

SENATE LEGAL AND CONSTITUTIONAL COMMITTEE
AUSTRALIAN CUSTOMS SERVICE

Senator Ludwig asked the following question at the hearing on 27 April 2006 in relation to the Customs Legislation Amendment (Border Compliance and Other Measures) Bill 2006:

Can you provide copies of the minutes of meetings in which the Accredited Client Program was discussed with the CBFCA in 2004 and 2005?

The answer to the honourable Senator's question is as follows:

During 2004 and 2005 there were three meetings convened by the Minister for Justice and Customs in which the Accredited Client Program was discussed with representatives of industry including the CBFCA. Copies of the minutes from these meetings are attached.

The Government's decision concerning the revised payment model (as contained in the current bill) was announced on 13 May 2005 as part of the 2005/06 Budget.

MINISTERIAL ROUND TABLE

1 FEBRUARY 2005

MINUTES

A list of attendees is at Attachment A.

Opening Address

The Minister for Justice and Customs, Senator The Hon Chris Ellison opened the meeting. He thanked participants for attending and of the value of the previous two roundtables. The Minister outlined the three areas that would be the focus of the discussion:

1. Exports Implementation
2. Readiness for Imports cutover
3. Other matters generally

The Minister stressed that this was an open forum and that attendees should feel free to raise any issue with him.

1. Exports implementation

The Minister outlined that feedback he had received on the cutover was positive. The number of transactions processed by the ICS demonstrated the enormity of the project and that the response times of the ICS have been met (the millionth transaction was processed on 4 January 2005).

The Minister also commented that it was interesting to see peak periods dealing with more than 6000 messages per hour, and that the Business Continuity Plan (BCP) has only been invoked twice since the cutover on 6 October 2004. There has been only one extended unplanned outage.

2. Readiness for Imports cutover

In relation to imports the Minister stated that he is very interested to see the state of readiness of industry. The Government and Customs can be ready, but that will be of no use if industry is not ready. Customs will be working to ensure software readiness and will discuss this issue in the course of this meeting.

Customs has an extensive consultation process including workshops, simulations, fact sheets, booklets and quick reference guides. Customs staff training commenced in November 2004, as did industry consultation to over 1000 participants.

Customs is working towards imports cut over by mid year.

3. Other matters generally

The Minister stated that in relation to the Accredited Client Program (ACP) the Government had difficulty in supporting the duty deferral arrangements set out in the program. The Minister is very sympathetic to industry's view on duty deferral and the impact that this has on business. He was keen to hear industry views on this issue.

The Minister called on Customs representatives to brief industry on their views on the Exports release and to outline progress on the mid-year Imports release.

A. Exports implementation

The Customs briefing covered IT aspects including:

- A statistical update
- Most messages are through electronic data interchange (EDI) - most are export declarations and Container Terminal Operators (CTO) receipt notices
- BCP had been invoked twice (one was a hardware failure)
- Response times have generally been adequate
- Customs has upgraded its mainframe and operating systems
- Missing message problem has been fixed
- A heartbeat monitoring system has been introduced
- Customs is pleased with the implementation of exports.

A number of business aspects were also covered including:

- A mixture of business process issues for both Customs and industry were identified within the first few days as requiring some change or adjustment
- Customs has already implemented system improvements that helped address those issues
- Discussions have been held with industry/companies to identify business enhancements to address those issues
- It appears this effort by both industry and Customs has addressed the main problem areas because there are few complaints now. Customs advised outstanding policy and operational issues for exports will be handled by Dane Cupit and Jim Stewart, who have been heavily involved in the rollout of exports functionality
- There remain a number of outstanding issues, in particular, issues with the shipping industry. Customs is working cooperatively with industry to resolve these issues and the exports release is going pretty well

- In terms of industry activity levels, transactions start with a small number on the weekends, build up over the week to the busiest day on Friday (particularly in the afternoon)
- The digital certificate issue caused some concerns at the start time for exports, as a number of exporters did not have their Certificates in place in time. The remedy was for those without Certificates to retain others in industry to report exports to Customs until that was no longer necessary. Customs confirmed that no-one was given any leeway to report without a Certificate
- The BCP was raised on a number of occasions during the meeting. Customs thanked industry for its efforts in the development of the document. Since exports commenced BCP has only been used a couple of times though Customs did implement alternative release mechanisms, i.e. manual clearance, for several weeks after start date for a number of large operators in industry. Customs confirmed the BCP is now under review, which will involve consultation with industry. The preparation of the BCP for imports has commenced and will continue.

The Minister then invited industry representatives for their view on **EXPORTS**.

Industry was generally positive about the Exports release. There was acknowledgement for the efforts of a wide range of Customs officers who adopted a “can do” attitude in solving problems raised by companies. While there were a few problems initially these were quickly worked out cooperatively between industry and Customs. Since 6 October 2004 a small number of other issues have come to light and these are being worked through in consultation with industry, in particularly the shippers. Customs reiterated they were giving the exports problems priority in developing solutions, however some of these issues involved company or industry business practice which must also adapt to the new environment.

Other issues were raised in a wide ranging discussion including:

- Customs confirmed that BCP for exports was under review and that industry would be consulted
- The future of the existing Service Quality Review process was raised. A paper had been sent to Customs who will reply soon
- Software developers thought that the export systems rollout went well, a marked contrast to pre-implementation experiences. There was discussion surrounding the problems that many industry clients did not have digital certificates and were therefore not ready to use ICS, however this was an issue for those industry participants as developers and industry organisations had provided more than adequate warning to industry about the digital certificate issue

- Performance of what is a much larger, more complex system than EXIT had been within target times. There was general agreement that exports component of the ICS is performing better than EXIT as evidenced by the reduction in demand for support calls on exports messages to developers.

The Minister sensed that the meeting generally had been pleased with the implementation of exports, however there was an ongoing need for industry and Customs to work cooperatively to resolve issues that remained outstanding.

The Minister asked Customs to outline progress to date on **IMPORTS**.

The following comments were made on systems related aspects of the imports version:

- Majority of system is built and available for industry testing, though there have been some additional change requests which Customs is attempting to minimise in order to provide stability in the system
- On the issue of quality of the code, developers feedback seems fairly consistent that the imports software is better than exports was at the same stage
- Customs is in discussion with software developers in regards to increasing their testing of ICS. Customs is doing its own stress and volume testing, though they remained concerned that functional and volume testing was not yet near the peaks expected. Through the ICS user representative and CBFCA, Customs was encouraging Customs broker testing as well
- The connectivity issues which made exports more complex and challenging are largely resolved, though obtaining digital certificates and ICS registration will remain a vital stage for industry to complete
- ICS Imports is more complex than COMPILE or ICS Exports so no one should underestimate the amount of effort it will take on behalf of Customs, industry and software developers to meet final deadlines
- Customs is undergoing architecture reviews of a very complex system in order to simplify some aspects if that can be achieved.

Comments on the business perspectives of imports included:

- Most work was done when the business rules were developed for the ICS so there should be no surprises from what is in the Software Developers Guide
- Software developers have asked for more clarity in respect of the business process and this is being addressed either directly in meetings with industry or on publication of written material on the Customs Website.

Customs confirmed that the process for determining the “go live” date will essentially follow that which was used for Exports.

Many in industry were interested in proposed transitional arrangements. Customs explained what is required in the *Customs Act 1901*, that the import cutover time can be up to 40 days after the ICS is turned on. Reports of imports prior to that date use COMPILE. The last date for the ICS to be made available for transition is 19 July and it can be any time before 19 July. Post Warrant Amendments will need to be done electronically during the following 40-day period before COMPILE is cut off, and after that time amendments will have to be done manually. There was discussion around amendments noting industry's concerns about significant volumes for certain parts of industry, i.e. the automotive industry. Customs stated that it would work with industry on clarifying all the issues around transition, particularly the need to minimise the amount of work for industry. It was agreed that Customs would work quickly to finalise the proposed transition process and it would then be discussed with industry.

The Law Council asked about AAT cases, paying under protest and if a decision affects these entries after cutover, how are refunds processed. Customs stated that access to the system after cut-off is available to Customs and that it will not impact the ability to pay refunds or the time to process.

Shipping Australia mentioned the issue that some of their members' software developers reside outside Australia and in some cases these developers have stopped programming for imports because some of the key elements of the business process were unclear or missing. It was agreed that the minutes of the software developers' meeting should be made available more broadly, as many of the issues being discussed in the developers forum were relevant to Roundtable members. Customs is meeting with Shipping Australia to discuss these issues further.

Customs reiterated that it was more than happy to engage at any time with any developer or industry sector if there was a perception greater clarity in business rules was necessary.

