



Low Value Parcel Processing Taskforce

FINAL REPORT
JULY 2012



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31 July 2012

The Hon David Bradbury MP
Assistant Treasurer
Parliament House
CANBERRA ACT 2600

Dear Assistant Treasurer

In accordance with the Terms of Reference for the Low Value Parcel Processing Taskforce, we have pleasure in submitting to you the Taskforce's final report into its investigation of low value import processing.

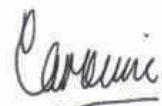
Yours sincerely



Bruce Cohen
Chair



Jim Marshall PSM
Member



Caroline Chan
Member

Terms of reference

The Low Value Parcel Processing Taskforce (the Taskforce) will undertake a comprehensive investigation of low value import processing, particularly for the international mail stream.

The Taskforce should be guided by recommendation 7.1 in the Productivity Commission report *Economic Structure and Performance of the Australian Retail Industry* that states there are strong in principle grounds to lower the low value threshold exemption for goods and service tax (GST) and duty on imported goods when it is cost-effective to do so.

1. The Taskforce will investigate new approaches for the handling and administration of low value imports of goods, including options for revenue collection. In particular, any proposed new system should:
 - 1.1. allow for effective and efficient revenue collection processes that promote tax neutrality with other goods for consumption in Australia;
 - 1.2. streamline the assessment of customs duty;
 - 1.3. minimise any processing and administration costs, delivery delays and other compliance costs;
 - 1.4. pass appropriate collection costs onto the importer;
 - 1.5. provide administrative and competitive neutrality between different import streams where appropriate;
 - 1.6. not compromise border protection. The new system should support the Australian Customs and Border Protection Service and DAFF Biosecurity in this role by:
 - allowing for risk based assessment;
 - minimising administrative touch points outside of the natural supply chain for movement and delivery; and
 - facilitating pre-arrival information through electronic data interchange where practical;
 - 1.7. support Australia's interaction with the digital economy by ensuring the system is user friendly, imposes no added barrier to trade and allows for the large expected increase in online retailing; and
 - 1.8. have regard to Australia Post's profitability in the international mail stream including impacts on capacity and technological change, and its universal service obligations.
2. Notwithstanding the requirements in 1, the Taskforce should consider:
 - 2.1. the costs and volumes of goods associated with possible administrative thresholds, including the level at which GST or duty may be payable and the levels at which differing amounts of information are required;
 - 2.2. the role of customs duty;
 - 2.3. compliance measures required to identify and respond to attempts at avoiding or evading customs duty, GST or other tax or charges;
 - 2.4. implications of the new approach for the management of other risks at the border, for example as a result of changed process or from an additional focus on revenue;

- 2.5. international developments and best practice, covering both policy trends, technological advancements and agreements through organisations such as the Universal Postal Union; and
- 2.6. alternative arrangements for revenue collection, including the parties responsible for revenue collection and the points in the supply chain at which revenue is collected.

Composition and consultation

The Taskforce will be led by an independent expert panel made up of a Chair and two members with significant experience in logistics, supply chain management or other related fields. The Taskforce will be supported by a secretariat drawing on the skills of the relevant Government departments and agencies. The Review may also draw on external expertise where necessary.

The Taskforce will consult the views of expert stakeholders, including the Australian Customs and Border Protection Service, DAFF Biosecurity, Australia Post, the Conference of Asia Pacific Express Couriers and other stakeholders, including small business.

Timing

The Taskforce should release an interim report in three months from its establishment and provide a final report to Government no later than July 2012. The final report should include a comprehensive blueprint for reform, with costed alternatives and an expeditious timeframe for implementation.

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Abbreviations

The following table lists the abbreviations used in this report.

Abbreviations	Description
AAR	Actual Arrival Report
AAT	Administrative Appeals Tribunal
ABN	Australian Business Number
ABS	Australian Bureau of Statistics
ACMA	Australian Communications and Media Authority
ACR	Air Cargo Report
AIMS	AQIS Import Management System
ANAO	Australian National Audit Office
AO/OA	Autre Objet/Other Article
AP	Australia Post
APEC	Asia-Pacific Economic Community
APS	Australian Public Service
AQIS	Australian Quarantine and Inspection Service
ATO	Australian Taxation Office
BAS	Business Activity Statement
BAU	Business as Usual
CA	Compliance Agreement
CAPEC	Conference of Asia Pacific Express Carriers
C&BP	Customs and Border Protection
CBSA	Canada Border Services Agency
CCF	Customs Connect Facility
CCID	Customs Client Identifier
CEF	Container Examination Facilities
CI&SC	Customs Information and Support Centre
COD	Cash on Delivery
CRIS	Cost Recovery Impact Statement
CRN	Customer Reference Number
CSO	Community Service Obligations
CTO	Cargo Terminal Operator
CUSITM	CUStoms ITeM
CUSRSP	CUStoms ReSPonse
DAFF	Department of Agriculture, Fisheries and Forestry
DBCDE	Department of Broadband, Communications and the Digital Economy
DCCC	DAFF Cargo Consultative Committee
DDP	Delivered Duty Paid
DDU	Delivered Duty Unpaid
DFAT	Department of Foreign Affairs and Trade
EDI	Electronic Data Interchange
EFT	Electronic Funds Transfer

EFTPOS	Electronic Funds Transfer Point of Sale
EMS	Express Mail Service
EOI	Evidence of Identity
ETA	Estimated Time of Arrival
FID	Full Import Declaration
FMIS	Financial Management Information System
FOB	Free on Board
FTA	Free Trade Agreement
FTE	Full-Time Equivalent
GDP	Gross Domestic Product
GST	Goods and Services Tax
HAWB	House Air Waybill
HMRC	Her Majesty's Revenue and Customs
HS	Harmonised System or the Harmonized Commodity Description and Coding System
HTISC	Harmonized Tariff Item Statistical Code
HVLV	High Volume Low Value
IAR	Impending Arrival Report
ICAO	International Civil Aviation Organisation
ICE	Import Clearance Effectiveness
ICS	Integrated Cargo System
ICT	Information and Communication Technology
IFS	International Financial System
IMO	International Maritime Organisation
INS	Infringement Notice System
IPC	International Post Corporation
IPRS	Importer Pre-Registration System
IPS	International Postal System
IQI	Increased Quarantine Intervention
ITC	Input Tax Credit
ITMATT	Item Attribute
LC	Letter Class
LCT	Luxury Car Tax
LVS	Low Value Shipment
LVT	Low Value Threshold
MAWB	Master Air Waybill
MEDICI	Mails Electronic Data Interchange and Customs Integration
MOU	Memorandum of Understanding
PED	Postal Entries Database
PID	Postal Import Declaration
PPC	Parcels Postcard
PSI	Prime Systems Integrator
QAP	Quarantine Approval Premise
QSP	A Customs and Border Protection financial system relating to revenue collection, client information and dishonoured payments

RIS	Regulation Impact Statement
RTS	Return to Sender
SAC	Self Assessed Clearance
SAC NCC	Self Assessed Clearance National Coordination Centre
SCR	Sea Cargo Report
SDLC	Software Development Life Cycle
SDR	Special Drawing Rights
TAPIN	Tariff and Precedents Information Network
TARCON	Tariff Concessions System
TCO	Tariff Concession Order
TCS	Tariff Concession System
TRS	Time Release Study
UBMR	Underbond Movement Request
UKBF	United Kingdom Border Force
UPE	Unaccompanied Personal Effects
UPU	Universal Postal Union
VAT	Value Added Tax
VoTI	Value of Taxable Importation
WCO	World Customs Organization
WET	Wine Equalisation Tax
WTO	World Trade Organization

EXECUTIVE SUMMARY AND RECOMMENDATIONS

The task

As Australians enjoy the choices, prices and convenience the digital economy makes possible, the number of low value parcels entering the country from online shopping is growing rapidly.

This growth is putting pressure on the way low value imported goods are handled and administered as they come into the country. Australia's border agencies – Customs and Border Protection and DAFF Biosecurity – manage the risks associated with prohibited and restricted items, and this task is expanding. Working together with industry, these agencies are already streamlining processes, removing duplication and enhancing productivity. Still, the capacities at international mail gateways and licensed depots are under increasing strain.

At the same time, concerns surround the fairness of current revenue arrangements – imported goods valued at or below \$1,000 are generally not charged duty or GST, unlike domestic retail goods. As the Productivity Commission found in its 2011 inquiry into the retail industry, there are strong in-principle grounds for reform to promote tax neutrality. However, it concluded the Australian Government should not alter the existing threshold arrangements unless it can be demonstrated it is cost effective to do so.

In this environment, this investigation sought to find new approaches for the handling and administration of low value imports of goods, including options for revenue collection.

The specific parameters of any such new approach are:

- it allows for effective and efficient revenue collection processes that promote tax neutrality with other goods for consumption in Australia;
- it streamlines the assessment of customs duty;
- it minimises any processing and administration costs, delivery delays and other compliance costs;
- it passes appropriate costs on to the importer;
- it provides administrative and competitive neutrality between different import streams where appropriate;
- it does not compromise border protection. The new system should support Customs and Border Protection and DAFF Biosecurity in this role by:
 - allowing for risk based assessment;
 - minimising administrative touch points outside of the natural supply chain for movement and delivery; and
 - facilitating pre-arrival information through electronic data interchange where practical;
- it supports Australia's interaction with the digital economy by ensuring the system is user friendly, imposes no added barrier to trade and allows for the large expected increase in online retailing; and
- it has regard to Australia Post's profitability in the international mail stream, including impacts on capacity and technological change, and its universal service obligation.

The challenges

To establish a new approach for the handling and administration of low value imports that encompasses all of these elements is neither simple nor straightforward. In 2010, the Board of Taxation considered the low value threshold for duty and GST, and determined it should be left unchanged. In 2011, the Productivity Commission also showed the cost of revenue collection under current arrangements far outweighed the potential benefits of a lower threshold.

While the scope and focus of this investigation differs from these reviews, both reached soundly based conclusions. Simply changing the threshold while leaving all else the same creates substantial difficulties in terms of cost effectiveness and efficiency. This is due to the complexities surrounding import processing, which stem from a combination of factors including:

- *the number of parcels now entering into Australia each year:* parcel volumes are growing rapidly. The number of parcels in international mail has more than doubled between 2006–07 and 2010–11 to more than 48 million. Similarly the number of low value goods arriving as cargo was around 10.6 million in 2010–11, an increase of more than 58 per cent since 2008–09. Growing parcel numbers create the possibility of new processes that take advantage of economies of scale. However, the sheer number of parcels means the potential size of border processing tasks, such as identifying goods and entering data, as well as impacts on storage and delivery, render many processes not cost effective;
- *the range of industry participants involved in the import of low value goods:* Australia Post handles mail imports, while express carriers and other freight forwarders handle air and sea cargo. These businesses operate in a competitive environment. How they operate can be similar, but some substantial differences also exist. Express carriers use an internationally integrated business model that exercises direct control of goods throughout the import process, and can set the price for delivering this integrated service. In contrast, Australia Post operates within the Universal Postal Union framework as a delivery agent for other posts. It has little or no control over parcels until they arrive in Australia. Further, the revenue it receives for delivering international parcels is generally determined not on actual costs but through a mechanism known as Terminal Dues that are calculated on globally determined formulae. Australia Post currently loses money on many of the imported parcels that it delivers. Such differences make crafting competitively neutral solutions complex, as they require a consistent policy framework that can accommodate quite different business models;
- *the different levels and forms of information required and able to be provided for low value goods:* different import streams have different levels and forms of available information. For goods arriving as cargo, electronic pre-arrival data together with reporting and clearance processes ensure much information is available before goods enter Australia. This enables border agencies to apply streamlined risk assessment and inspection processes. By contrast, pre-arrival data is not currently available in the international mail environment. Further, information currently attached to individual parcels is of variable quality and completeness, so border processes in the mail environment are more manual and labour intensive, and potential options for efficient revenue collection are more limited than would otherwise be the case;
- *the nature and number of risks that Australia's border agencies are required to manage:* Australia's border agencies manage risks associated with low value goods within the framework of their broader roles and responsibilities. In the case of border security, Customs and Border Protection acts on behalf of over 40 government agencies. The import risks it manages include illicit drugs and precursors; firearms, other weapons and ammunition; goods of consumer

safety concern (such as goods containing asbestos and certain toys), and objectionable material. Biosecurity risks managed by DAFF Biosecurity focus on the threat of exotic pests and diseases that can adversely impact on our industries, people and natural environment. Revenue risks relate primarily to duty and GST. For revenue assessment on low value goods, reform, if implemented, would still only account for a relatively small proportion of the total revenue assessed at the border; and

- *the bases upon which duty and GST are assessed:* processes for assessing duty are complicated and time consuming, requiring detailed knowledge of the Working Tariff, which sets out what duty rates apply to which goods imported into Australia. It is built on a global harmonised classification system that runs to 97 chapters. It incorporates various concession arrangements, including free trade agreements and the Tariff Concession Scheme (TCS). Under the TCS, over 12,000 Tariff Concession Orders are currently in place. The basis for assessing GST is less complex, but still has numerous complicating aspects including the value on which GST is assessed (incorporating the customs value, transport and insurance costs, as well as any duty payable); the range of GST-exempt goods (for example medical items and repaired and replacement goods); and provision for input tax credits on goods purchased for business purposes by GST registered entities.

While the complexities embedded in existing arrangements make reform challenging, the current environment offers some opportunities for innovation and change.

First, a coordinated global effort is gathering pace to better capture and use data in the international mail environment, driven by a confluence of security concerns and commercial imperatives. This opens up the prospect of substantial, long-term modernisation in the international mail environment, enabling border processes to be more closely aligned across all import streams.

Second, the advances in technology that enable online retailing also provide the foundations to enhance existing business systems, risk management processes, reporting requirements and revenue collection arrangements.

Third, Australia's ongoing focus on trade liberalisation means reliance on duty as a source of revenue is steadily declining. As this trend continues, tariff assessments become less relevant, creating circumstances in which processes can be simplified and made more cost effective.

At issue is how to use these opportunities to underpin reform, over what timeframe can change be delivered, and how to do so in a cost effective way. This requires more than just looking at whether processes built around current regulatory arrangements may be done more quickly or cheaply. Given the parameters any new approach is required to cover, more fundamental reform is likely needed. The complexities embedded in current arrangements suggest potentially substantial modifications are required – in terms of which revenue instruments may be applied (that is, duty, GST or both); the volume of goods able to be assessed; the basis upon which liability should be assessed (for example, GST on the value of the good with or without transport and insurance costs); and the information needed to make those determinations.

Every such modification represents a compromise, and whether the compromises contemplated in this report will ultimately be acceptable or achievable is not certain. At present, however, there are many goods being imported into Australia to which neither duty nor GST is applied. In developing potential solutions, this investigation has striven to find ways to bring down collection costs as far as possible. Any modification that would facilitate this outcome is considered, recognising that only by doing so can necessary preconditions for reform be met.

The potential solutions

Numerous potential solutions could form part of a new approach for handling and administering low value goods. To determine the most prospective ways forward, this investigation first develops a broad set of potential solutions based on an end-to-end view of import processes. This captures a wide range of potential solutions and ensures that options are not limited to processes at the border. The underlying reason for doing this is simple – as the Beale Report (2008) found in its review of Australia's biosecurity arrangements, an end-to-end view is more likely to deliver reforms that improve efficiency and cost effectiveness.

In considering which of these potential solutions may fit within an integrated package of reform, assessments at both the initial and detailed costing stage are undertaken based on criteria derived from this investigation's Terms of Reference. The criteria include cost, efficiency, implementation, competitive neutrality, risk, revenue impact and legislative impact. Regard is also given to Australia's interaction with the digital economy and Australia Post's profitability. Not all criteria are relevant to the assessment of every solution, nor are they applied prescriptively.

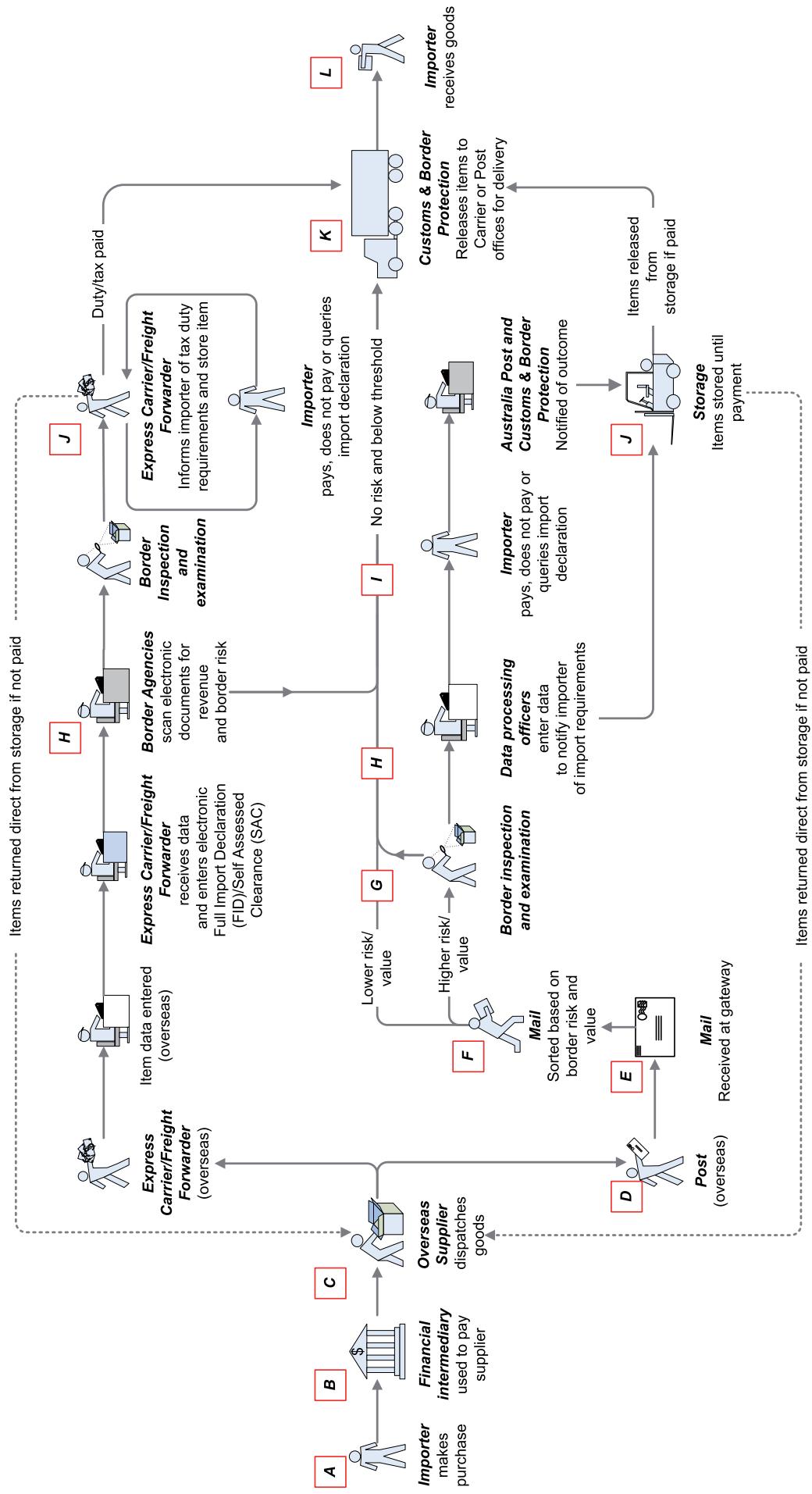
Assessments examine the potential solution itself, and its relationship to other potential solutions. This is because a key driver of efficiency and cost effectiveness is enabling coherent and integrated reform over time. Short to medium term action should neither unduly inhibit or prevent desirable future reform, nor result in stranded assets and wasted investment.

Potential solutions initially assessed, and their position in the import process, are outlined (see Figure ES1). Based on the initial assessments, some potential solutions were regarded as prospective and requiring further analysis in this investigation; others warranted future consideration but are not viewed as feasible as the basis for reform in the short to medium term; and some were not supported at all. Potential solutions regarded as prospective were:

- self-assessment of duty and/or GST liability prior to arrival [A];
- collection of duty and/or GST by overseas suppliers [C];
- improved processes, work practices and removal of duplication [E], [F], [G], [H];
- streamlined automated assessment of duty and/or GST for low value goods utilising electronic data provision in the cargo and mail environments [F];
- pre-registration for payment of duty and/or GST once liability assessed at border [H];
- automation of postal import declaration processes [H];
- realignment of responsibility for revenue assessment and collection between Customs and Border Protection, Australia Post, express carriers and other freight forwarders [J], [K]; and
- reform of border agency fees and charges [H].

Potential solutions warranting future consideration were the collection of duty and/or GST by financial intermediaries [B] and deferral of payment of GST for all GST registrants [H]. Those potential solutions not considered viable for further consideration for low value imports during this investigation are simplified tariff arrangements [H], collection of GST on foreign exchange transactions [B], reverse charging GST to registered purchasers [H], collection of duty and/or GST by overseas postal authorities [D] and declaration of duty and/or GST liability through the income tax assessment process [L].

Figure E81
Current import processes (potential for reform)



Throughout the consultation process, stakeholders raised the possibility of applying GST to financial intermediaries such as credit card providers. This approach is not supported at this time as the information currently able to be transferred between different parties in a credit card transaction does not readily allow duty or GST assessments to occur. Also there is a difficulty in identifying whether a good purchased by credit card is entering Australia, and the diversity of electronic payment options available precludes an approach that focuses on only one form of financial intermediation. Nonetheless, reform of this kind may be able to be considered in the future as international payment systems evolve.

Initial assessments of potential solutions also highlight various findings that underpin the more detailed analysis carried out:

- as parcel numbers continue to grow, new information-based risk assessment processes in the international mail environment will be needed to manage border tasks cost effectively;
- in the first instance, reforms should focus on GST rather than both duty and GST, because of:
 - the relative complexity of the revenue bases;
 - the information anticipated to be available through internationally agreed standards in the international mail environment; and
 - the potential revenue that may be gained from reform to duty relative to GST;
- assessing GST on low value goods should be on as simple a basis as possible, even if this diverges from existing arrangements for goods above \$1,000. This is because:
 - based on existing business operating models, a simplified assessment of GST would enable reform to be implemented in the quickest timeframe;
 - a simplified assessment of GST would allow more efficient processing of goods – particularly in the international mail environment;
 - making processes consistent with information likely to be available electronically in the international mail stream in the future allows implementation of new systems that will not become stranded over time;
 - it enables other potential reforms to be integrated, such as enabling overseas suppliers to collect GST from purchasers of low value goods at the time of purchase; and
 - the starting point for considering reform is that goods valued at or below \$1,000 are not currently subject to GST. While a simplified assessment of GST approach diverges from the arrangements on imported goods with a value above \$1,000, it is closer to these arrangements than is currently the case.

A new approach

Based on these initial assessments, a new approach for handling and administering low value goods, including an option for revenue collection, is developed encompassing the following core elements:

- using pre-arrival electronic data to enable pre-arrival risk assessment in the international mail environment. This would improve alignment between border processing across import streams over time;
- establishing separate low value thresholds for GST and duty, applying consistently across import streams;

- introducing a simplified basis to assess GST at the border to enable streamlined automated assessments, applying consistently across import streams. GST on low value imports would not include transport and insurance, or alternatively would allow this amount to be deemed (subject to adjustment if required);
- using pre-arrival data wherever possible to facilitate rapid assessment of GST liability;
- establishing manual processes in the international mail environment to identify goods and capture data for assessing revenue where electronic pre-arrival data is not available;
- permitting Australia Post, express carriers and other freight forwarders, once the goods are cleared by Customs and Border Protection and DAFF Biosecurity for community protection and biosecurity risk, to remove these goods from licensed depots and gateways, and manage their further delivery. Customs and Border Protection would not require GST revenue to be paid prior to this clearance as freight forwarders, express carriers and Australia Post would be responsible for collecting and remitting the revenue liability; and
- permitting Australia Post, express carriers and other freight forwarders to charge a handling fee for the costs of collecting any GST revenue.

Over time, these could be integrated with complementary changes to reduce the burden of collecting revenue at the border – either by enabling suppliers to collect GST before the goods arrive in the country, or by simplifying how individual importers pay the GST on imported goods. Handling fees, as well as other charges, could be structured to encourage take up of these options.

To determine the viability of these reforms, financial analysis of the new approach to revenue collection is undertaken separately for the international mail and cargo environments, while an economic assessment has been done for the overall reform. Though not preferred, this separate financial analysis was necessary due to the significantly different quality of data available for each import stream.

In addition, an analysis of the potential benefits of using pre-arrival data to improve border processing in the mail environment was undertaken – although again this is constrained due to data limitations.

Generally, the assessment undertaken is designed to provide guidance for policy development. It does not constitute a business case for the proposed new approach, and assessment by government would naturally benefit from more robust data, further information and analysis.

In every reform process, a balance needs to be struck between enabling debate to move forward as quickly as possible, and the level of information able to be gathered in the timeframe available upon which that debate may be founded. The partial nature of some cost estimates means conclusions that may be drawn from this investigation should be viewed as more limited than may otherwise be the case, and reinforces the need for business cases to be developed if the proposed direction of reforms is supported.

Revenue collection

Assessments of the costs and benefits of reform vary across import streams due to the information available, the recipients of the goods and the capacity of different industry participants to store and process goods through border facilities.

Both the costs of implementing reform and ongoing collection costs vary substantially depending on the volumes to be assessed. Australia Post capital costs for example, are expected to be

around \$20 million for volumes associated with higher thresholds, rising to more than \$100 million due to the storage and handling costs associated with higher volumes at lower thresholds.

Core ICT changes to Customs and Border Protection systems have been preliminarily estimated at around \$3 million but this figure is subject to variation based on volume and scope of task, and separately is likely to underestimate final costs as it is not based on a detailed design specification underpinned by legislative requirements. Implementation costs to industry participants such as express carriers were not able to be estimated. Recognising that all estimates are at a relatively low confidence level and are partial in nature in that they do not include data on implementation costs for all industry participants or for ancillary work to implement reform by government agencies, the information available provides a rough order of magnitude estimate for the implementation of reform in the range of \$25 million to \$40 million at higher threshold levels.

In the international mail environment, the ongoing collection costs of the proposed reform demonstrate some economies of scale, and range between \$12.06 and \$20.19 per unit in 2014 depending upon volumes (which in turn depends on where a threshold is set) (see Table ES1). These estimates of collection costs incorporate initial (preliminary) collection costs calculated for the determination and collection of revenue, adjusted for:

- ancillary activities such as compliance, dealing with GST exemptions post assessment, registration for GST deferral and additional call volumes and enquiries to Customs and Border Protection's helpdesk. Having regard to the costs associated with compliance activities undertaken through the Enhanced Compliance Campaign, a \$2 per item cost for Customs and Border Protection compliance activities is appropriate for volumes at higher threshold levels; a lower amount per item may be appropriate for goods at lower values given the volumes involved but this is not assumed to be the case. An equivalent per dollar amount is added to cover the potential costs of dealing with GST exemptions, additional GST deferrals and enquiries. As this investigation is not asked to recommend a threshold, estimates of these costs are difficult and to some extent arbitrary; and
- additional ongoing ICT costs, where initial estimates of upfront and ongoing costs only included costs with respect to preliminary work required to reconfigure existing ICT systems. Further analysis by Customs and Border Protection's IT Division estimates ongoing support costs of around \$1 million per year, although these may vary depending on the volume of goods required to be handled through the system. At a \$500 threshold level, and applying the requisite conservatism with regard to confidence levels, this would add an additional cost of around \$1 per item – noting that the system would be used for both the mail and cargo environments. As it was not possible to obtain a clear view of the system architecture changes required for the Integrated Cargo System (ICS) (and related systems) to undertake costings on a detailed system design basis, this cost is applied across all value bands (recognising for higher volumes, this approach risks being discretionary).

