Australian Government

Department of Agriculture Fisheries & Forestry
Australian Quarantine and Inspection Service

COST RECOVERY IMPACT STATEMENT

April 2009

Seaports Program Fees

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1. OVERVIEW

1.1 Purpose

This Cost Recovery Impact Statement (CRIS) outlines the rationale for the proposed changes to the AQIS Seaports Program fee schedule, to set fees for the 2009/10 financial year. The new fees are to be introduced on 1 July 2009.

This CRIS demonstrates the compliance of AQIS's cost recovery with the Australian Government's cost recovery policy set out in the *Australian Government Cost Recovery Guidelines (2005).*

The amendment to the Seaports Program fees will necessitate an amendment to the *Quarantine Service Fees Determination 2005.*

The fee changes proposed in this CRIS will ensure the government's cost recovery objectives are pursued for AQIS's Seaports Program in 2009/10. The changes will improve user-pays equity at the 'activity' level within the program.

1.2 Background

The Australian Government Department of Agriculture, Fisheries and Forestry (the Department) is responsible for a wide range of issues including:

- Quarantine, export inspection and certification based on monitoring of food safety standards, which are essential for the maintenance of Australia's highly favourable animal and plant health status, and support Australia's position in global trade.

The role of the Department is to assist the Government to achieve its policy objectives and administer legislation in these areas by contributing to the following Outcome identified in the Department's Business Plan 2008 - 2009:

- Australian agricultural, fisheries, food and forestry industries that are based on sustainable management of and access to markets; are protected from diseases and are underpinned by scientific advice and economic research.

The Australian Quarantine and Inspection Service (AQIS) is an Output Group of the Department. AQIS contributes to the achievement of the Department's Outcome by meeting the following Output objective:

- To protect Australia's animal, plant and human health status and maintain market access through delivery of quarantine and export services.

AQIS provides the following performance information for the provision of effective quarantine services:

- quarantine intervention at the border;
- quarantine risk effectiveness at the border; and
- level of public awareness of AQIS quarantine services.

AQIS has a vital role in implementing and administering strict quarantine controls at Australia's borders to minimise the risk of exotic pests and disease incursions. With support from industry and the community, AQIS responds to potential quarantine threats to maintain Australia's animal, plant and human health status and protect Australia's agricultural industries.

The primary function of the Seaports Program is to manage international vessel arrivals in accordance with specific International Health Regulations and to effectively manage all identified quarantine risks posed by the vessel.

This is achieved by:
- assessing the quarantine risk of each vessel entering Australia; and
- taking all action necessary to minimise the likely introduction of any exotic pests and diseases as associated with the vessel as well as any crew travelling on the vessel.

The nature of the services provided, include:
- assessing the health of the crew;
- inspection of overseas vessels arriving at their first port of call in Australia to assess, whether the vessel is harbouring prohibited animals; the presence of quarantine risk material, quarantinable disease, vermin or exotic insects to enable the granting of pratique;
- inspection services for the issuance of ship sanitation certification;
- monitoring of international ballast water management arrangements.
- the presence of readily seen biofouling, animal and plants on board vessels and inspections for Asian Gypsy Moth, Burnt Pine Longicorns and exotic bees;
- wharf surveillance activities, quarantine signage on wharves and port environs, onshore waste management and;
- vector monitoring around seaports for the entry of exotic mosquitoes that could be vectors of human disease, and other insects that pose threats to animal and plant health vectors (such as screw worm fly and bluetongue vectors (*Culicoides spp*)).

1.3 Australian Government Cost Recovery Policy

In December 2002 the Australian Government adopted a formal cost recovery policy to improve the consistency, transparency and accountability of its cost recovery arrangements and promote the efficient allocation of resources. The underlying principle of the policy is that entities should set charges to recover all the costs of products or services where it is efficient and effective to do so, where the beneficiaries are a narrow and identifiable group and where charging is consistent with Australian Government policy objectives. Cost recovery policy is administered by the Department of Finance and Deregulation and outlined in the *Australian Government Cost Recovery Guidelines* (Cost Recovery Guidelines).

The policy applies to all *Financial Management and Accountability Act 1997* (FMA Act) agencies and to relevant *Commonwealth Authorities and Companies Act 1997* (CAC Act) bodies that have been notified. In line with the policy, individual portfolio ministers are ultimately responsible for ensuring entities' implementation and compliance with the Cost Recovery Guidelines.

2. POLICY REVIEW – ANALYSIS OF ACTIVITIES

2.1 Description of Activity

The Seaports Program's budget in 2008-2009 was approximately $16.4 million with 100.8 full time equivalent (FTE) employees. AQIS recovers over 90 percent of its Seaports Program expenses through the charging of fee for service, with the remainder recovered through government funding.

In accordance with the Government's cost recovery guidelines, AQIS regularly reviews its cost recovery arrangements in consultation with stakeholders (see below). In this regard, the Seaports Program recently reviewed its primary expenditure and revenue activity streams. The Seaports Program has three activity streams, of which the first is by far the greatest:

1. Inspection for the purpose of granting pratique for vessels greater than 25 metres at a proclaimed first port, which includes granting pratique, full vessel inspection, ballast water verification, documentation and the first 2 hours of inspection.