The Minister asked about the volume of imports compared to exports and Customs noted that it was 3 to 4 times the size of exports software. One developer opined that it is not just its volume but complexity, there are many different message types. There is different functionality, payments, formalities to do with Customs classification and valuation. While complexity was greater it was clear that the support and capability of the Customs import team is more responsive than what was experienced initially with exports. To address these complexities it will be important to commence cross industry testing, including scenario testing. Customs noted that there would be more business simulation exercises than was the case in Exports, rather than just testing the individual messages. The meeting noted it would be critical to the successful outcome of Imports that the change culture must extend beyond systems issues into the wide range of business process that must also change at the same time.

The Minister wanted to ensure that the timeframe for “go-live” is practical and that we are not being lulled into complacency by the relative success of Exports. Customs detailed their communication strategy including workshops, fact sheets, widespread use of the Customs website, and seminars in conjunction with industry groups. Customs and industry associations are working closely together to work through the communication processes and to encourage individual members of industry to start preparation for ICS immediately.

There was some discussion on whether the ICS system will be able to cope with the volumes of new messages, and Customs noted that while the system is scalable and that Customs estimates are conservative, Customs is confident of the outcome.

Industry noted the Thresholds issue had not yet been resolved by Government. Customs explained that the Productivity Commission’s Report was now being considered by Treasury and Department of Finance and Administration, and Customs was waiting on further comments from those agencies. The Minister agreed to follow up on this issue.

The issue of training for small to medium importers was raised particularly as many importers would be using the ICS and the current CMR sessions did not delve into enough detailed information. Customs accepted this position and outlined that the training prior to Christmas was kept at a very high level, attempting to paint the picture before Christmas about what was coming. It is the intention now of the communication strategy to provide training to non-service providers too.

ACTION: The Minister will follow up on the threshold issue.

ACTION: The Minister agreed to hold another roundtable prior to imports go-live in late April or early May.

Shipping Australia raised the 48-hour advance reporting rule and asked why Australia does not follow the USA model of 24 hour prior to loading in overseas port. Customs explained there is further work being done on this issue but that there were two initial problems. The first was that Customs legislation does not provide for a report in advance of loading, and the second matter was that the USA requires fifteen data elements for its report, but that Australia has twenty-seven data elements in its report. Both these issues were being explored further.

The Minister stressed the importance of border security.

The CBFCA asked the Minister about the banking issue with letters of credit. The Minister advised he wrote to the Australian Bankers Association on 24 June 2004 on delays experienced by importers with financing. The Association wrote back to the Minister on 20 August 2004, but the issue is unresolved. The Minister advised that he would follow this up.

Accredited Client Program (ACP)

The Minister mentioned that Treasury did not support duty deferral because of the financial impact on the Budget bottom line, though both Customs and the Minister were still persevering in discussing the issue with Treasury. Customs advised that some options had been put to industry very recently in an effort to gauge industry sentiment to ACP without the duty referral provision. Industry had responded that ACP would not progress without duty deferral. Industry also said they would not participate if payment was on the first day of the month. They may participate if payment were to occur mid-month. Data would be required on the seventh day for statistical purposes.

The Minister opened the discussion.

It was noted that ACP has been held out to industry for quite some time and that some in industry had invested as a result. There was sentiment within industry that in addition to duty deferral, Treasury should be considering compensating people who invested money in a proposed scheme that was no longer likely to proceed. Customs noted this point.

Several industry representatives reiterated that there could not be an ACP without duty deferral. There are no other benefits that make the scheme worthwhile. The point was made that the importing process is not simple, involving many transactions and bureaucracy. For low risk importers, the ACP was designed to remove this inefficiency. In relation to security, there is a requirement that ACP members provide better, more accurate and timely data. The benefits flowing from the security aspects of the program would be of tremendous benefit to the Government, yet the decision on duty deferral would preclude that eventuality.

There was some discussion about ACP and the automotive industry, particularly in light of existing arrangements for that sector utilising licensed warehouses and depots.

Other issues

The Minister asked if there were any issues with the Infringement Notice Guidelines, and noted after discussion that it is important that Customs keep the guidelines up to date. The Law Council asked whether when imports legislation commenced, will all the legislation come on line, for example,

refunds fee, and the amendment to Section 165. Customs agreed to provide additional advice on this issue.

Customs will write to the Law Council on the detail.

The Minister noted that there being no other issues he again thanked participants for attending. The next meeting of the Roundtable will be end of April or early May.

Meeting Closed 15:28

ATTACHMENT A

Minister's Office

Mr Chris Ellison - Minister for Justice and Customs
Mr Michael Barrett - Senior Advisor to the Minister
Mr Brad Burke - Media Advisor to the Minister

Customs

Lionel Woodward - Chief Executive Officer
Phil Burns - National Director Cargo & Trade
Murray Harrison - Chief Information Officer
Jeff Buckpitt - National Manager Compliance
Matthew Corkhill - National Manager Cargo Systems
Mark Debeljakovic - Imports team leader
Dennis Murphy - Secretariat

Industry

Shipping Australia - Mr Alan Brundish
Customs Brokers and Forwarders Council of Australia (CBFCA) - Mr Bob Gosling
Australian Chamber of Commerce and Industry (ACCI) - Mr John Collins
Australian Federation of International Forwarders (AFIF) - Mr Paul Angel
Conference of Asia Pacific Express Couriers (CAPEC) - Mr Chris Charlton
Australian Air Transport Association - Mr Trevor Long
Australian Exporters and Importers Association (AEIA) - Mr Tom Curtis
Eagle Datamation International Pty Ltd - Mr Richard White
Tradegate - Mr Brian Farquhar
Patrick Corporation Limited - Ms Ruth Thompson
P&O Ports ANZ - Mr Matthew Carley
ICS User Representative - Mr Grant Allison-Young
PricewaterhouseCoopers - Mr Ross Thorpe
Law Council of Australia - Mr Louis Gross
KPMG - Mr Stephen Frost
Patrick Terminals - Ms Mary Jo Huin
AAPT - Ms Jenny Wood
International Air Couriers Association – Mr Geoff Clark
Federal Chamber of Automotive Industries (FCAI) – Ms Chris Baulch



Australian Government
Australian Customs Service

MINISTERIAL ROUNDTABLE ON CMR

Stamford Hotel, Sydney

1 June 2004

Attendees:

<i>ORGANISATION</i>	<i>REPRESENTATIVE ATTENDING</i>
Australian Air Transport Association	Mr Trevor Long
Australian Chamber of Commerce and Industry (ACCI)	Mr John Collins Past President
Australian Exporters and Importers Association (AEIA)	Mr Tom Curtis President
Australian Federation of International Forwarders (AFIF)	Mr Peter MacNamara Chairman
Conference of Asia Pacific Express Couriers (CAPEC)	Mr Chris Charlton Secretary
Customs Brokers and Forwarders Council of Australia (CBFCA)	Mr Bob Gosling Chairman
Eagle Datamation International Pty Ltd	Mr Richard White CEO
Federal Chamber of Automotive Industries (FCAI)	Mr Frank Adamo Manager, Customs and Logistics
ICS User Representative	Mr Grant Allison-Young
Law Council of Australia	Mr John Law
Patrick Corporation Limited	Ms Mary Jo Huin IT Stevedoring Systems Manager

P&O Ports ANZ	Mr Chris Vicary
PricewaterhouseCoopers	Mr Ross Thorpe Partner – Indirect tax
Shipping Australia	Mr Alan Brundish
Tradegate	Mr Brian Farquhar General Manager
Trident Technologies Pty Ltd	Mr Carman Rossi Director

Ministerial representation

Minister for Justice and Customs	Senator The Hon. Christopher Ellison
Customs adviser	Mr Michael Barrett
Departmental Liaison Officer	Mr Paul Benussi

Customs representation

Chief Executive Officer	Mr Lionel Woodward
Chief Information Officer	Mr Murray Harrison
National Director, Office of Business Systems	Ms Jenny Peachey
National Manager, CMR Transition	Mr Matthew Corkhill
Secretariat	Mr Dennis Murphy

Apologies – Mr Stephen Frost, KPMG.
Mr Mike Potter, Council of Small Business
Organisations

Opening Address:

The Minister for Justice and Customs, Senator The Hon. Christopher Ellison opened the meeting. He thanked the participants and commented on the value of the last forum. The Minister then outlined the status of the Exports and Imports releases of the ICS making reference to cut over, training, Business Continuity Planning and costs.

CMR Exports:

Industry representatives were supportive of Customs decision to announce the cutover date for exports of 6 October 2004. Industry expressed the opinion that setting the date for cutover had the result of creating momentum within both industry and Customs to plan and prepare for cutover.

System Readiness

The Minister sought participants' views on the readiness of the exports system and on Customs management of the development. Software developers commented that they had seen a marked improvement in the software, in performance of the system and in incident resolution. They agreed that given the improvements it was appropriate to set a cutover date. One developer indicated that they were seeking resolution of a specific incident, which Customs will follow up.

