CONFERENCE OF ASIA PACIFIC EXPRESS CARRIERS

SUBMISSION TO THE PRODUCTIVITY COMMISSION REVIEW OF GOVERNMENT COST RECOVERY ARRANGEMENTS

CAPEC members act as agents in the vast majority of air express imports into Australia. As such we have a direct interest in the implementation of cost recovery arrangements by agencies such as the Australian Customs Service (Customs) and the Australian Quarantine and Inspection Service (AQIS).

Key areas of interest to this review are:

- whether Customs / AQIS cost recovery arrangements continue to be warranted in the current trade and fiscal environment
- ensuring that any continued cost recovery regime is imposed in a consistent manner across the import processing agencies; and
- ensuring that there is a continued recognition of the need to make any charging mechanism one that recognises commercial constraints.

The Basis for Cost Recovery on Imports

As stated in the submission from the Australian Customs Service:

> "The rationale for introducing import processing cost recovery charges was two-fold. The first area of reasoning concerned the Government's need to reduce the budget deficit. The second was the Government's desire to align the cost of processing imports with that sector of the community (the importers) which generated the costs, rather than spreading those costs across the entire community."

Given the well publicised lack of a budget deficit, particularly after the introduction of GST and the increase in global oil prices, one leg of the justification for cost recovery on imports surely has disappeared over time.

The remaining basis for cost recovery on imports relates to the simple recovery of government's processing costs. The impact of import charges on Australian industry's global competitiveness needs to be considered and it is recognised that other industry bodies will be making representation to the Commission on this matter.

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If there is an ultimate decision to retain such charges solely on this basis, then it is suggested that there is a corresponding need to review who should rightly bear those costs.

One approach to this may be as contained in the Customs submission, which suggests that there should be "a closer alignment of costs with sectors of the community that benefit from the provision of public services."

In this regard, there must be serious questions about the **benefit** that an importer receives from the processing of a customs entry including the levying of associated duties and taxes. It is suggested that the true beneficiaries of this process are the Australian Government itself, through the collection of duties and taxes, and any Australian industry that has a tariff protection mechanism in place.

Certainly in cases where there is no protective tariff in place, the major role in the Customs entry processing (from a commercial perspective) is the levying of GST for the benefit of the government. In such instances it is considered inappropriate that an importer must pay the Government a standard fee for the assessment and collection of Government revenues.

Similarly, the current $2.40 screening charge that applies to imports that fall under the Customs entry threshold should be discontinued.

Commercial Processing vs Community Protection

It was recognised at the time that the current Customs cost recovery regime was implemented in 1997 that charges should only apply to commercial activities and should not apply to the community protection functions of Customs activities. The second reading speech for the subject legislation from the time states:

> *"The extension of the charging arrangements, however, relates only to commercial import processing. It does not cover activity associated with Customs' community protection function relating to the detection and interception of prohibited imports and drugs. The Government recognises Customs' important role in this area and has, in the Budget, provided funds to Customs to significantly increase the use of sophisticated technology to maintain and enhance its community protection capability."*

Our industry has expressed some concern to Customs over recent times regarding areas where this basic principle appears to have been overlooked. In particular, the recently introduced 'High Volume, Low Value (HVLV) scheme' applies a charge of $45 to each consolidated consignment of eligible goods. This includes the levying of that charge on consolidated consignments of documents that have no commercial value.

CAPEC has argued that if Customs was to properly apply this principle (of excluding non-commercial shipments from charging arrangements) then there should be a clear exemption for goods such as documents that have no commercial value.

An opportunity for such a change should present itself in the legislative restructuring associated with the proposed Cargo Management Re-engineering package that should be tabled in the coming months. CAPEC would strongly suggest that such a change be adopted.

The other key area of concern relates to the fundamentally different approaches between Customs and AQIS. As suggested above, Customs' charging is based around the principle of exempting community protection issues from coverage. It is considered that the general role that AQIS fulfils in the screening of imports is purely of a community protection nature.