As many scenarios were costed in a short timeframe, the level of confidence in relation to these collection costs is at best in the +/- 50 per cent range. The costings also assume that declared values can, in the first instance, be used as an acceptable basis for enabling GST assessments in the low value parcel environment (recognising the range of valuation methodologies for customs value outlined in Pt VIII, Div 2 of the *Customs Act 1901* and the need for compliance measures and potential adjustments).

When pre-arrival electronic data will be available in the mail environment is uncertain; however GST collection costs should fall as it becomes available. Costs fall proportionally more at higher thresholds because at these values, a higher proportion of goods arrive as EMS or parcels over 2kg than at the lower value levels. No pre-arrival data is anticipated for parcels less than 2kg (packets) during the forecast period.

Table ES1

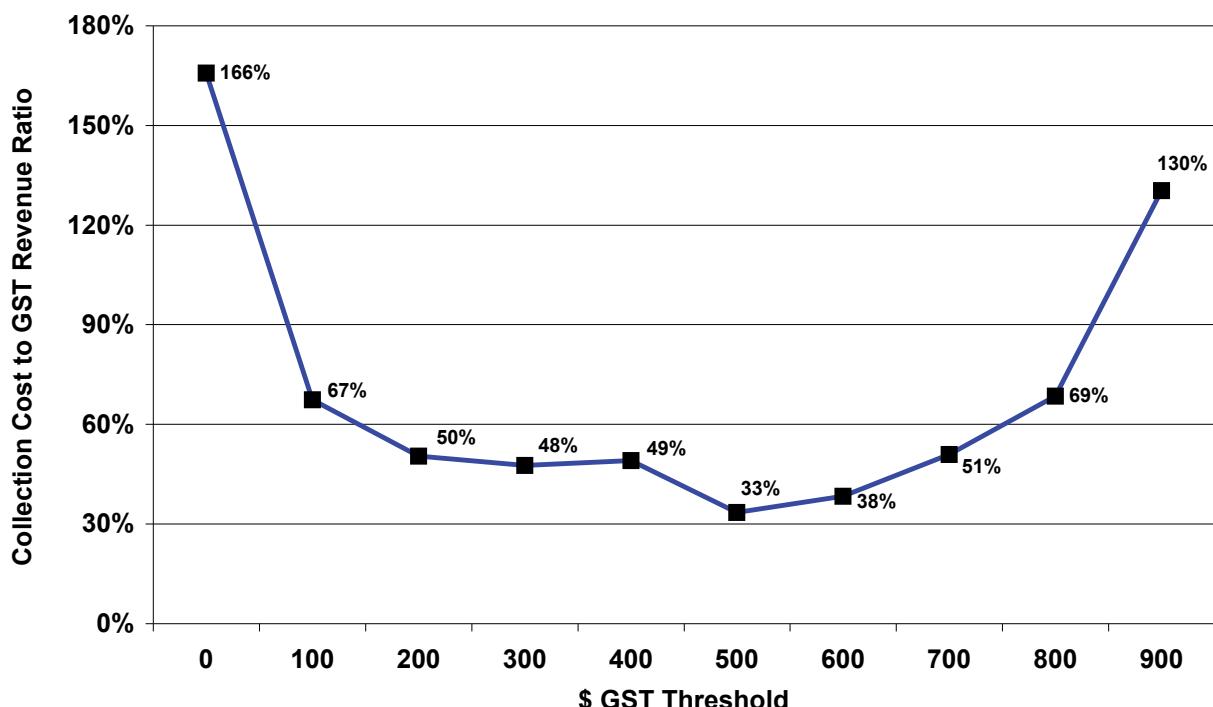
Adjusted collection cost and average GST revenue per item – international mail

Threshold level		Year				
		2014	2015	2016	2017	2018
\$0	Collection cost (est.) (\$)	12.06	12.01	11.93	11.84	11.75
	Average revenue per item (est.) (\$)	7.28	7.39	7.48	7.58	7.66
\$100	Collection cost (est.) (\$)	15.04	14.77	14.46	14.15	13.85
	Average revenue per item (est.) (\$)	22.31	22.50	22.65	22.79	22.90
\$200	Collection cost (est.) (\$)	17.75	17.24	16.69	16.14	15.63
	Average revenue per item (est.) (\$)	35.25	35.43	35.57	35.70	35.81
\$500	Collection cost (est.) (\$)	20.19	19.29	18.67	18.04	17.53
	Average revenue per item (est.) (\$)	60.46	60.57	60.64	60.71	60.77

The average revenue per item will also fall as the threshold falls. The relative cost effectiveness is illustrated in the graph below, which shows that the proportion of collection costs to revenue declines as the threshold moves down from its current level, but only to around the \$500 threshold level. It then rises as the threshold falls below \$500 (see Figure ES2). It would be wrong to conclude that because collection costs are less at lower thresholds, this revenue collection is more cost effective.

Figure ES2

Adjusted collection costs to GST revenue ratio – international mail environment



Note: Automated warehouse storage option at lower thresholds.

Based on these figures, aggregate collection costs just in the international mail environment for a zero threshold would be over \$450 million in 2014 – substantially more than the revenue raised – compared to approximately \$11 million at a \$500 threshold level. This difference is primarily due to the high number of goods in the lower value bands.

In the cargo environment, a range of collection costs are estimated based on figures derived from publicly available information, together with further information provided by CAPEC representatives and a comparison of cost components against the more detailed cost estimates available in the international mail environment. Recognising the limitations of this methodology, particular aspects of the cargo environment are likely to affect the cost effectiveness of revenue collection, including:

- the larger proportion of goods imported for business purposes, which means lower net revenue gained due to the availability of input tax credits; and
- storage constraints, particularly for express carriers which operate a time sensitive business and whose facilities are under pressure already from growth in low value imports.

On this basis, the average collection costs to GST revenue ratio in the cargo environment appears higher than for the international mail environment (see Table ES2). However, this ratio can be substantially improved if the proportion of business customers can be identified and GST deferral arrangements put in place. This would reduce costs for storage and revenue collection.

Table ES2

Average collection cost to GST revenue ratio – air cargo (2014)

Collection costs (2014)			
Threshold	\$16.4	\$24.6	\$32.8
\$0	171.7%	257.5%	343.3%
\$100	87.9%	131.9%	175.8%
\$200	68.3%	102.5%	136.7%
\$300	59.4%	89.1%	118.8%
\$400	54.3%	81.5%	108.6%
\$500	50.8%	76.1%	101.5%
\$600	48.1%	72.1%	96.2%
\$700	46.0%	69.0%	92.0%
\$800	43.0%	64.5%	86.0%
\$900	42.6%	63.9%	85.2%

Additional considerations

This integrated model provides a foundation for possible reform, but it involves some complexities which either add cost or require alternative resolution. In particular:

- *GST exemptions*: in some cases, Australia Post, express carriers and other freight forwarders will be unsure if goods are GST-free or taxable. In these cases, it is proposed that if tax on an import is remitted on a low value good that is, in fact, tax free, a mechanism be provided for the importer to claim back a refund on the tax paid. This is likely to be relevant to a proportion of low value goods arriving into Australia;

- *handling charges*: the proposed model provides for a handling fee to be charged by the entity responsible for collecting the revenue, whether it be Australia Post, an express carrier or another freight forwarder. The amount of any such handling fee will best be determined by that business itself, but can be expected to relate to the cost of collection, plus an amount for profit. However, in the case of the GST, as the States and Territories are responsible for the ATO costs of GST administration, they may appropriately bear some costs associated with the process. As this will likely require discussion with the States and Territories, it is not an issue determined within the scope of this report; and
- *gifts*: in some countries, gifts up to specified levels are exempt from revenue collection. The proposed model does not apply special treatment of gifts because how relevant this issue may be depends upon the threshold that is set (and it is not within the scope of this report to recommend a threshold).

Border security and biosecurity

Financial analysis of border security and biosecurity costs under this reform proposal for the international mail stream are inherently difficult due to the uncertainty associated with availability of electronic data, as well as data limitations as to effort required for various border process activities by different product type. The cost of reconfiguring both physical and ICT systems is also uncertain, particularly because these changes would be integrated with broader network reforms.

However, to provide some initial guidance on the potential benefits of this approach, a pathway analysis applied various weightings to activities undertaken by border agencies by different product type. Based on ratios of effort by product type between EMS/parcels and packets ranging between 7:1 and 12:1, the unit cost of inspection is estimated to be between \$0.85 and \$1.19 for Customs and Border Protection and \$0.57 to \$0.79 for DAFF Biosecurity for EMS and parcels (greater than 2kg), and substantially less for packets (less than 2kg). These estimates are illustrative and need to be viewed cautiously, but by way of comparison the costs associated with processing low value goods in the air cargo environment, including inspections, are estimated at around \$0.80 and \$0.30 for Customs and Border Protection and DAFF Biosecurity respectively. Generally, neither cost estimate incorporates overheads associated with senior management. They point to potential cost offsets that may be able to be achieved through the use of pre-arrival data. More generally, such reform would move to align reporting processes and requirements in the mail and cargo environments.

Economic analysis

Integrated reform would have broader economic impacts beyond the sum of its parts. In particular, to the extent that it results in expenditure occurring domestically, rather than through overseas online shopping sites, this will contribute to shifts in consumer behaviour, higher domestic retail activity and larger domestic GST revenues. Further, the potential consumer welfare impact of any change will reflect the extent to which the tax base may be broadened and relative price distortions removed, against the magnitude of any collection costs. Other factors relevant to this calculation include the degree of substitutability between taxed and untaxed goods, the supply elasticity for the taxed good and the efficiency cost of public funds (Productivity Commission, 2011: Appendix H).

To verify the illustrative results of the Productivity Commission (2011), additional modelling was completed as part of this investigation using the same analytical framework. Consistent with the Productivity Commission results, this modelling indicates that even under simplified GST assessment arrangements, there will initially be a negative welfare impact from reform. This

negative impact is generally lower for higher thresholds. Such negative effects need to be considered in light of one of the assumptions underlying this methodology, which is a conservative (1:1) approach that equates the benefit of raising an additional dollar of tax revenue to \$1 of welfare. Under this assumption, all taxes will have a negative welfare outcome (in the absence of externalities) due to the cost of collecting the tax. To the extent that it replaces other revenue collection – particularly for States and Territories whose revenue bases are poor – the benefit of reform may be higher. Further, this analysis is done for a single year. As collection costs fall with the advent of pre-arrival data in the international mail stream, the negative welfare effects are anticipated to decline. Also, the net benefit should improve as pre-arrival data is able to be used for risk management purposes in the international mail environment. Conversely, the negative impact will be greater the higher the upfront implementation costs – estimates are based on a capital cost of \$26 million. Higher capital costs may be anticipated, particularly at lower threshold levels.

Further reform measures

In addition to the potential new approach outlined, a range of additional steps may further streamline existing processes to improve compliance and enhance cost effectiveness as part of an integrated package of reform. These include:

- *improved processes, work practices and removal of duplication:* much work has already been done by the border agencies to enhance productivity in import processes. However, further opportunities for reform include:
 - removing Australia Post from its current role in opening mail in secondary examination in the international mail gateways;
 - providing additional funding for border agencies to better assess risk and develop new risk management tools based on the pre-arrival data that will become available in the international mail environment; and
 - building on existing performance measures to improve transparency in the processing of low value goods, including through better information on the time taken for goods to pass through particular stages of the border processes in the international mail environment; information on inspection, secondary examination and post examination volumes by product type in the case of Customs and Border Protection, and comparative performance data across the international mail gateways;
- *simplification of FID processes in the international mail environment:* currently, the making of a FID in the mail environment is an inefficient, labour intensive process that can take up to a week for a declaration to be fully processed and goods released. Automating this from end-to-end removes significant double-handling from notification of liability to the release of the goods. The upgrading of FID processes in the mail environment is estimated to cost around \$2 million, and is expected to deliver significant savings of up to \$1 million per year once fully tested and integrated into business processes. However, this cost estimate is not derived on the basis of a fully informed architectural assessment of the ICS (and related systems), which is required for a cost estimate at higher confidence levels;
- *reforms to fees and charges:* Customs and Border Protection and DAFF Biosecurity apply or administer various fees and charges on imported goods. There are cross-subsidies embedded in the way these are currently structured. As new goods become subject to revenue assessment, a more cost reflective fee structure could be established. To do this, Customs and Border Protection and DAFF Biosecurity would need to analyse both their costs and fees and charges. A change in fee structure may require legislative amendment;

- *increased compliance activities and a review of offence and penalty provisions:* as the number of parcels grow, additional compliance-related activities would be required including:
 - periodic testing/sampling exercises by Customs and Border Protection to ensure under-valuation is not increasing;
 - a review of offences and penalties to ensure that these are appropriate given the new processes envisaged. Such a review should assess whether additional offences are required, and whether penalty provisions are sufficient or need to be adjusted having regard to relevant community standards;
 - additional resources being provided to identify non-compliance and undertake enforcement activities. The funding that reasonably would be allocated to this activity needs to be determined annually relative to the total expenditure on compliance activities, and the breadth of Customs and Border Protection's roles and activities. It also needs to balance the costs of undertaking the specific compliance activity relative to the cost that the activity imposes on the broader community. Finally, the timing and level of any increased compliance activities need to allow a reasonable transitional period as importers become familiar with any new process being put in place; and
- *improved reporting and provision of statistical information:* the fluid nature of overseas online retail activity, and its uncertain impacts on future GST revenues, indicates that States and Territories would benefit from periodic updates on the volume of low value goods arriving in Australia, their value and the extent electronic data is available on them to facilitate the introduction of new processes. The provision of information to the Australian Bureau of Statistics (ABS) is another important function of border processes. While the proposal for a simplified GST would not significantly improve current data levels, it would enable some more accurate data on low value goods. Even data from sampling exercises should assist the ABS in estimating the value of goods entering the country.

A reform pathway

An integrated reform package for the handling and administering of low value imports of goods has been developed that provides for revenue collection on a greater volume of goods than currently occurs. Existing processes are complex and inter-related, volumes are large and the changes multi-faceted. Assuming that the compromises embedded in this approach are acceptable and achievable, a structured and measured pathway for reform would be needed to ensure that:

- the necessary legislation is put in place, compliant with international treaty obligations;
- changes to infrastructure and business processes are coordinated, integrated and fully tested;
- ICT system changes are properly developed and integrated across border agencies and industry participants and, where appropriate, aligned with international information standards;
- full advantage is taken of advances in pre-arrival data in the international mail environment;
- education and training programs are established for the agencies and industry; and
- an education campaign is undertaken for industry and the general public to encourage understanding and compliance with the reforms.

The experience of the introduction of the Integrated Cargo System (ICS) in 2005 demonstrates the significant issues that may arise with any change to import processes. A measured reform pathway would be required that incorporates staging points, timeframes and reference to quantitative criteria – in particular, the proportion of goods with pre-arrival data, that can reduce inefficient and costly manual processing.

A further critical element of the proposed pathway for reform is the need to ensure relevant stakeholders are appropriately consulted before change is put in place.

States and Territories are particularly important. If GST is to apply to a greater volume of goods, it is the States and Territories that will directly benefit financially; however, they are also responsible for funding GST administration costs. States and Territories may need to approve any amendments to simplify the assessment of GST for low value imports and should be consulted on any GST reform.

At the same time this consultation occurs between various tiers of government, appropriate engagement should occur with the broader community. It is not within the scope of the Terms of Reference to recommend a change in threshold values. However, some change could be reasonably assumed to be a consequence of the reforms outlined, if adopted. Consultations highlighted diverging views as to whether any change in threshold levels should occur, and the basis upon which revenue should be assessed. Ongoing engagement will inform industry participants and the community, and enable them to express their views on any potential reform. Consumer groups should be encouraged to participate in an ongoing dialogue and if reforms are adopted, a public education campaign would increase the awareness and understanding of the reforms in the public arena.

Recommendations

RECOMMENDATION 2.1

The Australian Government, through its membership of international organisations and agencies, such as the WCO and UPU, advocate for, and support, appropriate initiatives with respect to the provision and development of electronic data interchange in the international mail stream.

RECOMMENDATION 3.1

While recognising that, at this stage, data and systems limitations preclude the mandating of duty and/or GST collection from financial intermediaries, ongoing consideration should be given to initiatives of this nature that may facilitate the collection of duty and/or GST in the future.

RECOMMENDATION 3.2

That the option of deferral of payment of GST for all GST registrants, while not supported at this time, should be considered further going forward. The proposal requires further research on the administrative benefits for Customs and Border Protection relative to the compliance costs to businesses.

RECOMMENDATION 3.3

That given the complexity of duty arrangements, combined with the trend for duty rates to be lowered and/or abolished in the future, duty and GST low value thresholds be separated to facilitate a more efficient process for handling low value imports, including an option for revenue collection.

RECOMMENDATION 3.4

That to facilitate revenue collection, simplified GST assessment arrangements be applied to low value imported goods that would provide, *inter alia*:

- a for assessment based on value (not including transport and insurance costs). If this is not acceptable, then deemed amounts should be able to be applied (with capacity for importers to apply specific rates if desired); and
- b for processes that enable the use of a declared value of the goods in the first instance, subject to relevant compliance measures.

RECOMMENDATION 4.1

General

That reform to the handling and administration of low value goods, incorporating a new option to collect revenue, would best be achieved through the application of simplified GST assessment arrangements for low value imported goods between a separate low value GST threshold set above \$0 and below \$1,000. This would require modifications to existing processes, including:

- a reconfiguring the systems to enable data capture and the simplified assessment of GST through reporting and clearance processes in the cargo environment, pre-arrival data exchanged electronically by Australia Post and Customs and Border Protection and data manually captured by Australia Post in international mail gateways;
- b requiring Australia Post, express carriers and other freight forwarders to be responsible for collecting and remitting the revenue liability;
- c permitting clearance of goods from licensed depots or the international mail gateways – on an opt in basis – prior to revenue liabilities being met (subject to financial guarantees being in place from the relevant cargo or postal entities). Entities would be permitted to incorporate their collection costs into any direct or indirect charges imposed on importers; and
- d making ancillary changes to cater for increased numbers of business GST deferrals, more compliance activities and processing of claims with respect to GST exemptions.

Modifications would be based on the functional elements set out in Figures 4.3.1 and 4.3.2, which detail the process changes for both the cargo and postal environments. Further details of business requirements are set out in Appendix D.

A Steering Committee consisting of senior representatives from Customs and Border Protection, the ATO, DAFF Biosecurity, CAPEC, Australia Post, and a representative from the States and Territories would be needed to oversee the development and implementation of these change processes.

International mail environment

To further enhance the handling and administration of low value goods, complementary reforms could be undertaken in the international mail environment to establish more consistent reporting and import clearance processes across import streams. This would primarily be achieved through the use of pre-arrival electronic data to streamline border agency processes to allow more targeted, risk based assessment over time.

Together with the modifications required for revenue collection, this approach would require:

- a redesign of the physical layout of international mail gateways;
- b modifications of systems to capture and risk assess data provided by Australia Post in a manner consistent with current cargo reporting and clearance processes;
- c development of system interfaces with Australia Post; and
- d implementation of processes to manually capture value data to assess revenue liability for goods without electronic data (by Australia Post – possibly as delegate or agent of Customs and Border Protection).

Further details of design elements are in Appendix D. A Steering Committee consisting of senior representatives from Customs and Border Protection, DAFF Biosecurity and Australia Post would be needed to oversee the development and implementation of these process modifications. The Steering Committee should be supported by select technical working groups responsible for providing detailed advice on the functional specifications and design parameters in the following areas:

- a ICT systems design; and
- b business process design, including the physical layout.

Business case development

Given the nature and complexity of the task, and the timeframes available, the costing of the proposed approach aims to provide a ‘rough order of magnitude’ of anticipated benefits and costs across a range of alternative scenarios. While this can guide the direction of policy development, it is not a business case for the reform proposed. In recommending the proposed approach as the most feasible, it is recognised that detailed business cases need to be prepared and approved before funding is allocated.

RECOMMENDATION 4.2

In order to streamline revenue collection on low value imported goods, a centralised system for pre-registration for direct debit could be established over time. Brief details of business requirements for the registration of direct debit reform are in Appendix D. System development includes:

- a establishing an online registration web interface and software system;
- b integrating the system with the ICS and other Customs and Border Protection systems, as well as industry business systems; and
- c reconfiguring of the physical border facilities.

While this process change could facilitate a significant proportion of parcels moving quickly into the delivery stream depending on take up rates, its overall efficiency and cost effectiveness depends on the level at which a threshold is set.

RECOMMENDATION 4.3

To streamline revenue collection, legislative arrangements could be amended to enable and encourage appropriately regulated overseas suppliers to collect GST from purchasers of low value goods at the time of purchase.

Brief details of the business requirements of changes required to border processes due to this change are in Appendix D.

RECOMMENDATION 4.4

Building on the culture of innovation and continuous improvement that exists between Customs and Border Protection, DAFF Biosecurity and industry participants in both the cargo and mail environments, in order to enhance the quality, efficiency and effectiveness of border clearance processes, the following actions could be taken to enhance existing processes, remove duplication and enable the measurement of resource utilisation and efficiency:

- a remove the role of Australia Post in opening mail items in secondary examination in the international mail gateways;
- b as pre-arrival data becomes available in the international mail environment, provide funding to support additional research into risk analysis and risk management, so border agency activities in the cargo and mail environments appropriately focus on risk-return outcomes; and
- c facilitate future investment and resource allocation through developing and implementing additional performance criteria measuring the ongoing productivity improvements achieved by Australia's border agencies. The performance criteria could include, but not be limited to, the time taken to undertake inspection and examinations, as well as cross-border agency and cross-gateway performance measures.

RECOMMENDATION 4.5

To streamline duty collection processes, and to facilitate future reform, Customs and Border Protection systems could be modified to provide a web interface to enable completion of FIDs in the international mail environment.

Brief details of the business requirements for these modifications are in Appendix D.

The effectiveness of these changes should be reviewed after three years, and periodically thereafter, to determine if they can be used further for a greater volume of goods.

RECOMMENDATION 4.6

- a That border agency fees and charges should apply to goods valued below \$1,000 to which GST is applied (if any).
- b That in setting the structure and level of border agency fees and charges for such low value goods, and to reduce cross-subsidies that currently exist, fees and charges applied or administered by Customs and Border Protection and DAFF Biosecurity be reviewed in accordance with Australian Government cost recovery guidelines. This will require Cost Recovery Impact Statements for import clearance processes for both Customs and Border Protection and DAFF Biosecurity, and potentially amendments to the *Import Processing Charges Act 2001*.

RECOMMENDATION 4.7

Consequent to DAFF Biosecurity fees and charges being applied to low value imported goods with a GST liability and recognising that any fees and charges placed on Australia Post need to have regard to its ability to recover costs, that DAFF Biosecurity's charge to Australia Post be held constant until a Cost Recovery Impact Statement is undertaken for the mail environment in accordance with the Australian Government cost recovery guidelines, and current funding arrangements are reviewed.

RECOMMENDATION 4.8

- a That Customs and Border Protection undertake periodic testing to assess changes in the levels of under-valuation occurring in relation to low value imported goods.
- b That a review of offence and penalty provisions in the *Customs Act 1901* and the *Taxation Administration Act 1953* be undertaken to ensure that they are appropriate having regard to the growth in low value imported goods and changed processes, including any separation in the thresholds for duty and GST.
- c In conjunction with the introduction of any new process that results in a greater number of goods being assessed for revenue purposes, additional funding be provided to Customs and Border Protection to enable it to undertake additional compliance and enforcement activities. The level of funding to be provided will depend on the volume of goods to be assessed for revenue.

RECOMMENDATION 4.9

That subject to appropriate privacy arrangements, access to additional pre-arrival postal and cargo data be used to facilitate enhanced ATO assessment of undeclared business activities.

RECOMMENDATION 4.10

That to better inform State and Territory policy and investment decisions which they may make as the entities responsible for GST administration costs, annual reporting of GST outcomes by Customs and Border Protection, via the ATO, to the States and Territories could be enhanced through additional reporting of:

- a item volumes, by value bandwidths (per \$100) where possible, over three years (the current year and two previous years) and projected growth in items for the next year, in volumes and percentages;
- b item volumes, by value where possible, by percentage that have item level electronic pre-arrival data; and
- c any changes in policy and practice that expand the availability of pre-arrival data in the international mail stream.

RECOMMENDATION 4.11

That information gathered through sampling exercises, current and future clearance processes, together with any additional information made available through the capture and use of electronic data in the international mail stream for low value goods, be supplied to the ABS for use in the preparation of the Australian National Accounts and other publications.

RECOMMENDATION 5.1

That any implementation of reforms to the handling and administration of low value imports of goods, including an option for revenue collection, should ensure that:

- a reforms with respect to the application of GST on low value goods be undertaken in conjunction with reforms to border processes in the international mail environment to enhance risk based assessment using pre-arrival data;
- b reforms with respect to the application of GST occur in a staged manner having regard to the volumes of goods that need to be processed, the availability of data in the international mail stream and the costs associated with manual capture of data; and
- c as the direct beneficiaries of any increase in GST revenue and the entities responsible for funding GST administration costs, the States and Territories are consulted with respect to any proposed reforms to the application of GST on low value imported goods.

No recommendation is made as to what threshold should apply with respect to a simplified GST assessment arrangement but it is recommended that due consideration be given to a staged introduction to ensure a smooth and efficient transition.

1 INTRODUCTION

1.1 Background to the establishment of the Taskforce

Two recommendations of the Productivity Commission report *Economic Structure and Performance of the Australian Retail Industry* (2011, p. 214) underpin the establishment of the Low Value Parcel Processing Taskforce (the Taskforce). The first is that:

There are strong in-principle grounds for the low value threshold (LVT) exemption for GST and duty on imported goods to be lowered significantly, to promote tax neutrality with domestic sales. However, the Government should not proceed to lower the LVT unless it can be demonstrated that it is cost effective to do so. The cost of raising the additional revenue should be at least broadly comparable to the cost of raising other taxes, and ideally the efficiency gains from reducing the non-neutrality should outweigh the additional costs of revenue collection.

This finding is consistent with that of the Board of Taxation, which recommended in its *Review of the application of GST to cross-border transactions* (2010) that the low value importation threshold of \$1,000 for duty and GST be maintained.

The Government's response to the Productivity Commission's first recommendation was to note it and state that it would reassess the appropriateness of the low value import threshold when it receives the final report of this Taskforce.

The second proposed the composition and scope of a taskforce to investigate the processing of low value imported parcels. In particular, the Productivity Commission recommended:

The Government should establish a taskforce charged with investigating new approaches to the processing of low value imported parcels, particularly those in the international mail stream, and recommending a new process which would deliver significant improvements and efficiencies in handling. The taskforce should comprise independent members, with the Australian Customs and Border Protection Service (Customs), the Australian Quarantine and Inspection Service (AQIS), Australia Post and the Conference of Asia Pacific Express Carriers providing advice. The terms of reference should outline the criteria that any new system must satisfy including: minimising the costs of processing and delivery delays, streamlining the assessment of Customs Duty, user pays, and without compromise to the border protection functions of Customs and AQIS. This review should report to Government in 2012 and propose an expeditious timeframe for its proposed changes. Once an improved international parcels process has been designed, the Australian Government should reassess the extent to which the LVT could be lowered while still remaining cost effective.