2. Inspection for the purpose of granting pratique for yachts less than 25 metres at a proclaimed first port, which includes granting pratique and the first hour and a half of inspection.

3. Gangway watch for vessels and supervision of waste removal where applicable. The Program is also budget funded to provide specific maritime security functions and progress various government initiatives, (ie. Illegal Foreign Fishing Vessels and other government business).

2.2 Stakeholders

AQIS has consulted with the AQIS/Industry Cargo Consultative Committee (AICCC) as part of the formal mechanism for reviewing charging arrangements and the proposed fee rates. The AICCC was established in 1993 to act as the peak industry consultative group between AQIS and the cargo handling/importing industry on all operational, policy, efficiency and strategic issues.

One of the key roles of the AICCC is to provide comment on Program budgets, cost recovery mechanisms, charging levels and key Program performance issues such as efficiencies and effectiveness indicators.

Membership of the AICCC currently comprises representatives of component sections of the logistics and importing chain including shipping, air transportation, shore-based logistics, barrier clearance, international freight forwarding, express carriers, food and beverage importers and cargo owners.

Current membership of the AICCC includes representatives of:

- Industry
- Customs Brokers and Forwarders Council of Australia Incorporated (CBFCA)
- Australian Chamber of Commerce and Industry (ACCI)
- Food and Beverage Importers Association
- International Air Courier Association of Australia
- Australian Air Transport Association
- Australian Federation of International Forwarders
- Shipping Australia Limited
- Stevedores, and Immediate Land Infrastructure
- Industry Working Group on Quarantine whose membership is open to all stakeholders through their national associations e.g.
    - Australian Air Transport Association
    - Australian Chamber of Commerce & Industry
    - Australian Federation of International Forwarders
    - Australian International Movers Association
    - Australian Timber Importers Federation
    - Customs Brokers & Forwarders Council of Australia Inc.
    - Fertiliser Industry Federation of Australia Inc.
    - Food & Beverage Importers Association
    - Port of Melbourne—Cargo Facilitation Committee
    - Conference of Asia Pacific Express Couriers
    - Secretariat
    - Sydney Ports Cargo Facilitation Committee
    - Patrick Terminals
    - Australian Paper Industry Association
    - DP World Australia
    - Shipping Australia Limited
    - Federal Chamber of Automotive Industries

The above industry associations have significant membership. All sizes of business maintain representation, from large businesses through to individuals.

The Australian Chamber of Commerce & Industry (ACCI) is the peak council of Australian business associations. It represents businesses through chambers of commerce in each state and territory, and a nationwide network of industry associations. The ACCI operates at a regional, national and international level, ensuring the concerns of business are represented at a federal government level, and to the general public.

The Customs Brokers and Forwarder Council Australia (CBFCA) has approximately 70 percent membership of companies and approximately 80 percent membership of individual brokers employed by those companies within Australia. Membership encompasses individual brokers and small businesses as well as large multinationals.

The Finance sub-committee of AICCC is comprised of executive level representatives from AICCC peak member bodies. One of the key terms of reference of this committee is to review existing charging and revenue collection arrangements for the Import Clearance and Seaports Programs, including the establishment of new fees and fee structures.

The AICCC met on 30 March 2009 where the Seaports 2009-10 fee schedule was tabled. The AICCC advised AQIS (Import Clearance and Seaports programs) that while Industry agreed with the methodology of cost recovery, the calculation of fees and the proposed new structure, they have continuing concerns in relation to the validity and basis of the allocation of some indirect costs underpinning the proposed fee schedule and subsequently will not support the proposed fee schedule at this time.

Industry's concerns relate to multi-country military exercises, public education and some of the overhead corporate costs of running AQIS operations. AQIS has agreed to an audit of Import Clearance's cost recovery arrangements to consider these concerns. The Import Clearance Audit started in April 09 and is expected to be completed by the end of August 09. Should any issues of cross subsidisation be found during the audit AQIS will discuss and resolve those issues with the respective Budget Group Agency Advice Unit within the Department of Finance and Deregulation. Any other issues raised by the Audit will be considered by Seaports and implemented as required in full consultation with Industry.

AICCC also advised that they will lobby the Australian Government directly for sufficient funds to be made available to both Import Clearance and Seaports' Programs to cover the indirect costs in question above. Their aim is to have no increase in fees from the current 2008-09 levels.

The Seaports program fee increase proposed is proceeding, fully aware of industry's position.

2.3 Conclusion

The cost recovery arrangements for the Seaports Program biosecurity activities are well-established. This proposal is an adjustment to a fee structure that is already in place under the user-pays principle. Both the current and the proposed fee structure require clients that seek to benefit from the services provided by AQIS's Seaports Program to pay directly for the service.