Customs CIO provided an update on resolution of outstanding functional and performance incidents indicating that the majority had been resolved with the remainder on track for resolution as scheduled. He supported software developers' comments that while good progress is being made, transition to complex new systems is never easy.

Concern was raised in regard to the timely availability of final AQIS specifications.

ACTION: Customs CIO to follow up with Patrick Stevedoring on an outstanding incident.

ACTION: Customs to follow up the AQIS specification and advise developers of status.

Industry Preparedness

Some Industry representatives raised their concern over the preparedness of their own members for the Exports release. It was felt that the past slippage in the exports release timetable had led to a general feeling of disbelief in the current release date. It was also reported that many Exporters are likely to utilise the services of forwarders and brokers if they have left cutover preparation too late.

QANTAS indicated that their readiness will depend to some extent on Customs ability to meet their obligations in relation to disaster recovery and any other ACS changes such as the CTO receipt message timing requirements. Customs CIO outlined Customs Disaster Recovery Plan as he expected it to work but also undertook to validate his understanding.

PricewaterhouseCoopers commented on the difficulty in engaging company CFOs in the CMR process and observed that while Customs had widely advertised requirements for exports cutover, this has not been successful in grabbing the attention of CFOs. AFIF and Shipping Australia each indicated that their members were ready and they would continue to communicate with them in the lead up to cutover.

General discussion followed on the Customs communication/marketing strategy with the Minister drawing parallels with the GST experience.

ND OBS outlined the range of approaches utilised by Customs to prepare industry for exports cutover and it was agreed details of Customs communication strategy would be made available to participants.

**ACTION: Customs to circulate its Communication Strategy for exports;
ACS to confirm that its DR plan will not require any unperceived changes to CTOs systems.**

Import Release Date

The Minister asked Customs to give a progress update on the Imports release. Customs indicated that Imports is in User Acceptance Testing. Customs noted that several lessons have been learned from the Exports experience. As a result the testing has been rigorous and should result in more confidence in the integrated product (ICS and CCF).

Industry representatives made the point that they will need as much time as possible to be ready for Imports Release. It was considered that until Industry (software developers in particular) had been exposed to the imports system an opinion on an appropriate roll-out date was premature.

A number of issues were raised during general discussion including the difficulty in educating overseas entities about cargo reporting requirements in Australia, the role of the banking industry in contributing to delays in the provision of import documentation, help desk availability and the infringement notice scheme.

The Minister indicated his willingness to approach banking industry representatives with concerns over delays.

The Minister indicated that it may be beneficial to hold another meeting towards the end of the year to discuss plans for the imports release.

ACTION: Minister to correspond with banking industry over delays to import documentation.

Issue: Accredited Client Program.

The Minister outlined the current position and referred to a letter written by Shane Davie, Director Compliance Operations which was sent to all business partners on 21 May 2004. The Minister outlined his commitment to duty deferral and noted that the issue will be addressed in the review of Customs finances that is currently underway.

Discussion followed on the ACP with several points being raised:

- Software developers will have difficulty justifying expenditure in development of ACP messages if there is a small client base;
- Duty deferral is seen as the enabling mechanism for the ACP;
- ACP will allow more time to ensure accuracy of data and aggregation of data for those participating in the program; and
- Inclusion of service providers and industry associations with a view to bringing SMEs into scheme.

Closing Remarks: Minister

The Minister thanked the participants for their attendance and suggested another meeting be arranged closer to the Exports cutover date, if possible.

Meeting Closed: 4:35pm



Australian Government
Australian Customs Service

MINISTERIAL ROUNDTABLE ON CMR

Customs notes from the meeting held 28 January 2004

Industry representation

Australian Air Transport Association

Australian Chamber of Commerce and Industry (ACCI)

Australian Exporters and Importers Association (AEIA)

Australian Federation of International Forwarders (AFIF)

Conference of Asia Pacific Express Couriers (CAPEC)

Council of Small Business Organisations

Customs Brokers and Forwarders Council of Australia (CBFCA)

Eagle Datamation International Pty Ltd

Federal Chamber of Automotive Industries (FCAI)

ICS User Representative

International Air Couriers Association of Australia

KPMG

P&O Ports ANZ

Patrick Corporation Limited

PricewaterhouseCoopers

Shipping Australia

Tradegate ECA

Trident Technologies Pty Ltd

Ministerial representation

Minister for Justice and Customs

Customs adviser

Media adviser

Customs representation

Chief Executive Officer

Chief Information Officer

National Director, Office of Business Systems

National Manager, CMR Transition

Opening remarks: The Minister for Justice and Customs Senator Ellison acknowledged that problems have been experienced with the IT side of the CMR project to date, but that this was inevitable in endeavours of this size. The Minister emphasised that he was here primarily to listen to industry's concerns.

1 Accredited Client Program

Concerns were raised in relation to the program and its ability to deliver the three main benefits to industry that were initially envisaged. In particular discussions focussed on:

- Duty deferral (querying whether and when this would be approved - Customs is pursuing the issue vigorously with Treasury);
- Cost recovery (noting that there needed to be real incentives in this area if would-be participants are to be encouraged to invest in the self-regulation and compliance improvement processes inherent in the scheme); and
- Underbond movements (exclusion of service providers, and parties who had responsibility for underbond movements gave no consideration to their compliance record, the nature or revenue risk of the commodity being traded.)

2 Cargo Reporting

Various participants felt that Customs needed to better understand that discharge of containers from already generally congested ports is likely to be impeded by proposed underbond and cascade reporting requirements. It was felt that the inability of CTOs to be able to use the electronic reporting system to alert shippers/carriers that goods do not have 'Do Not Load' status is a problem. This has particular impact on LCL cargo as one non-reporter can effectively stop the flow for a whole container.

The Minister noted that while pushing the requirement for speedy flow of cargo, it had to be recognised that any concessions need to be considered in the context of the new security environment and the possibility of new international security standards.

3 PKI

Customs CIO advised that, from Customs perspective, no other currently available technologies meet Customs business needs for non-repudiation and security. With use, PKI becomes ubiquitous and simple, but more educational information about low cost installation and certificate requirements may be necessary.

Even if PKI is adopted, and is required for all online transactions, those organisations who expect to have many members logging on to Customs systems for status checking only queried whether a solution could be found that would not require certificates for that purpose. Alternative possibilities were canvassed of an EDI message that allowed for status checking, or for status information to be "pushed" by Customs not "pulled" by reporters. Customs felt that if such enhancements were possible it was only likely to be as a feature for a later ICS release.

4 Training

There was a call for Customs to provide refresher training for exports, though at the same time participants were concerned at the additional cost that will be incurred by industry for repeat training. Some participants felt that it was a matter for industry itself to 'think smarter' about the way that it approached training internally, and that traditional face-to-face training was probably not a luxury that should be counted on. Customs indicated that it had already made a commitment to refresher training, but that it was also making all training material, including interactive products, available electronically. There was a suggestion that an industry training steering committee be set up.

5 Rollout Strategy – Exports & Imports

Customs new approach to exports system rollout was welcomed, and it was widely acknowledged that system reliability was a fundamental requirement. It was also acknowledged, however, that the lack of a firm date for cutover made it difficult for resource planning. All agreed that it was not in anyone's interests for the new systems not to work and there was acceptance of the clear need to replace the legacy systems as identified by Customs CEO.

A very significant issue associated with not fixing an exports cutover date was the resulting impact on imports rollout. Government and Customs are pushing for as soon as appropriate and not looking to utilise the full 12 month contingency allowed by the recent passage of an amendment to the legislation. The Minister acknowledged that Christmas was not a good time, but at the same time did not want things to come to a complete standstill, which was a risk if five out of twelve months of the year had to be excluded.

6 Import Threshold – impact on SMEs

Representatives asked for an early decision to be made on import thresholds, that is on the alignment of postal and general thresholds for reporting purposes.

7 Cost Recovery

The cost recovery model came under discussion with a view raised that the range of prices in the existing legislation could give rise to significant increases. Customs response was that the fundamentals of the model have not been changed, however they have been complicated by the IQI and Container Examination levies.

8 The IT Application

Software developers were critical of the IT system, especially Version 2 and based on their experience with V2 are sceptical about the quality of the systems being built, including Customs management of vendor quality control. Developers conceded that their comments reflect the problems experienced with early export testing, as acknowledged by Customs, and that they have not yet examined the new Version 3 release that addresses many of the incidents raised in V2. However concern was expressed about the possibility that deeper-level testing of the new version may throw up new severe incidents that will need to be rectified.

While it was also acknowledged that the software developers guide (SDG) that had been produced by Customs for CMR purposes was one of the best of its kind in relation to a Customs systems development, even internationally, the problem for developers was that their practical experience of the systems did not match what the SDG had led them to expect. Developers in particular wanted to make clear that the anticipated 3 months for rollout after the point of systems reliability was reached was a minimum (one key player consistently requests up to 6 months), and that if there are major upgrades the 3 months effectively needs to start again.