The Government agreed with this recommendation.

Consequently, the (then) Assistant Treasurer, the Hon Bill Shorten, together with Senator Stephen Conroy, the Minister for Broadband, Communications and the Digital Economy, the Hon Brendan O'Connor, the (then) Minister for Home Affairs and Justice and Senator Nick Sherry, the (then) Minister for Small Business jointly announced the establishment of the Taskforce on 9 December 2011.

The members of the Taskforce are Dr Bruce Cohen (Chair), Professor Caroline Chan and Mr Jim Marshall. Biographical details of Taskforce members are contained in Appendix A.

1.2 The role of the Taskforce

The role of the Taskforce is to investigate new approaches for the handling and administration of low value imports of goods, including options for revenue collection. In doing so, the Taskforce's Terms of Reference specify that any proposed new system should:

- allow for effective and efficient revenue collection processes that promote tax neutrality with other goods for consumption in Australia;
- streamline the assessment of customs duty;
- minimise any processing and administration costs, delivery delays and other compliance costs;
- pass appropriate costs onto the importer;¹
- provide administrative and competitive neutrality between different import streams where appropriate;
- not compromise border protection. The new system should support the Australian Customs and Border Protection Service (Customs and Border Protection) and Department of Agriculture, Fisheries and Forestry (DAFF) Biosecurity in this role by:
 - allowing for risk based assessment;
 - minimising administrative touch points outside of the natural supply chain for movement and delivery;
 - facilitating pre-arrival information through electronic data interchange where practical;
- support Australia's interaction with the digital economy by ensuring the system is user-friendly, imposes no added barrier to trade and allows for the large expected increase in online retailing; and
- have regard to Australia Post's profitability in the international mail stream, including impacts on capacity and technological change, and its universal service obligation.

The Taskforce notes that it is not within its Terms of Reference to specifically recommend the application of any particular threshold level. However, recognising its genesis, the Taskforce has undertaken a process that has considered potential improvements to current processes based on expected parcel volumes under both existing and other potential threshold settings and arrangements for duty and GST assessment and collection.

The Taskforce's Terms of Reference are set out at the front of this report (see Terms of Reference).

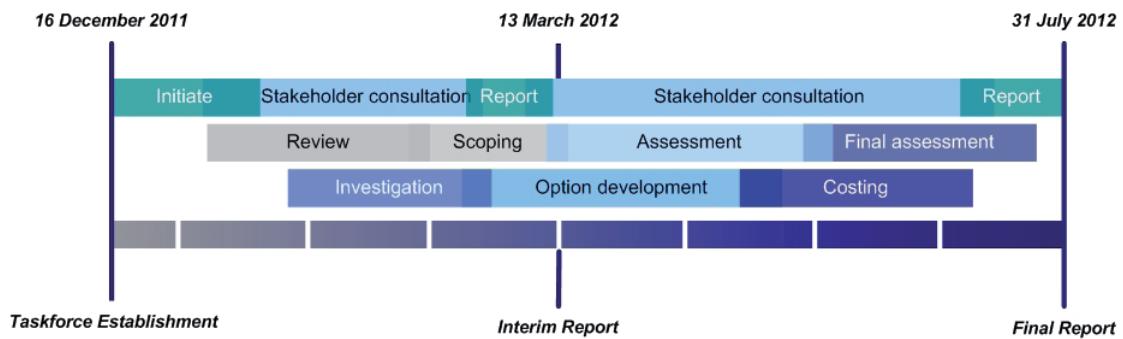
¹ Importer has different meanings under the *Customs Act 1901* and tax law dependent on circumstances.

1.3 How the Taskforce has approached its task

Having regard to the timeframe set by the Terms of Reference, the Taskforce developed and implemented a work program that was both structured and iterative.

Figure 1.3.1

Work program



As illustrated in Figure 1.3.1 above, the Taskforce's methodology encompassed three broad, overlapping phases of activities:

Phase 1 – Analysis of the reform context

In this initial phase, the work of the Taskforce primarily involved analysing the context in which reform was being considered. This included reviewing existing business and border agency processes, reviewing current regulatory arrangements, assessing the current and future operating environment and investigating alternative approaches operating internationally.

Phase 2 – Reform development and initial assessment

Based on the understanding gained during its initial phase of the work, the Taskforce's activities then focused on determining assessment processes, developing reform options and undertaking an initial assessment of potential solutions.

Phase 3 – Detailed assessment of prospective solutions (including costings)

In this third phase, the Taskforce undertook detailed assessments of the more prospective solutions, including costings. Based on the findings of this analysis, recommendations were developed and a blueprint for reform prepared.

Further details as to the manner in which the Taskforce approached its task are in Appendix B.

1.3.1 Consultation processes

In undertaking its work program, the Taskforce has engaged in a series of consultations consistent with its Terms of Reference, which specified:

The Taskforce will consult the views of expert stakeholders, including the Australian Customs and Border Protection Service, DAFF Biosecurity, Australia Post, the Conference of Asia Pacific Express Couriers (CAPEC), and other stakeholders, including small business.

Industry participants and relevant stakeholders

A key aspect of the work undertaken by the Taskforce has been to consult broadly with stakeholders, including industry participants and the retail sector. These meetings with stakeholders provided an opportunity for the Taskforce to be informed about key issues and challenges in the low value parcel processing environment, both in the international mail stream and the cargo environment. Information gathered during these sessions was essential in informing Taskforce activities and considerations. The Taskforce also was able to obtain feedback from industry participants and other key stakeholders with respect to a range of potential solutions.

In the early phase, meetings focused on:

- gathering information of how processes operate in their respective environments;
- examining developments and initiatives currently in train to improve low value import processing;
- understanding the impact of e-commerce and the challenges it creates for current processes. Issues raised in this context relate both directly to the efficiency of the current processes, and also to broader issues such as the general impact that the growth of e-commerce is having on Australian retailers, as well as other matters such as the risks associated with goods being imported that fail to meet Australian safety standards and the potential for under-declaration of values in an e-commerce environment;
- seeking views on the impacts, in terms of profitability, resourcing and infrastructure capacity, that would be associated with processing substantially increased volumes of parcels for revenue collection purposes; and
- seeking suggestions and views on where improvements could be made to achieve efficiencies.

In later phases, consultation focused on more detailed discussion of potential solutions, and in particular those regarded as most promising. As it is recognised that reforms may impact on the business processes of industry participants and their customers, as far as practicable the input and views of key stakeholders were sought with respect to both potential implementation and ongoing operational issues.

The Taskforce wishes to record its appreciation for the manner in which stakeholders have engaged in this process – particularly recognising the complexity of the issues at hand, the still evolving reform environment in which they are being considered and the diversity of views that are held with respect to matters directly and indirectly related to issues that the Taskforce has been asked to address.

A list of all of the stakeholders with whom the Taskforce met is in Appendix C.

Government departments and agencies

The Taskforce also engaged extensively with government departments and agencies, including Customs and Border Protection, DAFF Biosecurity, Treasury, the Australian Taxation Office (ATO), the Department of Broadband, Communication and the Digital Economy (DBCDE) and the Australian Bureau of Statistics (ABS). These consultations involved both the provision of information as to the nature and scope of existing processes, as well as assistance in the assessment of elements of potential solutions with respect to the handling and administration of the import of low value goods, including options for revenue collection.

The Taskforce also consulted with the States and Territories collectively. This is because the States and Territories receive the revenue collected from the GST, and are responsible for the costs associated with the ATO's administration of that revenue base.

Again, the Taskforce wishes to note its appreciation for the time and assistance provided by these government departments and agencies.

1.4 How this report is structured

Consistent with the approach taken in this investigation, this report is structured as follows:

- Chapter 1 sets out the background to the establishment of the Taskforce, the task undertaken and the approach adopted to completing this task;
- Chapter 2 describes the reform context in which changes to the administration and management of import of low value goods is being considered. More specifically, this chapter consists of five sections, and deals with the following issues:
 - the volume and nature of low value parcel imports (section 2.2);
 - import processes for low value goods (section 2.3);
 - border processes – border security, biosecurity and revenue collection (section 2.4); and
 - related reform initiatives (section 2.5).

Each section also sets out the Taskforce's observations with regard to key elements of the reform context, which in turn have guided the work detailed in the following chapters;

- Chapter 3 details the range of potential solutions that the Taskforce considered in determining which reforms it regarded as most promising. Where relevant, it also sets out recommendations;
- Chapter 4 sets out the detailed assessments, including costings, undertaken for the most promising solutions, and the implications of those findings on potential reforms; and
- Chapter 5 sets out a proposed blueprint for reform having regard to the analysis set out in the previous chapters.

1.4.1 Confidential information

In preparing this report, the Taskforce has accessed and used confidential information that either relates to border security and biosecurity processes or is commercial in confidence.

Where appropriate, the Taskforce has either refrained from referencing this information directly, or has sought to express it in the report in a form that has been normalised or is otherwise not readily identifiable.

To the extent that the report still incorporates, explicitly or implicitly, any details that may be regarded as confidential in nature, any public release of this report should take account of such confidential information, and where necessary redact this information in consultation with the relevant provider(s) before this report's release.

2 REFORM CONTEXT

2.1 Introduction

Low value goods enter into Australia in a variety of ways and for numerous reasons. They arrive by sea and by air. They are brought in through the mail system and as cargo. Many are ordered from overseas by someone living in Australia; others are gifts sent by relatives or friends residing overseas. They may be for use by business or for personal enjoyment. Sometimes the goods are prohibited or restricted items, brought into the country knowingly or unknowingly in contravention of Australian law. Such items are the target of Australia's border security and biosecurity processes. Figure 2.1.1 provides an overview of the process of low value goods importation into Australia.

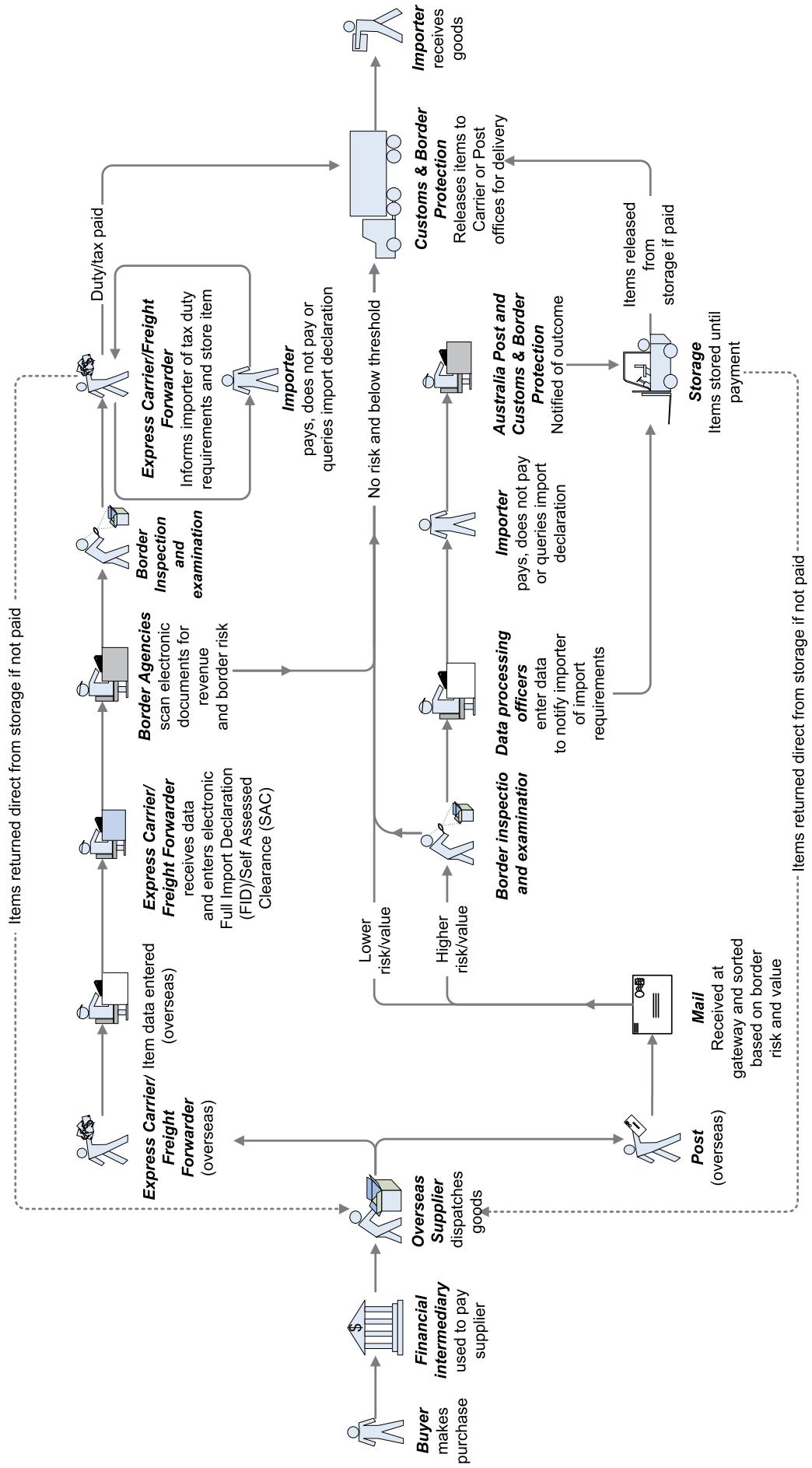
By analysing these import and border processes, the participants involved and the changing environment in which they are operating, this chapter sets out the context for potential reforms for the handling and administration of low value imports of goods. Where relevant, it highlights aspects of the current arrangements that inform and influence the nature and feasibility of potential reform solutions.

Specifically, this chapter examines:

- the current and expected volume and nature of parcels arriving in Australia;
- the different ways in which low value goods enter Australia;
- the current arrangements and processes that operate for goods arriving in Australia, focusing on border security, biosecurity and revenue collection; and
- international initiatives that may affect how these processes will operate in the future.

Figure 2.1.1

Importation of low value goods into Australia – an overview



2.2 Volume and nature of low value goods

2.2.1 Introduction

Proposals for reform need to take account of the scale and nature of the import task that industry participants and Australia's border agencies need to manage – now and in the future. Attributes such as volumes, values, product type and use are critical because each impacts upon the cost effectiveness and efficiency of both current and potential new processes.

For example, current and future volumes determine the size of the handling and administration task, hence the physical, technical and staffing requirements of systems and processes, while value distributions determine the number of goods to be assessed for revenue at any given threshold level. Similarly, the proportion of goods imported for business purposes is relevant in relation to the GST. Australia's GST arrangements allow businesses registered for GST to claim an input tax credit (ITC) equal to the GST paid for goods they import to the extent it is used for business purposes. The extent to which ITCs are available affects the net revenue achievable from any reform. So too data with respect to product type is relevant for the purposes of determining whether a GST exemption for that type of product is available, while separately data as to origin and product type are both relevant for duty assessments.

In considering these attributes, however, it needs to be recognised that certain changes to policy parameters – for example, a lowering of the threshold at which goods become subject to duty and/or GST – will impact in some measure on the number and nature of low value imports going forward. This issue is considered in further detail in Chapter 4.

2.2.2 Current volumes, values and characteristics by import stream

Mail

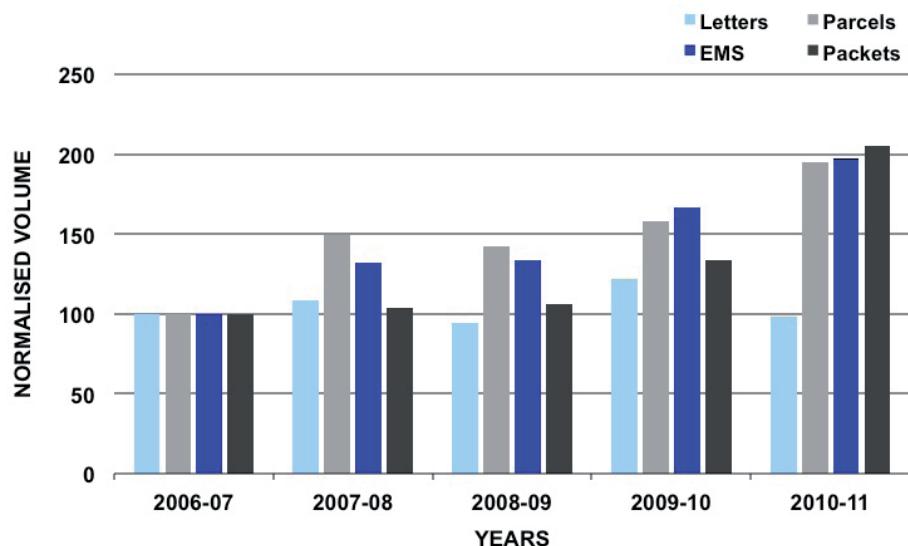
Volumes

The volume of low value parcels entering into Australia through the international mail stream has increased significantly in recent years. Between 2006–07 and 2010–11, the number of international mail items comprising Express Mail Service (EMS) items, packets (items less than 2kg) and parcels (items over 2kg), grew from 23.56 million to 48.06 million – an increase of 104 per cent. This represents a compound annual growth rate of 19.5 per cent over the four years. Over the last two years, the compound annual growth rate was 36 per cent. The bulk of the increase was packets, which represents 80.1 per cent of the increased volume.

Figure 2.2.1 illustrates the scale of growth by product type using normalised data. Volumes virtually doubled in all three categories – EMS, packets, and parcels – in the four years to 2010–11. Letter volumes however remained fairly steady during this period, though there has been a small increase in 2011–12.²

Figure 2.2.1

Inward mail volume growth by product type
2006–07 to 2010–11



Source: Australia Post internal data normalised to 2006–07.

Values

The value distribution of low value goods imported through the international mail stream is skewed towards the lower end, with most items valued below \$300 (see Table 2.2.1). This is broadly consistent with the value distribution in the air cargo environment (see Table 2.2.2). The distribution of values also varies substantially by mail product type. For example, very few packets contain goods valued above \$500.

² Internal Australia Post data for 2011–12.

Table 2.2.1

Sample distribution of mail values by product type

Value (\$Band)	EMS		Parcels (> 2kg)		Packets (< 2kg)		Total	
	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent
0	203	17.17	323	12.80	372	22.49	898	16.76
> 0 to 100	526	44.50	1,395	55.29	1,196	72.31	3,117	58.16
> 100 to 200	213	18.02	413	16.37	66	3.99	692	12.91
> 200 to 300	80	6.77	165	6.54	14	0.85	259	4.83
> 300 to 400	47	3.98	80	3.17	4	0.24	131	2.44
> 400 to 500	41	3.47	45	1.78	-	0.00	86	1.60
> 500 to 600	23	1.95	39	1.55	1	0.06	63	1.18
> 600 to 700	16	1.35	30	1.19	1	0.06	47	0.88
> 700 to 800	12	1.02	8	0.32	-	0.00	20	0.37
> 800 to 900	11	0.93	3	0.12	-	0.00	14	0.26
> 900 to 1000	6	0.51	9	0.36	-	0.00	15	0.28
> 1000	4	0.34	13	0.52	-	0.00	17	0.32
TOTAL	1,182	100	2,523	100	1,654	100	5,359	100

Source: Customs and Border Protection sampling exercise November/December 2010.

The data above are derived from a sampling exercise undertaken by Customs and Border Protection, which analysed the declared value of international mail items between 29 November 2010 and 3 December 2010. The sample of 5,359 items was limited to 'screened free' items, that is, those with a declared or deemed value at or below the import threshold of \$1,000.³ More accurate estimates of value distribution for EMS items and parcels will be available as electronic data is provided through the Kahala Posts Group (the Kahala group) processes and broader UPU/MEDICI initiatives (see section 2.5).

Characteristics

Only limited information is available as to the type of goods arriving through the international mail stream.⁴

Generally, the Taskforce has been advised that in addition to letters and documents, the type of items that typically come in through international mail include clothing and footwear, cosmetics, electronic goods, books, CDs and DVDs, mechanical parts, sporting goods, musical instruments and food. In addition, both tobacco and alcohol are more commonly sent through the mail than as air cargo.

³ Table 2.2.1 also shows goods valued in excess of \$1,000. In 2010–11, 17,318 full import declarations were completed for goods valued above \$1,000 in the international mail stream (see further below).

⁴ While recognising the limited information available with respect to the type of goods being imported through the mail stream, it was determined not to undertake a separate sampling exercise having regard to the time and cost involved in such an exercise, the purposes for which that information would be used, and most importantly because more comprehensive data can be expected to become available progressively through the introduction of electronic data interchange in the international mail stream. A similar question arose with respect to the use of low value imported goods (business or personal) – in this instance, while the data is important, a sampling exercise would be of limited reliability unless it were possible to follow each good through to its actual recipient (which was not considered feasible).

Like the value distributions, more accurate data on the types of goods will be available for EMS items and parcels (greater than 2kg) as electronic data is provided through the Kahala group processes and broader UPU/MEDICI initiatives (see section 2.5). However, this is likely to represent a limited proportion of total mail items and parcels for the foreseeable future.

Air cargo

Volumes

Like the international mail stream, the volume of low value goods arriving as air cargo has increased substantially in recent years (see Table 2.2.2). The number of goods imported valued below \$1,000 between 2008–09 and 2010–11 has increased by 58.2 per cent (a compound annual growth rate of 25.8 per cent). By comparison, the number of goods valued between \$1,000 and \$5,000 grew by just over 18 per cent in the same period (see Table 2.2.3).

Table 2.2.2

Air cargo volume of low value goods less than or equal to \$1000⁵
2008–09 to 2010–11

Value (\$Band)	2008–09		2009–10		2010–11	
	Number	Per cent	Number	Per cent	Number	Per cent
0 to 100	5,079,876	76.03	5,819,109	72.55	7,206,897	68.17
101 to 200	589,976	8.83	820,159	10.23	1,378,728	13.04
201 to 300	300,800	4.50	409,585	5.11	633,720	5.99
301 to 400	180,853	2.71	258,597	3.22	366,238	3.46
401 to 500	135,033	2.02	182,895	2.28	266,221	2.52
501 to 600	102,091	1.53	145,588	1.82	197,217	1.87
601 to 700	85,485	1.28	116,575	1.45	154,594	1.46
701 to 800	79,954	1.20	99,090	1.24	134,940	1.28
801 to 900	68,554	1.03	94,922	1.18	128,737	1.22
901 to 1000	58,437	0.87	74,045	0.92	105,379	1.00
TOTAL	6,681,059	100	8,020,565	100	10,572,671	100

Source: Customs and Border Protection Integrated Cargo System (ICS) data.

Values

The value distribution of low value goods below \$1,000 in the air cargo environment is similar to that in international mail stream, with most valued below \$300 (see Table 2.2.2). However, in recent years the growth in volume varies by value band – which impacts on the value distribution from year to year. For example, goods valued between \$1 and \$100 grew from approximately 5.08 million in 2008–09 to 7.21 million in 2010–11 – an increase of 42 per cent, while goods with a value between \$900 and \$1,000 grew from 58,437 in 2008–09 to 105,379 in 2010–11 – an increase of 80 per cent. The highest growth has been in the \$100 to \$200 band – around 134 per cent.

⁵ This data does not include imports under Special Reporter Arrangements.

Table 2.2.3

Air cargo volume of goods less than or equal to \$5,000
2008–09 to 2010–11

Value (\$Band)	2008–09		2009–10		2010–11	
	Number	% ann. growth	Number	% ann. growth	Number	% ann. growth
Total (0–1000)	6,681,059	n.a	8,020,565	20.0	10,572,671	31.8
> 1000 to 1100	35,037	n.a	40,732	16.3	44,346	8.9
> 1100 to 1200	31,273	n.a	35,941	14.9	39,593	10.2
> 1200 to 1300	28,757	n.a	31,702	10.2	35,910	13.3
> 1300 to 1400	25,749	n.a	28,799	11.8	33,697	17.0
> 1400 to 1500	24,703	n.a	26,994	9.3	31,785	17.7
> 1500 to 5000	360,956	n.a	388,293	7.6	412,319	6.2
Total (>0 - 1500)	6,826,578	n.a	8,184,733	19.9	10,758,002	31.4
Total (>1000 - 1500)	145,519	n.a	164,168	12.8	185,331	12.9
Total (>1000 - 5000)	506,475	n.a	552,461	9.1	597,650	8.2
Total (>0 - 5000)	7,187,534	n.a	8,573,026	19.3	11,170,321	30.3

Source: Customs and Border Protection ICS data.

Sampling undertaken by CAPEC (2011) indicates further that this value distribution differs by recipient type (see Table 2.2.4). CAPEC's data indicates that as the item value of goods imported as air cargo increases, the proportion delivered to businesses increases.

Table 2.2.4

Low value consignments for individuals and businesses

Value range	Consignment value		Consignment numbers	
	Business/other (%)	Individual (%)	Business/other (%)	Individual (%)
\$0 – \$100	33.2	66.8	49.8	50.2
\$101 – \$200	29.7	70.3	29.4	70.6
\$201 – \$300	35.7	64.3	35.4	64.6
\$301 – \$400	41.4	58.6	41.3	58.7
\$401 – \$500	45.8	54.2	45.8	54.2
\$501 – \$600	50.0	50.0	50.1	49.9
\$601 – \$700	53.2	46.8	53.3	46.7
\$701 – \$800	58.2	41.8	58.2	41.8
\$801 – \$900	55.5	44.5	55.5	44.5
\$901 – \$1,000	59.5	40.5	59.4	40.6

Source: CAPEC (2011) (CIE Report Table 2.5).

Characteristics

Low value air cargo consignments vary both in product and recipient type. Based on a sample of 4,000 consignments of low value goods (2,000 individuals and 2,000 businesses) undertaken by CAPEC (2011), the major imports are clothing (41 per cent for individuals; 15 for businesses) and electronic goods (19 per cent for individual; 21 per cent for businesses) (see Table 2.2.5). Other imported goods included mechanical parts, sporting goods, books and magazines, medical supplies, CDs and DVDs, and food.

Table 2.2.5

Low value imports by product category

Product type	Individuals (%)	Businesses (%)	Total (%)
Textile and fashion	41	15	26
Electronic and related	19	21	20
CDs and DVDs	1	1	1
Software	1	0	0
Sporting goods	7	2	4
Cosmetic and cleaning	1	0	0
Mechanical parts	4	9	7
Books, magazines, newspaper and related goods	1	2	2
Medical supplies	0	3	2
Educational goods	0	0	0
Wine (liquor)	0	0	0
Food	2	1	1
Other	23	45	36
Total imports	100	100	100

Source: CAPEC (2011) (CIE Report Table 2.6).

Sea cargo

Volumes

The volume of low value goods arriving as sea cargo is small relative to both mail and air cargo (see Table 2.2.6). Growth in the volume of low value goods (below \$1,000) arriving as sea cargo has been relatively muted in recent years.