The changes to fees outlined in this CRIS are changes that are required to keep pace with increasing costs and temporarily reducing revenues (due to the world economic crisis), including:-

- increased employee expenses (expected to be 4.1% per annum, or approximately $0.350m) resulting from a new Certified Agreement to commence on 1 July 09,
- an increased amount of activity due to the implementation of new Work Instructions and Verification procedures resulting from Australian Government implementation of recommendations of the Beale Review. It is estimated that the equivalent of 5 FTE positions (approximately $0.450m) will be involved with this activity however these costs are program wide and not able to be allocated to a particular vessel and therefore are non chargeable/recoverable and will add to the indirect program costs.
- increased costs associated with implementing a new risk based Documentary vessel clearance inspection regime, including an initially very high (non chargeable/recoverable) verification element of the scheme. Initially 40% of vessel cleared on documents will then be randomly physically inspected. It is

anticipated that the rate will drop to 10% but the random follow up (verification) inspection will not be charged to the particular vessel involved, the cost of verifying the clearance will be worn by all vessels participating in the documentary clearance scheme. Due to the additional time required to physically inspect the vessel, the additional non chargeable/recoverable costs (of the high 40% initial inspection rate) are in the order of $0.185m. Once the 10% inspection rate is attained, the additional random inspection costs are included in the fee.

- a reduction in overall revenue, due to the Industry predicted 20% reduction in vessel arrivals in 2009/10, of $1.430m (this is the loss of revenue with the new fee increases applied, it would be $3.115m, if the fees were not increased).

Also, due to the world economic crisis the Industry Liability Account (ILA) is predicted to have a deficit balance of around -$250,000 as at 1 July 2009. This deficit also needs to be recovered in 2009/10 as part of the cost recovery process.

3. DESIGN AND IMPLEMENTATION

3.1 Basis of Charging – Fee or Levy

In accordance with the user pays principle applicable to cost recovery arrangements, clients who receive Seaport Program services are required to pay associated fees.

The cost recovery arrangements for the provision of Program services include:

- the provision of vessel clearance (pratique);
- inspection and assurance of associated sanitation certification;
- vector surveillance and monitoring;
- human quarantine surveillance and assessment;
- all routine surveillance activities at Australian Seaports: and
- ballast water management compliance.

Individual businesses and people who receive the service are required to pay the associated costs.

In the shipping industry, these people include:

- agents and importers and other parties in receipt of treatment and inspection services including:
  - commercial vessels that arrive into Australia from an international port, normally charged through their agents; and
  - recreational vessels that arrive into Australia from an international port.

This proposal is an adjustment to fees that are already imposed under the 'user pays' principle. In this way, the individual or business that is the recipient of the benefit of the service provided by the Program directly pays for the service rather than levying charges across an industry sector or the industry as a whole.

3.2 Legal Requirements for the Imposition of Charges

Section 86E of the *Quarantine Act 1908* (the Act) provides that the Minister may determine fees in respect of specified services provided under the Act. The current fees are set out in the *Quarantine Service Fees Determination 2005.*

The legislation will be amended to:

- continue to underpin current and proposed Program business practices;
- further clarify under what circumstances Program services will be cost recovered;
- accommodate the proposed fee structure so that the Program will be able to recover its costs.

3.3 Costs to be Included in Charges

Background

In meeting its commitment to manage the quarantine risk associated with international vessels and their crew in order to minimise the introduction of exotic pests and diseases into Australia via these pathways, the program seeks to recover its direct and indirect costs in a fair and equitable way across the various sectors of the industry.

Seaports last set a 3-year fee schedule in 2005 (expired on 30 June 2008). The original intention, in 2008, was to construct another new 3-year fee schedule to cover 1 July 2008 to 30 June 2011. However the release of the Beale Review in late 2008, and foreshadowed changes that may to flow from the report recommendations, make an 'interim' one-year fee schedule more appropriate. The current fee schedule (to expire on 30 June 2009) covered the increases in service delivery costs, through wage and other cost increases and new policy requirements implemented since 2005.

At the same time as the proposed new 3 year (2009-12) fee schedule was to be constructed, the world also began to experience the effects of the global economic crisis. The Seaports program saw international vessel numbers visiting Australia suddenly drop by around 10 percent during October and November 2008. Due to the uncertainty surrounding the unfolding economic crisis, it was agreed at an AICCC Finance sub-committee meeting on 19 December 2008 to consider another one year fee schedule taking into account a 10 percent drop in vessel numbers in 2009-10, relative to vessel numbers for 2007-08.

Seaports began constructing a Resource Model and Fee Review based on this information and submitted a paper to AICCC / Seaports sub-committee containing the revised fees in early 4 March 2009. At that meeting AICCC further considered the effects that the global economic crisis was having on the industry and revised their vessel arrival predictions down again to reflect a 20 percent reduction in commercial vessel numbers in 2009-10, relative to vessel numbers for 2007-08.