Closing Remarks: The Minister flagged his willingness to host another roundtable with this industry group at an appropriate time in the future and left it to the group to confirm a desire to meet with Customs or his office.

SENATE LEGAL AND CONSTITUTIONAL COMMITTEE
AUSTRALIAN CUSTOMS SERVICE

Senator Ludwig asked the following question at the hearing on 27 April 2006 in relation to the Customs Legislation Amendment (Border Compliance and Other Measures) Bill 2006:

How will the Accredited Client Program (ACP) enhance security? Can you detail these areas and is it measurable? If so, can you say what enhanced security will result as part of the ACP?

The answer to the honourable Senator's question is as follows:

Under accreditation standard 6 of the ACP Business Rules, it is proposed that applicant companies will be required to conduct a self-assessment against Customs-determined security criteria. This set of security requirements will mirror the requirements of the WCO Framework. Accredited Clients will need to demonstrate that the systems and processes in place mitigate identified risk areas.

The self-assessment undertaken by the Accredited Client will form the basis of a comprehensive security plan that will be assessed and verified by Customs prior to accreditation status being approved. Unless the applicant can satisfy Customs that required security measures are in place, the applicant will not be given status as an accredited client.

The security plan developed by the applicant under accreditation standard 6 will address the following security issues:

- Physical security arrangements in place for buildings and perimeters;
- Access controls to the applicants premises;
- Protection of data and records through IT security controls;
- Personnel security arrangements;
- Cargo and container integrity; and
- Employee training and education.

Companies will need to submit a yearly statement of compliance covering all aspects of the ACP including supply chain security criteria and Customs will validate the security plans at predetermined intervals. Validation will involve site visits and examinations of the Accredited Clients systems and procedures.

Enhancements to security will vary depending on the level of security controls already in place for respective applicants.

Improvements in security do not lend themselves to quantitative measurement. A reasonable indicator is to look at security standards within the trading industry. However, it is impossible to know to what extent most of the improvements are specifically attributable to the introduction of specific programs such as the Accredited Client Program as distinct from other more general security related pressures (eg insurance premiums, new technologies, expectations of clients, etc).

The areas where security improvements are most likely as a result of the Accredited Client Program are those that are most specific to cargo ie cargo and container integrity, education and training of staff with respect to security, provision of additional intelligence to Customs and greater pressures on overseas suppliers to adopt similar security standards.

SENATE LEGAL AND CONSTITUTIONAL COMMITTEE
AUSTRALIAN CUSTOMS SERVICE

Senator Ludwig asked the following question at the hearing on 27 April 2006 in relation to the Customs Legislation Amendment (Border Compliance and Other Measures) Bill 2006:

Was there a cost benefit analysis of participation in the scheme generally?

The answer to the honourable Senator's question is as follows:

PriceWaterhouseCoopers was engaged by Customs to undertake a cost benefit analysis of Cargo Management Re-engineering in 1999. The report models savings for a range of clients, some of these being accredited clients. The accredited client payment model used in the report was based on full monthly deferral – an arrangement that is no longer intended. A copy of the report is attached.

Australian Customs Service

**Cost Benefit Analysis of Cargo
Management Re-Engineering**

October 1999

Executive summary

Introduction

We have now completed our second series of visits to industry clients of the Australian Customs Service (ACS). This report details our findings from our work and should be read in conjunction with our interim report issued to the Industry Reference Group on 7 September 1999.

Findings

Overall, most industry sectors expected cost savings and non-quantifiable benefits upon implementation of the Cargo Management Re-engineering (CMR) model. The impact on the individual clients is identified in the table below:

<i>Client</i>	<i>Communication cost savings per annum</i>	<i>Impact of Business Model</i>	<i>Cost Recovery savings (\$)</i>
Importer 1	41,240 – 43,240	Cost neutral	225,000 to 450,000
Importer 2	up to 52,841	34% reduction in operating costs if became partner	Partner: 420,000 Non partner: 12,000
Importer 3	5,000 – 7,000	Some streamlining of business processes	50,000 –60,000
Express carrier	up to 80,000	Dependant on self assessment process for screen free entries. Reporting of outturns could increase costs	65,000
Customs broker	There may be an adverse impact on the broker as in future they would bear all costs. This will be a matter for commercial negotiation	Depend on client business	not applicable
- client 1		31% reduction in sea freight and 50% of air freight processing costs	not applicable
- client 2		50% reduction in sea freight processing costs	not applicable
- client 3		25% reduction in sea freight and 9% of air freight processing costs	not applicable
Freight forwarder	42,980	50% reduction in costs of processing COMPILE entries Self assessment of screen frees entries could increase costs	not applicable
Stevedores	205,000	Cost neutral subject to resolution of reporting of outturns	not applicable
Shipping line	21,274	Did not take part in second stage of analysis	not applicable
Exporter	Did not take part in second stage of analysis		

Successful implementation of CMR will require:

- alignment of the dates for periodic submission of ACS information and duty and the deferment of GST
- identification of the level of detail required by AQIS on the request for cargo release (RCR) form. If this is at the level of tariff classification for all entries then this will remove the benefit of using this method to clear goods
- consideration of the requirement that freight handlers provide an outturn report when the cargo matches the manifest
- resolution of reporting issues for the electronic reporting of outturns regarding non-container discharges
- clarification of the way cargo reporters and / or their brokers will self-assess screen free items

Non-quantifiable benefits

Industry clients also identified a number of benefits which could not be quantified at this stage of development of the CMR business model. These include:

- reduced physical handling costs
- improved delivery cycle and transit times
- reduced inventory holding
- improved cash flow

Conclusion

Overall, our discussions with industry clients indicate that the impact of CMR on their business operations will be favourable. Most companies visited agreed with the principles of CMR and identified where improvements could be made. This is however subject to a number of refinements being made to the business model.

Service providers indicated that the greatest benefit will be gained by those companies which become accredited clients. The impact on small to medium enterprise is likely to be marginal.

As the table above indicates there are quantifiable communication cost savings. Whilst the impact on an individual company is marginal, industry wide this could be substantial. The revised cost recovery regime will also lead to significant cost savings for those companies which become accredited clients.

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Introduction

Background

At the Industry Reference Group (IRG) meeting of 16 March 1999, it was decided that a cost / benefit analysis should be undertaken of the Cargo Management Re-engineering (CMR) project. This analysis was to be from the perspective of industry users of ACS.

We have undertaken this analysis in two stages. We issued our progress report on the feedback from our first stage for the IRG meeting on 7 September 1999. This report details our findings following the completion of our work. Our work assesses the cost impact of implementation of CMR and is therefore not a cost benefit analysis in the traditional sense. It does not assess different options as it assumes the implementation of CMR will take place.

Work to date

Most of the nominated industry clients of ACS took part in both stages of the cost / benefit analysis. However, there were two clients who did not take part in the second stage. These were:

- a representative of exporters who did not have the internal resources to devote to the analysis of current baseline costs
- a representative of the shipping industry who felt that it was not appropriate to undertake a cost / benefit analysis when there were still areas of debate within the business model

This report is structured under the following headings:

- Communication costs. This section identifies potential messaging cost savings available via the new Customs Entry Point and new communication options
- Business model. This section identifies the perceived cost savings and benefits on a case by case basis. Clients visited have been kept anonymous to preserve the confidentiality of the information supplied
- Cost recovery. This section considers the current draft cost recovery model and the impact on charges to industry

Communication Costs

Background

Currently, all electronic communication between industry clients and the ACS is routed through the Tradegate switching hub. Tradegate in turn contract with AT&T, GEIS and Telstra for supply.

The costs incurred by clients to communicate with the ACS in this way are:

- COMPILE / EDIFICE / interim EDIFICE transactions; there is a user charge of \$2.65 per N10 and N30. When the Customs Entry Point (CEP) is fully operational, all transmission and connection costs will be borne directly by clients. There will be no billing service provided by ACS in respect of clients who wish to connect through a Communication Service Provider
- Air Cargo Automation and Sea Cargo Automation, EXIT 1 and EXIT 2; messages exchanged on these systems are in a variety of standard and proprietary EDI formats. The exchange of messages incurs dial up costs to access the networks and a unit cost per kilobyte

Following implementation of the CMR model, ACS will maintain the maximum flexibility of choice for parties. The potential options for communication in the future will therefore be:

- direct connect, either through a leased line or through the internet
- continuing provision of information through a Communication Service Provider
- internet windows based facilities

Preferred connection options and potential cost impact

The preferred connection options and potential cost impact identified by industry client sectors is summarised below.