Table 2.2.6

Sea cargo volume of goods less than or equal to \$5,000
2008–09 to 2010–11

Value (\$Band)	2008–09		2009–10		2010–11	
	Number	% ann. growth	Number	% ann. growth	Number	% ann. growth
0 to 1000	60,222	n.a	47,369	-21.3	57,246	20.9
> 1000 to 1100	2,317	n.a	3,029	30.7	3,379	11.6
> 1100 to 1200	2,286	n.a	3,216	40.7	3,317	3.1
> 1200 to 1300	2,328	n.a	3,131	34.5	3,347	6.9
> 1300 to 1400	2,514	n.a	3,142	25.0	3,318	5.6
> 1400 to 1500	2,514	n.a	3,246	29.1	3,496	7.7
> 1500 to 5000	93,749	n.a	116,489	24.3	124,334	6.7
Total (0 - 1000)	60,222	n.a	47,369	-21.3	57,246	20.9
Total (0 - 1500)	72,181	n.a	63,133	-12.5	74,103	17.4
Total (>1000 - 1500)	11,959	n.a	15,764	31.8	16,857	6.9
Total (0 - 5000)	165,930	n.a	179,622	8.3	198,437	10.5

Source: Customs and Border Protection ICS data.

Values

A relatively high proportion of goods valued below \$5,000 arriving as sea cargo fall in the upper bands of this value distribution – that is, between \$1,500 and \$5,000 (see Table 2.2.6). This accounts for more than half of the total sea cargo below \$5,000, as compared to less than five per cent of the proportion of goods arriving as air cargo.

Characteristics

Little information is available as to the characteristics of low value goods arriving as sea cargo. However, given the relatively low number of goods arriving through this import stream, a sampling exercise was not considered warranted.

International travellers

Goods imported by international travellers – as the accompanied baggage of an arriving person or purchased by an arriving person at an inwards duty free shop – are generally for personal use. These typically are small items including alcohol and tobacco products, perfume and cosmetics, and small electronic goods such as cameras, laptops and MP3 players.

Given the genesis of this Taskforce and its Terms of Reference, goods brought in by international travellers are not central to the scope of issues being investigated. Nevertheless, in considering the implications of potential solutions, regard is given to imports of this nature to the extent relevant.

Observations

In relation to the current volumes, values and characteristics of low value imported goods, observations informing the development of potential solutions include:

- parcel volumes have grown rapidly in recent years, placing pressure on both business and border agency processes designed for the handling and administration of low value imports;
- value distributions in both the international mail stream and the cargo environment for goods under \$1,000 show that most are less than \$300. This means the task of assessing revenue on the relatively higher value goods is substantially less than would be the case if all goods were required to be assessed; however, the aggregate revenue to be gained is less although the revenue per item will be higher;
- options to assess revenue for all parcels are likely to need to strike a balance between processes that take advantage of economies of scale, and the sheer scale of such a task and its consequential impacts on matters such as storage and delays in delivery;
- as volumes and value distributions will change over time, reforms need to be sufficiently robust and flexible to accommodate changing circumstances;
- the range of product types being imported suggests potential complexities with revenue collection on low value goods, particularly in relation to possible approaches to duty and the exemptions currently applied to GST;
- the number of goods being imported valued between \$1,000 and \$5,000 is small compared to those valued at less than \$1,000. As duty rates fall and the number of free trade agreements increases, the benefit of assessing those goods for duty is likely to fall relative to the collection costs; and
- while the data available for analysis with respect to volumes, values and characteristics is not complete, additional information should become available shortly which can be used to verify (or otherwise) the data relied upon or estimated in determining recommendations.

2.2.3 Factors likely to impact on growth of parcels

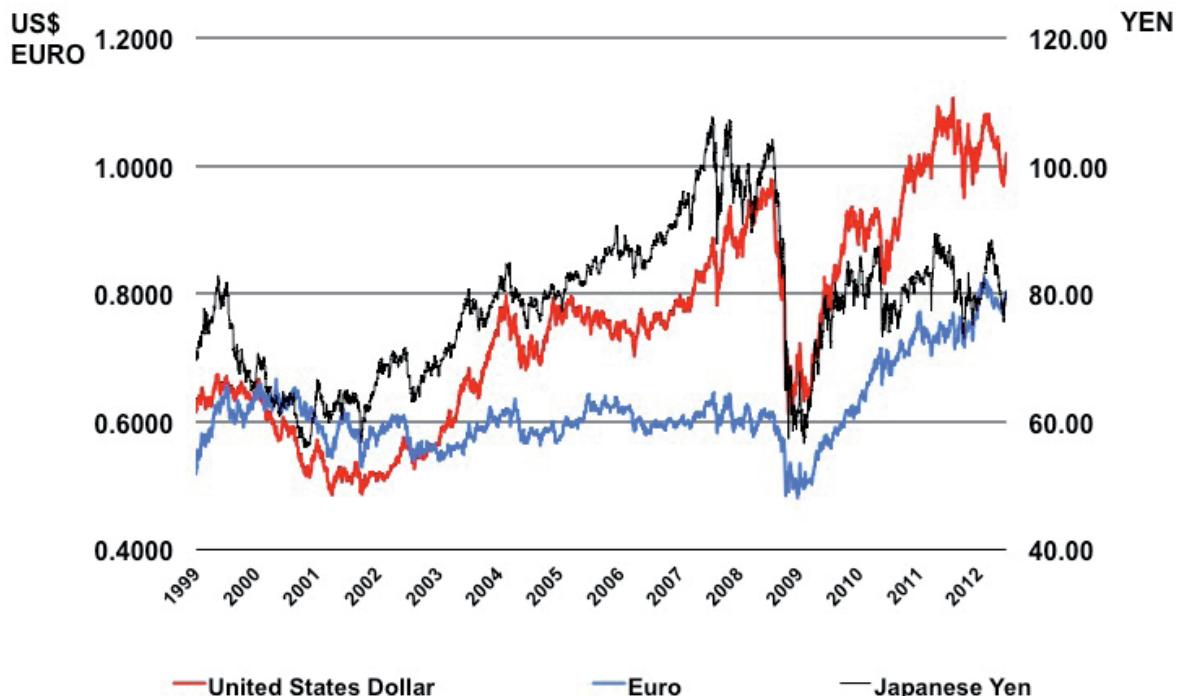
As the Productivity Commission highlighted in its report into Australia's retail industry, growth in parcel numbers is directly attributable to the growth in online shopping from overseas suppliers. This online shopping market benefits from a variety of factors including:

- *pricing*: a key driver of online sales from overseas retailers has been the difference in prices available from overseas retailers compared to those from traditional bricks and mortar retailers in Australia. This is reflected in a survey of adults over 18 by ACMA (2011) which found that the second most important reason given for shopping online was 'the good being cheaper', after 'convenience'. Frost and Sullivan (2010) found that price was the most important reason for shopping online, followed by convenience;

- *retail industry channel expansion*: online shopping is becoming increasingly prevalent, and this will continue to grow both locally and overseas as online sales become just another channel for the retail industry. Even the growth of Australian online retailers will potentially drive sales overseas because in some instances orders are transferred from an Australian website to an offshore website, with the goods delivered from overseas. This can be expected to increase as more bricks and mortar retailers include online purchasing as a sales channel, facilitated by new technologies and supporting applications;
- *mobile technology adoption in retail*: another driver is mobile transactions. Despite the apparent lag in online purchasing until recently Australians are generally early adopters of technology. PayPal (2011) noted a 14-fold increase in its mobile payment volumes between 2009 and 2010. ACMA (2011) found a doubling in the number of people using mobile devices to purchase goods online between June 2010 and June 2011. More recent data from IMRG Capgemini (2012), who produce an m-Retail Sales Index, has seen year to date annual growth in mobile transactions (both phones and tablets) of over 300 per cent in the UK. Mobile transactions facilitate both comparisons and impulse buying, and will become an increasingly important component of online purchasing as mobile devices develop more functionality;
- *the greater range of goods and services available online*: while price is an important contributor to overseas purchases, the ability to select from, and buy, a wider range of goods enhances the attractiveness of online shopping. ACMA (2011) found that the third most important reason for shopping online was that it provided a 'better range of goods and services'. Another reason mentioned is that 'goods [are] only available online';
- *growing consumer confidence with online shopping and related payment systems*: the introduction of trusted online payment systems such as PayPal, which do not require purchasers to give their credit card or banking details to the party from whom they are purchasing, has improved Australian consumers' sense of security with online payments. Younger consumers are generally more comfortable than others with online payments, including through mobile devices. The ACMA (2011) survey indicated only nine per cent of respondents said that 'they did not want to give their credit card details online' as a reason not to purchase online;
- *the convenience of online shopping and delivery*: delivery of goods is contributing to the growth of online sales, particularly for consumers who are time-poor. This is reflected in the ACMA (2011) survey, which found 'convenience' to be the most important reason for shopping online. The need to enhance the convenience of online shopping – from both domestic and overseas retailers – is driving innovation in distribution, such as goods being delivered outside of normal working hours. Australia Post, for example, is developing 24 hour access service centres and parcel lockers; and
- *the rise in the Australian dollar* (see Figure 2.2.2): the exchange rate has been a significant driver of online purchasing since 2009. Price is one of the three main drivers of growth in online purchases, and the shift in the value of the Australian dollar has made online shopping from overseas retailers more attractive.

Figure 2.2.2

Value of the Australian dollar between 1999 and 2012



Source: Reserve Bank of Australia, 2012.

- *taxation*: as numerous submissions to the Productivity Commission (2011) inquiry into the retail industry highlight, unlike domestic retail sales, goods valued at or below \$1,000 that are purchased online from overseas are generally not subject to either duty or GST.⁶ This threshold is considerably higher than those which apply in many other jurisdictions (see Table 2.2.7). For example, in the United Kingdom (£15 (A\$25) for VAT; £135 (A\$223) for duty);⁷ and Canada (C\$20 (A\$20) for GST and duty).⁸

Threshold arrangements in other jurisdictions can be complicated by other factors, including the differential treatment of duty and GST/VAT, the treatment of gifts, the presence of both simplified and general tariff arrangements, and differential reporting and declaration standards applying at different thresholds. Each of these attributes is considered when developing and assessing potential solutions in the following chapters.

⁶ With the exception of alcohol and tobacco products and some other prescribed items. Further, a different threshold applies for goods brought into Australia by international travellers.

⁷ Customs duty becomes payable if the value of the goods is over £135 but duty is waived if the amount of duty calculated is less than £9.

⁸ Foreign exchange rates as at 8 June 2012.

Table 2.2.7

Low value thresholds in overseas jurisdictions

	United Kingdom	Canada	Singapore
Threshold: Tax			
VAT/GST	£15 (A\$24.73)	C\$20 (A\$20.49)	S\$400 (A\$329.19)
Gift	£40 (A\$65.95) ^[1]	C\$60 (A\$61.48)	S\$400 (A\$329.19)
Duty	£135 (A\$222.59)	C\$20 (A\$20.49)	S\$0 ^[2]
Threshold: Reporting			
Simplified ID	-	C\$20 (A\$20.49)	-
Full ID	£2,000 (A\$3,297.61)	C\$1,600 (A\$1,639.34)	S\$400 (A\$321.19)
Processing Charge			
Processing Charge	Royal Mail handling charge £8 (A\$13.19) (EMS £13.50 (A\$22.25))	Canada Post handling charge of C\$8.50 (A\$8.71)	S\$5.00 (A\$4.11) Singapore Post handling charge. If Singapore Post is required to assist customers with revenue processing, an additional charge of S\$15 (A\$12.34) is levied
	South Korea	New Zealand	USA
Threshold: Tax			
VAT/GST	US\$250 (A\$262.00)	NZ\$400 (A\$322.66) ^[3]	-
Gift	₩150,000 (A\$127)	NZ\$110 (A\$88.73) ^[4]	US\$100 (A\$104.80)
Duty	US\$250 (A\$262.00)	NZ\$400 (A\$322.66)	US\$200 (A\$209.60)
Threshold: Reporting			
Simplified ID	-	-	US\$200 (A\$209.60)
Full ID	US\$600 (A\$628.80)	NZ\$1,000 (A\$806.65)	US\$2,000 (A\$2,096.00) (commercial use)
Processing Charge			
Processing charge	₩1,000 (\$A0.86) (Post delivery notification charge)	NZ\$25.30 (A\$20.41) plus (Biosecurity charge) NZ\$12.77 (\$10.30)	US\$5.35 (A\$5.61) (Post) US\$5.50 (A\$5.76) (Customs)

Source: UK – Royal Mail and Her Majesty's Revenue and Customs

Canada – Canada Border Services Agency

Singapore – Singapore Post and Singapore Customs

South Korea – Korean Customs Service

New Zealand – New Zealand Customs Service

USA – US Customs

Notes: [1] for United Kingdom gifts – the amount of £40 is per addressee – if the goods are sent to four addressees on the address label, the threshold is £40 pounds each addressee, ie £160 pounds total.

[2] Singapore: Alcohol and Tobacco are the only dutiable items sent through the mail.

[3] NZ Customs does not collect duty and GST where the total revenue payable on any one importation is less than \$60.

[4] If the gift is worth more than NZ\$110, Customs charges will be payable on the value of the gift that is worth more than NZ\$110. In addition gifts to different people are all subject to a \$110 allowance.

While it is beyond the scope of this report to assess how each factor may affect growth of overseas online retailing in the future, it is necessary to recognise that many factors are contributing to this growth – and as a result the volume of low value parcels entering Australia is expected to continue to increase.

2.2.4 Future growth estimates

Total retail trade in Australia in 2010 was \$243 billion out of a total household consumption of \$715 billion (ABS 2011a, 2011b). At that time, estimates of the size of Australian online expenditure varied from about \$9.4 billion (Urbis, 2011) to \$12.6 billion (Productivity Commission, 2011), or 3.9 per cent to 6.0 per cent of this retail trade figure. PayPal (2010) research had online expenditure for that year at \$26.9 billion. However, this included items such as travel, events and movie tickets not typically categorised as retail. The ABS has not separately recorded statistics for online shopping but an announcement in July 2012 by the Assistant Treasurer indicated that the ABS will receive \$2.1 million over four years to track internet purchases for the first time (Bradbury, 2012).

Australian online shopping was considered to lag behind a number of developed countries (Access Economics, 2010). For example, Frost & Sullivan (2010) noted previously that Australia lagged behind the US and the UK by about three years. However, this appears to be changing. In the US total online retail expenditure was estimated at \$226 billion (about seven per cent) for 2011 with a similar figure for 2010 (Forrester, 2012a). A contributor to the lack of growth in the US is likely to have been the relative weakness of its economy. In the UK online shopping accounted for 8.5 per cent of all retail sales values excluding automotive fuel in March 2012, which was less than the February figure of 10.7 per cent (ONS 2012a, b). While these numbers vary, they are above the levels of both the US and Australia.

Online retailing is growing at significant rates around the world at a time when the world's developed economies are showing little growth. Some of this growth is coming at the expense of traditional 'bricks and mortar' retail outlets. In the UK year on year growth to April 2012 was 18.1 per cent (ONS, 2012b). More generally, Forrester (2012b) estimates that retail sales over 17 major European markets will increase from €96.7 billion (2011) to €172.0 billion by 2016 – a compound annual growth rate of 12.2 per cent. For the UK, it predicts online annual growth of around 11 per cent and that by 2016 online sales will account for more than 14 per cent of total retail sales. In the Asia Pacific, Forrester (2012c) indicates the mature economies of Japan, South Korea and Australia will see compound annual growth rates in online retail of 11 to 12 per cent over the next five years, while China and India will see growth of 25 and 57 per cent per annum respectively.

For Australia, 11 to 12 per cent growth accords with estimates by PWC/Frost & Sullivan (2011), who estimated online shopping expenditure at around \$13.6 billion in 2011, with forecast growth of 12.6 per cent per annum out to 2015, reaching \$21.7 billion. The National Australia Bank (NAB) (2012) estimated online retail expenditure in 2011 at \$10.5 billion, or 4.9 per cent of traditional retail expenditure but had online growth at 29 per cent in 2011 compared with traditional retailing at 2.5 per cent in the same period. While NAB does not provide a growth estimate, applying the 29 per cent growth figure out to the end of 2015 would see total retail online expenditure of close to \$29 billion. Finally, PayPal (2012) now estimates the retail market to hit \$34.8 billion by 2013, although again this estimate includes items such as travel, events and movies.

Estimates of how much of online expenditure is spent on overseas websites vary considerably. NAB (2012) notes a figure of 29 per cent at the end of 2011, with growth in overseas online expenditure at 40 per cent in 2011. PWC/Frost & Sullivan (2011) estimates the proportion to

be 44 per cent for 2011. ACMA (2011) also noted a drop from 68 per cent to 53 per cent (between November 2009 and April 2011) for Australians who mainly use Australian websites.

These forecasts, together with industry information, have informed estimates of the growth in parcel volumes which need to be considered in assessing any new processes for handling and administering imports of low value goods.

Observations

In relation to the future growth of low value imported goods, observations informing the development of potential solutions include:

- the growth in low value imports that Australia has experienced in the past few years shows few signs of abating in the near future;
- many forces are driving growth in online retailing with overseas suppliers, of which the exemption of low value goods from duty and GST is only one. Even if these arrangements change, there are still factors that will drive growth in low value imports;
- as the Productivity Commission concluded, issues relating to duty and GST are only partial contributors to the differences in prices that exist between traditional Australian retailers and overseas online retailers in relation to low value goods;
- while many other jurisdictions apply lower thresholds with respect to imported goods, those visited during this investigation were each looking at ways to reconfigure existing processes to deal with growing parcel volumes – primarily through better utilisation of technology and pre-arrival data;
- the future growth in low value imports provides both opportunities and challenges for industry participants such as the express carriers and Australia Post. It will impact on the scale and efficiency of their facilities at the border, as well as in their downstream distribution networks. As volumes increase, there will be capacity constraints to be addressed and new investment required;
- ongoing growth in low value imports is likely to drive further changes in business practices – both in Australia and overseas. For example, the existing situation creates an incentive for Australian retailers to establish overseas operations through their online retail activities;
- pressure will continue to build on Australia's border agencies, which have to handle and administer parcel volumes that have increased significantly over a very short timeframe, and will continue to grow. To do so in an environment of budget discipline requires a continuous process of innovation and improvement to enhance productivity and cost effectiveness;
- determining the broader economic impacts that the growth in overseas online retailing is having on the Australian economy, and specifically on employment in the Australian retail sector, is beyond the scope of this investigation. However, recognising the genuine concerns held by many in the retail sector, and in the community more broadly, on these matters, it is appropriate and necessary to assess information provided about these impacts to facilitate analysis of the impact of potential reforms on parcel volumes into the future (see Chapter 4);⁹ and

⁹ Information relevant in these assessments include growth projections, shares of online activity and implied elasticities underpinning the report prepared for the National Retail Association Ltd (NRA) (2012) which noted that up to 33,400 jobs could be lost in the retail sector as people move towards overseas retailers and away from domestic retailers, with a consequential loss in Gross Domestic Product of between \$3.9 billion and \$6.5 billion by 2015. The NRA's estimate assumed the low value threshold would remain at \$1,000 for duty and GST. The NRA Report also provided an estimate of the impact of removing the low value threshold on international online sales under both a 'medium' and 'high' impact scenario.

- there are numerous issues associated with the growth in parcel volumes – for example in relation to product safety and counterfeit goods – which cannot be fully addressed or resolved within the scope of this investigation. While recognising the importance of these issues, effective solutions don't simply lie within the realm of border processes, but more broadly – for example, in the way in which product safety standards are determined, in trademark legislation, and in the role that can be played by State and Territory consumer bodies. To the extent that there is a role to be played by border agencies in the context of the low value imported goods, these issues are considered briefly in Chapter 4 with respect to compliance.

2.3 Import processes for low value goods

2.3.1 Introduction

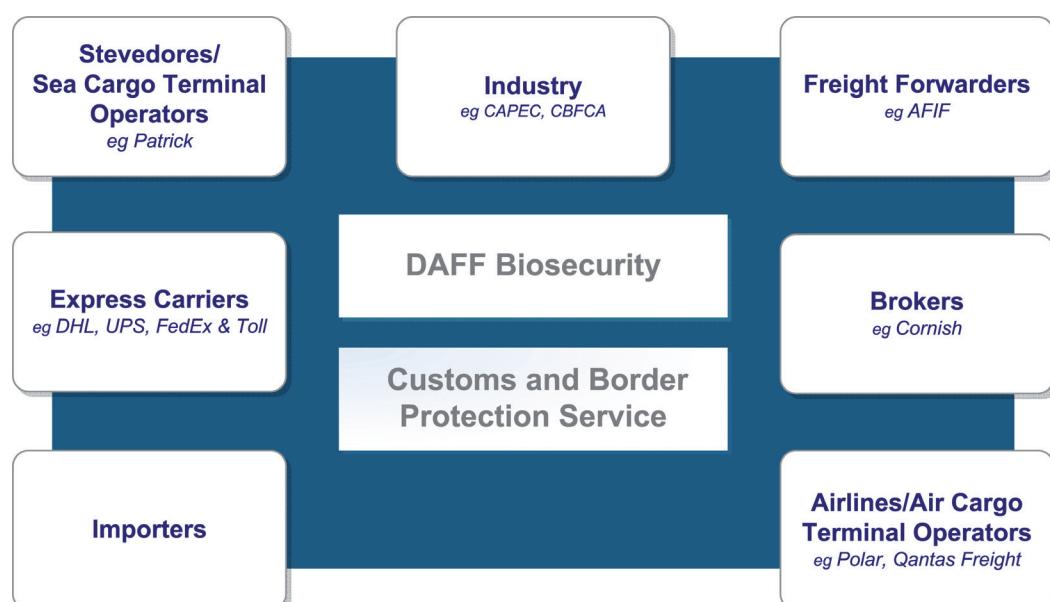
A detailed understanding of the key industry participants involved in the import of low value goods into Australia, their business models and the way they structure their operations is important to any reform process because any changes in the way goods may be handled or administered needs to have regard to the likely impacts on these entities, their operations and their customers. To this end, this section examines the key participants in both air and sea cargo, and the international mail environment.

2.3.2 Air and sea cargo

Many different categories of industry participants operate in the air and sea cargo environment, and include shippers, freight forwarders, air and sea cargo terminal operators, express carriers and licensed customs brokers (see Figure 2.3.1).

Figure 2.3.1

Participants in air and sea cargo activities



Express carriers

Imports of low value goods are primarily undertaken by specialist integrated service providers known as express carriers. These express carrier companies form the Conference of Asia Pacific Express Carriers (CAPEC). According to CAPEC (2011, p. 8), in 2009–10 these companies were responsible for around 90 per cent (by value) of imports of goods valued at or below \$1,000 brought into Australia as air cargo.

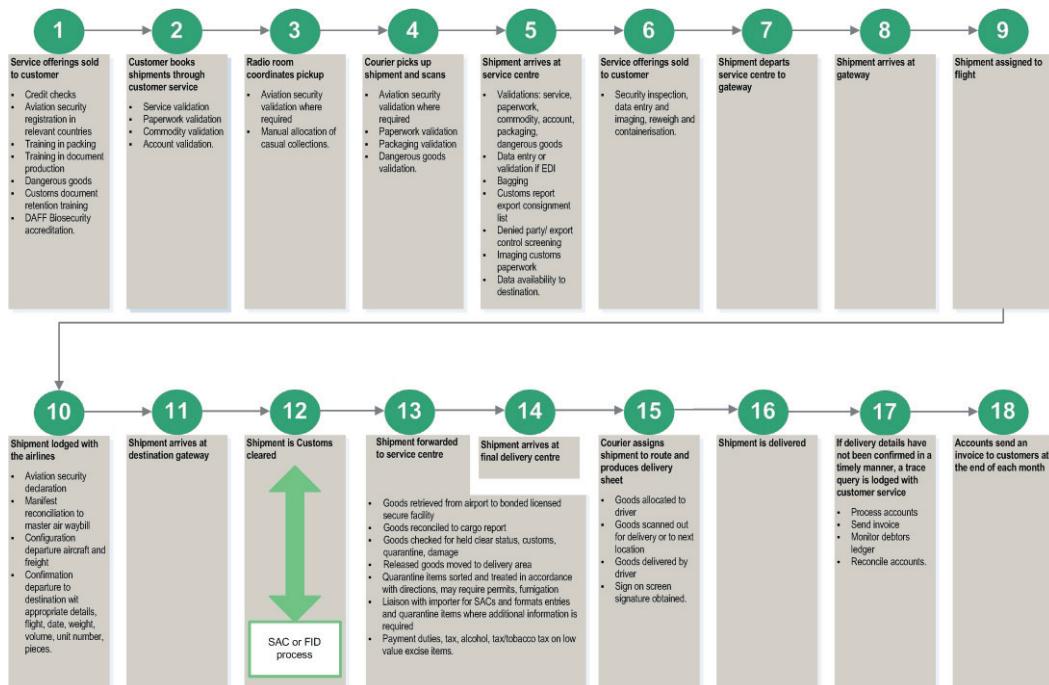
CAPEC was established in 2000 to represent the interests of the integrated express delivery service industry. The industry has global revenues of \$70 billion and makes over five billion shipments annually. Global employment is 800,000, and the industry owns 1,500 aircraft and 170,000 trucks and delivery vehicles. The member companies focus on fast, reliable, door-to-door delivery around the world in 24–48 hours. CAPEC's members are:

- DHL – a part of Deutsche Post DHL, with a global network operating in more than 220 countries and territories;
- FedEx – a part of the global transportation company, FedEx Corporation. FedEx delivers to more than 220 countries and territories around the world;
- TNT Express – formally an Australian-based company, now a global company operating extensive air and road networks in over 200 countries throughout the world; and
- UPS – one of the largest express carrier and package delivery companies in the world, delivering to over 200 countries and territories.

The way in which the CAPEC express carriers manage shipments of low value goods into Australia is illustrated in Figure 2.3.2 below, which is a representation of the *Life of a shipment* (CAPEC) process map.

Figure 2.3.2

Life of a shipment (CAPEC)



Source: CAPEC (2011, p. 19).

The express carriers all operate similar business models in which they control the goods throughout the import process. They choose which countries they operate in, to whom they provide their services and the nature of goods that they will transport. Moreover, they have in place integrated business systems to manage the import and logistics process on behalf of senders and recipients of goods. As to which party – sender or recipient – is the importer of the goods for the purposes of duty and tax will depend upon the contract terms underlying any transaction.

A key aspect of these business systems is the information express carriers have in relation to the goods being imported. This information is generally captured in a far more comprehensive form than is available in the international mail stream, is often captured before the goods arrive in Australia and is generally available in electronic format before the goods arrive – all features that enable it to be more easily used throughout the importation process.

The availability of this pre-arrival electronic information enables more efficient and effective administration and handling of low value goods for both express carriers and border agencies as it:

- provides data border agencies can use in assessing goods for border security and biosecurity risks (see further below);
- allows goods to be tracked. This means goods identified for a particular treatment by border agencies can be located and sorted easily through the use of relevant information management systems, tracking systems and physical infrastructure; and
- provides an information base upon which an assessment of revenue liability can be made. Moreover, when this information is available early in the importation process, revenue assessments and collection potentially can be done before the goods arrive in Australia. This is relevant for express carriers, for whom expeditious delivery times are critical.