Although a 20 percent reduction is predicted, the full impact of vessel reductions have not yet been realised (as at mid April 2009). Data suggests that the resource industry is still shipping raw material, building stockpiles overseas for example in China. Container ship companies are also believed to be rationalising routes, merging with other companies, or scraping smaller vessels and replacing them with vessels (that were ordered before the economic crisis) which are twice their size. This will see overall vessel numbers reduce.

The only areas predicted to not be as hard hit, are WA and NT where oil and gas exploration is continuing 'as normal', vessels are continuing to bring in gear and parts to construct installations and their associated infrastructure including pipelines. Therefore overall vessel numbers there may reduce by only 5 to 10 percent.

It is predicted that a recovery of the economy may occur sometime in the second half of the 2009/10 financial year. However vessel activity may only gradually increase and it may take some time (up to two years) before activity levels return to those experienced in 2007/08. (Seaports have now produced a Resource Model and Fee Review with data provided by industry).

Current Position

Seaports financial position, at the end of the 2007/08 financial year, resulted in a $221,000 positive balance in the Industry Liability Account (ILA) (which is used to manage under and over recoveries from one financial year to the next) as at 1st July 2008. Although vessel arrival numbers have recovered slightly from late last year, AICCC and AQIS both agree that numbers will fall in 2009-10 and the balance of the ILA at 30 June 2009 will drop by around $471,000 to a deficit balance of around (-$250,000)

Historical figures on the amount recovered compared to the costs are outlined below.

	2005/2006	2006/2007	2007/2008	2008/2009 Year- end Projection
Gross surplus/ (Deficit)	$309,105	$97,974	-$397,050	-$470,566
Total Revenue	$12,970,190	$13,393,723	$14,078,471	$15,533,434
Total Expenditure	$12,661,085	$13,295,749	$14, 475,521	$16,004,000
19601 - Transfer to ILA	$309,105	$97,974	-$397,050	-$470,566
Transfer to ILA	$309,105	$97,974	-$397,050	-$470,566
Opening balance	$210,536	$519,641	$617,616	$220,566
Transfer to ILA	$309,105	$97,974	-$397,050	-$470,566
ILA Closing Balance	$519,641	$617,616	$220,566	-$250,000

In 2008/2009 the Seaports Program is forecasting an operating deficit of approximately $470,566. The Income Liability Account (ILA) has a current balance of $220,566. By utilising the balance of the ILA, the 2008/2009 program budget forecast is a deficit of (-$250,000).

The principal purpose of the income equalisation account is to enable AQIS and industry to overcome unforeseen downturns in the recovery of expenditure within each industry over a period of years. This account is designed to reduce the need for constant changes to fee/charging levels to accommodate unforeseen and often uncontrollable circumstances. Examples of unforeseen circumstances include the current economic crisis, results of severe climatic changes on production and exports or loss of major markets.

Modelling has shown that a 20 percent reduction in vessel numbers, and the implementation of new policy proposals, the ILA balance at 30 June 2010, would be -$3,343,475, if fees were not increased, or +$22,511 if the proposed 2009-10 fees were introduced. (see table below).

Seaports Program Results Based on Fee Review - 2009/10		
	Using current 2008/9 fee structure	**Using proposed new 2009/10 fee structure**
Total Revenue	10,985,162	14,101,149
Total Expenditure	13,828,638	13,828,638
Surplus / (Deficit)	(2,843,475)	272,511
ILA balance / (accumulated deficit)	(3,343,475)	22,511

To better align fees between the Seaports Program and Import Clearance Program, AICCC also agreed that both programs should apply a consistent rate for both their Overtime and Fee for Service rates. The agreed rate is included in the proposed fee structure.

Assignment of costs and efficiencies

The Seaports Program is planning to introduce a new 'documentation commercial vessel clearance' fee based on a risk assessment. Under this arrangement a highly compliant vessel may be cleared without the need to physically visit the vessel. A fee of $800, which is $120 less than the current 2008/09 standard inspection fee, is proposed. This will complement the 2009/10 normal commercial vessel clearance fee of $1,050, which is $130 more than the 2008/09 standard inspection fee.

Seaports program essentially carries out only one major activity (vessel inspection). Due to repeated Industry requests to align the Overtime and Fee for Service fee structures of the Import Clearance and Seaports Programs, the variations between the over and under recovery of the various revenue streams of the Vessel Inspection activity (see table below) are unavoidable but considered minor.

Revenue Stream	Over/ (under) recovery	
	Current Fees	New Fees
Commercial Vessels (includes the new documentary clearance activity)	(1,749,855)	630,048
Yachts	(157,303)	(83,848)
Fee For Service	(675,870)	(566,122)
Overtime/Shiftwork	(262,415)	290,466
JMEs (Joint Military Exercises)	(12,696)	(12,696)
Offshore Inspections	0	0
Foreign Fishing Vessels	6,407	6,407
Government Business and Other	8,256	8,256
Total	**(2,843,475)**	**272,511**

Note:-

- The Commercial vessel and yacht over (and under) recovery of inspection costs is essentially balanced by the Fee For Service but since the Fee for Service revenue is essentially all related to vessel inspections this is not unreasonable.
- Also the overtime over recovery amount, essentially balances the -$250,000 deficit that the program ILA is expected to incur at 30 June 2009 and which Industry is required to repay to the ILA account in 2009-10.

