declaration thresholds for postal and courier imports. I am writing on the Treasurer's behalf in relation to this matter.

As there is a discrepancy in the treatment of postal consignments carried by private couriers and identical consignments carried by s22 - the Australian Government Competitive Neutrality Complaints Office recommended in 2000 that the import entry thresholds be aligned.

In order to strike a balance between revenue considerations and administrative simplicity, I note that Minister Ellison has proposed to set the revenue collection threshold at \$500 across the board (air/sea cargo and postal imports) with two different formal declaration thresholds — one for air/sea cargo and s22 - Irrelevant products at \$500 and one for other postal products at \$1000. s22 - Irrelevant This is described as Option 2 in Minister Ellison's letter.

From a tax revenue (customs duty and GST) perspective, I note that there is no difference between this option and Option 1 (Option 1 would also set the revenue collection threshold at \$500 across the board, but has a single formal declaration threshold set at \$500). While Option 1 has the attraction of simplicity, it is estimated to bring an additional 88,000 parties, mainly private, into the formal system of customs entry. The corresponding figure for Option 2 is 39,000 which is significantly lower, but is nevertheless an increase.

I consider it is desirable to minimise the exposure of private parties to additional complexity and cost, particularly where there is no effect on tax revenue.

Removing many parties, both business and private, from the requirement for formal or informal customs entry would occur by implementing a \$1000 across-the-board threshold (described as Option 3 in Minister Ellison's letter). However, this option is estimated to result in a greater revenue loss, consisting of customs duty (\$12 to 13 million per year) and GST (\$8 to 9 million per year). I note that it took over 12 months to obtain the agreement from states and territories to change the passenger duty free concessions which had an estimated annual GST cost of \$17 million per year, despite the fact that the tourism industry and airports within their jurisdictions saw benefits in the revised regime and made representations to the states and territories accordingly.

~~PROTECTED~~

Moreover, I note that in accordance with usual costing does not take into account behavioural over time. The implementation of a \$1000 across consumers to import low-valued products (of low Australian taxes, which in turn could have an a

Taking all these factors into account, I favour a balance between revenue considerations, administrative states and territories. I note that while it is still a formal system under this option, this will most the new threshold levels

s22 - Irrelevant

s22 - Irrelevant

Under the Intergovernmental Agreement (IGA) Relations, the states and territories would need collected would be reduced by a small amount. Minister Ellison's proposal, I will write promptly agreement.

However, as you may be aware I expressed in 17 August 2005, that there may be insufficient territories given that Minister Ellison has announced that the existing customs system will be available past 12 October 2005. The Integrated Cargo System (ICS) would not be able to accommodate the existing thresholds. I remain concerned that the timing of state and territory approval poses an issue. Minister Ellison's suggestion to disregard the provisions of the IGA if the agreement of the state and territories is not obtained by mid-September would have wider ramifications and would need careful consideration.

The Hon Mal Brough, MP
Minister for Revenue and the Assistant Treasurer.

I have copied this letter to the Minister for Justice and Customs, the Treasurer,
s22 - Irrelevant

s22 - Irrelevant

Yours sincerely

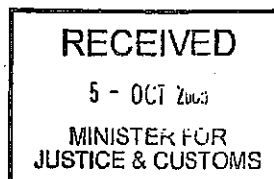
MAL BROUGH

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With Compliments

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<input type="checkbox"/> Priority A (date.....)	<input type="checkbox"/> Reply by Ellison
<input type="checkbox"/> Priority B	<input type="checkbox"/> Reply by Ruddock
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PRIME MINISTER
CANBERRA

5 OCT 2005

Senator the Hon Chris Ellison
Minister for Justice and Customs
Parliament House
CANBERRA ACT 2600

My dear Minister

I refer to my letter of 9 September 2005 regarding your request to align the revenue collection and Customs declaration thresholds for cargo (including mail) imported into Australia.

The Minister for Revenue and Assistant Treasurer has, I am advised, consulted the states and territories regarding the GST implications of the proposed alignment.

s22 - Irrelevant

s22 - Irrelevant

I am further advised that the necessary regulations setting out the relevant thresholds need to be approved by Executive Council at its meeting on 6 October if the 12 October start date for the Integrated Cargo System (ICS) is to be met.