Importers

The ultimate importer of items will see the benefit in reduced communication costs through reduced brokerage fees or direct savings if broking and freight forwarding is undertaken internally. For the three end users we visited, the \$2.65 Tradegate user charge will not be paid in the future. The magnitude of savings made will depend on how the importer's business is structured. If they use a broker, then the communication cost saving will be a matter for commercial discussion. Where the brokerage function is in-house,

the cost of setting up a direct link or dialling into ACS commercial systems will need to be identified. This is currently estimated to be in the range of \$3,000 to \$5,000 per annum however, all communications with ACS can then be undertaken through this link.

Whilst communication costs are not a major element of the costs of complying with ACS, there is likely to be an order of magnitude saving in this area. The table below identifies the current communication costs and an estimate of the connection costs in the future.

<i>Importer</i>	<i>No of N10s and N30s per annum</i>	<i>Current user cost per annum(\$)</i>	<i>Dial up costs per annum (\$)</i>	<i>Potential Saving per annum (\$)</i>
1	17,449	46,240	3,000 – 5,000	43,240 – 41,240
2	19,940	52,841	borne by broker	up to 52,841
3	3,806	10,000	3,000 – 5,000	5,000 – 7,000

Express Carrier

The express carrier is a high volume user of ACS systems and is therefore likely to require a direct link into ACS. This would be through some form of internet connection or provision of a direct ISDN link into ACS. Currently the approximate level of communication costs incurred by the carrier are:

	Cost per annum (\$)
EDI costs for ACA	30,000
EDI costs for EXIT	60,000
total	90,000

The approximate costs of a direct ISDN link are likely to be in the region of \$6,000 to \$10,000 per annum. Potential communication cost savings for this carrier are therefore \$80,000 per annum. This would require some initial investment by the client for developing new networks and potentially upgrading the current PCs. This cannot be quantified until the precise requirements of the CEP are known.

Customs Broker

As discussed in the section relating to importers above, it is likely that high volume users such as brokers will wish to have their own direct link into the ACS system. This broker had invested in providing their own direct link into ACS. They are therefore currently not paying any communication costs as the \$2.65 Tradegate user charge is simply passed onto the client. Whilst there will be an overall saving to the user community, the level of communication cost passed on by the broker in the future will be a matter for commercial discussion.

Freight Forwarder

As with the express carrier, the freight forwarder is a high volume user of ACS systems and is therefore likely to require a direct link into ACS. This would be through some form of internet connection or provision of a direct ISDN link into ACS. Currently the annual communication costs incurred by the forwarder are:

	Cost per annum (\$)
EDI costs for ACA, SCA and EXIT	42,600
Telstra call and rental charges	10,380
total	52,980

The approximate costs of a direct ISDN link are likely to be in the region of \$6,000 to \$10,000 per annum. Potential communication cost savings for this forwarder are \$42,980 per annum. This would require some initial investment by the client for developing new networks and potentially upgrading the current PCs. This cannot be quantified until the precise requirements of the CEP are known.

Stevedores

Stevedores are high volume users of the SCA system. Currently they dial up to AT&T and transmit the EDI message at approximately \$0.47 / kb. Both stevedores we visited wanted to connect directly to ACS through a dedicated ISDN line. Potential cost savings which would accrue are detailed below. As discussed above, the estimated costs of an ISDN link are \$6,000 per annum. These are preliminary quantifications and cannot be accurately quantified until the ACS defines a specification for direct connect.

	(\$)
Current EDI costs for 2 stevedores	217,000
ISDN line rental costs x 2	12,000
Annual communication cost saving	205,000

Shipping Industry

As with stevedores, the shipping industry is a high volume user of SCA and therefore would like to direct connect to the ACS. Potential cost savings identified are:

	(\$)
Current EDI costs	27,274
ISDN line rental costs in future	6,000
Annual communication cost saving	21,274

Conclusion

Following implementation of the new CEP there are significant communication cost savings available by industry sector. The true level of saving cannot be identified at this stage as this will depend on the final details of the CEP.

It should also be noted that the above savings are recurring revenue savings upon implementation of the new CEP. In the transitional period, there will need to be some investment by industry to ensure the direct links and dial up facilities are in place.

3

Business Model

Background

As detailed in our interim report, industry clients had varying degrees of knowledge about their internal costs of complying with ACS and AQIS requirements. The CMR business model was also only made publicly available at the IRG meeting on 7 September 1999, so we encountered differing degrees of knowledge of its contents.

The key benefits identified related to those businesses which are accredited clients or have the opportunity to become accredited clients. This will introduce:

- the opportunity to use a two-stage process for the collection of cargo through lodging a request for cargo release (RCR) containing the minimum information necessary to identify the partner. On the first working day of the following month, the complete information must be lodged by way of a periodic declaration
- where the broking and freight forwarding are undertaken by the same organisation then the submission of a combined report will simplify the clearance process for goods

High volume users such as brokers or freight forwarders will see the benefit of periodic declarations. This will allow them to even out their workload where they move their clients to accredited client status.

For non-accredited clients the opportunity to defer payment of Customs duty will be the main benefit.

The next sections identify the views of the representative companies visited.

Detailed findings

Importer 1

This importer had participated in the pilot partnership program. Due to the complexity of their business, it was difficult for them to quantify the cost drivers behind their import processing function. Overall their view was that the cost impact would be neutral.

They recognised the benefits of utilising RCRs and identified that this should streamline their internal logistics. At this stage of development of the CMR model, they felt it would be impossible to quantify the impact of this. However, they indicated that there could be costs to their business if the dates for periodic submission of ACS information and duty and payment of GST were not aligned.

They recognised that communication cost savings would be available as indicated in the previous section.

Importer 2

This importer was keen to become an accredited client and had undertaken their own internal cost benefit analysis of movement to accredited client status. The report quantified the tangible cost benefits of providing periodic detailed ACS information and the monthly payment of all duty and taxes for the period. These changes would also allow the introduction of an in-house customs clearance package which facilitated periodic reporting and revenue collection.

Without the implementation of the in-house package, the cost benefits identified related mainly to the reduction in cost recovery charges paid (see next section) through submitting a periodic declaration.

Upon implementation of the in-house package, there would be a 34% reduction in recurring annual costs for the operation of systems to comply with ACS requirements. This reduction took account of start up costs including:

- internal and external assistance in preparation for prudential audit
- new hardware requirements
- software licence fees
- payment of staff to perform duties in-house (either in or out-sourced) rather than paying a broker on a transaction basis.

Amortising the start-up costs over a five year period identified that the payback period would be 7 months, however this takes into account the savings made through reduction in cost recovery charges.

The importer had also identified that there were other less tangible benefits that could be identified. These are:

- reduced physical handling costs
- improved delivery cycle and transit times

- reduced inventory holding costs (potentially the equivalent of 1 current day's holding)
- improved cash flow
- improved internal governance through the prudential audit process

Importer 3

This importer undertook their own broking and had participated in the pilot partnership program. The resources it devotes to the ACS clearance process were not a major element of their business and whilst it could see areas where CMR would streamline processes, they indicated that it would not lead to quantifiable cost savings in the short term.

Whilst they would be keen to use the RCR form to streamline their process to clear goods they raised concerns over the level of detail required by AQIS at this stage. If tariff classifications were required then they could identify no benefit in using the RCR format and would simply use a full entry.

Although their workload would even out through the periodic declaration process, there would still need to be the same internal reconciliation process of ACS entries to allow the correct amount of duty to be allocated to items. This is a requirement for their internal costing systems.

Express Carrier

Over 80% of this express carrier's transactions are cleared through screen free arrangements. The major proportion of its clients are also non-recurring. The development of partnership and the opportunity to provide periodic declarations and payment of duty will therefore not have a major impact on its business.

The changes to the screen free declaration will however have a major impact. The CMR business model is not yet clear as to how the cargo reporter will self-assess consignments that fall within the screen free criteria. If the self-assessment could be automated on the client's in-house systems then there could be business process improvements. However, this cannot be quantified at this stage and would be dependent on the goods being processed through the airline handlers to an agreed timeframe. The thresholds for the use of the screen free and simplified import declarations also need to be specified.

The change in requirements for outturns could increase the client's costs. The carrier operates the s77G depot where the cargo is deconsolidated. There is no information which links the outturn to the checking process unless there are exceptions or shortages as compared to the manifest. Consequently, the client sees little value in the provision of a non-exception report as it adds little to the risk identification process. It is likely the client would have to employ a further clerk and incur transmission costs to meet this requirement under current arrangements.

Customs Broker

The broker visited identified that there were business process savings. This related to reducing staff time in preparing ACS entries and in some cases allowing the automation of certain elements. However, it should be noted that in most cases the benefits accrued from those clients which would become accredited clients. This reflected the client base of this broker which focussed on blue chip clients. Whilst it is likely some benefits would accrue to smaller clients, these are likely to be marginal.

Once again the percentage of the cost saving passed onto the end client would be decided through commercial discussion. A key element of this may be freeing up senior staff time to undertake more consulting or winning more business. We assessed the cost benefits on a client by client basis.

