



**Australian
CUSTOMS AND
BORDER PROTECTION**

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AUSTRALIAN CUSTOMS AND BORDER PROTECTION SERVICE

Senate Legal and Constitutional Affairs Legislation Committee

Budget Supplementary Hearings

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I have a number of matters to place before this Committee, and I seek the Committee's forbearance as I detail these issues.

In February, I briefed this Committee on the issue of corruption within the Service, including the arrest of a number of our officers. I also briefed the Committee on the strengthened integrity measures that I was putting in place to deal with the problem of corruption, and criminal penetration of the Service.

In May, I updated the Committee on the issue of corruption and advised that more officers had been arrested. I also advised that Committee that an extensive root-

and-branch reform of the Service was going to be undertaken, as a result of the issue of corruption, and related problems with our organisational model.

Today, I should like to update the Committee on these matters.

We have continued to strengthen our integrity and professional standards capability, and to harden the Service against criminal infiltration. As previously advised to this Committee, we are rolling out drug and alcohol testing of officers, integrity testing, and mandatory reporting of serious misconduct, corrupt or criminal behaviour by our officers, amongst other measures.

Since the last hearing (in May), the Australian Commission for Law Enforcement Integrity has issued its investigation report into Operation Heritage [22nd June 2013], which is a joint investigation (ACLEI, AFP and ACBPS) of alleged corrupt conduct by ACBPS officers at Sydney International Airport. A total of five ACBPS officers have been arrested under Operation Heritage, which includes the four that had been arrested and charged at the time of the last hearing.

- One officer (Katrallis) has already been sentenced to seven years imprisonment (non-parole period of four years), after being found guilty of conspiring to import border controlled substances, receiving a bribe, and abuse of public office.
- Another officer (Lamella) has pleaded guilty to charges of conspiracy to import a commercial quantity of a border controlled pre-cursor and receiving a bribe,

with sentencing scheduled for February 2014. He is also facing further charges of abuse of public office and giving a corrupt benefit to a public official.

- Two other officers (Valsamakis and Cranney) remain remanded in custody on similar serious charges as they await further court appearances, which are scheduled over the months ahead.
- Another officer (Peart) was arrested and charged on 2 September with two counts of importing a marketable quantity of a border controlled drug, and one count of trafficking. She resigned prior to her arrest. This was after the Service had commenced an inquiry for suspected breaches of our Code of Conduct.
- In addition to those officers who are facing criminal charges, another four officers have resigned while subject to Code of Conduct inquiries. Another officer been sanctioned after being found to have breached the Code of Conduct. These Code of Conduct inquiries were initiated after evidence of misconduct obtained during the course of Operation Heritage was disseminated to me by the Integrity Commissioner under section 146 of the *Law Enforcement Integrity Commission Act 2006*.
- Additionally, a number of other officers, who are known to be associates of those officers who are facing criminal charges as a result of Operation Heritage, have resigned after coming to the attention of investigators. This

will not prevent them from facing criminal charges, should charges be merited on the evidence.

Beyond these specific actions, I wish to draw the attention of Senators to the Integrity Commissioner's report regarding Operation Heritage, which as I mentioned earlier was released in June. In addition to detailing the specific features of the investigation (to the extent that this can be done at the unclassified level), it also details how the corruption occurred, and the systemic cultural and organisational factors that contributed to this. This report was one of the main triggers for the root-and-branch reform programme of the Service, to which I will shortly turn.

Separately, another two officers (Sheridan and Walker) were arrested under a different AFP-led operation in February this year. Both officers were released on bail after being charged with offences relating to importation of border controlled substances, abuse of public office and receiving a corrupt benefit. Proceedings are pending.

Again separately, and as recently reported in ACLEI's Annual Report 2012-13, another officer will soon face criminal charges in relation to corrupt conduct. These charges relate to unauthorised access to restricted data and abuse of public office. The officer was suspended from ACBPS duty on the basis of information which had been disseminated to ACBPS by the Integrity Commissioner, again under section 146 of the Act. She subsequently resigned after having been found to have breached the Code of Conduct, with a likely sanction of termination.