Approval is therefore given to you preparing the necessary regulations setting out across-the-board revenue collection and declaration thresholds at \$1,000 for the 6 October 2005 Executive Council meeting. The regulations should be drafted so as to provide the maximum amount of time possible for the states and territories to respond formally to the proposal.

You should inform me of your proposed approach in the event that one or more jurisdictions formally oppose the \$1,000 threshold noting the Australian Government's commitments under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*. Your advice should include the scope for the implementation of the ICS to be delayed into early November if it is necessary so as to obtain at least majority state and territory support for the threshold proposal.

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This letter has been copied to the Treasurer.

s22 - Irrelevant

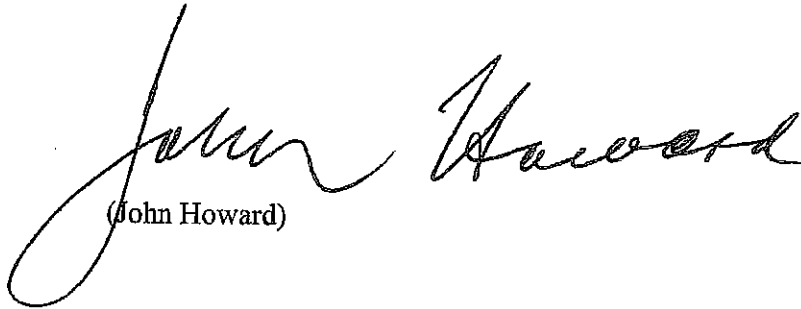
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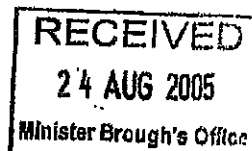
s22 - Irrelevant

and Assistant

Treasurer for their information.

Yours sincerely


(John Howard)



SENATOR THE HON. CHRISTOPHER ELLISON

Minister for Justice and Customs
Senator for Western Australia
Manager of Government Business in the Senate

The Hon John Howard MP
Prime Minister
Parliament House
CANBERRA ACT 2600

23 AUG 2005

Dear Prime Minister

I am writing to seek your agreement to changes to both the revenue collection and Customs declaration thresholds for cargo (including mail) imported into Australia. These changes will need to be in place before the cut-over time for the imports part of the Integrated Cargo System (12 October 2005).

In 2000 the Commonwealth Competitive Neutrality Complaints Office (CCNCO) of the Productivity Commission investigated a complaint by the Confederation of Asia Pacific Express Couriers (CAPEC) into Customs Treatment of Australia Post. The key recommendations of its report were that:

- the value thresholds for formal screening by the Australian Customs Service of incoming and outgoing postal [\$1000] and non-postal items [\$250] be aligned, at levels which strike an appropriate balance between revenue collection and risk management objectives and administrative efficiency considerations;
- the Government give further consideration to the feasibility of imposing cost recovery for informal Customs screening of incoming postal items; and
- the concerns of express couriers about the new High Volume, Low Value charging scheme be addressed as part of the Government's consideration of the broader issue of whether Australia Post should pay cost recovery charges for informal screening of incoming postal consignments.

In May 2001 I replied to the then [REDACTED] s22 - Irrelevant
[REDACTED] s22 - Irrelevant to the effect that I intended to harmonise the import entry thresholds (for revenue collection and Customs declaration) when the imports components of the Integrated Cargo System (ICS) commenced.

Since 2001-02 you will recall that, as part of the Government's Increased Quarantine Initiative, all international incoming postal consignments have been subjected to x-ray screening by Customs or the Australian Quarantine and Inspection Service (AQIS).

In July 2002 the export declaration threshold was raised from \$500 to \$2000 – there is no significant revenue collection issue at export level.

s22 - Irrelevant

As this is a complex administrative issue, I have set out the background at *Attachment A*.

Particularly since the introduction of GST, where taxation is calculated on the basis of the transport and insurance costs as well as the Customs value of the goods, the mechanism for collection of revenue has become complicated and non-transparent, and requires importers to make judgements that are a source of non-compliance and community irritation.