However, even with this information available, changes to Australia's current policy settings could still result in express carriers or their customers incurring additional costs. Express carriers have established business systems and processes according to existing requirements, such as the number of licensed customs brokers they require to classify imported goods for duty purposes, and the size and layout of licensed depots. Any change to border processes or revenue assessment requirements that, for example, increased the volumes of goods to be assessed for duty would likely increase costs both directly associated with the assessment as well as other costs such as storage and delivery delays. Many of these potential costs were raised during consultation with industry, and previously in submissions to the Productivity Commission's inquiry into the Australian retail industry.

Observations

In relation to the express carriers, observations that inform the development of potential solutions include:

- any potential reforms to current processes need to have regard to impacts on the business processes of industry participants. For example, any new approach that requires more goods to be assessed for revenue needs to consider the potential impact on how quickly goods may move through licensed depots, or alternatively result in them being held and stored while revenue assessments are completed. The issue of storage will also be relevant should more goods be required to be held in licensed depots pending receipt of money;
- business systems and processes have been set based on current threshold levels – for example, in terms of the number of licensed customs brokers employed by the express carriers, and the scale and set up of licensed depots. This is relevant both for any new approach, and also for business decisions to deal with the increasing numbers of parcels arriving into Australia;
- business processes that incorporate the capture and use of information before goods arrive in Australia facilitate more targeted border processes. Experience in the cargo environment suggests that the mail environment could be more efficient if electronic pre-arrival data could be captured and provided to Australia's border agencies;
- the ability of express carriers to capture and transfer information electronically before goods arrive in Australia suggests potential for streamlined revenue assessment processes, although this depends on the detail of the data captured and the information actually required for duty and/or GST to be assessed;
- while express carriers have similar business models, each has individual characteristics in the way in which operations have been structured – for example in terms of distribution networks and management of ICT systems. As such, responses to a change to existing processes may not be uniform; and
- express carriers and Australia Post operate in a competitive environment. Issues of competitive neutrality are therefore relevant in considering potential reforms to current handling and administration processes. How any such issue may be addressed will depend on the specific issue and circumstances being considered.

Others (freight forwarders, CTOs, customs brokers, shipping companies)

Other industry participants in the supply chain that import goods into Australia by air or sea include:

- freight forwarders,¹⁰ who arrange for carriage of sea and air cargo to Australia on behalf of importers. Their role in dealing with Customs and Border Protection can include reporting the cargo (where they are the cargo reporter) and requesting permission for its movement within Australia;
- air cargo terminal operators (CTOs), who undertake a wide range of activities including discharge of cargo from the aircraft, its release and movement according to contractual obligations and operational requirements;

¹⁰ CAPEC members are in essence a specialist group of freight forwarders.

- sea cargo terminal operators (CTOs), who are responsible for loading and unloading cargo from a vessel. Their principal role in dealing with Customs and Border Protection is to report details of cargo discharged from a vessel and to ensure the release or movement of this cargo is in accordance with Customs and Border Protection legislative requirements;
- customs brokers, who provide a professional service to importers by arranging the clearance of goods on their behalf. The customs broker is responsible for clearing goods through Customs and Border Protection and DAFF Biosecurity; and
- shipping companies, who operate the vessels that transport goods into Australia. They carry overseas cargo on behalf of freight forwarders and the owners of the cargo and often lease space on the vessel to other shipping companies. Shipping companies are often represented by a shipping agent (who may represent a number of shipping lines which operate in the region).

Although there are exceptions, these industry participants generally handle higher value aggregated imports for business clients which are subject to the full import clearance process, rather than the high volume, low value goods most often handled by express carriers. However, the growth in low value parcel volumes has also raised the potential to aggregate the cargo task – providing opportunities for some of these businesses.

2.3.3 International mail (Australia Post)

The Universal Postal Union (UPU) Convention provides for the right to a universal postal service.¹¹ Each UPU member country has a designated operator which handles the mail. This designated operator can be a private company. Australia is a member of the UPU and Australia Post is its designated operator. Member countries of the UPU must ensure that in addition to delivering the universal postal service, the designated operator provides freedom of transit for international mail (except items that are prohibited for transit).¹²

Australia Post operates Australia's postal service under the *Australian Postal Corporation Act 1989*. In 2010–11 Australia Post's network comprised 4,419 outlets, it had 33,472 full time and part time employees and handled just over 5 billion mail articles (Australia Post, 2011). This included 172.5 million items posted overseas for delivery in Australia. Consolidated revenue was just over \$5.0 billion for a before-tax profit of \$332.3 million. Unlike a number of large postal operators around the world, Australia Post remains profitable, although domestic letter volumes, which are a reserved service,¹³ are falling and represented a \$91.3 million loss in 2010–11. Indeed, Australia Post estimates that it costs \$142.1 million for it to meet its universal service obligations.¹⁴

While air/sea cargo and international mail are treated equally under the legislation (all are considered cargo), the reporting and handling processes involved in importing goods through the international mail stream are different from those for air and sea cargo. As a result they give rise to different, though related, issues with respect to potential reforms for the handling and administration of low value goods.

The international mail stream operates under a cooperative rules-based system that is determined by international treaty under the UPU Convention. Under the UPU Convention and ancillary instruments, Australia Post has a range of service obligations with respect to low value goods. Goods may arrive from any UPU member country. Goods may be packaged in various forms such

¹¹ Article 3 UPU Convention.

¹² Article 4 UPU Convention.

¹³ Australia Post's reserved service is for letters below 250 grams within Australia. No other company may deliver similar letters unless it charges at least four times the basic postage rate (currently 60c).

¹⁴ See Section 27 of the *Australian Postal Corporation Act 1989*.

as packets (weighing less than 2kg), parcels (weighing more than 2kg) or EMS items. The EMS is operated as bilateral agreements between countries. In addition the UPU has an EMS Cooperative with 171 postal administrations as members, representing 82 per cent of designated EMS operators worldwide (EMS, 2012).

Under current arrangements, international mail goods arrive with a paper declaration affixed to the exterior of each article. Consequently Australia Post and the border agencies do not have access to any individual level information in relation to those goods until they arrive at the border.

The format and content of these paper declarations are internationally agreed, and vary by mail product type. Generally declarations include details of the sender, the recipient, and the description and value of the goods (see further below). However, while common standards exist, Australia Post has no control over the actual information on any individual article when it enters the mail stream. Further, the written information provided is of variable quality, unverified, often presented in languages other than English and with values specified in many different currencies. In many instances, particularly for smaller packets, much of this information is absent.

Each of these attributes can impact on the efficiency and cost effectiveness with which international mail can be processed. In addition, while a standard for identifying barcodes applies on EMS items and parcels, there is no requirement to apply barcodes that are linked to any kind of electronic data.

On arrival, all international mail goods pass through one of four international mail gateways, and are subject to border processes (see section 2.4). Once these border processes are complete, the goods are passed to Australia Post's domestic distribution network for delivery.

Profitability of Australia Post's international mail stream

In investigating new approaches for the handling and administration of low value imported goods, the Taskforce is required to have regard to Australia Post's profitability. To this end, particular consideration is given to the profitability of Australia Post's international mail stream. In doing so, however, it is noted that any reforms to border processes may also impact on the efficiency and cost effectiveness of Australia Post's broader domestic delivery network.

Of particular relevance to the profitability of Australia Post's international mail stream is the revenue it receives for delivering such goods. This is determined according to rules established under the UPU Convention and bilateral agreements with respect to EMS. UPU Convention rules apply globally, and as such are not specifically set to recover the costs incurred by Australia Post in fulfilling its service obligations. Under the UPU Convention¹⁵ each designated operator that receives letter-post items from another designated operator has the right to collect payment from the dispatching operator. These Terminal Dues are calculated on a per item and per kilogram basis in Special Drawing Rights (SDRs). SDRs are based on a basket of currencies and because of the rise in the value of the Australian dollar over the last few years, Australia Post has been receiving a lower value in Australian dollar terms in Terminal Dues.

The payment for letter-post items is established by applying the rates per item and per kilogram calculated by the UPU's International Bureau on the basis of a percentage of the charge for a 20 gram priority letter in the domestic service in force on 1 June of the preceding calendar year.¹⁶ If no charge is communicated by 1 June, the charge used for the calculation of the previous year applies. In addition, Terminal Dues remuneration between designated operators of countries

¹⁵ Article 27 UPU Convention.

¹⁶ Article 28 UPU Convention.

is based on quality of services performance¹⁷ of the designated operators of the country of destination.¹⁸ Australia has elected to be a member of the quality of service linked measurement system since its inception, and every year Australia Post has met its quality of service target. Actual payments are generally based upon countries undertaking a statistical sampling program to determine the average article weight (or items per kilogram) in a particular flow.

Australia Post loses money on inbound international packets weighing less than 2kg because the cost of delivering these items outweighs the reimbursement that it receives (Australia Post, 2011). The estimate of the loss in this parcel segment was \$50 million in 2010–11 (Hansard, 2012).

Observations

In relation to Australia Post, observations informing the development of potential solutions include:

- information available on low value goods arriving as international mail is of variable quality, and is not available electronically before the goods arrive in Australia. This impacts heavily on how border processes, including revenue collection, can be undertaken;
- Australia Post is subject to numerous legislative and international treaty obligations which require it to undertake some activities that are not profitable. These include the delivery of certain international mail products that contain low value goods;
- separate from any issue relating to current Australian policy settings, presently the UPU revenue arrangements are onerous to Australia Post, and difficult to change. While affecting profitability, they are also providing impetus for changes in how Australia Post, Customs and Border Protection and the DAFF Biosecurity handle and administer goods through the international mail gateway;
- in considering both the structure of any proposed solutions for the handling and administration of low value imports and their likely impacts on Australia Post, other changes that are occurring, or may occur, in its domestic operations (including its domestic parcel distribution network) need to be taken into account;
- Australia Post and express carriers operate in a competitive environment. Issues of competitive neutrality are therefore relevant in considering potential reforms to current handling and administration processes. How any such issue may be addressed will depend on the specific issue and circumstances being considered. Regard is to be given to the different business models, roles and obligations of each industry participant. Nonetheless, it is useful to establish a principle of seeking to align, as far as practicable, the processes that operate across import streams; and
- any potential solution that adds to Australia Post's costs needs to have regard to Australia Post's capacity to recover any costs incurred.

¹⁷ While participation in the UPU agreed system for measurement of the inward flow in the country of destination, for the link between Terminal Dues and quality of service is voluntary, for operators who elect to participate there is the incentive of a Terminal Due rate increase of 2.5 per cent for their whole inward letter mail flow and an additional 2.5 per cent increase if the quality of service target is met for the calendar year.

¹⁸ Article 215 UPU Letter Post Regulations.

2.3.4 International travellers

Goods imported into Australia by arriving international passengers and crew members generally come as accompanied baggage. Most personal items such as new clothing, footwear, and articles for personal hygiene and grooming (excluding fur and perfume concentrates) can be brought into Australia by international travellers free from duty and tax. For other goods, limits apply. Travellers carrying commercial goods or samples may need permits depending on the nature of the goods, regardless of value (see further below).

Goods may also arrive as unaccompanied baggage, which do not receive the same duty or tax concessions as goods that are brought into Australia in accompanied baggage. These goods may be subject to duty and tax unless they have been owned and used for 12 months or more.

2.4 Border processes for low value goods

2.4.1 Introduction

For reforms to the handling and administration of low value goods to be coherent and effective, they need to be structured consistently with the broader roles and responsibilities of Australia's border agencies – Customs and Border Protection and DAFF Biosecurity. Further, any reforms need to ensure that community safety and wellbeing outcomes across the entire import task are maintained and, wherever possible, enhanced. Finally, the nature of potential solutions, and their likely efficiency and cost effectiveness, will in part depend on how they can build upon and integrate with existing processes and systems.

To this end, this section provides an overview of the broader roles undertaken by Customs and Border Protection and DAFF Biosecurity, then details the processes that each currently manages. Where appropriate, this section also highlights key aspects of the processes which inform and influence the nature and feasibility of potential solutions – issues which are developed in further detail in Chapters 3 and 4.

2.4.2 Roles and responsibilities

The general roles and responsibilities that operate with respect to border security, biosecurity and revenue collection in relation to imports are as follows:

Border security

Responsibility for Australia's border security in relation to imports lies with Customs and Border Protection.¹⁹ In this capacity, Customs and Border Protection acts on behalf of over 40 government agencies to detect and prevent the unlawful movement of a wide range of prohibited, restricted or regulated goods. These include:

- illicit drugs, restricted medications and precursors;
- firearms, weapons and ammunition;

¹⁹ This responsibility is part of Customs and Border Protection's broader role, which is to:

- prevent, deter, and detect the illegal movement of people across Australia's borders;
- prevent, deter and detect prohibited, harmful and illegal goods from entering Australia;
- investigate suspected breaches of a range of border controls;
- counter civil maritime security threats in Australian waters through Border Protection Command, a joint Customs and Border Protection and Defence authority, located within Customs and Border Protection;
- facilitate legitimate trade and travel;
- deliver industry assistance, including through Australia's anti-dumping and countervailing and tariff concession schemes; and
- collect border-related revenue and statistics. See Customs and Border Protection (2011a).

- counterfeit goods and goods of consumer safety concern, such as goods containing asbestos and certain toys;
- objectionable material, which covers a wide range of material, including child pornography, offensive or sexualised violence, harmful or disgusting fetishes, offensive fantasies, terrorist material and drug use. It can be contained in publications, films, computer games or computer generated images;
- goods of proliferation concern (including chemical weapons and military goods); and
- the illegal movement of money.

Generally, it does this by:

- facilitating legitimate trade in regulated goods, through permit and licensing arrangements;
- delivering a risk-based compliance assurance program that includes targeted activity designed to reduce non-compliance with controls related to revenue and the concession system;
- providing import and export data to other government agencies to assist with the monitoring and domestic regulation of certain goods; and
- providing a system of border controls that protect intellectual property rights holders, through the Notice of Objection Scheme.

Table 2.4.1 illustrates the scale and scope of Customs and Border Protection's import task.

Table 2.4.1

Nature of Customs and Border Protection's import task in 2010-11

Item	2010-11
Number of customs import declaration finalised	3,382,354
Number of export declarations finalised	1,280,807
Number of imported air cargo consignments reported	13,972,885
Number of imported sea cargo manifest lines reported	2,519,341
Volume of cargo subject to inspection and examination	
* Sea cargo:	
- number of TEU inspected	101,880
- number of TEU examined	14,227
* Air cargo:	
- number of consignments inspected	1,528,590
- number of consignments examined	73,793
* Mail:	
- number of parcels/EMS/registered items inspected	21,000,379
- number of letter class mail items inspected	43,379,295
- number of mail items examined	181,195
Number of tariff advices, valuation advices and rules of origin advices completed	3,049
Number of anti-dumping/countervailing investigations, reviews, accelerated reviews, continuations, reinvestigations and duty assessments	
- brought forward from 2009-10	25
- received	60
- initiated	55
- finalised	40
- carried forward to 2011-12	36
Compliance Monitoring Program – full import declarations assessed	6,016
Number of customs broker licence applications assessed	97
Number of customs depot licence applications assessed	58
Number of customs warehouse licence applications assessed	27
Targeted import documents assessed	168,200
Target export documents assessed	9,588
Company audit activity – risk targeted import audits completed	108

Source: Customs and Border Protection (2011a), Table 15, p. 73

Biosecurity

Responsibility for biosecurity lies with DAFF Biosecurity. DAFF Biosecurity's objectives with respect to import and export services is to support access to overseas markets and protect the economy and the environment from the impacts of unwanted pests and diseases through the safe movement to and from Australia of animals, plants and their products, including genetic material, people and cargo (DAFF, 2011, p. 157).²⁰

According to DAFF, biosecurity risks are growing for a number of reasons, including increasing trade from higher risk destinations, population spread into new areas, increasingly intensive agriculture, increased globalisation and climate change.

The DAFF Biosecurity Import Clearance Program aims to ensure the protection of Australia's animal, plant and human health by processing imports for quarantine and food safety risk, while not impeding the efficient movement of cargo through the quarantine barrier.

More broadly, DAFF Biosecurity seeks to prevent the introduction and spread of disease through the use of sophisticated technologies and approaches including research, shared international resources and intelligence. It also uses surveillance and monitoring of risk areas along with border control action, focusing on intercepting and quarantining potential threats at Australia's airports, seaports, and international mail centres. The scale and scope of DAFF Biosecurity's import task is set out in Table 2.4.2.

Table 2.4.2

Nature of DAFF Biosecurity import task in 2010–11

Item	2010–11 ^a
International mail articles (total volume)	152,280,041
Seizures of mail items	108,130
Airports staffed by DAFF Biosecurity	8 (there are 29 unstaffed airports for port of entry)
International mail facilities staffed by DAFF Biosecurity	4
Import permit applications received	22,303
Import permits issued	19,054
Shipping pratique visits – first ports	14,300 ^b
CAL sea container inspections (first port)	45,800 ^b
Air freight consignments (under \$1,000)	676,000 ^b
Live animal imports processed at government post entry quarantine facilities	
	cats 2,059
	dogs 3,624
	horses 511
	avians 156
Hatching eggs processed at government post entry quarantine facilities	28,900

^a Figures at 1 July 2011

^b Rounded to the nearest thousand

Source: DAFF (2011), Table 28 p. 163.

20 See also <http://www.DAFF.gov.au/bsg/biosecurity-reform>.

Revenue collection

Customs and Border Protection collects GST, Wine Equalisation Tax (WET) and Luxury Car Tax (LCT) revenue at Australia's border on behalf of the ATO, and duties under the *Customs Act 1901*. Generally, Customs and Border Protection's objectives with respect to border-related revenue collection are to:

- provide assurance that the customs duty, indirect taxes and charges payable on imported goods are correctly assessed, reported and paid, and that revenue concessions, exemptions and refunds are correctly applied; and
- collect revenue from passenger and crew processing and administer the Tourist Refund Scheme.²¹

The scale of Customs and Border Protection's revenue activities is illustrated in Table 2.4.3, which details the revenues that Customs and Border Protection collects on behalf of other agencies, and Table 2.4.4, which details the significant revenues managed by Customs and Border Protection.

Table 2.4.3

Revenue collected on behalf of other agencies (\$m)

	2008–09	2009–10	2010–11
Indirect taxes collected from importers			
GST collections	3,122.3	2,832.3	3,009.9
LCT	3.5	2.8	4.4
WET	20.8	18.7	21.8
Total indirect taxes	3,146.6	2,853.8	3,036.1
Marine navigation levy	48.5	44.8	37.6
Protection of the sea levy	16.0	18.5	18.5
DAFF fees	74.1	110.0	110.1
DAFF fines	0.7	0.7	0.1
Wood levy	0.8	1.2	1.4
Total	3,286.7	3,029.9	3,212.8

Source: Customs and Border Protection (2011a), Table 8, p. 54.

²¹ The Tourist Refund Scheme allows for departing Australian international passengers and overseas tourists to claim back the WET and/or GST on goods purchased in Australia and taken overseas with them.

Table 2.4.4

Significant revenues managed by Customs and Border Protection (\$m)

	2008–09	2009–10	2010–11
Duty	6,274.4	5,745.7	5,826.4
GST collected	3,122.3	2,832.3	3,009.9
GST deferred	20,522.9	19,049.5	19,891.8
Passenger Movement Charge	502.8	571.3	615.5
Import Processing Charge	129.0	135.7	144.1
Non Taxation Revenue	14.6	3.7	4.4
Total	30,566.0	27,338.2	29,492.1

Source: Customs and Border Protection (2011a), Table 9, p. 55.

Customs and Border Protection uses a range of strategies to mitigate risks to revenue collection, repayments and concessions. These include:

- providing assurance that revenue liabilities arising at the border, including customs duty, indirect taxes such as the GST and the WET, and fees – including the Passenger Movement Charge and the Import Processing Charge – are correctly reported, assessed, paid or deferred;
- facilitating the repayment of revenue through refunds of customs duty and administering the duty drawback and the Tourist Refund Scheme. Customs and Border Protection ensures revenue concessions and exemptions – including those made through the Tariff Concession System, Enhanced Project By-law Scheme and the Automotive Competitiveness and Investment Scheme – are applied correctly;
- assisting industry to comply with requirements by providing tariff, valuation and origin advice;
- managing the revenue risk by:
 - supporting traders to understand and meet their revenue obligations at the border through mechanisms including providing them with accurate and timely customs duty, tariff classification, valuation of goods and rules of origin advice;
 - assessing, investigating and determining applications and claims under tariff concession and refund schemes;
 - delivering a risk-based compliance assurance program that includes targeted activity designed to reduce non-compliance with controls related to revenue and the concession system; that monitors unusual trends, areas of emerging, low or unknown risk; and that deals proportionately with deliberate, reckless and inadvertent non-compliance; and
 - encouraging voluntary disclosures from the importing and travelling public.

The nature of Customs and Border Protection's revenue task is further illustrated in Table 2.4.5.

Table 2.4.5

Nature of Customs and Border Protection's revenue task in 2010–11

Item	2010–11
Collection of revenue associated with passenger movements	\$615.5 m
Significant revenues collected (including customs duty, passenger movement charge, import processing charge and GST collected)	\$9,600.3 m
Duty concessions:	
• Tariff Concessions System (range)	\$1,603.1m
• all other concession schemes (range)	\$255.1m
Administration of the Tourist Refund Scheme:	
• number of processed claims	477,043
• value of processed claims	\$75.1m
• number of approved claims	466,836
• value of refunds processed	\$74.3m
Compliance Monitoring Program	
Full Import Declaration assessed	6,016
Targeted import documents assessed	168,200
Number of risk targeted import audits assessed	108

Source: Customs and Border Protection (2011a), Table 22, p. 114.

2.4.3 Border security and biosecurity processes

Recognising that the efficiency and cost effectiveness of any potential reforms to administration and handling of low value goods will depend, at least in part, upon the extent to which new approaches can be integrated into existing arrangements; this section outlines the border processes and reporting requirements currently operating:²²

- in the air and sea cargo environment;
- in the international mail stream; and
- for international travellers.

Attention is also given to the fees and charges imposed in relation to these activities because one element of reform is the potential for change to current fee levels and structures.

²² Current and future processes managed by Customs and Border Protection are required to be developed having regard to the frameworks set out in the World Customs Organization's *International Convention on the Simplification and Harmonization of Customs Procedures* (Kyoto Convention) (as amended) (2006).

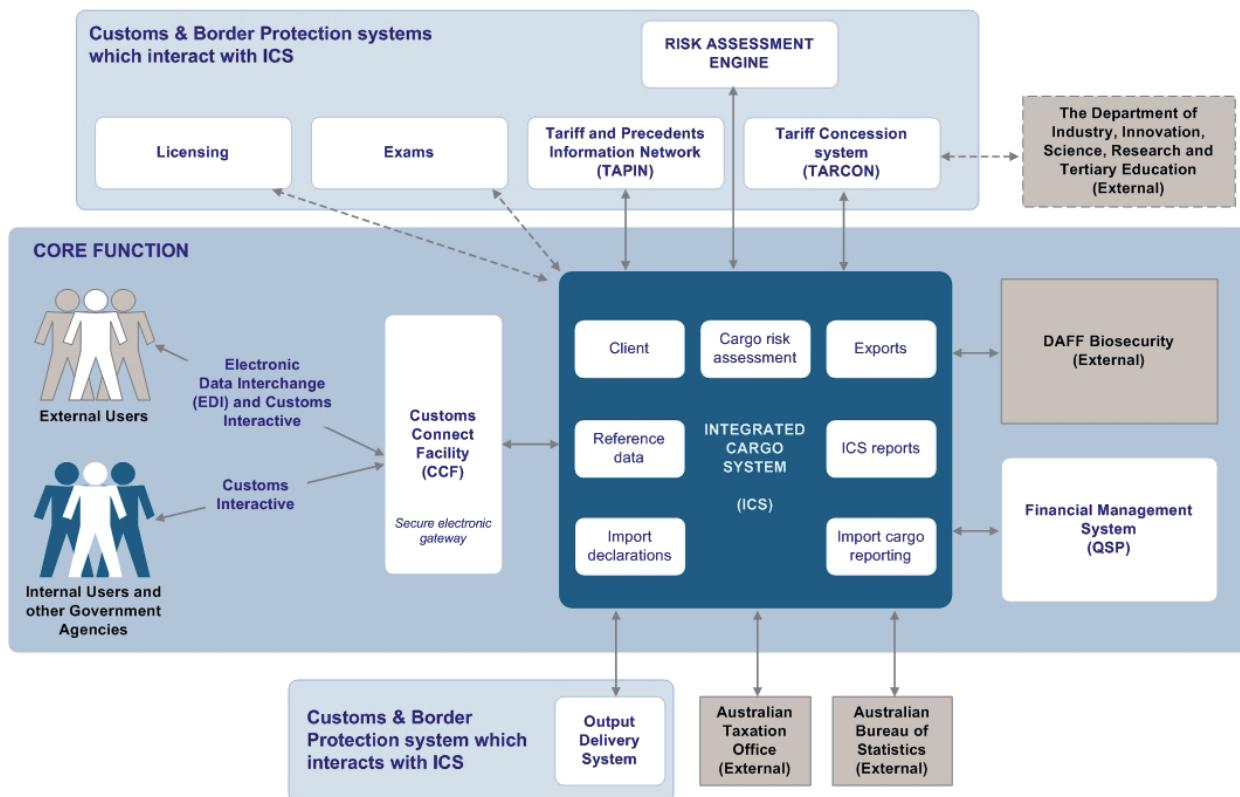
Air and sea cargo

Overview

The border processes and reporting requirements for low value goods imported as air and sea cargo operate within the broader cargo reporting framework that applies to all goods arriving into Australia. This cargo reporting framework operates through the Integrated Cargo System (ICS) (see Figure 2.4.1).²³

Figure 2.4.1

Process map for operation of the Integrated Cargo System (ICS)



Source: Customs and Border Protection 2012a.

The ICS is central to cargo handling and administration processes in Australia. Import and export processes operating through the ICS include:

- cargo reporting;²⁴
- the lodgment of Full Import Declarations (FIDs) and Self Assessed Clearances (SACs) by brokers and/or importers; and
- the payment of Customs and Border Protection and DAFF Biosecurity fees via electronic funds transfer (EFT).

23 The ICS is a software application that is used for all import and export reporting and processing procedures and is the only method of electronically reporting the legitimate movement of goods across Australia's borders. It was introduced by Customs and Border Protection in October 2005, costing approximately \$205 m (including costs associated with the electronic gateway (Customs Connect Facility). While a number of implementation issues were associated with the ICS (see ANAO, 2007 and Booz Allen Hamilton, 2006) industry participants have indicated in this investigation that these issues are now resolved and generally report satisfaction with the ICS. The issues that arose with the introduction of the ICS highlight, however, the care that needs to be taken introducing any changes to import handling and administrative processes.

24 With respect to air cargo, this reporting includes Impending Arrival Report, Air Cargo Report, Actual Arrival Report, Air Waybill Outturn Report, Underbond Movement Request and Receipt Outturn Report.

The ICS is linked to DAFF Biosecurity's AQIS Import Management System (AIMS). Based on the information provided and assessed through the ICS, goods may be targeted for biosecurity intervention for quarantine or imported food, under the Broker Accreditation Scheme arrangement, or by non-tariff based profiles.²⁵ An AIMS entry may also be lodged manually directly into AIMS for consignments such as personal effects or goods being temporarily imported (carnets).²⁶

How these processes are undertaken for cargo is detailed further below, primarily with respect to air cargo. Broadly similar processes operate for sea cargo.²⁷

Risk management approach

Both Customs and Border Protection and DAFF Biosecurity use intelligence-led, risk-based strategies to assess and screen goods imported into Australia. This intervention activity involves a range of products and services that provide insight and understanding about the threat environment, thereby informing, and at times driving, decision making. Both Customs and Border Protection and DAFF Biosecurity also use risk management tools to determine how any particular good is processed at the border.