Client 1 – Air freight

Currently the broker has to process the air freight entries for this client manually as the paperwork is not available within 2 hours of arrival of the goods. If the client moved to accredited client status, then the periodic submission would allow this clearance to be processed electronically. There would be other savings available from:

- inputting of details of goods imported. This could be transferred electronically
- the customs entry could be generated automatically
- time required for preparation of data for ACS systems would be reduced

Overall, if this client became an accredited client of the ACS there would be an approximate 50% saving in time required to process the paperwork, this is mainly due to lodging the entry electronically.

Client 1 – Sea freight

As there would be more flexibility surrounding the timing for lodgement of air freight entries then more items would go through this route. For the remaining entries submitted by sea freight, there would be the following savings:

- time to prepare, complete and check data for ACS entry would reduce as this could simply be pulled from the commercial systems
- arranging shipping company clearance and delivery would be simpler as the commercial and physical clearance systems are now on the same platform. The broker would be certain that the goods are actually cleared

Client 2 – Sea freight

The number of lines imported by this client are substantially less than client 1. There is therefore greater potential to simplify the processing arrangement for this client. Once again if this client became an accredited client of the ACSr and therefore could submit data periodically then this will allow the broker's workload to be substantially evened out. The data for the ACS entry would also be automatically generated from the in-house systems.

Overall, there is potential for a saving of approximately 50% of time and costs.

Client 3

This broker undertakes work for this client on a retainer basis. There is a greater degree of complexity with this client, therefore whilst the savings are available from the areas identified above, there is less available. Details of the percentage saving are:

<i>Freight method</i>	<i>Percentage saving</i>
Air cargo	25%
Sea cargo	9%

Freight Forwarder

The forwarder identified that the major savings under CMR would arise from processing import transactions. These relate to:

Movement of clients to partnership and use of RCR

This forwarder estimated that approximately 50% of its clients are likely to become accredited clients under CMR. The forwarder therefore identified a number of areas where they would be able to streamline their operations and reduce the time their staff spent on processing ACS entries. The time savings below relate to the reduction in the time spent on COMPILE entries. This would allow this staff time to be released to improve the client service offered. Areas of saving would be identified from:

- 50% reduction in accounts clerk time. This is due to the periodic payment of duty therefore reducing the number of payments made each month
- 50% reduction in Customs' broker time as there would only be the periodic lodgement of entries
- all sea cartage clerk time spent on COMPILE would be removed as the current time they spend is on checking the status of entries between COMPILE and the ACA systems. Once both systems are on the same platform, this requirement will be removed

Overall, this would lead to a 50% reduction in the costs of processing COMPILE entries for those companies which became accredited clients of the ACS.

Simplified Import Declaration

Whilst the forwarder could see no apparent cost savings arising from use of this declaration, they would like to retain the option to use it. This is dependant on the thresholds for its use being confirmed.

Screen free declarations

The requirement for the cargo reporter to self assess screen free transactions could potentially increase costs for this forwarder. This would however be dependant on the sanction regime introduced by ACS. If the self assessment of a screen free was a simple task and therefore could be automated then this would be cost neutral. However, if there was a requirement for a more detailed assessment of

each item, then this would incur additional, relatively senior staff time.

Import Cargo Reports

The forwarder could see no further cost savings arising from the revised cargo reporting arrangements other than those already included in preparing COMPILE entries. However, they did feel that they had a good compliance history with ACS and would like a stricter enforcement of sanctions across the board.

Stevedores

Both stevedores we visited indicated that the CMR model would have little impact on their operations other than the potential for the communication cost savings identified in the previous section. However, the business model is still being discussed and an issue has arisen regarding the reporting of outturns.

For non-container discharges, stevedores indicate that they will have problem with providing an outturn report within 48 hours of the completion of the discharge of the ship. Under current operations, a reconciliation will not be possible until completion, or near completion of delivery. This is currently being discussed between ACS Border and the stevedoring industry. If there is no change with this issue then there would be cost increases through employing a further member of staff to count items as they are discharged from the ship together with reductions in productivity as a result of disruption to cargo handling.

The industry did identify that there were some small benefits with changes to underbond movements. The electronic transmission of the movement release to the Container Terminal Operator once the cargo has been reported and risk assessed, will help stevedores forward plan rail delivery and transhipment loading.

Conclusion

Overall, our discussions with industry clients identify that the impact of CMR on their business operations will be favourable. Most companies visited agreed with the principles of CMR and identified where improvements could be made. This is however subject to a number of refinements being made to the business model. These are detailed in the case studies.

Cost Recovery

Background

As a result of CMR, new costing principles and pricing strategies are being developed and communicated to industry through a number of industry forums. The new principles and strategies aim to support an environment where there are distinguishable work processes and a range of communication options.

The service options that could be made available to clients have been categorised for the purposes of cost recovery as follows:

- Peak and Off-Peak Processing
- Interactive and Batch Processing
- Electronic and Manual Entries
- 'Simplified Entries' and 'Full Declarations'
- Transaction-based Entries and Periodic Entries

In support of these service options new costing principles have been developed that sustain an environment where there is client choice of service. The draft principles that have been applied in determining the draft pricing structure are:

- an equitable approach to recovering the cost of import processing activities by fairly charging users for their choice of service
- full cost recovery for each service provided
- simplicity in the fee structure to ensure certainty of costs for importers
- transparency in prices
- total charges do not exceed total costs

Compatible with these principles are pricing strategies that have been applied to a draft pricing structure. The pricing strategies are as follows:

- The cost of each transaction will be linked as much as possible to the user of the service
- All import processing related transactions will incur a fee. Any alterations to entries etc. will be charged an amount equivalent to the cost of processing that transaction
- Charges for documentary transactions (manual) will be imposed based on the full cost of providing that service
- Differentiated charges will be imposed for peak and off-peak processing periods
- Charges will be imposed for each line on each entry
- Overheads will be attributed according to relative shares of total import processing activity expense

- Where it is not cost effective to measure the quantity of resources used, a centrally incurred expense category will be deemed a component of overheads

Impact on industry

Cost recovery charges ultimately impact on the end importer. The main beneficiary of changes to the model would therefore be accredited clients. The table below identifies the dollar range in cost recovery charge savings following implementation of the new model. As with the previous cost recovery model, there will no cost recovery charges imposed on exporters.

It is important to note that if the proposed pricing principles and strategies are accepted by industry it would result in a significant change in the way costs are recovered from industry and the resulting end prices.

All cost recovery figures detailed in this paper have been calculated on the assumption that the above principles and strategies will be applied without change. If industry does not support some or all of the proposed changes then the figures detailed will be affected.

<i>Industry client</i>	<i>Impact</i>
Importer 1	Saving will range between \$225,000 and \$450,000
Importer 2	This will depend on the time they become a partner. Without partnership, the saving are minimal at \$12,000 but with full periodic declaration and deferment, saving may rise to \$420,000
Importer 3	Saving will range between \$50,000 to \$60,000
Express Carrier	Saving will be approximately \$65,000
Customs broker	All cost recovery charges are passed onto the end client
Freight forwarder	All cost recovery charges are passed onto the end client
Stevedores	Cost recovery charges do not impact on the stevedoring industry
Shipping industry	All cost recovery charges are passed onto the end client

Conclusion

Notwithstanding the above, the total cost pool for import processing activities will reduce as a result of CMR. These cost savings will be passed to industry through the cost recovery regime. Where savings can be directly attributed to a group of users these savings will be passed on to users by way of reduced prices.

As the table above demonstrates, the impact of the changes to cost recovery will be most apparent for accredited clients. The impact on smaller and medium sized enterprises will be marginal.

SENATE LEGAL AND CONSTITUTIONAL COMMITTEE
AUSTRALIAN CUSTOMS SERVICE

Senator Ludwig asked the following question at the hearing on 27 April 2006 in relation to the Customs Legislation Amendment (Border Compliance and Other Measures) Bill 2006:

Which provisions inserted the duty deferral mechanism as provided by the original proposal for the Accredited Client Program? What are the changes being made in this bill?

The answer to the honourable Senator's question is as follows:

Section 132AA of the *Customs Act 1901 (Customs Act)* contains the head of power that enables the payment of duty at a time other than before the goods are released into home consumption. Section 132AA was inserted into the Customs Act by the *Customs Legislation Amendment Act (No. 2) 1999*.

Subsection 132AA(1) provides for the general rules for the payment of import duty, in three items, the second of which relates specifically to the Accredited Client Program. This provision was addressed in the Explanatory Memorandum as follows:

- Item 2 provides a head of power to enable the Customs Regulations to prescribe the time when import duty must be paid on goods which are required to be entered for home consumption. This item enables duty to be paid at a time other than at the time of entry for home consumption and hence enables the time for payment of duty to be deferred to a time after the entry of goods for home consumption.