There is therefore an argument that greater simplicity and transparency in the threshold levels would reduce red-tape for the community and industry, and improve the flow of imports. On the other hand, if the thresholds were changed, the Government needs to weigh the impact on revenue collection (involving associated consultation with the States and Territories), administrative costs for agencies and effects on the community and industry.

s22 - Irrelevant

s22 - Irrelevant

s22 - Irrelevant

three options have been identified:

1. aligning the revenue collection and declaration thresholds across-the-board (air/sea cargo and postal imports) at \$500; *or*
2. setting:
 - a revenue collection threshold across-the-board (air/sea cargo and postal imports) at \$500; and
 - two different declaration thresholds – one for air/sea cargo and the competitive Express Mail Service (or future equivalent) products at \$500; and the declaration threshold for other postal products at \$1000;*or*
3. aligning the revenue collection and declaration thresholds across-the-board (air/sea cargo and postal imports) at \$1000.

s22 - Irrelevant

s22 - Irrelevant

From a whole of Government perspective *Option 3* is not considered feasible as it would result in a significant revenue loss (of around \$19-22 million per year for Customs duty and GST), which would require State/Territory agreement.

The first option to align all thresholds at \$500 would fully address the competitive neutrality complaint, as all imports would be treated the same. This option is estimated to result in a loss in customs duty revenue to the Australian Government of \$2 million in 2005-06, rising to \$4 million in 2009-10. In addition, it is estimated that there would be a loss in GST revenue of around \$3 million per year.

Option 1 is also estimated to have an administrative cost to the Australian Customs Service of around \$2.5 million in 05-06 as well as result in

s22 - Irrelevant

s22 - Irrelevant
 Additional administrative costs are forecast to reduce to around \$2.2 million in 09-10, and the s22 - Irrelevant
 s22 - Irrelevant
 There will also be a net reduction in import processing charge revenue of \$7.2 million in 05-06, rising to \$8.3 million in 09-10.

If the Government were to agree to Option 1, s22 - Irrelevant
 s22 - Irrelevant

In terms of air express couriers' clients I am advised that, based on 04-05 data, there would be about 262,000 fewer declarations required under Option 1, at a reduced cost to the clients of about \$8 million in import processing charges and about \$15 million in commercial charges.

Option 2 recognises the potentially significant costs to private mail recipients who currently do not need to make declarations or pay duty/GST or Customs/AOIS charges. s22 - Irrelevant
 s22 - Irrelevant

Option 2 is estimated to result in a loss in customs duty revenue to the Australian Government of \$2 million in 05-06, rising to \$4 million in 09-10. In addition, it is estimated that there would be a loss in GST revenue of around \$3 million per year.

The administrative costs to Customs would be \$1.2 million in 05-06 and \$1.1 million in 09-10, and s22 - Irrelevant

s22 - Irrelevant
 Import processing charge revenue would decrease by \$8 million in 05-06, and \$9.4 million in 09-10.

s22 - Irrelevant
 s22 - Irrelevant
 Taking into account air express couriers, Option 2 would therefore result in a net reduction of 223,000 import declarations by clients.

The competitive neutrality matter would still largely be addressed because s22 - Irrelevant
 To address any potential future competitive neutrality issues, I would also propose that any future equivalent competitive products should also be subjected to similar treatment. I suggest that these considerations be subject to agreement among relevant Ministers.

These two options therefore provide a different balance of the various considerations, including administrative costs, revenue effects and impact on the community.

Option 2 provides similar revenue and administrative impacts to option 1, but with a significantly reduced impact on the community.

More details on the costs of the three options are provided at *Attachment C*. Diagrams illustrating the impacts of the two viable options are included in *Attachment B*.

Consultation with industry

s22 - Irrelevant

Conclusion

There is benefit to having a consistent approach to revenue collection and import declaration, irrespective of the mode of transport. However, the Government needs to weigh the advantages of equity, simplicity and transparency against the immediate community and revenue impacts. I suggest that *Option 2* provides the most appropriate balance between these various factors.

Consultation with States and Territories

Under the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations, there is an obligation to consult with the States and Territories on proposals that contain GST implications. Once an option has been agreed by Government, I understand that the Minister for Revenue and Assistant Treasurer will write to the States and Territories to seek their formal agreement.

Recommendations

I recommend that, subject to your agreement to Option 2, the necessary changes to Customs' relevant regulations and bylaws be made, and that I advise industry and the community in good time for the cut-over date to ICS imports of 12 October 2005. Because of the criticality of this decision to the operation of ICS, I also recommend that, if State/Territory agreement is not reached before mid September, you agree that officers of your Department and Customs settle on an appropriate threshold/s for importers and freight forwarders to make declarations and for revenue to be collected.