While this investigation has had regard to the border agency risk assessment processes, the exact manner in which information is utilised is not detailed in this report so as not to compromise Australia's border security or biosecurity operations.

Screening periods

Screening periods begin when the cargo report is received in the ICS. The initial screening period is two hours for air cargo (48 hours for sea cargo). This period allows for border agencies to undertake and coordinate border intervention processes (such as risk assessment and screening). If a cargo report is amended then a re-screening period is applied (two hours for air cargo, 24 hours for sea cargo).

Authority to deal

'Authority to deal' allows goods imported into Australia as cargo to be delivered into home consumption. Under current arrangements an authority to deal is only provided once all impediments to either the goods or the import documents have been resolved and all duty, taxes and charges have been paid. Customs and Border Protection will then provide the importer an authority to take the goods into home consumption.²⁸

²⁵ FIDs that are in AIMS are called 'AIMS Entries' (or 'Entries') for all DAFF Biosecurity purposes. If a SAC declaration is identified as having a quarantine concern, it is referred across to DAFF Biosecurity as a DAFF SAC application. Depending on the results of the documentation assessment, the declaration goods may be released directly from the SAC application, ordered for physical inspection or upgraded to AIMS. A document assessment fee will not only be charged for the initial document assessment provided on SAC declarations (in the SAC application) but if additional documentation is required either for further assessment either electronically or at a DAFF Biosecurity office further fees will be incurred. Physical inspections on SAC declarations may be charged on a manual AIMS Entry. Once the physical inspection is complete the goods may either be cleared or upgraded to AIMS if further action is required. Where a physical inspection of the goods is required for a single SAC declaration, DAFF Biosecurity may upgrade the SAC declaration to AIMS and charge inspection fees on the AIMS Entry. Any SAC declarations within the SAC application that require more than the above mentioned inspections, such as fumigation treatment, will be upgraded to AIMS so that directions can be issued from the AIMS Entry. SAC Declarations will be referred to as AIMS Entries once upgraded into AIMS.

²⁶ A carnet is an international 'passport for goods' under which the payment of duties and taxes is guaranteed by an overseas issuing body. These bodies are typically automobile associations (for private motor vehicles under CPD carnets) or chambers of commerce (for general goods under ATA carnets). The bodies must be members of the Federations Internationale d'Automobile/Alliance Internationale de Tourism (FIA/AIT) or World Chambers Federation (WCF).

²⁷ Only air cargo processes are detailed in this report because the overwhelming majority of low value goods imported as cargo arrive by air. For a review of sea cargo processes, see Customs and Border Protection, 2010c.

²⁸ See sections 71C and 71D *Customs Act 1901*.

Offences in respect of cargo reporting

A range of strict liability and fault-based offences apply to cargo reporting and declaration requirements. Some strict liability offences are subject to the Infringement Notice Scheme (INS).²⁹ Offences relate to a range of behaviours, including:

- not communicating an air cargo report (ACR), or doing so incorrectly or not within the prescribed time (see section 64AB *Customs Act 1901*);
- false or misleading statements in a material particular that result in a loss of duty (see section 243T *Customs Act 1901*); and
- false or misleading statements in a material particular that do not result in a loss of duty (see section 243U *Customs Act 1901*).

Cargo reporting processes

All cargo is required be reported electronically to Customs and Border Protection before it arrives in Australia. This information enables both Customs and Border Protection and DAFF Biosecurity to expedite their risk assessment decisions, which in turn enables these agencies to clear and release legitimate cargo.

The earliest document lodged in the cargo reporting process will generally be the impending arrival report (IAR) (see Figure 2.4.2). Customs and Border Protection would expect to receive the cargo reports next. The IAR must be lodged not less than three hours before the aircraft's estimate time of arrival at its first Australian airport and Air Cargo Report (ACR) must be lodged not less than two hours before the aircraft's estimated time of arrival at its first Australian airport. In sea cargo, IARs are lodged 96 hours prior to estimated time of arrival of the vessel at its first port of call, and the Sea Cargo Reports is lodged 48 hours before arrival. The actual arrival report (AAR) must be lodged on arrival at each Australian airport or seaport. The timeframes for lodgment are prescribed (see Table 2.4.6).

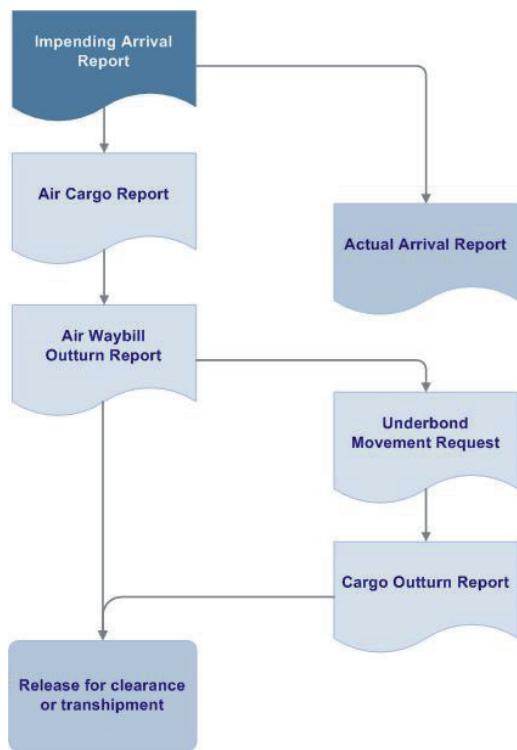
Generally, cargo reports may be lodged in the ICS as soon as the required information is available. This means the separate documents required to report and clear import cargo are not necessarily lodged in a single sequence or order. The ICS will 'hold' reports as they are lodged until such time as they are required in the sequence. The exception to this is underbond movement requests (UBMRs),³⁰ which cannot be lodged until the related cargo report is lodged. The ICS links air cargo reporting documents through common data fields.

29 For further detail on the INS, see further Customs and Border Protection, 2010a.

30 In accordance with section 71E(1) *Customs Act 1901*, once approved, an UBMR allows cargo that does not yet have an Authority to Deal, and may not be released for home consumption, to be moved to a licensed depot. An UBMR may be lodged with Customs and Border Protection electronically any time after the associated cargo report has been received. This means that an UBMR can be lodged at any time after the related cargo report has been lodged, irrespective of where the UBMR is in the sequence of underbond moves. Conditions applied to approve an UBMR include the associated cargo report has been lodged; the screening period for the cargo report has expired; and the correct 'Request Reason' has been used for certain types of cargo. If one or more of these conditions is not met the UBMR will not be approved. Unapproved UBMRs may be stored in the ICS until they meet all the conditions for approval. Different parties may lodge UBMRs for different stages in the movement of the same cargo. The ICS uses a 'chaining' process to allocate a sequential number to each underbond cargo movement. This ensures the cargo can be tracked. UBMRs may be lodged in any order within a 'chain'. UBMRs may also be 'stacked' in the ICS. 'Stacking' occurs where some of the UBMRs in a 'chain' are not yet lodged in the ICS.

Figure 2.4.2

Simplified air cargo reporting flow



Source: Customs and Border Protection (2005), p. 1.9

Customs and Border Protection's 'early report, early status' processes gives industry and importers the ability to report cargo early in order to obtain status early. Early provision of status provides them with greater certainty about the release of their cargo. Status for a cargo report is provided when:

- the impending arrival report has been lodged;
- the screening period for the cargo report has expired; and
- the importing vessel or aircraft has left its last overseas port.

Under the ICS, a system of cascade reporting also operates. Cascade reporting requires cargo reporters to notify Customs and Border Protection of other cargo reporters on whose behalf they have carried cargo, or to whom they have on-sold cargo space. The ICS facilitates this reporting through a 'freight forwarder indicator' on the relevant cargo reports.

All air cargo unloaded from an aircraft must be accounted for on an Outturn Report. Outturn Reports are required to be lodged at each port of discharge. Once cargo is discharged from an aircraft it can be released (if clear) or moved under bond.

An underbond movement request (UBMR) must be lodged electronically for cargo that is moved from one bonded place to another prior to release. Outturn reports must also be lodged on the arrival of cargo at a CTO or depot to acquit the underbond movement.

In-transit³¹ and transshipment³² cargo must also be reported to Customs and Border Protection electronically.

³¹ 'In-transit cargo' means cargo that has discharge and destination ports or airports outside Australia. In-transit cargo should not be discharged at an Australian port or airport, but must be reported as in-transit at the first Australian port or airport

³² 'Transshipment cargo' means cargo that is intended for discharge at an Australian port or airport to be loaded on to another international ship or aircraft for carriage to a destination outside Australia.

Table 2.4.6

Timeframes for cargo reporting flow

Document	Number	Responsible Party	Lodgment timeframe	Who may lodge
Impending Arrival Report	One per flight	Aircraft operator	Not more than ten days and not less than three hours before ETA at first Australian airport (except that for journeys not less than three hours, reports must be lodged not less than one hour before estimated arrival time at the first Australian port)	Aircraft operator, their agent or a bureau ^[1]
Air/Sea Cargo Report	One per bill of lading	Cargo Reporter (which is defined as the party that organised the carriage of the cargo to Australia. This may be the airline, a slot-charterer (sea cargo) or a freight forwarder).	Air: Not less than two hours before ETA at first Australian airport (though for journeys of less than two hours these reports must be lodged in accordance with shorter periods as prescribed in the regulations) Sea: Not less than 48 hours before ETA at first Australian port of call. For journeys less than 48 hours, these reports must be lodged in line with the regulations	Cargo reporter, their agent or a bureau
Actual Arrival Report	One per airport/ seaport	Aircraft/vessel Operator or principal agent	Air: Within three hours of arrival at each Australian airport, or before a certificate of clearance from that airport is granted, whichever first occurs Sea: Within 24 hours of arrival at each Australian seaport, or before a certificate of clearance is granted, whichever first occurs	Aircraft/ vessel operator, their agent or a bureau
Outturn Report		Depot Operator	Within 24 hours of the arrival of the aircraft (air cargo only). Cargo moved underbond to a Customs place (depot) also requires an outturn report. If the cargo is not unpacked at the depot, within 24 hours of receipt of the container. If the cargo is unpacked at the depot, within 24 hours of completion of the unpack. If the cargo is not in a container, not later than the day after the day on which the cargo was received at the depot (air and sea cargo)	Depot Operator or a bureau
Underbond Movement Request	One per underbond movement	Any party related to the shipment. These are: <ul style="list-style-type: none">• the airline operator• the airlines principal agent• the current or intended custodian of the cargo (CTO or depot)• the cargo reporter• a licensed broker (for the purpose of transshipment only)	After the lodgment of the related cargo report and before movement to another CTO/depot	The party related to the shipment or a bureau

Source: Australian Customs Service (2005), p. 1.10.

Note: [1] 'Bureau' is a business that is able to send electronic messages (primarily EDI) to Customs and Border Protection on behalf of another client, provided appropriate authority to act on behalf of that client has been given (Customs and Border Protection, 2007).

Information contained in air cargo reports

Each element of the ICS reporting process has defined information which must be provided. In the case of ACRs, this includes:

- flight number;
- arrival date;
- first Australian airport;
- original airport of loading;
- airport of discharge;
- final airport of destination;
- consignor details;
- consignee details;
- air waybill numbers;
- goods description; and
- declared value.

Information contained in ACRs are linked to other reports and declarations, including SACs, through common data fields. Cargo reports and SACs are linked through the Master Air Waybill (MAWB) or the House Air Waybill (HAWB).

For a complete list of data requirements together with relevant field details in the ICS see Customs and Border Protection's 'Import Cargo Reporting Manual (Air)' (Customs and Border Protection, 2010b).

Full import declaration (FID)

All goods imported into Australia entered for home consumption or warehousing must be cleared by Customs and Border Protection.

FIDs are used by importers, or licensed brokers acting on their behalf, to formally declare relevant information regarding certain imported goods to Customs and Border Protection. FIDs are required for all imported goods with a customs value that exceeds the entry threshold as defined in section 68 of the *Customs Act 1901*. This threshold value is currently \$1,000; the relevant declaration for low value goods (at or below \$1,000 in value) is the SAC declaration (see further below).

There are various types of import documentation.³³ A Nature 10 (N10) FID is generally used, and can be lodged electronically through the ICS using either Customs Interactive or electronic data interchange (EDI). It can also be lodged as a physical document at Customs and Border Protection premises or an authorised external agency.

³³ See section 71A of the *Customs Act 1901*. Other types of import declaration are:

- Nature 20, which are warehouse declarations used for the entry of imported goods for warehousing. Imported goods declared on a Nature 20 warehouse declaration do not require payment of duty or taxes until they are removed from the warehouse. Goods entered on a Nature 20 declaration must be stored in a licensed warehouse (see also sections 71A, 79 of the *Customs Act 1901*).
- Nature 10/20, which are an import and warehouse declaration communicated at the same time, used in cases where a single consignment of goods contains items intended for entry into both home consumption and for warehousing. A Nature 10/20 declaration offers the convenience of sending the required information to Customs and Border Protection and DAFF Biosecurity in a single electronic communication. Nature 10/20 declarations are treated as two separate declarations for cost recovery purposes.
- Nature 30, which are ex-warehouse declarations used in cases where goods are being entered into home consumption after the goods have been stored in a licensed warehouse. All duty and taxes must be paid on goods entered for home consumption on a Nature 30 ex-warehouse declaration before the goods will be cleared.

An Evidence Of Identity (EOI) check is required when lodging a documentary declaration. When import declarations are lodged at authorised external agency outlets, each EOI check attracts a charge. EOI charges are not levied at Customs and Border Protection premises. All duty and taxes must be paid on the goods declared on a N10 import declaration before they will be cleared. If the importer is approved by the ATO for the deferral of GST, the payment of any GST liability is not required at this time.

FID information requirements

Generally, the N10 FID requires a wide range of information to be provided, including:

- importer/broker details, such as the broker's reference number associated with the declaration, contact details and other identifiers;
- transport details and invoice term type, such as delivered duty unpaid (DDU), which is then used a basis to determine the customs value on which duty and GST is calculated;
- values, currency codes and a description of all packages associated with the import such as identifying marks and brands and the total number of packages contained within the consignment;
- community protection and DAFF Biosecurity processing information, associated with goods, such as the harmonised system classification, content description and identification of the loading port; and
- lodgment declaration details such as the delivery address, Australian Business Number (ABN) or Customs Client Identifier (CCID) number of the importer, and in the case of a postal FID, a signature.

For a list of data requirements and relevant fields details in the ICS see Customs and Border Protection's 'Documentary Import Declaration Comprehensive Guide' (Customs and Border Protection, 2010b).

Self Assessed Clearances (SACs)

SACs are declarations made to clear goods arriving as cargo whose value does not exceed the import entry threshold of \$1,000. Goods of this nature must also be reported on an ACR or a SCR pursuant to section 64AB of the *Customs Act 1901*.

Goods with a customs value at or below \$1,000 that arrive through the international mail stream do not currently require a SAC. SAC declarations are not used to clear personal effects, or goods on carnets. There is no cost recovery charge applied to a SAC declaration. All SAC declarations must be electronically lodged.

There are three types of SAC declarations.

Short format SAC ('Short Form SAC')

A Short Form SAC is the most abridged form of declaration that may be made with respect to an individual good, requiring only minimal information.

The Short Form SAC may be communicated to Customs and Border Protection by the importer or anyone acting on the importer's behalf. The communicator of a Short Form SAC declaration must have a digital certificate in the ICS (though not an importer ID). It is not necessary for the importer to be registered in the ICS. Consignments that do not contain alcohol or tobacco products, or goods that must be referred to DAFF Biosecurity, may be cleared after the provision of minimal information.

The Short Form SAC may be lodged at any time before the ship or aircraft carrying the goods first arrives at a port or airport in Australia and must be lodged once the ship or aircraft has arrived.

Full declaration format SAC ('Long Form SAC')

In some instances, goods that require a SAC declaration are cleared more quickly if a Long Form SAC is used. This includes when:

- an exemption or other concession applies;
- a permit or approval is required; or
- duty and GST is payable because:
 - the goods include alcohol and/or tobacco products (that is, they are excise equivalent goods); or
 - the goods are part of a larger consignment.

The importer or a licensed broker acting on the importer's behalf can communicate the Long Form SAC to Customs and Border Protection as long as they are registered in the ICS. Importers using the services of a licensed broker to lodge a Long Form SAC must also have a digital certificate (but not an importer ID).

Duty and taxes may be charged on goods in consignments cleared using the Long Form SAC. Tariff and/or preference concessions can be claimed on a Long Form SAC declaration. Licensed brokers can quote their DAFF Biosecurity agreement on Long Form SAC declarations.

Cargo Report SAC

A SAC may be communicated to Customs and Border Protection as part of a cargo report. A Cargo Report SAC is only used to clear goods that are not subject to restrictions or prohibitions (other than DAFF Biosecurity concerns). The requirements for a Cargo Report SAC are that:

- the value of the consignment is at or below the declaration threshold (\$1,000);
- the cargo does not contain alcoholic beverages or tobacco products; and
- the cargo does not contain any goods subject to import prohibitions or restrictions.

SAC information requirements

Information required for SACs differs depending on the type of SAC being made.

Short Form SACs

Generally, this includes information that relates to goods being imported, including:

- importer details;
- a declaration that the value of the goods does not exceed the \$1,000 import entry threshold;
- the method by which goods arrive in the country;
- community protection information associated with the goods; and
- SAC Declaration questions.

Where alcohol or tobacco products are included the importer must use the Long Form SAC.

Long Form SACs

The Long Form SAC enables the provision of additional information to Customs and Border Protection and DAFF Biosecurity to facilitate the clearance of goods with a customs value at or below \$1,000.

The format and information requirements of the Long Form SAC closely follow those of a N10 FID. The differences are:

- the value of the goods does not exceed the threshold value;
- dumping duty is not applicable; and
- duty, GST and WET may be payable.

Cargo Report SACs

Cargo Report SACs may be provided with respect to goods imported by both air and sea. The information requirements for each are broadly similar, but differ by transport mode. Generally, they are linked to the information contained in the cargo report.

Currently there is no functionality in Customs and Border Protection cargo systems for duty, GST or other revenue collection under Cargo Report SAC. If duty, GST or other taxes apply, then a Long Form SAC must be used.

For a complete list of SAC information requirements in the ICS refer to Customs and Border Protection Industry Imports Manual, Module 19 – Self Assessed Clearance Declarations (Customs and Border Protection, 2010c).

Unaccompanied Personal Effects (UPEs) Statement

Unaccompanied personal effects (UPEs) include household and personal belongings of individuals or families that arrive before or after the owner arrives in Australia. To be eligible for the UPE concession the owner must arrive from a place outside Australia and the items must be their personal property that they have owned and used while overseas. They also must be suitable, and intended, for use by the arriving person.

UPEs are exempt from formal entry requirements. UPEs may be cleared by:

- the owner of the goods completing an UPE Statement (Form B534);
- a representative of the owner (a freight forwarder, customs broker or express carrier); or
- an authorised nominee of the owner (usually a friend or nominee).

UPE statements must be submitted by document at Customs and Border Protection's premises or authorised external agencies. UPE statements may not be faxed or mailed to Customs and Border Protection.

A Customs and Border Protection officer may request that further documents or information be provided, or may conduct an examination. Documents could include invoices to verify declared values, passports to verify travel, or packing lists to verify contents.

The UPE statement is a joint declaration to both Customs and Border Protection and DAFF Biosecurity. DAFF Biosecurity is notified through the ICS where a cargo report includes a UPE statement. The messaging facility in the ICS transmits the hold or release status from the DAFF UPE application back to Customs and Border Protection's system.

Activities undertaken by Customs and Border Protection and DAFF Biosecurity

Customs and Border Protection

Customs and Border Protection undertakes a range of interventions on cargo – both physically through inspections and examinations and through other interventions such as desktop documentary verification and audits.

The initial risk assessment of goods imported into Australia is undertaken electronically through the ICS. Where electronic data is not available, risk assessment is a manual and labour-intensive process. Customs and Border Protection may need to intervene to verify the goods are as described, and to ensure they are not prohibited or restricted or a quarantine risk. This may require intervention by x-ray or other equipment or a physical examination of the goods.

Differences exist in the operation of the intervention approach between cargo streams due to infrastructure and logistics arrangements. Intervention for sea cargo generally occurs at Container Examination Facilities (CEFs) operated by Customs and Border Protection, necessitating the movement of cargo to and from those facilities.

Intervention for air cargo normally occurs at licensed depots as the cargo passes through the supply chain.

A consignment may be assessed using non-intrusive technology, such as x-ray (static or mobile), trace particle detection, detector dogs or cursive physical examination. This is the first level of physical activity and is undertaken to acquit risk in a consignment. If a decision is made that consignment is identified for further examination, it is physically opened.

The level of inspection for low value goods within the air cargo environment is less than that in the mail environment (see Tables 2.4.7; 2.4.8; and 2.4.11), because there is data available due to the cargo reporting and SAC processes that allow for risk assessment before the goods arrive in Australia.

Table 2.4.7

Volume of imported low value consignments by air and sea cargo 2010–11 (<\$1,000)

	Number of SACs	Proportion of SACs in cargo environment	Proportion of total low value goods
Air Cargo	10,572,671	99.4%	15.9%
Sea Cargo	67,260 [1]	0.6%	0.1%

Source: Customs and Border Protection submission to the Taskforce 17 May 2012.

Note: [1] Sea Cargo figures exclude long form SACs.

Table 2.4.8

Air cargo inspection performance by Customs and Border Protection

	2009–10	2010–11
Volume	11,215,459	13,979,653
Air Cargo Inspected	1,492,762	1,528,590
Air Cargo Inspected Target	1,500,000	1,500,000
Air Cargo Examinations	56,408	73,679
Air Cargo Examinations Target	n/a	n/a

Source: Customs and Border Protection submission to the Taskforce 17 May 2012.

DAFF Biosecurity

Of the 10.6 million SACs lodged in the ICS in 2010–11, approximately 694,855 (6.53 per cent) matched profiles which were then referred to DAFF Biosecurity for further inspection. The vast majority of these were air cargo.

The initial screening of SACs referred to DAFF Biosecurity is done at the Self Assessed Clearance National Coordination Centre (SAC NCC) in Sydney, with 90 per cent provided electronically by FedEx, UPS, DHL and TNT. In 2011 DAFF Biosecurity and CAPEC members introduced the SAC Paperless Initiative to automatically extract industry consignment data into the DAFF Biosecurity screening data base, to replace paper-based document assessment for SACs.

Documents pertaining to goods entered under a SAC can also be presented to a DAFF Biosecurity Regional Office for assessment. Staff perform this activity for low value goods and other (non-SAC) imports. Where insufficient data is provided to make a biosecurity determination, and/or the nature of the low value goods requires inspection, DAFF Biosecurity draws upon a pool of officers to undertake inspections of identified consignments. DAFF Biosecurity does not maintain a distinct body of inspectors to inspect low value goods for air and sea cargo. However, it allocates a regular presence to some larger freight handling companies such as CAPEC members.

If further assessment or treatment of a consignment is required, the SAC is upgraded to the AIMS to direct further quarantine risk management measures. Once entries are upgraded, entry processing fees will apply and if an inspection is required, inspection fees will apply.

In 2010–11, approximately 70 per cent of SACs screened were cleared on documentation alone and 30 per cent were subject to subsequent inspection.³⁴ Of the total number of consignments referred from the ICS to DAFF Biosecurity, approximately 7 per cent³⁵ were directed for further action either based on the documentation provided or as a result of inspection.

Finally, DAFF Biosecurity currently inspects all UPEs.

Table 2.4.9

SAC referrals from ICS to DAFF Biosecurity in the air cargo environment

	2006 - 07	2007 - 08	2008 - 09	2009 - 10	2010 - 11
SAC referrals from the ICS to DAFF	357,800	388,058	395,024	496,941	694,855

Source: DAFF Biosecurity, 22 March 2012 and 2 April 2012.

Observations

In relation to the border agency processes in the cargo environment, observations informing the development of potential solutions include:

- the current processes, embedded through the ICS, were developed in a commercial environment and as such were designed in the first instance for business to business international trade. An issue is how far do those processes need to be adapted to cater for the new trading model driven by technological change which has seen a substantial expansion in the growth of business to customer international trade, and how can this be done without impacting on broader import and export activities;
- current arrangements with respect to the Authority to Deal could create an issue for clearing low value goods out of licensed premises if a new revenue requirement were imposed on goods valued at or below \$1,000. This has been addressed in other jurisdictions by allowing goods to be cleared provided the express carrier or postal authority gives security or is liable for any revenue to be collected;
- the very detailed nature of the FID information requirements affects both the time and cost associated with its completion. As this information is not currently required for goods valued at or less than \$1,000, the FID information requirements may not be the most appropriate basis for more efficient and effective processing for low value goods;
- at present, the information directly available through SAC processes is not sufficient to assess liability for either duty or GST (including claiming exemptions) given the current bases for assessment of these liabilities. For example, there is no requirement on a SAC to declare value or to include a tariff code for purposes of assessing duty;
- while it would be very difficult to use the information contained in cargo reports, together with the SAC process, to implement simplified duty arrangements, this information does potentially lend itself to the development of simplified GST assessment arrangements. This issue is considered further in Chapter 3, including the need to capture ancillary information such as an importer's ABN for GST deferral purposes; and
- the level of intervention for air and sea cargo is lower than in the international mail stream for both Customs and Border Protection and DAFF Biosecurity. This points to opportunities to improve border processes in the international mail stream based upon the availability of pre-arrival data.

³⁴ Based on DAFF Biosecurity submission to the Taskforce 22 March 2012.

³⁵ Based on DAFF Biosecurity submissions to the Taskforce 22 March 2012 and 2 April 2012.

International mail

Overview

The border processes operating in the international mail environment differ from those for air and sea cargo, albeit within the same broad framework of Customs and Border Protection and DAFF Biosecurity's objectives and risk assessment processes.

All goods that enter Australia through the international mail stream are processed at one of four international gateways – these are located in Sydney, Melbourne, Brisbane and Perth.

As the designated operator in the international mail stream, Australia Post must ensure it forwards the parcels it receives according to the delivery standards published internationally and the most secure means that it uses for its own [Australian] items.³⁶ A postal item remains the property of the sender until it is delivered to the rightful owner, except where it has been seized pursuant to the legislation of the country of origin or destination.³⁷

The majority of goods passing through the international mail stream into Australia are subject to manual, labour-intensive processes. Based on the border agencies' risk management processes, these items are screened, inspected and removed for secondary assessment as appropriate.

At present, the only way to identify articles for revenue liability is through an intensive physical process of manually checking each article. This activity is currently undertaken in conjunction with Customs and Border Protection's assessment of mail articles for other border risks.

International mail information requirements

Goods arriving through the international mail stream are required to carry a CN22 or CN23 customs declaration or their equivalents. Pursuant to UPU/WCO rules, a CN22 customs declaration is required when international mail goods are valued at or below 300 SDR³⁸ and/or weigh up to or equal to 2kg in Australia. A CN23 customs declaration is required where the value of the package is over 300 SDR³⁹ or over 2kg.⁴⁰ While all international postal organisations operate within the UPU/WCO framework, the actual form itself differs from one country to the next (see Figures 2.4.3 a, b, c, d below). As forms are not uniform, this adds an extra level of complexity to the task of using information attached to goods sent by international mail.⁴¹

³⁶ Article 4, UPU Convention.