'Fee for Service' - Where a commercial vessel is cleared and inspected at first port of call, a minimum charge is payable, which includes granting pratique, full vessel inspection, ballast water verification, documentation and the first 2 hours of inspection. Where inspection time exceeds the 2 hours (as above), any additional time shall be charged at the Fee for Service rate, commencing with the minimum ½ hour fee for the first 30 minutes, followed by the ¼ hour rate for each additional 15 minutes. Yachts are similar, except that the Fee for Service applies after the initial inspection time exceeds 1.5 hours (does not include ballast water verification component of the commercial vessel inspection).

Since the introduction of increased quarantine intervention (IQI) initiative in 2001, there has been a considerable increase in staff and the scope of activities undertaken by AQIS. This increase has coincided with annual growth in export trade. The continued increase in vessel arrivals has placed demands on resources which were met through deferral of training and other initiatives aimed at better risk based service delivery. Although it may be expected that there will be a decrease in staff in periods of decreased trade due to decreased demand for quarantine services etc, such a decrease would need to be sustained for a considerable period for the workforce to be adjusted permanently.

Budget Modelling

A recovery from the current downturn is expected to commence in the first half of the 2009/10 financial year. As such, this downturn in vessel arrivals presents an opportunity for AQIS to strengthen quarantine through the development of better application, administration and expansion of risk based quarantine management, staff training, creating work instructions, planning, etc as recommended in the Beale Report (recommendation 77).

On balance, the Seaports Program and the AICCC Finance sub-committee consider the modelling approaches used here to be conservative rather than optimistic. If the current economic situation improves significantly above the expectations of the future revenue scenario, the program will initiate actions to reduce fees as necessary. Relative to the need to increase fees to redress under recovery of costs, the process to reduce fees is quicker.

Direct and Indirect costs associated with Seaports Activities

Pratique of Vessels >25m				
			2008-2009	2009-2010
Employee Expenses	Employee Salaries, Overtime, Leave Liabilities, Staff Training etc	Direct Cost	3,366,093	1,651,572
Supplier Expenses	Property costs, Vehicle costs, Technical and Field, Travel	Direct Cost	1,381,280	1,315,543
Other	Information Technology costs, Overhead costs, Governance costs. Corporate costs	Indirect costs attributed on FTE's	6,665,096	6,449,896
Total			**11,412,469**	**9,417,011**

Documentary Clearance (new fee introduced 1 July 2009, no previous years costs)			
			2009-2010
Employee Expenses	Employee Salaries, Overtime, Leave Liabilities, Staff Training etc	Direct Cost	83,272
Supplier Expenses	Property costs, Vehicle costs, Technical and Field, Travel	Direct Cost	48,811
Other	Information Technology costs, Overhead costs, Governance costs. Corporate costs	Indirect costs attributed on FTE's	325,204
Total			**457,287**

Pratique of Vessels < 25m				
			2008-2009	**2009-2010**
Employee Expenses	Employee Salaries, Overtime, Leave Liabilities, Staff Training etc	Direct Cost	54,639	66,640
Supplier Expenses	Property costs, Vehicle costs, Technical and Field, Travel	Direct Cost	40,832	27,807
Other	Information Technology costs, Overhead costs, Governance costs. Corporate costs	Indirect costs attributed on FTE's	82,252	260,252
Total			**177,723**	**354,699**

Overtime				
			2008-2009	**2009-2010**
Employee Expenses	Employee Salaries, Overtime, Leave Liabilities, Staff Training etc	Direct Cost	1,242,230	1,084,875
Total			**1,242,230**	**1,084,875**

Fee For Service				
			2008-2009	**2009-2010**
Employee Expenses	Employee Salaries, Overtime, Leave Liabilities, Staff Training etc	Direct Cost	561,918	286,423
Supplier Expenses	Property costs, Vehicle costs, Technical and Field, Travel	Direct Cost	113,508	69,391
Other	Information Technology costs, Overhead costs, Governance costs. Corporate costs	Indirect costs attributed on FTE's	792,349	1,118,569
Total			**1,467,775**	**1,474,384**

Other Activities				
			2008-2009	**2009-2010**
Employee Expenses	Employee Salaries, Overtime, Leave Liabilities, Staff Training etc	Direct Cost	820,697	486,518
Supplier Expenses	Property costs, Consultant costs, Contractor Costs, Vehicle costs, Technical and Field, Travel	Direct Cost	294,745	228,950
Other	Information Technology costs, Overhead costs, Governance costs. Corporate costs	Indirect costs attributed on FTE's	1,065,715	324,915
Total			**2,181,157**	**1,040,382**

3.4 Outline of Charging Structure

The proposed changes to the Program's fees and charges continue to be structured to align closely to the actual cost of providing the service.
The categories of fees and charges affected are:

a) Pratique of Vessels >25m (increased rate);
b) Documentary Clearance (A new fee);
c) Pratique of Vessels <25m (increased rate);
d) Overtime (some categories removed and increased rates);
e) Fee for Service half hourly and quarterly fee (increased rates);
f) Daily rate (increased rate);
g) Weekly rate (rate to be removed);

a) Pratique of Vessels > 25m

Increase of existing fee of $920 to $1050 per vessel. This equates to a 14 percent increase. The increase is due to increases related to:

- at least a 4.1 percent increase due to the Department's new Certified Agreement;
- normal CPI increases in other costs

Notwithstanding the predicted 20% reduction in vessel numbers in 2009-10, there is still a requirement to maintain sufficient program capacity to return to normal activity once the economic crises has passed, and to realise long term efficiencies and savings.