I have copied this letter to the relevant Ministers.

Yours sincerely



CHRIS ELLISON
Senator for Western Australia

REVENUE COLLECTION AND IMPORT DECLARATION THRESHOLDS

Background

There are two thresholds that determine the treatment of imported goods.

s22 -

s22 - Irrelevant

This is the value at which the owner of the goods or agent is obliged to provide detailed information to Customs in the form of an import declaration. The current differential declaration thresholds are \$1000 for goods imported by post and \$250 for goods imported other than by post (that is, sea/air cargo). Goods with a value below these amounts can currently be cleared by less formal means. While freight forwarders are able to clear air/sea cargo quickly through electronic reports to Customs, in the postal environment there is a very low use of electronic systems and therefore mail clearance requires time-consuming manual processing arrangements.

Cost recovery charges apply to Customs declarations, for example, legislated Customs charges and AQIS charges. Industry also charges for its services, for example, information technology communicators, Customs brokers, freight forwarders.

Between 1975 and 1986, there was a common reporting threshold of \$250 for goods imported to Australia by air, sea and post. This was in line with the philosophy that legitimate trade should be facilitated, and formalities should otherwise not act as non-tariff barriers. In 1986 Customs increased the reporting threshold for postal items to \$1000.

There is also a threshold amount above which revenue (duty/sales tax) is collected for each mode of importation [the 'screen-free' threshold or revenue concession] – it was \$20 from 1985 until 1991, when it was raised to \$50 by a change to the relevant Customs tariff by-law. This concession minimised delays in delivering mail and cargo, reduced the cost to business of importing low value consignments, and took account of uneconomical collection of duty and taxes.

A diagram setting out the current arrangements, and *Options 1* and *2* is at Attachment B.

ATTACHMENT B

**Clearance of air/sea cargo (including postal articles) -
Current arrangements**

Current Air/Sea Arrangements

Entry
(Declaration)

\$A250

Current Post Arrangements

Entry
(Declaration)

\$A1000

Option One - \$A500 across the board for all air cargo/sea cargo/postal articles (for both revenue collection and Customs declaration).

All air/sea cargo

All postal articles

Import Declaration
through Integrated
Cargo System

Import Declaration
through Integrated
Cargo System

\$A500



Option Two - \$A500 across the board for revenue collection; \$A500 for declaration of air cargo, sea cargo and s22 - Irrelevant articles, and \$A1000 for declaration of all other postal articles.

All air/sea cargo
excluding postal
articles

s22 - Irrelevant

Other postal
articles

Import Declaration
through Integrated
Cargo System

s22 - Irrelevant Import
Declaration
through
Integrated
Cargo System,
or automated
non-Integrated
Cargo System
processed by
Customs

Import Declaration
through Integrated
Cargo System

\$A1000

\$A500

Option 1

Aligning the revenue collection and declaration thresholds across-the-board (air/sea cargo and postal imports) at \$500.

Impact on Customs Duty Revenue (\$m)

Revenue	2005-06*	2006-07	2007-08	2008-09	2009-10
Customs Duty	-2.0	-4.0	-4.0	-4.0	-4.0

Impact on GST Revenue (\$m)

Revenue	2005-06*	2006-07	2007-08	2008-09	2009-10
GST	-2.0	-3.0	-3.0	-3.0	-3.0

s22 - Irrelevant

Impact on Customs administrative costs (\$m)

Customs	2005-06	2006-07	2007-08	2008-09
Fiscal	-2.5	-2.2	-2.2	-2.2
Underlying Cash	-2.5	-2.2	-2.2	-2.2

Option 2

Setting a revenue collection threshold across-the-board (air/sea cargo and postal imports) at \$500; and two different declaration thresholds – one for air/sea cargo and s22 - Irrelevant (or future equivalent) products at \$500; and the declaration threshold for other postal products at \$1000.

Impact on Customs Duty Revenue (\$m)

Revenue	2005-06*	2006-07	2007-08	2008-09	2009-10
Customs Duty	-2.0	-4.0	-4.0	-4.0	-4.0

Impact on GST Revenue (\$m)

Revenue	2005-06*	2006-07	2007-08	2008-09	2009-10
GST	-2.0	-3.0	-3.0	-3.0	-3.0

s22 - Irrelevant

Impact on Customs administrative costs (\$m)

Customs	2005-06	2006-07	2007-08	2008-09
Fiscal	-1.2	-1.1	-1.1	-1.1
Underlying Cash	-1.2	-1.1	-1.1	-1.1

Option 3

Aligning the revenue collection and declaration thresholds across-the-board (air/sea cargo and postal imports) at \$1000.