In most border-processing activities, the Government has now adopted a centralised approach where there is a 'single window' to government. This is effected through the Customs entry process, with AQIS obtaining requisite data from that Customs window. It is therefore considered inappropriate that the cost recovery regime associated with the entry processing contains what are fundamentally conflicting components.

It is suggested that the Government should develop a consistent approach to the application of cost recovery charges on a general processing of commercial import consignments (if it does not wholly remove this practice). In this regard, any such approach should maintain the principle of excluding community protection elements from charges and apply this consistently on the standard import transaction.

Export Related Activities

The second reading speech back in 1997 went on to introduce a clear exemption for exports:

> *"Nor will charges apply to the processing of export transactions. The exemption of exports from the new user pays system is a recognition of the key role export industries will play in improving Australia's trade balance, creating more jobs and reducing the Federal deficit."*

While Customs has maintained this principle in the processing of individual export transactions, there remains some concerns regarding the effective levying of cost recovery charges on goods that are imported into Australia with a stated intent of re-exportation at a later date.

This matter was addressed by the current Minister for Justice and Customs in relation to goods that are brought into a manufacturing-in-bond environment for subsequent re-exportation. In April of last year, the Minister announced that any cost recovery charges associated with such transactions would be removed. (Unfortunately the particular legislative amendment currently remains stalled within the parliamentary process).

It is suggested that a similar approach (without the stalling of legislative passage) should be applied to other key import/export facilitation schemes such as the Tradex scheme that is administered by the Department of Industry, Science and Resources. This would improve the ultimate international competitiveness of those companies in Australia that provide value-add services in global manufacturing.

Administrative Limitations

In any levying of cost recovery charges, it is strongly suggested that the Government have regard to commercial constraints in the collection of these charges. As members of a service industry it is often our role to pay Customs 'up front' for the import processing charges and then undertake recovery action from clients. Where this relates to smaller sums of money, the ultimate cost of the recovery action outweighs the sum to be collected and monies may be written off. In contrast, cumulative amounts must be paid to the authorities without regard to unrecovered amounts from clients.

It is noted that in regard to the cost recovery charges under the proposed CMR model, a charge of $2.15 would be applied to imports where it is assessed that an entry is not required. This charge would be levied on the cargo handler. Clearly this has the potential to significantly disadvantage cargo handlers unless there is some administrative arrangement to either waive minor charges or allow for these to be collected in some other manner.

It is strongly suggested that commercial reality would suggest that the Government maintain some minimum levying threshold that recognises that collection of minor sums may not be cost effective for itself or for intermediate service providers. In this regard it is noted that Customs itself currently maintains a $50 minimum duty collection threshold.

Miscellaneous Customs Recovery Arrangement

It is noted that under the proposed CMR arrangements that should be implemented in 2001, Customs will discontinue the charge for refund applications. CAPEC strongly supports this action.

Customs also applies significant fees to the licensing of particular Customs depots. Again there is great doubt about who benefits from the maintenance of these depots and who should therefore accept the burden for that cost. Having initially satisfied Customs' requirements for security etc for the licensing of a depot, the annual renewal fees related to these operations would seem excessive.

Conclusion

CAPEC questions whether the Customs/AQIS charging regime for import transactions continues to be warranted.

Should any such charging regime remain in place, it is strongly suggested that this:

- exempt community protection related activities of all border agencies;
- exempt all export focused activities – including those import activities where goods are subsequently re-exported;
- include a minimum collection threshold – for individual exporters and their agents;
- remove charges for refund applications – as already proposed by Customs; and
- review the appropriateness and level of licencing fees for Customs depots

Importantly it is felt that there is a need for the development of a publicised set of parameters that should apply to any such regime, particularly given that there will inevitably be new import arrangements and new import schemes that will be developed in the future.

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