Subsection 132AA(2) addresses the breadth of the Regulation making power for the duty deferral circumstances countenanced by Item 2 of the table in subsection 132AA(1). In particular, duty deferral in respect of goods can include Regulations that prescribe the goods by reference to the class of persons who import them. Those persons may be identified by reference to their characteristics (for example, persons who import goods to the value of x per annum) or actions they might take in relation to the importation of particular goods.

Subsection 132AA(3) amplifies the breadth of the Regulation making power for the duty deferral circumstances countenanced by Item 2 of the table in subsection 132AA(1). In particular, this subsection permits Regulations to prescribe the duty deferral time to be a time specified by the Chief Executive Officer of Customs.

Subsection 132AA(4) makes provision for the exceptions to the times when import duty must be paid, as provided in the new subsection 132AA(1).

The *Customs Legislation Amendment Act (No. 2) 1999* also made several consequential amendments to the Customs Act as a result of the insertion of the new section 132AA.

The changes being made to the operation of duty deferral in this bill, are specifically addressed in Schedule 5 item 13 of the Explanatory Memorandum for the *Customs Legislation Amendment (Border Compliance and Other Measures) Bill 2006*. This item has the effect of including a new item 1A, into column 2 of the table in subsection 132AA(4). This ensures that subsection 71DGB(1) operates as an exception to the general rule in subsection 132AA(1) in respect of the payment of import duty on goods entered for home consumption on an RCR.

SENATE LEGAL AND CONSTITUTIONAL COMMITTEE
AUSTRALIAN CUSTOMS SERVICE

Senator Ludwig asked the following question at the hearing on 27 April 2006 in relation to the Customs Legislation Amendment (Border Compliance and Other Measures) Bill 2006:

Can you provide details of consultation with the CBFCFA during 2003 in relation to the Accredited Service Provider Model?

The answer to the honourable Senator's question is as follows:

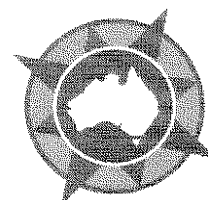
On 15 April 2003 the CBFCFA made a submission to Customs proposing the concept of accredited service providers. A copy of their letter is attached.

A meeting of the Minister's Industry Working Group considered the issue of access for service providers at a meeting on 6 May 2003.

A workshop was convened with CBFCFA and AFIF on 5 June 2003 to discuss proposals contained in their submissions, including the accredited service provider.

A meeting was held with the CBFCFA on 17 October 2003 advising them that Customs was not satisfied with their proposal for a service provider model because of community protection issues. It is Customs view that it would be inappropriate to allow service providers to risk assess and accredit clients on behalf of Customs. Following this meeting, the CBFCFA, AFIF and CAPEC advised that they would discuss the matter with the Minister.

The Minister subsequently met with the CBFCFA on 13 February 2004 informing the CBFCFA that the proposed model could not be supported as it posed an unacceptable risk for Customs in relation to the risk assessment of clients.



CBFCA

A U S T R A L I A

Communicate. Innovate.

Ref No:

15 April 2003

Ms T Barrow
Director
Compliance Branch
Australian Customs Service
5 Constitution Avenue
CANBERRA ACT 2601
E-mail: tania.barrow@customs.gov.au

Dear Tania

Accredited Client Program

Reference is made to Australian Customs Notice (ACN) No. 2003/18 seeking submissions from interested parties in relation to the Australian Customs Service (Customs) Accredited Client Program (ACP).

Background

The Customs Brokers & Forwarders Council of Australia Inc. (CBFCA) has maintained an ongoing interest in the ACP arrangements since the notification to industry in June 1997 by Customs as to the introduction of the then Pilot Program on *Trial Partnerships* as part of the then Cargo Management Strategy (CMS).

The CBFCA endorsed the *Trial Partnership* concept of CMS and in its response to the Australian Customs Service Cargo Management Strategy stated, *inter alia*:

*'In this regard the CBCA sees many licensed corporate customs brokerages or individuals as being perfectly placed to work with the ACS in such partnership arrangements. As a result of such entities being regulated by Part XI of the Customs Act or by way of accreditation from other regulatory authorities such as the Australian Quarantine & Inspection Service, partnership arrangements would provide significant benefits to the ACS and customs brokers (on behalf of their clients) in doing business with Government.'*¹

From the commencement of the *Trial Partnership* arrangements there was a clear recognition as regards the eight pilot companies that their respective customs brokers were a vital component in the *Trial Partnership* process. The CBFCA saw that the extension of *Trial Partnership* arrangement to service providers as logical as service providers were already incorporated in the *Trial Partnership* through the common law principal and agent

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¹ CBCA response to the Australian Customs Service Cargo Management Strategy, 23 June 1997 P3

arrangement. To further that philosophy, in September 2001 the CBFCA provided a Discussion Paper, *The Accredited Broker Program* to Customs to stimulate further discussion and consideration by Customs of the development of an *Accredited Service Provider* (ASP) program.

The commitment of the CBFCA to the ASP objective has not diminished and in relation to the discussion issues referenced in the ACN the following comments are provided.

Accredited Service Providers

The CBFCA notes in Clause 1.1 of the *Draft Accredited Client Program Business Rules*, the requirement for a *person* to enter into *Import and / or Export Information Contracts*. The CBFCA would see that it would be a logical extension of the reference to a *person* to include, but not limited to, a corporate customs broker as referenced under Part XI of the Customs Act 1901. As Customs will be aware Part XI provides significant regulatory control over and above the commercial law aspects that would underpin any *Import or Export Information Contracts* agreed between Customs and a *person*.

For interested corporate customs brokers, the *Accredited Client Program Business Rules* could be amended accordingly to incorporate the standards that persons or entities are required to meet in the licensing requirements of Part XI of the Act and the accreditation standards of Section 66B of the Quarantine Act 1908 (which provides for the Director of Quarantine to enter into Client Agreements in circumstances as prescribed).

It is clear in relation to barrier clearance functions that corporate customs brokers have a high level of understanding and commitment to regulatory requirements. In addition, their workplace performance is subject to ongoing regulatory review, this in conjunction with the existing client commercial requirements could be leveraged accordingly within an ACP concept.

Security

The CBFCA notes the international commitment to supply chain security. For industry the supply chain is an integration of complex relationships between parties within that chain and industry has been able to integrate these arrangements so as to provide for a cost effective supply chain process.

Part of this integrated process includes barrier clearance and the meeting of regulatory requirements of Customs, Quarantine, transport and a variety of other regulatory agencies. All parties to the supply chain have a commitment to secure trading. Notwithstanding the need for compliance with regulatory requirements, it makes good business sense to have a secure and integrated supply chain. A secure supply chain provides value added incentives to businesses in meeting regulatory requirements and receiving the benefit of being acknowledged as an appropriate risk assessed entity for security requirements.

All of these arrangements however require considerable investment and in joining with regulatory authorities in any appropriate partnership on security and compliance there needs to be tangible and measurable benefits for those willing to commit to such arrangements. This is seen as being the driver for the ACP and / or ASP process.

In this regard, the CBFCA makes reference to the Customs Guidelines on Advanced Cargo Information (ACI Guidelines) of the Task Force on Security and Facilitation of the International Trade Supply Chain of the World Customs Organization² (WCO). In the Guidelines a particular reference is made to the *Authorised Trader* concept, however it was

² WCO Task Force on Security and Facilitation, ACI Guidelines Version 3, 21 March 2003, TF0005E1

agreed at the 21 March 2003 meeting of the Task Force that the *Authorised Trader* concept in an *Authorised Supply Chain* should appropriately include *Authorised Service Providers*.

From an international context this recognition by the WCO and its Customs administrations members, of the *Authorised Service Provider* is appropriate in a security and compliance context. There is also recognition by the US Customs Administration in its Customs Trade Partnership Against Terrorism (C-TPAT) as well as the Swedish Customs in its StairSec® approach that *Authorised Service Providers* provide certainty to the objectives of security and facilitation in international trade.

The Deputy Commissioner US Customs noted that the *Authorised Trader (Service Provider)* would be a key component to an *Authorised Supply Chain*³. As to the unique position of customs brokers in the international supply chain he stated:

*'Key factors in this uniqueness include: familiarity with a wide range of shippers and importers, as well their business practices: a knowledge of customs requirements that can assist in training others in the private sector regarding recommended security practice: and an effective international reach to foster engagement by other critical factors in the supply chain.'*⁴

Audit Issues

The CBFCA notes the objectives of the audits undertaken within the ACP is to ensure that the Information Contract is:

*'Underpinned by Business Rules containing accredited standards and continuing obligations.'*⁵

The CBFCA understands that the purpose of the commencement audit is to determine whether or not the *person* has processes and systems in place that accurately produce import and / export information to the Accreditation Standards as referenced in Part 2 of the Business Rules. As regards determining appropriate internal control procedures, the CBFCA references the requirements of licensing under Part XI of the Act and Section 66B(1) of the Quarantine Act as integral standards in meeting the Business Rules.