Impact on Customs Duty Revenue (\$m)

Revenue	2005-06*	2006-07	2007-08	2008-09	2009-10
Customs Duty	-8.0	-12.0	-13.0	-13.0	-13.0

Impact on GST Revenue (\$m)

Revenue	2005-06*	2006-07	2007-08	2008-09	2009-10
GST	-6.0	-8.0	-8.0	-8.0	-9.0

s22 - Irrelevant

Impact on Customs administrative costs (\$m)

Customs	2005-06	2006-07	2007-08	2008-09
Fiscal	2.0	2.0	2.1	2.1
Underlying Cash	2.0	2.0	2.1	2.1

Notes: * assumes early October 2005 start date.

**SENATOR THE HON. CHRISTOPHER ELLISON**

Minister for Justice and Customs
Senator for Western Australia
Manager of Government Business in the Senate

The Hon John Howard MP
Prime Minister
Parliament House
CANBERRA ACT 2600

23 AUG 2005

Dear Prime Minister

I am writing to seek your agreement to changes to both the revenue collection and Customs declaration thresholds for cargo (including mail) imported into Australia. These changes will need to be in place before the cut-over time for the imports part of the Integrated Cargo System (12 October 2005).

In 2000 the Commonwealth Competitive Neutrality Complaints Office (CCNCO) of the Productivity Commission investigated a complaint by the Confederation of Asia Pacific Express Couriers (CAPEC) into *Customs Treatment of Australia Post*. The key recommendations of its report were that:

- the value thresholds for formal screening by the Australian Customs Service of incoming and outgoing postal [\$1000] and non-postal items [\$250] be aligned, at levels which strike an appropriate balance between revenue collection and risk management objectives and administrative efficiency considerations;
- the Government give further consideration to the feasibility of imposing cost recovery for informal Customs screening of incoming postal items; and
- the concerns of express couriers about the new High Volume, Low Value charging scheme be addressed as part of the Government's consideration of the broader issue of whether Australia Post should pay cost recovery charges for informal screening of incoming postal consignments.

In May 2001 I replied to the then

s22 - Irrelevant

s22 - Irrelevant

to the effect that I intended to harmonise the import entry thresholds (for revenue collection and Customs declaration) when the imports components of the Integrated Cargo System (ICS) commenced.

Since 2001-02 you will recall that, as part of the Government's Increased Quarantine Initiative, all international incoming postal consignments have been subjected to x-ray screening by Customs or the Australian Quarantine and Inspection Service (AQIS).

In July 2002 the export declaration threshold was raised from \$500 to \$2000 – there is no significant revenue collection issue at export level.

s22 - Irrelevant

As this is a complex administrative issue, I have set out the background at *Attachment A*.

Particularly since the introduction of GST, where taxation is calculated on the basis of the transport and insurance costs as well as the Customs value of the goods, the mechanism for collection of revenue has become complicated and non-transparent, and requires importers to make judgements that are a source of non-compliance and community irritation.

There is therefore an argument that greater simplicity and transparency in the threshold levels would reduce red-tape for the community and industry, and improve the flow of imports. On the other hand, if the thresholds were changed, the Government needs to weigh the impact on revenue collection (involving associated consultation with the States and Territories), administrative costs for agencies

s22 - Irrelevant

and effects on the community and industry.

s22 - Irrelevant

s22 - Irrelevant

three options have been identified:

1. aligning the revenue collection and declaration thresholds across-the-board (air/sea cargo and postal imports) at \$500; *or*
2. setting:
 - a revenue collection threshold across-the-board (air/sea cargo and postal imports) at \$500; and
 - two different declaration thresholds – one for air/sea cargo and the competitive Express Mail Service (or future equivalent) products at \$500; and the declaration threshold for other postal products at \$1000;*or*
3. aligning the revenue collection and declaration thresholds across-the-board (air/sea cargo and postal imports) at \$1000.

s22 - Irrelevant

s22 - Irrelevant

From a whole of Government perspective *Option 3* is not considered feasible as it would result in a significant revenue loss (of around \$19-22 million per year for Customs duty and GST), which would require State/Territory agreement.