³⁷ Article 5, UPU Convention.

³⁸ Special Drawing Rights.

³⁹ UPU (2009a), Article RL 152 and 152.1.

⁴⁰ Australia Post requires a CP72 form rather than a CN23 (Australia Post, 2012a).

⁴¹ Australian CN22 forms are green whereas the UK stopped using green forms in 2003 and went to white. The forms contain the same information but are not identical in layout. The USPS has three variations of form including a form which allows optical character recognition (USPS, 2009).

Figure 2.4.3a

Royal Mail CN22 form

CUSTOMS DECLARATION DÉCLARATION EN DOUANE		CN 22 May be opened officially Peut être ouvert d'office
Great Britain\Grande-Bretagne	Important! See instructions on the back	
<input type="checkbox"/> Gift\Cadeau	<input type="checkbox"/> Commercial sample\Echantillon commercial	
<input type="checkbox"/> Documents	<input type="checkbox"/> Other\Autre	Tick one or more boxes
Quantity and detailed description of contents (1) Quantité et description détaillée du contenu		Weight (in kg)(2) Poids
		Value (3) Valeur
<i>For commercial items only</i> If known, HS tariff number (4) and country of origin of goods (5) N° tarifaire du SH et pays d'origine des marchandises (si connus)		Total Weight Poids total (in kg) (6)
		Total Value (7) Valeur totale
I, the undersigned, whose name and address are given on the item, certify that the particulars given in this declaration are correct and that this item does not contain any dangerous article or articles prohibited by legislation or by postal or customs regulations		
Date and sender's signature (8)		

Instructions

To accelerate customs clearance, fill in this form in English, French or in a language accepted by the destination country. If the value of the contents is over £270, you must use a CN 23 form. You **must** give the sender's full name and address on the front of the item.

(1) Give a detailed description, quantity and unit of measurement for each article, e.g. 2 men's cotton shirts, especially for articles subject to quarantine (plant, animal, food products, etc.).

(2), (3), (6) and (7) Give the weight and value of each article and the total weight and value of the item. Indicate the currency used, e.g. GBP for pounds sterling.

(4) and (5) The HS tariff number (6-digit) must be based on the Harmonized Commodity Description and Coding System developed by the World Customs Organization. Country of origin means the country where the goods originated, e.g. were produced, manufactured or assembled. It is recommended you supply this information and attach an invoice to the outside as this will assist Customs clearance.

(8) Your signature and the date confirm your liability for the item.

Source: <http://www.royalmail.com/sites/default/files/docs/pdf/cn22.pdf>.

Figure 2.4.3b

Swiss Post CN22 form

SWISS POST		Déclaration en douane Zolldeklaration/Dichiarazione doganale			CN 22
Peut être ouvert d'office/Zollamtliche Prüfung gestattet/Visita doganale ammessa					
<input type="checkbox"/> Cadeau Geschenk Regalo	<input type="checkbox"/> Echantillon commercial Warenmuster Campione di merce	1	<input type="checkbox"/> Documents Dokumente Documenti	<input type="checkbox"/> Autres Andere Altri	
Quantité et description détaillée du contenu (1) Menge und detaillierte Beschreibung des Inhalts Quantità e descrizione dettagliata del contenuto		Poids (2) Gewicht (kg) Peso	Value (3) Wert Valore	N° tarifaire du SH et origine (4) Zolltarifnummer und Herkunft Numero di tariffa e origine	
2		3	4	7	
Poids total (5) Gesamtgewicht (kg) Peso totale		5	6	Valeur totale (+ monnaie) (6) Gesamtwert (+ Währung) Valore totale (+ valuta)	
Je certifie que les renseignements donnés dans la présente déclaration sont exacts et que cet envoi ne contient aucun objet dangereux ou interdit par la réglementation postale ou douanière. / Ich bestätige hiermit, dass die Angaben in der vorliegenden Deklaration richtig sind und dass die Sendung keine durch die Post- oder Zollschriften verbotenen oder gefährlichen Gegenstände enthält. / Certo che le informazioni contenute nella presente dichiarazione sono esatte e che quest'invio non contiene nessun oggetto pericoloso o proibito dal regolamento postale o doganale.					
Date, Signature (7) Datum, Unterschrift Data, Firma		8	237.01.1 (143.388) 06.2005		

Source: <http://www.swisspost.ch/post-startseite/post-privatkunden/post-versenden/post-versenden-informationen-export/post-versenden-export-zoll-mwst.htm#txt108826>.

Figure 2.4.3c

Royal Mail CN23 form

Source: <http://www.royalmail.com/sites/default/files/docs/pdf/CN23.pdf>.

Figure 2.4.3d

Swiss Post CN23 form

Source: <http://www.swisspost.ch/post-startseite/post-privatkunden/post-versenden/post-versenden-informationen-export/post-versenden-export-zoll-mwst.htm#txt108826>.

Unlike low value goods which arrive as air or sea cargo, goods arriving through the international mail stream valued at or below \$1,000 and which are also not excise equivalent goods are not subject to import declaration requirements – that is, no SAC is required.⁴² Goods valued above \$1,000 require a FID.⁴³

Information requirements

Limited information must be provided on CN22 and CN23 Customs Declaration Forms (see Table 2.4.10), and it is considerably less than that required for a FID.

Table 2.4.10

CN22 and CN23 data requirements

CN22 information requirements	CN23 information requirements
	Sender's name and address
	Recipient's name and exact address
	Recipient's telephone number/fax/email (if known)
Designation of content (i.e. gift, documents, commercial sample, other)	Designation of content (i.e. gift, documents, commercial sample, other)
	Type of Movement Certificate and number
	Number of export licence and date of issue
	Tick box if a commercial invoice is enclosed (and indicate number of invoice, if applicable)
	Quantity and unit of measurement of each article
Quantity and detailed description of contents	Quantity and detailed description of contents
Value of goods (per different items)	Value of goods (per different items)
Weight of goods (per different items)	Weight of goods (per different items)
Tariff number and key (for commercial items only)	Tariff number and key (for commercial items only)
Country of origin of goods (for commercial items only)	Country of origin of goods (for commercial items only)
Total value of goods	Total value of goods
Gross weight of goods	Gross weight of goods
	Postage costs
	Comments
Date and sender's signature	Date and sender's signature

Source: http://www.royalmail.com/delivery/mail-advice/customs-information?campaignid=customs_redirect.

⁴² Pursuant to section 68(1)(e) of the *Customs Act 1901* goods (other than prescribed goods) (i) that are included in a consignment sent through the Post Office by one person to another; and (ii) that have a value not exceeding \$1,000 or such other amount as is prescribed, are not included in the requirements for the entry of goods.

⁴³ Section 68 *Customs Act 1901*.

Activities undertaken by Customs and Border Protection and DAFF Biosecurity

All goods imported into Australia are subject to Customs control, including mail. Customs and Border Protection has specific targets for inspection in the mail environment (see Table 2.4.11). Due to falling letter volumes and increased parcels, the inspection target for 2011–12 rose to 20 million EMS and parcels from 18 million in 2010–11, while the letter inspection target dropped from 40 million to 20 million.

Table 2.4.11

Screenings and inspections by Customs and Border Protection in the international mail stream, 2009–10 and 2010–11

	Mail Type	2009–10	2010–11
Total Mail Actual Inspections/Targets	EMS/Parcels	20,696,957	21,090,379
	EMS/Parcels Target	18,000,000	18,000,000
	Letters	41,512,725	40,379,295
	Letters target	40,000,000	40,000,000
	Total Actual	62,209,682	61,469,674
Total Examinations	EMS/Parcels	192,025	216,772
	Letters	10,833	12,451
	Total	202,858	229,223

Source: Customs and Border Protection submission to the Taskforce 17 May 2012.

The range of different quarantine activities undertaken in Australia is wide.⁴⁴ DAFF Biosecurity screens mail items initially using x-rays and/or detector dogs, followed by manual screening (physical inspection) of items of interest (see Table 2.4.12). International mail has a higher screening rate than most other import channels because of the paucity of information available to enable an earlier or more detailed assessment of potential biosecurity risk.

Table 2.4.12

Screenings and inspections undertaken by DAFF Biosecurity in the international mail stream, 2010–11

	2006–07	2007–08	2008–09	2009–10	2010–11
EMS/Packets/Parcels					
Total volume	19,715,305	20,917,962	19,880,659	31,886,584	52,237,245
Mail volume screened	19,715,305	20,917,962	19,880,659	23,685,817	33,396,454
Total inspections	809,084	835,594	703,616	511,865	534,698

Source: DAFF Biosecurity data 2012.⁴⁵

44 Refer to section 4 of the *Quarantine Act 1908*.

45 In calculating volume totals, the letter and packet volumes are an estimate based on weight. As Australia Post uses a slightly different algorithm weight to the border agencies, the total volume figures for Australia Post (48 million in 2010–11) are slightly less than the total volume figure in table 2.4.12 (52 million in 2010–11).

In addition to the above screening rates 2,495 mail items were referred from Customs and Border Protection to DAFF Biosecurity for inspection, as well as 3,923 items referred from DAFF Biosecurity to Customs and Border Protection.⁴⁶

Observations

In relation to the border agency processes in the international mail environment, observations informing the development of potential solutions include:

- the number of goods entering through the international mail stream is forecast to increase significantly as the online retailing market continues to develop. Even without any change to current policy settings, this growth of volumes is putting increasing pressure on the physical capacity and operational efficiency of the international mail gateways. Changes to policy settings would likely add additional pressures that would need to be managed;
- the information currently available in the international mail environment does not permit pre-arrival screening by Australia's border agencies. The form in which that information is provided also limits its use, even once the goods have arrived in the country;
- the level and nature of interventions required in the international mail environment is greater than for air and sea cargo not just because of the lack of pre-arrival data, but also because of the type of goods that are more likely to be sent through the mail stream;
- while timeframes are uncertain, the availability of pre-arrival data in the international mail stream would enable new processes to be introduced as that information becomes available. However, both Customs and Border Protection and DAFF Biosecurity require time to assess the quality of that data and determine to what extent it can be used in streamlining entry processes;
- information on the different levels of intervention, and the proportion of goods that move from inspection to secondary inspection that actually contain items of risk are potentially useful for developing assessment criteria for new investment in screening technology, or other initiatives to improve the effectiveness of the international mail gateways; and
- information currently captured on international mail items is not particularly useful for undertaking duty assessments, but may provide a viable base for assessing GST if the basis upon which that GST is assessed can be modified.

International travellers

Overview

Travellers entering Australia must declare restricted or prohibited goods on an Incoming Passenger Card.⁴⁷ In signing the Incoming Passenger Card passengers are making a legal declaration. Failure to answer all questions truthfully can have serious consequences. On arrival baggage may be x-rayed, inspected or checked by detector dog teams.

Travellers can bring into Australia up to \$900 worth of duty/tax free goods (\$450 for under 18), 2.25 litres of alcohol and 250 cigarettes or 250g of tobacco products. In the 2012–13 Budget, the

⁴⁶ DAFF Biosecurity data, 2012.

⁴⁷ A passenger card is a document providing passenger identification and an effective record of a person's entry to and departure from Australia.

Australian Government reduced the personal allowance for duty free tobacco from 250 cigarettes to 50 cigarettes or 50 grams of other tobacco products from 1 September 2012. The duty free scheme allowances for international travellers are enacted under the *Customs Tariff Act 1995*.⁴⁸ There is no exemption for commercial goods being brought in by travellers.

Travellers must declare on arrival goods made from or including animal products. Some of these items might be prohibited under international wildlife legislation and might require import permits. Goods without the correct permits may be seized.

Assessing and collecting duty and tax in the international traveller environment is time consuming and resource intensive. Staff are diverted from border security activities to collect small amounts of revenue, which results in passengers experiencing slower processing and longer queues.

Activities undertaken by Customs and Border Protection and DAFF Biosecurity

Customs and Border Protection officers have legislative powers to conduct baggage examinations and to question travellers to identify breaches of certain customs, quarantine and other Commonwealth legislation, including the import and export of prohibited or restricted goods. Under the *Customs Act 1901*, Customs and Border Protection officers also exercise the power to examine goods subject to Customs control.

All food, plant material and animal products on arrival in Australia must be declared to DAFF Biosecurity. Once declared, these items are checked by a DAFF Biosecurity officer who will ensure they are free of pests and diseases and determines whether they are allowed into Australia.

Some products require treatment, while others may be restricted due to pest and disease risks and be seized and possibly destroyed. When items are withheld for quarantine reasons the intended recipient of the goods is notified and given a range of options depending on the object and the quarantine risk it poses, including:

- treating the item to make it safe;
- exporting the item or returning it to the sender; or
- destroying the item (automatic if no contact is made with DAFF Biosecurity within 30 days).

These services, except for destroying the item, are subject to fees and charges which are payable by the person receiving the package. Examples of treatments include:

- cleaning – to remove soil from shoes, machinery, etc;
- fumigation – to kill insects;
- heat treatment – to destroy disease pathogens; and
- gamma-irradiation – to destroy all living pests and disease organisms that might be present.

48 Item 15 in Part 1, Schedule 4 to the *Customs Tariff Act 1995*, via Customs By-law No. 0906049.

Border security and biosecurity processes – agency fees and charges

Overview

Customs and Border Protection and DAFF Biosecurity administer or impose fees and charges for services associated with lodging import declarations, inspections and other services that may be required to clear incoming goods. Fees and charges are determined pursuant to various legislative instruments, regulations and government guidelines.

The *Import Processing Charges Act 2001* and ancillary regulations (Customs and Border Protection fees and charges)

Charges administered by Customs and Border Protection are set pursuant to the *Import Processing Charges Act 2001* and ancillary regulations. As noted by the Productivity Commission (2011, p. 194), these charges are:

... notional recovery of the cost elements of border processing ... Thus the import processing charge does not provide a guide to the incremental cost of processing an individual parcel for the sole purpose of collecting revenue. Rather it represents a transfer from government to importers of some of the administrative costs of processing imports.

In conjunction with the Department of Finance and Deregulation, Customs and Border Protection is currently undertaking a review of the cost recovery arrangements relating the Import Processing fees and charges administered by Customs and Border Protection pursuant to the Australian Government cost recovery guidelines.

***Quarantine Act 1908*; *Quarantine Services Fees Determination 2005*; *Imported Food Control Act 1992*; *Imported Food Control Regulations* (DAFF Biosecurity fees and charges)**

DAFF Biosecurity fees for treatments and inspections are made pursuant to sections 64 and 86E of the *Quarantine Act 1908* (for biosecurity) and sections 36 and 43 of the *Imported Food Control Act 1992* (for compliance of imported foods with Australian food standards) (see also Imported Food Control Regulations 1993).

Activities identified in the *Quarantine Act 1908* as fee for service are:

- specified examinations or services carried out or provided under the Act;
- the issue by quarantine officers of specified certificates under the Act;
- management and maintenance of animals at a quarantine station in Australia, in the Cocos Islands or in Christmas Island or at a place approved under section 46A of the Act (at quarantine approved premises);
- the giving of approvals by a Director of Quarantine under subsections 44A(5) and 46A(1) of this Act (i.e. certain specified places and quarantine approved premises);
- the giving of permissions and permits under the Act; and
- entering into compliance agreements.

The level at which these fees are set is given effect through the Quarantine Service Fees Determination 2005, Schedule 1. Pursuant to that determination, DAFF Biosecurity fees and charges are not imposed on certain goods imported into Australia, including goods imported:

- for the use of a diplomatic mission in Australia or for the personal use by international diplomatic staff (and their families);
- in regard to vessels or equipment used by the defence force of a foreign country that is engaged in a combined military activity with the Australian Defence Force; and
- with respect to the import of disability assistance dogs.

or for the following services:

- the examination of personal luggage that arrives in Australia aboard the same vessel as the owner or importer of the goods; and
- the screening or inspection of international postal items that arrive in Australia.

The Australian Government Cost Recovery Guidelines 2005 (see also Box 2.4.1)

In December 2002 the Australian Government adopted a formal cost recovery policy to improve the consistency, transparency and accountability of its cost recovery arrangements and promote the efficient allocation of resources. The underlying principles of this policy are that entities should set charges to recover all the costs of products or services where it is efficient and effective to do so, where beneficiaries are a narrow and identifiable group and where charging is consistent with Australian Government policy objectives. The cost recovery policy is administered by the Department of Finance and Deregulation and outlined in the Australian Government Cost recovery guidelines (DoFD, 2005).

The policy applies to all *Financial Management and Accountability Act 1997* agencies and to relevant *Commonwealth Authorities and Companies Act 1997* bodies that have been notified. Portfolio ministers are ultimately responsible for ensuring entities implement and comply with the Australian Government cost recovery guidelines.

DAFF Biosecurity is reviewing fees and charges for import clearance activities including those for Imported Food Services and for the Seaports program. This review commenced in February 2011 with implementation of the changes starting in February 2012. The review of Import Clearance Activity fees fulfils the commitment made in the 2009 cost recovery impact statement (DAFF, 2009).

Box 2.4.1 Australian Government Cost Recovery Guidelines (Financial Management Guidance No. 4) – Key principles

Source: *Australian Government Finance Circular 2005/09*.

The Australian Government's policy adopts the following key principles:

- 1 Agencies should set charges to recover all the costs of products or services where it is efficient to do so, with partial cost recovery to apply only where new arrangements are phased in, where there are government endorsed community service obligations, or for explicit government policy purposes.
- 2 Cost recovery should not be applied where it is not cost effective, where it is inconsistent with government policy objectives or where it would unduly stifle competition or industry innovation.
- 3 Any charges should reflect the costs of providing the product or service and should generally be imposed on a fee-for-service basis or, where efficient, as a levy.
- 4 Agencies should ensure that all cost recovery arrangements have clear legal authority for the imposition of charges.
- 5 Costs that are not directly related or integral to the provision of products or services (e.g. some policy and parliamentary servicing functions) should not be recovered. Agencies that undertake regulatory activities should generally include administration costs when determining appropriate charges.
- 6 Where possible, cost recovery should be undertaken on an activity (or activity group) basis rather than across the agency as a whole. Cost recovery targets on an agency-wide basis are to be discontinued.
- 7 Products and services funded through the budget process form an agency's 'basic information product set' and should not be cost recovered. Commercial, additional and incremental products and services that are not funded through the budget process fall outside of an agency's 'basic product set' and may be appropriate to cost recover.
- 8 Portfolio Ministers should determine the most appropriate consultative mechanisms for their agencies' cost recovery arrangements, where relevant.
- 9 Cost recovery arrangements will be considered significant ('significant cost recovery arrangements') depending on both the amount of revenue and the impact on stakeholders. A 'significant cost recovery arrangement' is one where:
 - a an agency's total cost recovery receipts equal \$5 million or more per annum – in this case every cost recovery arrangement within the agency is considered, *prima facie*, to be significant, regardless of individual activity totals; or
 - b an agency's cost recovery receipts are below \$5 million per annum, but stakeholders are likely to be materially affected by the cost recovery initiative; or
 - c Ministers have determined the activity to be significant on a case-by-case basis.
- 10 Agencies with significant cost recovery arrangements should ensure that they undertake appropriate stakeholder consultation, including with relevant departments.

- 11 All agencies with significant cost recovery arrangements will need to prepare Cost Recovery Impact Statements (CRIS). A CRIS will not be required where a Regulation Impact Statement (RIS) that also addresses cost recovery arrangements against these guidelines has been prepared.
 - a The chief executive, secretary or board must certify that the CRIS complies with the policy and provide a copy to the Department of Finance and Administration.
 - b Agencies must include a summary of the CRIS in their portfolio budget submissions and statements.
- 12 Agencies are to review all significant cost recovery arrangements periodically, but no less frequently than every five years.
- 13 Agencies will need to separately identify all cost recovery revenues in notes to financial statements – to be published in portfolio budget statements and annual reports consistent with the Finance Minister’s Orders.
- 14 Portfolio Ministers are responsible for ensuring that the cost recovery arrangements of agencies within their portfolios comply with the policy and will report on implementation and compliance in portfolio budget submissions.

Customs and Border Protection fees and charges

There is a schedule of charges that relate to import processing charges applicable under legislation (see Table 2.4.13). Currently no fees and charges are imposed on goods valued at or below \$1,000 which either are cleared through SAC processes or arrive by post.

Charges vary depending on whether declarations are made electronically or by document, and whether they relate to sea, air or post consignments. Declarations for air and sea consignments are generally lodged electronically, while documentary processes are more commonly used in the international mail stream. In 2010–11:

- of the 17,318 FIDs processed through the postal system, 13,007, or 75 per cent, were entered by document;
- of the 1.752 million FIDs processed as air cargo, 1,352, or 0.08 per cent were entered by document; and
- of the 1.562 million FIDs processed as sea cargo, 1,107, which is 0.7 per cent were entered by document.

In the passenger environment, the DutyCalc tool (see section 2.4.4) is used to calculate duty and GST for commercial low value goods and personal goods over the \$900 threshold.⁴⁹ Travellers are not charged for this activity. Goods over \$1,000 are subject to the same import processing fees and charges as apply in the cargo environment.

⁴⁹ Customs and Border Protection also uses DutyCalc to process all alcohol and tobacco products valued at or below \$1,000 in the international mail environment.

Table 2.4.13

Customs and Border Protection Schedule of ICS charges

Item	Fee / Charge	Paid by
Import (N10) and warehouse (N20) declaration charges		
Sea (electronic)	\$50.00 per declaration	The owner, when the declaration is communicated to Customs and Border Protection
Air and post (electronic)	\$40.20 per declaration	The owner, as above
Manual documentary import (N10) and warehouse (N20) declaration charges		
Sea (documentary)	\$65.75 per declaration	The owner, when the declaration is communicated to Customs and Border Protection
Air and post (documentary)	\$48.85 per declaration	The owner, as above
Depot licence application charge	\$3,000 per application	New applicants
	\$1,500 annual fee for depots with less than 300 transactions per annum	Depots with less than 300 transactions per annum
	\$4,000 annual fee for other depots	All other depots
Depot licence variation charge	\$300 depot licence variation charge	All depots
Import declaration (N30 Warehoused goods) fee		
Electronic	\$23.20 per declaration	The owner of warehoused goods, on making an import declaration
Documentary	\$60 per declaration	The owner, as above

Source: Australian Customs Notice No. 2006/21.

DAFF Biosecurity fees and charges

DAFF Biosecurity chargeable services fall into three broad categories:

- *treatments and inspections*, which includes the physical inspection and treatment of higher risk cargo and imported food, including bulk, containerised, UPEs, cargo and food, the supervision of treatments undertaken by third parties, all Increased Quarantine Intervention (IQI) activities such as external inspection of air and sea containers, High Value Low Volume (HVLV) examination, screening, and surveillance activities such as Import Clearance Effectiveness (ICE) surveys;
- *permit granting*, which includes the receipt, evaluation and issuing of all entry permits on specified goods, and the development and implementation of biosecurity in the form of import permit conditions; and
- *import operations*, which includes activities associated with front counter processing, the documentary biosecurity clearance of all commercial cargo, the documentary clearance for imported food including issuing Food Control Certificates and biosecurity risk profiling activities relating to cargo SACs, the development and implementation of operational biosecurity

policy not specifically related to import permits and imported foods policy, Quarantine Approved Premise (QAP) and Compliance Agreement (CA) registration, and development and implementation of measures by third parties to mitigate biosecurity risks.

In determining its fees and charges, DAFF established a set of cost attribution rules in consultation with the DAFF Cargo Consultative Committee (DCCC). The key aspects of these cost attributions are that:

- activity costs that can be identified in full, through DAFF Biosecurity's financial accounting system (TM1), are isolated (e.g. DAFF Biosecurity's permit granting activities, which occur predominately in the central office);
- traditionally accounted direct costs such as employee remuneration are attributed to activities according to the full-time-equivalent (FTE) 'usage' for each activity recorded in the national resource model (NRM); and
- indirect costs are attributed according to either clearly identified beneficiary activities (set by proportionate attribution – for example, 'Overheads for Co-regulation') or FTE 'usage' (for example, 'office supplies').

However, given the indistinct boundaries between some activities, and the imprecision of the cost attributions, the fees and charges were set with a potential of +/- 15 per cent of the expenditure calculated.

While DAFF Biosecurity indicates that this approach results in some cross-subsidisation, it has argued when the fees were established that it was:

... not considered a significant issue as the same direct users of import clearance services can be affected by each activity, and similarly, there is a degree of commonality in the cost bearers (due to the pass-on of costs) of the import clearance services in relation to each of the activities (DAFF, 2009).

Customs and Border Protection collects fees on behalf of DAFF Biosecurity on FIDs lodged in the ICS. These fees are not recorded on the AIMS Entry. They must be paid to Customs and Border Protection, along with any Customs and Border Protection charges, duty and taxes before the goods subject to the FID can be released.

DAFF Biosecurity imposes a standard charge for each FID that arrives as air or sea cargo (see Table 2.4.14), and a range of other charges for specific activities such as goods inspections. The basic charge for each FID declaration is \$15 on an entry by air, and \$14 on an entry by sea. Currently DAFF Biosecurity does not charge for FIDs on an entry by post. No fees and charges are currently imposed on goods valued at or below \$1,000 which are either the subject of a SAC or arrive through the international mail stream, unless the good needs to be examined.

Table 2.4.14

Fees and charges for import clearance – DAFF Biosecurity

Category	Description	Unit	Current Fee
Application Fees			
Import Declaration Fees	ICS full import declaration—AIR	Each	\$15.00
	ICS full import declaration—SEA	Each	\$14.00
AIMS Lodgment Fees	Electronic lodgment of import declaration	Form	\$9.00
	Manual lodgment of import declaration	Form	\$15.00
	Manual lodgment of import declaration—SAC	Form	\$25.00
	Electronic lodgment or variation of import permit	Form	\$85.00
	Manual lodgment or variation of import permit	Form	\$150.00
Assessment Fees	Assessment of import declaration—Goods not subject to compliance agreement	Item	\$40.00
	Assessment of import declaration—Goods not subject to compliance agreement (Additional information required)	Item	\$40.00
	Assessment of import declaration—Goods subject to compliance agreement	Item	\$8.00
	Assessment of import declaration—Goods subject to compliance agreement (Goods of quarantine and imported food concern)	Item	\$40.00
	Assessment of permit application or variation—Standard goods (manual and electronic permit applications Category 1)	Item	\$40.00
	Assessment of permit application or variation—Non-standard goods (Category 2)—Up to 1 hour	Item	\$80.00
	Assessment of permit application or variation—Non-standard goods (Category 3)—Up to 2 hours	Item	\$160.00
	Assessment of permit application or variation—Non-standard goods (Category 4)—Up to 3 hours	Item	\$240.00
	Assessment of permit application or variation—Non-standard goods (Category 5)—Up to 4 hours	Item	\$320.00
	Assessment of permit application or variation—Standard and non-standard goods (All categories)—Additional ¼ hour	Item	\$40.00
	Assessment of application to perform quarantine service offshore	Item	\$120.00
Inspection Fees			
Container Fees	Full container	Each	\$24.00
	Less than full container	Each	\$6.00
Tailgate Inspections	In-office (manned depot) or at QAP	Each	\$40.00
	Other—1st container	½ hour	\$90.00
	Other—subsequent containers	¼ hour	\$45.00

Goods Inspection	In-office—per officer—1/4 hour	1/4 hour	\$40.00
	Out-office—per officer—1st 1/2 hour	1/2 hour	\$90.00
	Out-office—per officer—additional 1/4 hour	1/4 hour	\$45.00
	Officer service for 1 or more working days	Day	\$900.00
Timber Inspection	Timber not in container—cubic metre (other than plywood and veneer)	m ³	\$2.40
Overtime Fees (in addition to inspection fees)			
Weekday	Per officer—1/4 hour	1/4 hour	\$16.00
	Per officer—minimum overtime charge (Any period up to 3 hours)	Min	\$192.00
Non weekday including public holidays	Per officer—1/4 hour	1/4 hour	\$24.00
	Per officer—minimum overtime charge (Any period up to 3 hours)	Min	\$288.00
Overnight	Per officer	1/4 hour	\$150.00
Registration Fees			
Quarantine Approved Premises	Application for approval or renewal—full financial year	Form	\$1,200.00
	Application for approval or renewal—part financial year	Form	\$600.00
	QAP audit function—1st 1/2 hour	1/2 hour	\$90.00
	QAP audit function—additional 1/4 hour	1/4 hour	\$45.00
Goods Storage Fees			
Released from Quarantine	Machinery and other equipment (including motor vehicles)—not removed within 7 days of release (day or part thereof)	Day	\$66.00
	Other goods—not removed within 7 days of release (day or part thereof)	Day	\$12.00

Source: <http://www.DAFF.gov.au/aqis/import/general-info/fees-charges-import/import-clearance> as at 10 May 2012. Fees and charges are payable by the owner of the container or an agent of the owner; or by the owner of the imported goods or an agent of the owner.