In my earlier statements to this Committee, I stressed the importance of the introduction of drug and alcohol testing, as a key element of our new suite of integrity measures. I wish to advise the Committee that three officers have returned a verified positive drug result since the commencement of these tests in March 2013. One of those officers, who was the subject of a random test, has been dismissed from the Service following a Code of Conduct inquiry. Two other officers, who were the subject of targeted tests, resigned shortly after the testing took place. I can advise the Committee members that 1,040 drug and alcohol tests have been conducted since March 2013.

The taking of illicit drugs by officers of the Service is unacceptable. With random drug and alcohol testing now in place, and testing being conducted in relation to officers at all levels of the Service (me included), the message is very clear: you will be tested; and if you are found to be using illicit drugs you are likely to lose your job.

Notwithstanding these measures, and the other measures that I advised to this Committee, I have decided that even more needs to be done. While the vast majority of our officers are doing the right thing, and the number of cases that I have briefed to the Committee this morning is relatively small in a workforce of 5,000, we cannot be complacent. I am concerned by the fact that we are encountering 'hard to detect' corruption and serious misconduct, where some officers think that they can 'lie low' until the 'heat' passes. For instance, we know that some officers are attempting to 'game' drug tests – not realising that they are under lawful surveillance.

We are alert to the risk that some officers may attempt to conceal their corrupt conduct and engage in deception and counter-surveillance. I am currently in discussion with the Integrity Commissioner and others on how best to proactively go after such 'hard to detect' corruption, now that we have significant powers and procedures in place for dealing with it - when we find it. I will have more to say about this in the near future.

When I last briefed the Committee in May this year, I foreshadowed work to enhance the Service's organisational suitability assessment system, with a view to making it the toughest regime in the public sector, especially for detecting and dealing with officers with criminal associations. Once fully implemented next year, our enhanced organisational suitability regime will indeed be the toughest – and I advise officers with undeclared criminal associations to come forward now, as that will potentially provide a degree of mitigation before investigators come knocking.

On 1 November 2013, the Service instituted a strengthened 'outside employment policy', which identifies a range of high risk secondary employment situations which could potentially compromise our officers, or create perceived or actual conflicts of interest. Applications for permission to engage in outside employment in the industries outlined under the policy will be assessed on a case-by-case basis, but will generally not be approved. We will continue to consult with our workforce on the new policy over the period of the next 12 months, with an analysis of lessons learned used to shape our definitive policy, which will be in operation by the end of 2014. I have issued a direction that, generally, secondary employment will not be approved

in the private security industry or in any capacity directly associated with the movement of goods, people, vessels or aircraft across our border.

Since I last appeared before this Committee in May, I released a comprehensive *Blueprint for Reform 2013-2018* (on 3rd July 2013), which deals with the need for root-and-branch reform of the Service, and what we need to do to gear up for the exponential growth in the volume of trade and travellers which we are facing, the increasingly complex trade and travel patterns which are emerging with the rise of Asia and other areas of global economic growth, and the ever-growing sophistication and well-resourced nature of transnational organised crime, which is unceasingly seeking to subvert border protection controls. This *Blueprint* is our response to the ACLEI report on Operation Heritage, to which I have already referred, and to two other key reports:

- The Australian Public Service Commission Capability Review into the Service, which was released in July; and
- The Customs Reform Board's *First Report - June 2013*, which was released by the then Minister for Home Affairs on 3rd July 2013.

I briefed the Committee on the creation of the Reform Board when I last appeared before you (in May 2013).

All of these reports have drawn attention to corruption issues as being drivers from root-and-branch reform of the Service, alongside other issues which require

aggressive and transformative attention: concerning our people and operating model, our systems (including ICT) and processes, and our culture and leadership.