The first option to align all thresholds at \$500 would fully address the competitive neutrality complaint, as all imports would be treated the same. This option is estimated to result in a loss in customs duty revenue to the Australian Government of \$2 million in 2005-06, rising to \$4 million in 2009-10. In addition, it is estimated that there would be a loss in GST revenue of around \$3 million per year.

Option 1 is also estimated to have an administrative cost to the Australian Customs Service of around \$2.5 million in 05-06 as well as result in

s22 - Irrelevant

s22 - Irrelevant Additional administrative costs are forecast to reduce to around \$2.2 million in 09-10, and the s22 - Irrelevant
 s22 - Irrelevant There will also be a net reduction in import processing charge revenue of \$7.2 million in 05-06, rising to \$8.3 million in 09-10.

If the Government were to agree to Option 1, s22 - Irrelevant
 s22 - Irrelevant

In terms of air express couriers' clients I am advised that, based on 04-05 data, there would be about 262,000 fewer declarations required under Option 1, at a reduced cost to the clients of about \$8 million in import processing charges and about \$15 million in commercial charges.

Option 2 recognises the potentially significant costs to private mail recipients who currently do not need to make declarations or pay duty/GST or Customs/AQIS charges. s22 - Irrelevant

s22 - Irrelevant

Option 2 is estimated to result in a loss in customs duty revenue to the Australian Government of \$2 million in 05-06, rising to \$4 million in 09-10. In addition, it is estimated that there would be a loss in GST revenue of around \$3 million per year.

The administrative costs to Customs would be \$1.2 million in 05-06 and \$1.1 million in 09-10, and s22 - Irrelevant

s22 - Irrelevant

Import processing charge revenue would decrease by \$8 million in 05-06, and \$9.4 million in 09-10.

s22 - Irrelevant

s22 - Irrelevant

Taking into account air express couriers, Option 2 would therefore result in a net reduction of 223,000 import declarations by clients.

The competitive neutrality matter would still largely be addressed because s22 - Irrelevant

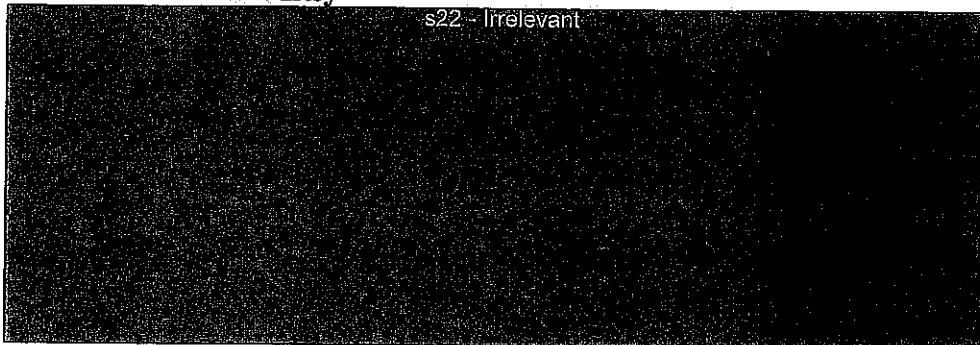
To address any potential future competitive neutrality issues, I would also propose that any future equivalent competitive products should also be subjected to similar treatment. I suggest that these considerations be subject to agreement among relevant Ministers.

These two options therefore provide a different balance of the various considerations, including administrative costs, revenue effects and impact on the community.

Option 2 provides similar revenue and administrative impacts to option 1, but with a significantly reduced impact on the community.

More details on the costs of the three options are provided at *Attachment C*. Diagrams illustrating the impacts of the two viable options are included in *Attachment B*.

Consultation with industry



Conclusion

There is benefit to having a consistent approach to revenue collection and import declaration, irrespective of the mode of transport. However, the Government needs to weigh the advantages of equity, simplicity and transparency against the immediate community and revenue impacts. I suggest that *Option 2* provides the most appropriate balance between these various factors.

Consultation with States and Territories

Under the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations, there is an obligation to consult with the States and Territories on proposals that contain GST implications. Once an option has been agreed by Government, I understand that the Minister for Revenue and Assistant Treasurer will write to the States and Territories to seek their formal agreement.