Also, work pressures over recent years, due to increases in international vessel arrivals, has meant that some activities were given a lower priority, compared to the number one priority to clear incoming vessels. These activities will now be returned to their previous priority levels:

- costs associated with increased wharf surveillance and vessel waste management;
- the cost of performing additional 2nd port inspections; and
- additional time required for the management of quarantine risks etc, by operational field resources.

Where a vessel is cleared and inspected at first port of call, a minimum charge is payable, which includes granting pratique, full vessel inspection, ballast water verification, documentation and the first two hours of inspection. Should the inspection time exceed two hours, additional time shall be charged at the quarter hour rate. The following table breaks down the activities that comprise a Pratique inspection for vessels > 25 m.

The table below details effort against activity.

Commercial Vessel Clearance (2009/10)	Effort Time/Min	Fee
Documentation	30	-
Inspection including Ballast Water	120	-
Return travel to vessel berth	60	-
TOTAL	**3hours 30min**	**$1,050**

b) Documentary Clearance

Since 2001, there has been a requirement for all international vessels arriving in Australia to be subject to physical inspection by AQIS as part of the quarantine clearance process. Historically, vessel inspection failure data has clearly demonstrates a high level of quarantine compliance over an extended period of time.

The recent Review of Australia's Quarantine and Biosecurity Arrangements (the review) recommended that "the balance and level of biosecurity resources across the continuum should be determined by a consistent analysis of risks and returns across programs".

The Governments response to the review acknowledged that "to better allocate resources to the areas of highest risk, the Australian Government supports the proposal to move to a risk-return approach for managing biosecurity and quarantine instead of the mandated intervention targets that have existed for several years".

It is predicted that approximately 1,542 vessels > 25m (15 percent of the 10,278 commercial vessels predicted to visit Australia in 2009-10) may be eligible for a documentary clearance. Using the figure of 15 percent allows for a progressive introduction of risk based documentation clearances from a zero, or low level, base on 1 July 2009 to a possible 30 percent rate by 30 June 2010. The documentation clearance is estimated to take approximately 1 hour per vessel (and will include ballast water record verification which would normally have been undertaken on board the vessel).

During the initial introduction of the documentary clearance process a high level of verification of the process will be undertaken - initially, approximately 40 percent of vessels being granted a documentary clearance will then be physically inspected. There will be no additional charge made for the subsequent physical inspection unless it is found that the vessel made false declarations, or that the vessel has broken a condition of their documentary quarantine clearance, then the vessel will be subject to any related additional fee for service charges.

The cost of providing the Documentary clearance was calculated at around $890, however it is fully expected that the 40 percent verification regime will reduce over time to around 10 percent, matching the 'normal' physical vessel reinspection regime figure. The new rate, based on a 10 percent regime was calculated to be around $800. The difference ($250) between the documentary fee ($800) and normal clearance fees ($1,050) also accurately reflects the saving of 2hours 30 minutes in additional labour and vehicle hire costs required to carry out a physical inspection at the wharf. The new fee for a documentary inspection will be $800.

If physical inspections of documentary clearances show a unacceptable number of failures (and hence increasing costs), then Seaports will immediately consider limiting the availability of documentary clearances until the problems are resolved, so that the new documentation scheme does not end up being unfairly subsidised by the normal Physical Inspection scheme.

The table below details effort against activity.

Commercial Vessel Documentary Clearance (2009/10)	Effort Time/Min	Fee
Documentation (including Ballast Water)	60	-
TOTAL	**1 hour**	**$800**

c) Pratique of Vessels <25m (essentially Yachts)

The yacht inspection allows for 1 hour inspection and ½ hour documentation. As the entire hour allocated for the Yacht Pratique is not all undertaken on site, the continuation of a separate charge in the Determination is recommended. This will provide our yachting clients with a consistent fee and also allow the Program to be able to monitor and report on yacht arrivals and compliance through its Vessel Monitoring System. To more closely align the fee with the cost of providing the service the fee needs to be increased from $240 to a $330, the increase equates to 37 percent.

Where a yacht is cleared and inspected at first port of call, a minimum charge is payable, which includes granting the clearance and the first hour and a half of inspection. Should inspection time exceed one and a half hours additional time shall be charged at the quarter hour rate.

The table below details effort against activity.