In addition to these regulatory requirements, many other issues would be referenced in work practices and Policy and Procedure Manuals. Some of which may be as a result of that industry sector's commercial processes and / or precedent.

It is for the auditor to make an objective judgement as to whether the *person* (including customs brokers) is (capable of) meeting the Accredited Standards as detailed within the Business Rules. This however needs further clarification as to the appropriate ways and means to objectively assess these standards.

The CBFCA is of the opinion that for those wishing to participate in the ACP or ASP there is a need for an appropriate level of compliance and entrance audit. The CBFCA however sees difficulty as to agreeing the scope of an audit engagement unless the parameters that need to be addressed in that audit that are set by Customs in consultation with industry.

³ WCO - ICC Symposium on Security and Facilitation, Mr Douglas Browning, Deputy Commissioner, US Customs Service, 14-15 October 2002

⁴ Bureau of Customs and the Broker in today's environment, Mr Douglas Browning, Deputy Commissioner, US Customs Service, IFCBA Conference, 22 May 2002

⁵ Accredited Client Program, Audit and Review Obligations, Circulation Version March 2001

As referenced, the audit is to ensure that there are processes and systems to accurately produce import / export information. However in terms of the audit and review obligations, systems and processes, not one system and / or process will be common to each and every ACP / ASP.⁶

Data Accuracy

In addressing data accuracy within the audit Accreditation Standard 3 of the Business Rule [Clause 2.3.1 Subparagraph (a) or (b)] contain some items which in the main could fit within the 2% error rate. The CBFCA however sees that the items listed are not necessarily mutually inclusive for the determined error percentage.

The CBFCA acknowledges the criticality of some items over others however as many profiles and / or risks to the revenue relate to the correct classification of goods within the Customs Tariff Act 1995 (the Tariff) and the correct determination of customs value under Part VIII, Division 2 of the Act these are seen as key items.

The issues of identifying goods for classification purposes and determining the correct customs value, are inherently complex. The results of applications to the Administrative Appeals Tribunal and appeals to the Federal Courts will attest to the difficulty in interpretation of the Tariff as regards classification or of the Act in the determination of the customs value. While there are administrative arrangements through Tariff and Valuation Advices with the Customs, many of these are subject to dispute and also have found their way into the Tribunal or the Courts for determination.

Therefore for an auditor with either limited, or a high level of experience in the determination of the classification or of the customs value of goods, to hold themselves out as the final arbiter of these critical issues appears beyond the scope of the audit. However, based upon appropriate software and hardware tariff review resources, the use of Tariff or Valuation Advices, legal precedent and other sources which would provide for a high level of informed compliance on these critical items an auditor would be able to provide an objective assessment as to compliance and process.

As to Accreditation Standard 3, the CBFCA perceives that it requires further consideration to include aspects of process management and reasonable care. As regards reasonable care, the inherent self assessment must be based upon informed compliance which requires appropriate competency based training.

The CBFCA commends Customs on reassessing the ACP to include an ASP option and looks forward to working with Customs and other industry associations at the meeting on 6 May 2003 on this challenging initiative.

Kind regards

STEPHEN J MORRIS
Executive Director

⁶ Accredited Client Program Audit and Review Obligations Circulation Version 1 March 2001, Page 3

SENATE LEGAL AND CONSTITUTIONAL COMMITTEE
AUSTRALIAN CUSTOMS SERVICE

Senator Ludwig asked the following question at the hearing on 27 April 2006 in relation to the Customs Legislation Amendment (Border Compliance and Other Measures) Bill 2006:

Please give a potted history of consultation on the new model and any feedback received

The answer to the honourable Senator's question is as follows:

23 December 2004 – Customs writes to the Business Partner Group outlining options for a revised ACP model and requests feedback from the BPG (copy of letter attached).

28 January 2005 – Customs convenes meeting of BPG in Melbourne to discuss options for a revised ACP model and consider advice from BPG (File Note of meeting attached). Feedback suggested that a reduced number of companies (possibly only one third) would continue their involvement with the program.

13 May 2005 - the Government's decision concerning the revised payment model (as contained in the current bill) was announced as part of the 2005/06 Budget. On the same day, the Minister wrote to the BPG informing of Government decision to proceed with implementation of a revised ACP model.

22 June 2005 – meeting between Customs and the BPG (including representatives from 14 companies) in Sydney to discuss implementation of the Government's decision. Feedback suggested that most companies were still very interested in pursuing their involvement with the program.

The ACP was also discussed more generally at industry consultation meetings (including CBFCA representatives) chaired by the Minister to discuss broader cargo management issues. This occurred in January 2004; June 2004; and February 2005.



Australian Government
Australian Customs Service

Customs House
5 Constitution Avenue
CANBERRA ACT 2601

Dear

I am writing in relation to the Accredited Client Program (ACP) following a recent external review of Customs financial position.

As part of that review, the ACP was examined particularly with regard to its impact on the Budget. The conclusion reached was that the Program would have an adverse impact on both the fiscal and underlying cash balance due to the provision of duty deferral to participants in the Program. Consequently Customs has been asked to identify alternative proposals for the introduction of the ACP that do not include duty deferral.

Customs has considered options such as:

- Consistent with the view previously expressed by the Minister for Finance, trying to sustain some form of the ACP, where duty is paid at the time of goods being released (ie as at present). This could require ACP participants to lodge entries for each importation as well as providing a monthly declaration;
- The introduction of the ACP with estimated duty payment being made before or during the month of goods being imported with a reconciliation and acquittal process in the following month when the periodic declaration is submitted. It should be noted that due to government financial reporting conventions it is not currently clear whether this proposal would overcome the concerns that have been expressed in relation to the non-provision of duty deferral.

I would appreciate your comments on the above options or any other approaches you may wish to suggest to implementing the ACP without duty deferral.

In order to meet the Budget timetable for 2005/06, I am advised that a proposal will need to be developed by the end of January. Given that any proposal will need to be considered by others involved with the ACP, I would be grateful if any suggestions could be advised to me by 21 January 2005. Depending on the response from Business Partner Group members, Customs would be happy to convene a meeting of interested parties in the last week of January. I would therefore appreciate advice as to your interest in attending a meeting in Melbourne on Friday 28 January 2005 to discuss responses provided.

Yours sincerely

Jeff Buckpitt
National Manager
Compliance Branch

23 December 2004

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FILE NOTE

Meeting with ACP Business Partner Group Melbourne, 28 January 2005

Jeff Buckpitt, Bruce Smith, and Jaci Fisher met with seven members of the ACP BPG in Melbourne on 28 January 2005.

Jeff Buckpitt explained the Government's decision to not proceed with duty deferral and provided more detail on how a revised proposal whereby payment of duty in advance of import activity could operate:

The alternative proposal would involve participating companies making a mid-month payment of duty based on an estimate of anticipated imports, with a reconciliation payment being made in the middle of the following month. The revised arrangement would involve lodgement of a mid-month payment by importers based on an estimate (15th of each month), reconciliation of this estimate (7th of the following month), and a subsequent reconciliation payment being made (15th of the following month). Under this arrangement there will be no impact (positive or negative) on the Budget bottom-line.

After discussing the matter for about an hour and a half, the position of the BPG emerged as follows:

- most members were disappointed that the revised proposal will not deliver the same financial benefits that were initially anticipated by virtue of full deferral of duty. Industry representatives indicated that less than half of their original number would be likely to support the revised proposal;
- they would not participate in the program if up front payment was required ie paying one month of duty on day one of the month;
- a lesser number (possibly one third) would participate if payment of duty was made mid way through the calendar month. They proposed that the periodic report continue to be provided on day 7 of the following month, but the reconciliation and next payment would occur mid month (so as to avoid two payments having to be made each month);
- BPG members accepted the proposition that if payment mid month was not acceptable to Government then work to establish the program will come to an end;
- BPG members are concerned that some parts of Government still don't really understand the ACP. In particular they referred to the August letter from the Minister for Finance suggesting that the program might continue without periodic reporting.

- The BPG were disappointed that the Ernst and Young reviewers did not consult industry on the ACP. They felt that some of the misconceptions about the extent of the benefits for industry beyond duty deferral might have been addressed. (In reply Jeff indicated that Customs talked to the Ernst and Young reviewers at some length about the program and how it might operate.)

Jeff Buckpitt explained the process from here with respect to ERC, indicating that it might be some months before we could advise the Government's decision on the ACP.

Jeff Buckpitt added that the savings in cost recovery charges are unlikely to be very large.

BPG members advised that individual companies will continue to lobby Ministers. With regard to our own Minister it was mentioned that Tom Curtis and Paul Angel will be attending the CMR round table with the intention of again raising the issue of ACP.