Recommendations

I recommend that, subject to your agreement to Option 2, the necessary changes to Customs' relevant regulations and bylaws be made, and that I advise industry and the community in good time for the cut-over date to ICS imports of 12 October 2005. Because of the criticality of this decision to the operation of ICS, I also recommend that, if State/Territory agreement is not reached before mid September, you agree that officers of your Department and Customs settle on an appropriate threshold/s for importers and freight forwarders to make declarations and for revenue to be collected.

I have copied this letter to the relevant Ministers.

Yours sincerely

CHRIS ELLISON
Senator for Western Australia

REVENUE COLLECTION AND IMPORT DECLARATION THRESHOLDS**Background**

There are two thresholds that determine the treatment of imported goods. s22 - Irrelevant

s22 - Irrelevant

This is the value at which the owner of the goods or agent is obliged to provide detailed information to Customs in the form of an import declaration. The current differential declaration thresholds are \$1000 for goods imported by post and \$250 for goods imported other than by post (that is, sea/air cargo). Goods with a value below these amounts can currently be cleared by less formal means. While freight forwarders are able to clear air/sea cargo quickly through electronic reports to Customs, in the postal environment there is a very low use of electronic systems and therefore mail clearance requires time-consuming manual processing arrangements.

Cost recovery charges apply to Customs declarations, for example, legislated Customs charges and AQIS charges. Industry also charges for its services, for example, information technology communicators, Customs brokers, freight forwarders.

Between 1975 and 1986, there was a common reporting threshold of \$250 for goods imported to Australia by air, sea and post. This was in line with the philosophy that legitimate trade should be facilitated, and formalities should otherwise not act as non-tariff barriers. In 1986 Customs increased the reporting threshold for postal items to \$1000.

There is also a threshold amount above which revenue (duty/sales tax) is collected for each mode of importation [the 'screen-free' threshold or revenue concession] – it was \$20 from 1985 until 1991, when it was raised to \$50 by a change to the relevant Customs tariff by-law. This concession minimised delays in delivering mail and cargo, reduced the cost to business of importing low value consignments, and took account of uneconomical collection of duty and taxes.

A diagram setting out the current arrangements, and *Options 1* and *2* is at *Attachment B*.

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ATTACHMENT B

Clearance of air/sea cargo (including postal articles) -
Current arrangements

Current Air/Sea Arrangements

Entry
(Declaration)

\$A250

Entry Declaration
by importer
= 30 days
collection assessment
threshold

Current Post Arrangements

Entry
(Declaration)

\$A1000

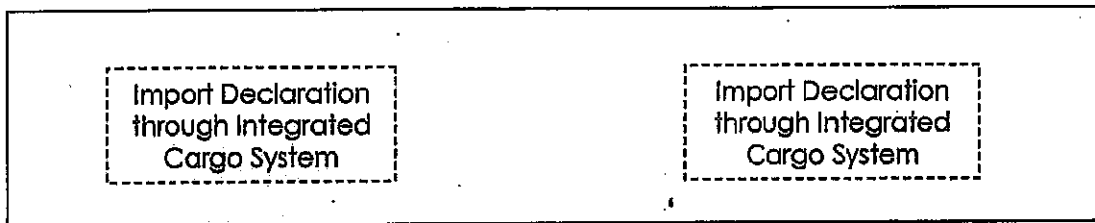
Entry Declaration
by importer
= 30 days
collection assessment
threshold

63

Option One - \$A500 across the board for all air cargo/sea cargo/postal articles (for both revenue collection and Customs declaration).

All air/sea cargo

All postal articles



\$A500



64

Option Two - \$A500 across the board for revenue collection; \$A500 for declaration of air cargo, sea cargo and s22 - Irrelevant articles, and \$A1000 for declaration of all other postal articles.

All air/sea cargo
excluding postal
articles

s22 - Irrelevant

Other postal
articles

Import Declaration
through Integrated
Cargo System

s22 - Irrelevant Import
Declaration
through
Integrated
Cargo System,
or automated
non-Integrated
Cargo System
processed by
Customs

Import Declaration
through Integrated
Cargo System

\$A1000

\$A500

Self-assessed clearance
declaration (by
importer/agent) through
Integrated Cargo System
no duty or GST collected
other than for alcohol and
tobacco

Screen-free (automated) duty-free
System processed by Customs
no duty or GST collected other than for
alcohol and tobacco

Option 1

Aligning the revenue collection and declaration thresholds across-the-board (air/sea cargo and postal imports) at \$500.