Yacht Clearance (2009/10)	Effort Time/Min	Fee
Inspection	60	-
Administration	30	-
TOTAL	**1hour 30min**	**$330**

d) Overtime

AICCC requested the Seaports and Import Clearance Programs to review their Overtime and Fee for Service charges with the aim of aligning the fees across both programs to reduce disparities and the resultant confusion which is being experienced by Industry. Also the Beale Review recommended a review and consolidation of the number of individual fees charged by AQIS.

Seaports and Import Clearance carried out a review and with the agreement of AICCC are proposing a reduction in the number of Overtime fees that can be charged across both programs from 8 down to 4. The revised rates proposed are 2 for weekdays and 2 for weekends/public holidays. The respective rates calculated were $16 and $24 per quarter hour non-continuous rate ($192 and $288 for the non continuous 3 hour rate).

Overall, the rates have increased slightly, but this is due to the Department's Certified Agreement process and the resultant 4 percent increase in staff remuneration.

Fees	Current Fee	New Fees
Overtime		
SQSO1 - Overtime - Time and ½ - continuous	15.00	To be deleted
SQSO2 - Overtime - Time and ½ - non cont	135.00	To be deleted
SQSO3 - Overtime - Double time - continuous	20.00	To be deleted
SQSO4 - Overtime - Double time - non cont	140.00	To be deleted
SQSO5 - Overtime - Double time and ½ - cont	23.00	To be deleted
SQSO6 - Overtime - Double time and ½ - non-cont	176.00	To be deleted
SQS07 - Public Holiday - continuous - after 3 hours	25.00	To be deleted
SQS08 - Public Holiday - non-continuous	200.00	To be deleted
SQSN - Overnight Costs	150.00	150.00
SQSO9 - Overtime weekday - continuous		16.00
SQSO10 - Overtime weekday – non continuous		192.00
SQSO11 - Overtime weekend / Public Holiday - continuous		24.00
SQSO12 – Overtime weekend / Public Holiday – non continuous		288.00

e) Fee for service ½ hourly rate - from $80 to $90

The increase equates to 12.5 percent.

- This increase is based on increased costs associated with administration, regional accommodation and travel costs and employee remuneration (at least a 4.1 percent increase due Certified Agreement)

Fee for service ¼ hourly rate - from $40 to $45 per ¼ hour

The increase equates to 12.5 percent.

- This is in line with the ½ hourly increase.

f) Daily rate

It is proposed to increase the Daily fee for service rate from $714 to $900. This increase is commensurate with the proposed increase in the half-hour fee-for-service rate and reflects the cost of providing these services.

The $900 Daily rate covers 5 hours of work at the $45/quarter Fee For Service hour rate, this gives a possible saving of up to $270 (based on the standard 8 hour day) for the client.

g) Weekly rate

Due to there being only 4 instances of this charge being used in the Seaports Program in 2007-08 and to consolidate the number of fees charged by AQIS (as recommended in the Beale Review), it is proposed to delete this fee. The Daily Rate (see above) can be applied in lieu of the weekly rate.

The Seaports Program processed approximately 173,000 disembarking and 266,000 'day-trip' passengers from Cruise Vessels in 2008-09 however from 1 July 2009 the Airports Program will be taking over this function. The disembarking passenger function is budget funded by the Australian Government and the 'day-trip' passenger function is 'Fee For Service' and recovered from the cruise vessel/company.

The functions being transferred to Airports have been taken into account in the fee review, which has been adjusted to compensate for both revenue and expenditure reductions.

Summary of Revenue and Expenditure since 2006/07:-

	2006/07	2007/08	2008/09 (predicted)	2009/10 (predicted)
Revenue	$13.394m	$14.078m	$15.533m	$14.101m
Expenditure	$13.296m	$14.476m	$16.004m	$13.829m
Difference	$0.098m (to ILA)	$-0.397m (to ILA)	$ 0.471m (to ILA)	$ 0.272m (to ILA)
ILA balance	$0.618m	$0.221m	$-0.250m	$ 0.022m
Vessel Arrivals	13,347	13,513	13,826	11,091
Change in vessel arrivals over previous year	1.7%	1.2%	2.3% (was originally budgeted to be 4%)	-19.8%

Note:- the buffering effect of the ILA account (ie. annual revenue can be 'topped up' or reduced by an amount equal to the difference between the actual expenditure and the actual revenue)

The main reasons for the revenue reduction between 2008/09 and 2009/10 are the reduction in vessel arrivals in 2009/10 predicted by Industry, and the $0.555m portion of the passenger movement charge being returned to Airports.

The main reasons for the expenditure reduction between 2008/09 and 2009/10 are the passenger clearance costs not now being undertaken by Seaports, a freeze on recruitment (already resulting in a 5% reduction in employee expenses), a reduction in overtime costs and savings that will be generated by the new documentary only clearance function.