I am pleased to be able to report to the Committee that within our current level of resources, we are getting on with as much root-and-branch reform as we can pursue. I have already detailed what we are doing in the area of integrity and professional standards. In addition, we are redesigning our approach to investigations, compliance and enforcement (our ICE function), in collaboration with the AFP and other law enforcement agencies. We are on track to deliver the National Border Targeting Centre in 2015-16. We are piloting new command and control systems and procedures (in Queensland, to be followed soon by Western Australia), in order to focus all of our firepower where it matters most – the frontline. Last Friday, I announced the establishment of internal task forces to examine and deliver different aspects of our future operating model – the Border Force (which will be the uniformed element of ACBPS from 1st July 2014), the ACBPS College, the future traveller system, amongst others.

We have to get these things right and soon. Amongst other things, we are up against serious and violent organised criminal syndicates which are well resourced, innovative, flexible and focussed. They adapt to changing threats to their business models and to maximise and create new opportunities. Australia represents a very profitable market for organised crime groups. Prices for illicit drugs in Australia are among the highest in the world. The average cost of a kilogram of cocaine in Australia can be up to \$300,000, as compared with Colombia, where the price per kilogram is estimated at \$2500 and in Mexico, where it is around \$12,500. It is big

business - as was evidenced in August 2013, when 750 kilograms of cocaine were seized from a sophisticated concealment in the bottom of a yacht docked in Port Vila (Vanuatu) in a joint operation involving ACBPS, the AFP, and the US Drug Enforcement Agency.

Before I conclude, I wish to place on the record my assessment about the Service's capacity to deal with these challenges. Since 2008-09, the Service has provided over \$560m of savings and offsets, including \$165m in 2013-14. From 2014-15, and across the forward estimates to 2017-18, additional programmed cuts of \$733m, or just over 15 per cent of funding per year, will be applied to our budget.

In line with the funding reductions, the Service's staffing levels have been in a period of decline since 2007-08. Over this period, the number of officers in the Service has decreased from over 5,740 in 2007-08 to 5,000 today. The funding levels programmed over the forward estimates will see our staffing numbers drop further, with staffing levels of less than 4,400 being affordable by 2017-18. Our current operating model is not sustainable and our Reform programme business case is being developed as a means to navigate our challenging future – which I will not be able to discuss in any detail as I do not wish to pre-empt Government decision-making through the normal budget process.

I should, however, advise the Committee that this year the Service will run at an operating loss for a second year in a row. Last year, our \$10m loss was attributable to a large voluntary redundancy program (\$7m) and ongoing operational pressures. This year will be a continuation of those same pressures – combined with larger

funding reductions. Given the high operational tempo being experienced across many areas of the Service, we are trying to maximise our expenditure on front line resourcing (for example to deal with illegal maritime immigration and remote area border patrols in northern Australia), while making space to develop our Reform programme. For reasons that I have already discussed, there has also been a need to fund urgent and additional anti-corruption measures this financial year.

The size of this year's loss is still being worked through by the CFO as he conducts a major mid-year review of our finances. I am committed to managing my budget as best I can within the allocation provided by government and the Service's achievement of significant funding reductions over recent years is testament to this commitment. Over recent years, we have achieved savings in all of the areas expected of agencies - whether that be travel, contractors and consultants, ICT, SES levels, legal expenditure or property expenses. Not all savings can be achieved, however, in the 'back of office', and last year we reduced staffing in our frontline regional port offices, with 37 frontline positions abolished.

Meeting the requirements asked of our Service, and meeting fiscal policy directions will require very tough choices to be made. However, given the efficiencies that we have already identified and achieved, many of these choices have already in effect been made. With the programmed reductions that are in the forward budget, we are not talking about cutting fat, or even muscle and tissue. We will soon be going through bone and out the other side. That is why root-and-branch reform is also about building a sustainable business model for the Service - one which, for

example, takes full advantage of modern technology (such as automation, analytics and biometrics) to move us away from a labour intensive model of working.

I am gratified to be able to say that governments have acknowledged the level of savings which have been applied to the ACBPS budget in recent years. Savings were not required in the 2013-14 Budget to fund certain maritime capabilities, and the new National Border Targeting Centre, which former Prime Minister Gillard announced earlier this year. I also welcome the Coalition Government's pre-election commitment to exempt the Service from further staff cuts, as I do the injection of \$100 million from 2014-15 to increase the rate of screening and examinations at our borders.

That concludes my statement.

ENDS