Impact on Customs Duty Revenue (\$m)

Revenue	2005-06*	2006-07	2007-08	2008-09	2009-10
Customs Duty	-2.0	-4.0	-4.0	-4.0	-4.0

Impact on GST Revenue (\$m)

Revenue	2005-06*	2006-07	2007-08	2008-09	2009-10
GST	-2.0	-3.0	-3.0	-3.0	-3.0

s22 - Irrelevant

Impact on Customs administrative costs (\$m)

Customs	2005-06	2006-07	2007-08	2008-09
Fiscal	-2.5	-2.2	-2.2	-2.2
Underlying Cash	-2.5	-2.2	-2.2	-2.2

Option 2

Setting a revenue collection threshold across-the-board (air/sea cargo and postal imports) at \$500; and two different declaration thresholds – one for air/sea cargo and s22 - Irrelevant (or future equivalent) products at \$500; and the declaration threshold for other postal products at \$1000.

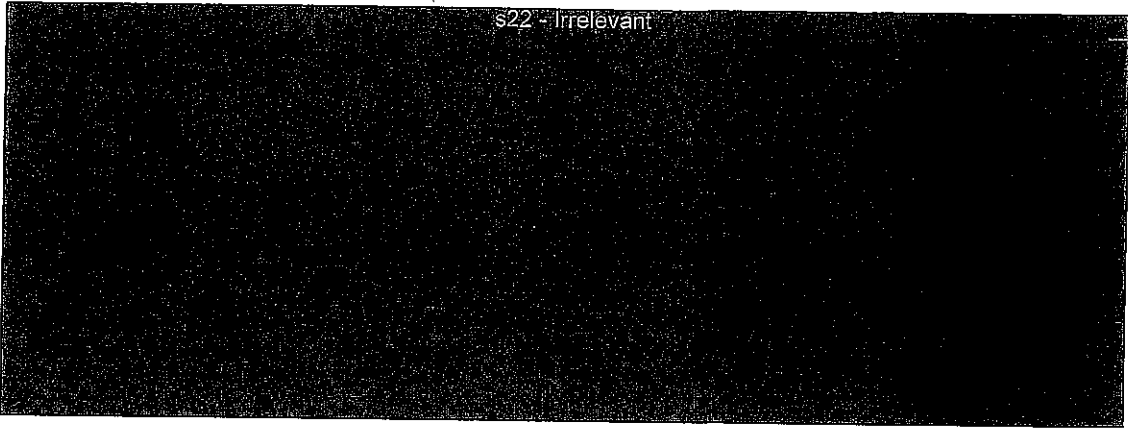
Impact on Customs Duty Revenue (\$m)

Revenue	2005-06*	2006-07	2007-08	2008-09	2009-10
Customs Duty	-2.0	-4.0	-4.0	-4.0	-4.0

Impact on GST Revenue (\$m)

Revenue	2005-06*	2006-07	2007-08	2008-09	2009-10
GST	-2.0	-3.0	-3.0	-3.0	-3.0

62



s22 - Irrelevant

Impact on Customs administrative costs (\$m)

Customs	2005-06	2006-07	2007-08	2008-09
Fiscal	-1.2	-1.1	-1.1	-1.1
Underlying Cash	-1.2	-1.1	-1.1	-1.1

Option 3

Aligning the revenue collection and declaration thresholds across-the-board (air/sea cargo and postal imports) at \$1000.

Impact on Customs Duty Revenue (\$m)

Revenue	2005-06*	2006-07	2007-08	2008-09	2009-10
Customs Duty	-8.0	-12.0	-13.0	-13.0	-13.0

Impact on GST Revenue (\$m)

Revenue	2005-06*	2006-07	2007-08	2008-09	2009-10
GST	-6.0	-8.0	-8.0	-8.0	-9.0



s22 - Irrelevant

Impact on Customs administrative costs (\$m)

Customs	2005-06	2006-07	2007-08	2008-09
Fiscal	2.0	2.0	2.1	2.1
Underlying Cash	2.0	2.0	2.1	2.1

Notes: * assumes early October 2005 start date.