3.5 Summary of Charging Arrangements

SCHEDULE OF FEES AND CHARGES 2009/10						
Activity	Method of Recovery	Volume of Activity	Current Price $	Cost Recovery Price $	Total Cost Recovered for Activity $	Total Cost of Activity $
Commercial Vessels *1						
- initial fee (Pratique)	**Fee for Service**	*8,736*	*920*	*1,050*	*9,172,800*	
- additional fee	**Fee for Service**	*2,184*	*40*	*45*	*98,280*	
Commercial Vessel Sub Total					***9,271,080***	***9,417,011***
Yachts						
- initial fee (Pratique)	**Fee for Service**	*813*	*240*	*330*	*268,290*	
- additional fee	**Fee for Service**	*57*	*40*	*45*	*2,565*	
Yachts Sub Total					***270,855***	***354,699***
Other activities *						
- initial fee – 1st ½ hour	**Fee for Service**	*4,675*	*80*	*90*	*420,750*	
- additional fee - 1/4 hour	**Fee for Service**	*8,780*	*40*	*45*	*395,100*	
- additional fee - day	**Fee for Service**	*103*	*714*	*900*	*92,700*	
Other activities Fee For Service Sub Total					***908,550***	***1,474,384***
Other Activities *2	**Budget funded**				***1,040,382***	***1,040,382***
Overtime Overtime weekday cont. Overtime weekday non-cont Overtime Weekend/Public Hol continuous Overtime Weekend/Public Hol non-continuous	**Fee for Service**				*30,312* *331,492* *20,237* *993,300* ***1,375,341***	*23,910* *261,482* *15,963* *783,519* ***1,084,875***
Documentary Clearance *1	**Fee for Service**	*1,542*	*0*	*800*	*1,233,600*	*457,287*
Total Revenue					***14,101,149***	
Total Expenditure						***13,828,638***
					Total Fee for service	***13,058,799***
					Total budget funded	***1,042,350***
					Total Revenue less Total Expenditure	***272,511***
					ILA Balance brought forward	***250,000***
					Total ILA Bal Surplus/ (deficit)	**22,511**

* Note 1: The Commercial Vessels and Documentary Clearance activities (above) are recorded under the same Revenue stream for over/under recovery purposes in the table on page 11.

* Note 2: Other activities include Illegal Foreign Fishing Vessels, Joint Military Exercises, Offshore Inspections & Other Govt Business, have both fee for service and budget funded components.

* Note 3: Any variances in figures in this table are due to compounding rounding errors in the information used to compile this table.

4. ONGOING MONITORING

4.1 Monitoring Mechanisms

Regular consultation with the shipping industry on cost recovery and other matters occurs through the AICCC. The AICCC is the principal advisory forum for AQIS and the cargo handling, logistics and importing industry to consult on all issues arising from the management of Australia's Import Clearance and Seaport quarantine strategy.

4.2 Stakeholder Consultation

Membership of AICCC comprises representatives from key industry sectors: - refer to 2.2 for further details.

The Seaports/AICCC Finance sub-committee reviewed the basis for the change in Seaports Program fees and was involved in the establishment of the revised fee schedule for 2009/10.

Notwithstanding Industry approaches to the Australian Government for funds from the Australian Government's Economic Stimulus Package (see page 7 of CRIS) the Seaports program must continue in order to responsibly meet the costs of the program.

Future monitoring of the, revised 2009-10 fee structure will occur through quarterly meetings of the AICCC and Seaports specific bi annual meetings of the AICCC Finance sub-committee, this provides a process for monitoring of fees charged on an on-going basis and provides valued information on the changing dynamics of the industry that needs consideration in the monitoring and evaluation of fees structure reviews.

4.3 Periodic Review

Fees and charges are reviewed on a regular basis as part of routine governance arrangements within AQIS. The financial position of the Program is reported to and discussed at all AICCC meetings as a standing agenda item and is reported monthly to the AQIS Executive.

Any change in fees and charges are underpinned by financial review. On the basis of present forecasts, a further formal fee review is planned for January - March 2010. In addition to this, the Seaports Program will continue to monitor its performance against budget on a monthly basis and report on its financial position through established Governance processes such as the AQIS Finance Sub Committee (FSC).

ILA accounts are established with the agreement of industry through the program consultative committees. Written agreement to retain funds up to 10 percent of the program's annual expenditure is obtained from industry before the creation of an ILA. This agreement is documented in the minutes of the consultative meeting.

The program should endeavour to manage the balance of such an account at between 0 percent and 10 percent of the annual expenditure for the program.

5. CERTIFICATION

I certify that this CRIS complies with the Australian Government Cost Recovery Guidelines.

Conall O'Connell

....

Chief Executive Officer
Department of Agriculture, Fisheries and Forestry

Date: ....5/6/09...............

6. COST RECOVERY LINKS

- The Australian Government Cost Recovery Guidelines and the accompanying Finance Circular can be found at;

  http://www.finance.gov.au/financial-framework/financial-management-policy-guidance/cost-recovery.html

- For proposals that involve regulation or amendment to regulation that affects business, a Regulation Impact Statement is required. Contact the Office of Best Practice Regulation for further information below

  http://www.finance.gov.au/obpr/index.html