DAFF Biosecurity also applies charges on a fee for service basis for all services associated with inspection activity at airports (see Table 2.4.15).

Table 2.4.15

DAFF Biosecurity fees and charges for airport services

Description	Unit	Fee
In office Inspections	1/4 hr	\$32.00
Other Inspections - First 1/2 hr or part thereof	1/2 hr	\$72.00
Other Inspections - After first 1/2 hr	1/4 hr	\$36.00
Daily rate	Day	\$637.00
Fumigation Treatment and Heat Treatment		\$30.00 ¹
Gamma Irradiation		\$60.00 ¹
Goods seized in transit – passengers		\$30.00 ²

Source: DAFF website: Fees and charges for airports quarantine services.

Note: [1] Fee charged per treatment includes postage and packaging costs.

[2] Fee charged per passenger processed does not include postage and packaging costs of items re-exported via mail.

Observations

In relation to the border agency fees and charges, observations that inform the development of potential solutions include:

- the relative absence of fees on SACs appears to be primarily due to difficulty and costs associated with collecting these fees or charges;
- there appears to be a cross-subsidy occurring between goods valued above and below \$1,000 in respect of border agency fees. This cross-subsidy can be expected to have increased in recent years as the volume of low value goods being imported into Australia has expanded significantly; and
- each of these issues points to the potential for fee structures and levels to be revised as part of broader reforms to import handling and administration processes. This possibility is discussed in further detail in Chapters 3 and 4.

Border security and biosecurity processes – agency cost structures with respect to low value goods

Overview

This section outlines border agency cost structures with respect to low value goods. In determining these cost structures, estimates were required because both Customs and Border Protection and DAFF Biosecurity undertake their roles and responsibilities with respect to low value goods as a subset of their broader border activities.

Air cargo

As part of overall funding for the Trade Facilitation Program, approximately \$11.2 million was internally allocated by Customs and Border Protection to air cargo activities in 2010–11. This cost relates only to employee and supplier costs for the resources involved in air cargo intervention. Consequently, any other supporting costs attributable to the running, maintenance and execution of Customs and Border Protection activities that relate to air cargo outside of inspection and examination activities (such as compliance) are not included. In 2010–11, 115 FTE were allocated to air cargo operations.⁵⁰

Given that Customs and Border Protection's approach to identifying, intervening and treating air cargo risks at the border is the same regardless of whether the goods are above or below the low value threshold, all consignments are costed equally. Therefore the average estimated cost (FTE and supplier) per inspection in 2010–11 was approximately \$7.39 (\$11.3 million divided by 1.52 million inspections). The average cost per consignment was approximately \$0.81 (not including IT systems costs).

DAFF Biosecurity provides its services on a fee for service basis. Other than the initial screening and assessment at the SAC National Coordination Centre (SAC NCC), staffing levels to support SAC activities are not specifically identified in DAFF Biosecurity's staffing profiles. Documentary assessment and inspections of low value goods are part of general air and sea cargo activities.

In 2010–11, the SAC NCC had an operating budget of \$2.3 million and in 2011–12 it was \$2.8 million. Additional costs for SAC clearances, such as subsequent inspections, are not differentiated from other air and sea cargo activities.⁵¹ SAC clearance activities are cost-recovered through the broader activity stream. This aims to reflect the nature of the activity undertaken as the process of inspecting goods is the same irrespective of their value.

Based on an estimate of seven FTEs inspecting air cargo at CAPEC members' premises and these operators receiving 90 per cent of goods lodged as SACs, SAC inspections cost around \$0.78 million per annum to deliver.⁵² This estimate does not account for overtime costs and commercial cargo inspections which may occur during routine appointments or vary in duration depending on each business's needs. This estimate does not include the costs to operate national programs from head office which provide technical and scientific policy advice to support the delivery of these services.

The total costs (including SAC NCC operations, recovered costs in CAPEC facilities and an extrapolation to other related activities) are estimated to be around \$3.6 million to \$3.8 million per annum. In 2011–12 this equated to DAFF Biosecurity costs of approximately \$0.30 per SAC entry (not including ICT systems costs).⁵³

International mail environment

Following the outbreak of Foot and Mouth disease in the United Kingdom in 2001 the Australian Government decided to move to 100 per cent screening of all incoming mail, either through x-ray screening or detector dogs. Funding of \$49.4 million was provided to Australia Post (through the then Department of Communications, Information Technology and the Arts) to pay for an increased footprint to accommodate this process. The aim was to build new gateways

50 Customs and Border Protection submission to the Taskforce, May 2012

51 DAFF Biosecurity submission to the Taskforce 22 March 2012

52 *ibid.*

53 *ibid.*

in Melbourne and Sydney. A site was available at Tullamarine airport but no suitable site was available near Mascot Airport in Sydney. A new gateway was built at Tullamarine and the existing Sydney gateway located at Granville was refurbished. The gateways became fully operational in mid-2006.

Australia Post estimated that the funding covered about 65 per cent of the costs of the infrastructure, leaving a 'shortfall' of \$26.9 million which it funded. Australia Post also had to meet its own ongoing operational costs. The introduction of the 100 per cent screening required additional DAFF Biosecurity staff to be allocated to this activity. This was largely funded by the Government. However, a decision was made to have Australia Post fund a proportion of this cost – approximately \$3.2 million per annum.⁵⁴ In May 2010 this determination was increased to \$8.2 million per annum.⁵⁵ Generally, Australia Post does not contribute to the costs incurred by Customs and Border Protection.

The 2011–12 DAFF Biosecurity budget for activities at international mail centres was \$21 million, of which approximately \$12 million was appropriation revenue, \$8.2 million was recovered from Australia Post via the Ministerial Determination, \$500,000 was internal corporate revenue and \$110,000 recovered directly from mail recipients for treatment costs. However, as Table 2.4.16 indicates, the actual cost of processing mail by DAFF Biosecurity appears to be slightly higher than budgeted at just under \$22.6 million for the 12 month period 1 June 2011 to 31 May 2012.

Table 2.4.16

Estimated cost of processing international mail by the DAFF Biosecurity 2011–12

Activity	Description	Total estimated cost per activity
International Mail		
Screening	Selection and screening of articles by x-ray and/or dog, including process assurance surveys	\$12,302,750
Examination	Manual inspection of goods referred from screening activity, detention of restricted goods and associated data entry	\$8,688,185
Post Detection Activity	Manage detained goods, including client liaison and data entry	\$1,583,639
Totals		\$22,574,575

Source: DAFF Biosecurity data 2012 for period June 2011 to May 2012.

As compared to DAFF Biosecurity where some of the costs of screening are borne by Australia Post, all of the costs for inspection and examination activities by Customs and Border Protection are funded through budget appropriation. This cost covers the entire risk spectrum, from community protection and consumer safety through to intellectual property and revenue.

In 2010–11, the total appropriation for international mail was \$14.72 million. Other parts of the agency including the Customs Information and Support Centre (CI&SC) (to manage client enquiries related to revenue responsibilities) and Client Services (where declarations are input and processed, together with interactions for the payment and tracking of revenue) support

54 Quarantine Service Fees (Australia Post) Determination 2005 by the Minister for Agriculture, Fisheries and Forestry.

55 Quarantine Service Fees (Australia Post) Determination 2010 by the Minister for Agriculture, Fisheries and Forestry.

the treatment of revenue in international mail (see Table 2.4.17). Other supporting costs such as overheads, senior management expenses, and other costs to run, maintain and execute Customs and Border Protection duties at international mail gateways are not included. Overall, the estimates are conservative.

Table 2.4.17

Estimated cost of processing international mail by Customs and Border Protection 2010–11

Activity	Description	Total estimated cost per activity
International Mail		
Inspections	Risk Assessment/Inspection and selection of high risk articles including those with a value over \$1,000	\$6,227,159
Examinations	Secondary treatment to treat community protection and revenue risk (incl. duty calculations)	\$5,661,567
Post Detection Activity	Reporting and treatment of detected prohibited items	\$5,425,983
Notifying financial impediment to delivery	Generation of duty calculation invoices, notifying Australia Post, clearing paid invoices etc	\$542,132
Support Services		
Support Centre	Answering questions/queries on post items	\$475,205
Processing of documentary FIDs	FID data input and importer advice	\$1,308,299
Total		\$19,640,345

Source: Customs and Border Protection submission to the Taskforce 17 May 2012. Note that these costs represent only the best estimates available, and hence subject to uncertainty.

International travellers

Customs and Border Protection is responsible for end-to-end passenger and crew processing for over 25 million travellers to support legitimate travel, interventions needed to prevent illegal movement of people and the goods they bring across the border, and collection of associated revenue. Staff working at each international airport in Australia are responsible for the primary immigration clearance for arriving and departing air travellers on behalf of the Department of Immigration and Citizenship as well as detecting and preventing the unlawful movement of a wide range of prohibited, restricted or regulated goods on behalf of over 40 government agencies.

The cost of processing international passengers through Australia's eight international airports reflects the effort involved in processing passengers through the primary and secondary clearance processes. In total, the full cost and staffing for passenger processing in 2010–11 was approximately \$159.3 million, with around 1,555 FTE, of whom 1,497 were engaged in processing passengers at Australia's eight international airports. In addition to staff working at the airports, support activities occur in other parts of the agency.

Observations

In relation to the border agency cost structures, observations informing the development of potential solutions include:

- accurately identifying costs with respect to the processing of low value imports is difficult. Customs and Border Protection and DAFF Biosecurity are not currently able to isolate costs associated with processing low value imports easily because the processing of low value goods is a subset of their broader border activities;
- border agencies are funded differently for activities in the mail and cargo environment:
 - Customs and Border Protection is funded through budget appropriation for a range of activities addressing the full range of broader border risks. A range of fees and charges apply to the clearance of imported goods (including the Import Processing Charge which is paid into Consolidated Revenue);
 - in the cargo environment, DAFF Biosecurity provides a range of services on a fee for service basis, i.e. when a service is provided; fees are collected and charged across a number of cost recovered activities; and
 - in the international mail environment, \$8.2 million is recovered from Australia Post via Ministerial Determination to fund a proportion of costs associated with DAFF Biosecurity activities. It is difficult to determine on what basis the \$8.2 million is calculated.

2.4.4 Revenue collection

Under current policy settings,⁵⁶ imported goods (other than alcohol, tobacco, or bulk order goods) which are valued at or below \$1,000 for the purposes of customs duty are not subject to either customs duty and/or GST.⁵⁷ There is no special treatment for gifts.

If there is to be a change to the level at which these revenue collection processes operate, to the manner in which they are undertaken or, more broadly, to the bases upon which they are made, it is necessary to understand the existing requirements and underlying principles of the current processes and how these may be affected by any such change. Moreover, consideration must also be given to the administrative and funding arrangements that underpin the collection of GST, as this has potential implications as to which parties may bear the cost of implementing changes to existing arrangements.

Having regard to these issues, this section outlines:

- the bases upon which duty and GST are currently determined; and
- the processes by which duty and GST are currently assessed and collected in each import stream (air cargo, sea cargo, international mail and international travellers).

⁵⁶ Prior to 2005, goods imported by post had a \$1,000 declaration threshold for the lodgment of an entry, while goods imported by sea or air cargo had a \$250 threshold. However, customs duty and GST was still collected on postal goods through an informal clearance document where the combined liability exceeded \$50. Following a review by the Competitive Neutrality Office of the Productivity Commission, the threshold was standardised in October 2005. Underlying the decision to move to a uniform threshold was that it promoted a significant reduction in 'red tape' for many importers and logistic service providers involved in the importation of low value goods. It also meant that low value goods arriving by all modes of transport were treated in a similar manner.

⁵⁷ While section 42-5 of the *A New Tax System (Goods and Services Tax) Act 1999* specifies that goods are non-taxable importation for GST purposes if they are duty free under the Customs by-laws (because, for example, their value is below the threshold), the value upon which GST is assessed is the Value of Taxable Importation, which includes the customs value on which customs duty is assessed, any duty payable, transport and insurance costs, and the WET where applicable.

Tariff classifications and duty calculations

General arrangements

Tariff classifications

Australia's domestic tariff arrangements are built upon an internationally agreed classification system for traded commodities and goods – the Harmonized Commodity Description and Coding System (generally referred to as the Harmonized System or the HS).

The HS has been developed by the WCO. Australia, as a member of the WCO and more specifically as a signatory to the Convention on the Harmonized Commodity Description and Coding System, is required to use the HS.⁵⁸

The HS establishes a 6-digit coding system, where:

- the first two digits refer to the relevant Chapter of the HS, for example, Chapter 69 is for Ceramic Products;
- the third and fourth digits refer to relevant Heading, for example 6913 is for Statuettes and Ornamental Articles; and
- the fifth and sixth digits refer to the relevant Sub-Heading, for example, 6913.10 is for Porcelain or China Statuettes.

This WCO classification system is updated every five years to keep the commodity codes relevant. The international HS provides codes for over 5,000 commodities.

Building upon this 6-digit coding system, Australia's tariff arrangements classify goods for duty (and statistical) purposes in accordance with the Combined Australian Customs Tariff Nomenclature and Statistical Classification, commonly known as the Working Tariff.⁵⁹

The Working Tariff encompasses a 10-digit level classification system for goods, which is known as the Harmonized Tariff Item Statistical Code (HTISC). The HTISC was last updated on 1 January 2012. While the HTISC is based upon the HS, in some cases further detail is required to enable identification of goods that are of particular interest or importance to Australia. The extensions exist for:

- Customs and Border Protection purposes, to differentiate between imported goods grouped under a single 6-digit HS code. It is generally driven by the need to identify varying import duty rates on similar goods and is achieved by adding two digits to the HS code, making an 8-digit code. The extension is maintained by Customs and Border Protection; and
- statistical purposes, to provide a finer level of detail and is achieved by adding two digits to the Customs 8-digit codes (creating a 10-digit code). Statistical codes are maintained by the ABS.

Duty rates

Using the tariff classification outlined above, the Working Tariff sets out the duty rates which apply to different types of goods, originating from different countries. It also specifies concession arrangements which will operate for goods originating from designated countries – setting zero or preferential duty rates for certain goods – as well as providing for concessional arrangements for

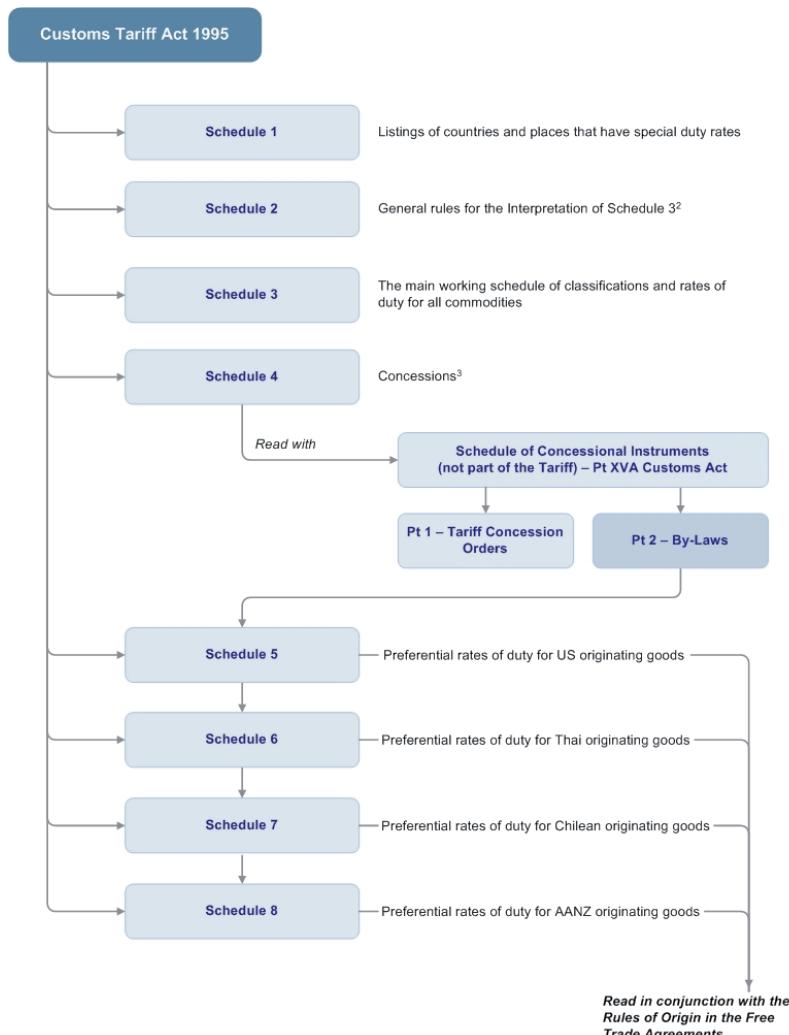
⁵⁸ See Article 3 of the Convention on the Harmonized Commodity Description and Coding System which requires, amongst other things, that Australia "use all the headings and subheadings of the Harmonized System without addition or modification together with their related numerical codes".

⁵⁹ For further details, see Customs and Border Protection, 2012b.

particular types of goods. Generally, these arrangements are given effect through the *Customs Tariff Act 1995*, with the major exception being concessional instruments such as Tariff Concession Orders (TCOs) which are primarily given effect under Pt XVA of the *Customs Act 1901*.

Figure 2.4.4

Working Tariff



Source: Customs and Border Protection.

Notes: Schedule 1 lists the classes of countries and places in relation to which Special rates of duty apply. The following sections of the Customs Act 1901 provide the authority to Schedule 1. Section 12 requires that the countries and places listed in Schedule 1 are to be treated as Forum Island countries, Least Developed Countries or Developing Countries. Section 13 determines when goods are deemed to be the produce or manufacture of a particular country or place. Sections 14 and 16 rule on the application of rates of duty for the countries and places listed in Schedule 1.

Schedule 2 provides the general rules of interpretation of the Tariff for deciding which tariff classification within Schedule 3 belongs to particular goods.

Schedule 4 sets out concessional treatment for goods that meet certain special conditions or circumstances, to be imported at duty rates lower than the rates they would otherwise be applicable. The Schedule consists of items that describe the goods, circumstances and/or conditions that must exist to use the item and give the applicable duty rate.

- Some items refer to by-laws. These by-laws are not made by parliament but by the CEO of Customs and Border Protection, nevertheless they have legal status under section 271 of the *Customs Act 1901*.
- By-laws provide further essential information on the conditions, circumstances and/or goods to which the item may be applied. While by-laws are not part of Schedule 4, they must be read in conjunction with their relevant item.

Under the Working Tariff, the classification system and the relevant tariff rates that apply are set out in Schedule 3 of the *Customs Tariff Act 1995*. Schedule 3 runs to some 97 chapters. Most goods that are not free of duty are generally subject to a 5 per cent rate of tariff, while clothing, textiles and footwear currently attract a tariff of 10 per cent (see Table 2.4.18). However, most chapters contain both goods that are, and are not, subject to duty. Currently there are 6,124 eight figure tariff item classifications in the Working Tariff. Of these, 2,845 items attract a 'free' rate of duty (46 per cent) and 3,279 are not free.

Table 2.4.18

Customs duty applicable to selected low value goods

Goods	Duty Rate	Exemptions	Tariff code reference
Books and magazines	Free		Chapter 49
Cameras and camera accessories	Free		Chapter 90
CDs and DVDs	Free		8523.40.00
Toys			
Puzzles (other than puzzle books)	5%	Free: NZ, Papua New Guinea, Forum Island countries, developing countries, least developed countries, Singapore, United States, Thailand, Chile, AANZ countries	9503.00.50
Electric trains and scale model kits	Free		9503.00.60
Construction sets	5%		9503.00.70
Toy musical instruments	Free		9503.00.40
Sports equipment			
Skis	Free	Free: NZ, Papua New Guinea, Forum Island countries, developing countries, least developed countries, Singapore, United States, Thailand, Chile, AANZ countries	9506.11.00
Ski-fastenings	Free		9506.12.00
Other ski equipment	5%		9506.12.00
Water Skis	5%		9506.29.00
Lawn-tennis balls	Free		9506.61.00
Golf balls	5%		9506.32.00
Bicycle parts (other than frames and forks)	Free		8714.92.00 - 8714.99.00
Bicycle frames and forks	5%		8712.00.00, 8714.91.00
Compact disc players	5%	Free: NZ, Papua New Guinea, Forum Island countries, developing countries, least developed countries, Singapore, United States, Thailand, Chile, AANZ countries	8519.20.90
Footwear (other than some specialised footwear such as ski-boots and footwear for diving which is free)	5%	Free: NZ, Papua New Guinea, Forum Island countries, developing countries, least developed countries, Singapore, United States (certain goods are at a concessional rate until 1 January 2014), Thailand, Chile, AANZ countries	6401, 6402, 6403, 6404, 6405
Clothing	10% from 1 July 2015 rate falls to 5%	5% developing countries. Free: NZ, Papua New Guinea, Forum Island countries, least developed countries, Singapore, United States, Thailand, Chile, AANZ countries, and from 1 July 2015 developing countries.	Chapter 62

Chocolate in blocks, slabs and bars	5%	Free: NZ, Papua New Guinea, Forum Island countries, developing countries, least developed countries, Singapore, United States, Thailand, Chile, AANZ countries	1806.3
Perfumes and toilet waters	5%	Free: NZ, Papua New Guinea, Forum Island countries, developing countries, least developed countries, Singapore, United States, Thailand, Chile, AANZ countries	3303.00.00
Beauty or make-up preparations and preparations for the care of the skin (other than medicaments), including sun screen or sun tan preparations; Manicure or pedicure preparations	5%	Free: NZ, Papua New Guinea, Forum Island countries, developing countries, least developed countries, Singapore, United States, Thailand, Chile, AANZ countries	3304
Imitation jewellery	5%	Free: NZ, Papua New Guinea, Forum Island countries, developing countries, least developed countries, Singapore, United States, Thailand, Chile, AANZ countries	7117

Source: *Customs Tariff Act 1995*, Schedule 3.

The Working Tariff also incorporates various concession arrangements.

The first significant category of concession is set out in Schedule 4 of the *Customs Tariff Act 1995*, which provides import concessions for a wide range of goods and user categories to achieve a variety of policy objectives. These include industry assistance and compliance with international obligations. Schemes such as the Enhanced Project By-Law Scheme for major investment projects are given effect through Schedule 4.

The second is the Tariff Concessions System (TCS), which is governed by statutory arrangements set out in the *Customs Act 1901* (see Box 2.4.2). The TCS is designed to help industry become more internationally competitive. The system reduces costs to the general community by allowing duty-free entry for certain goods where there is no local industry that produces those goods. Certain classes of goods including foodstuffs, clothing and passenger motor vehicles are ineligible for the TCS and are known as excluded goods.⁶⁰

⁶⁰ See section 269SJ(b) of the *Customs Act 1901* and regulation 185 of the *Customs Regulations 1926*.

Box 2.4.2: Tariff Concession System (TCS)

Source: Customs and Border Protection Paper on The Australian Tariff Framework.

The TCS is designed to help industry become more internationally competitive by allowing duty-free entry for certain goods where there is no local industry that produces those goods.

The TCS is governed by Part XVA of the *Customs Act 1901*, which runs for approximately 30 pages. The provisions in this Part provide for a comprehensive system for the management of Tariff Concession Orders (TCOs) including the granting of TCOs, refusal of applications, revocation of orders, internal reviews, external appeals and maintenance of TCOs. It also provides for the publication of all TCO related notices in the weekly Tariff Concessions Gazette.

Approximately 1500 TCO applications are received each year and there are currently approximately 13000 TCOs. The majority of TCO applications are lodged by customs brokers or customs agents on behalf of their clients. Customs and Border Protection is advised that the cost to an importer for having a customs broker/agent lodge a TCO application on its behalf is approximately \$1,000 to \$4,000 depending on the complexity of the application. As per section 269SJ(b) of the *Customs Act 1901* and regulation 185 of the Customs Regulations 1926 certain classes of goods including foodstuffs, clothing and passenger motor vehicles are ineligible ('excluded goods').

The making of a TCO

Under section 269F, a person may apply, on an approved form, for a TCO for particular goods. The applicant has an obligation under section 269FA to demonstrate to the satisfaction of the CEO that they have reasonable grounds for asserting that the application meets the core criteria. Section 269C defines 'core criteria' as: ... a TCO application is taken to meet the core criteria if, on the day on which the application was lodged, no substitutable goods were produced in Australia in the ordinary course of business.

Screening of applications is governed by section 269H. Within 28 days of receiving the application Customs and Border Protection must decide whether or not to accept the application as valid. If it is accepted, a notice will appear in the Gazette to this effect, thereby informing potential Australian manufacturers of substitutable goods of the application and providing them, under section 269K, with 50 days to object to the application. Under section 269P, the CEO has 150 days from the date of the gazettal of the notice of intention to make a TCO to decide if the application meets the legislated criteria governing the making of a TCO. During this period, the applicant may adjust the wording of the TCO to exclude any locally manufactured goods (269L).

All steps in the process, including changes in wording and eventually the making of the TCO are required to be published in the Gazette. When a TCO is granted, it comes into effect on the date the application was first received (269S(1)).

Use of TCOs

Once a TCO is made, it is available for any importer to use as long as their goods meet the Tariff Classification and the goods description in the TCO. The TCO is available for anyone to use and it exists until revoked according to the provisions of the *Customs Act 1901* (or, potentially, the operation of the *Legislative Instruments Act 2003*).

Revocation of TCOs under the *Customs Act 1901*

If a local manufacturer is of the belief that they produce substitutable goods for those described in a TCO they may, under section 269SB, request that the TCO be revoked. In order for such a request to be granted, the local manufacturer must demonstrate that they make substitutable goods in Australia in the ordinary course of business. When a revocation request is received, a notice is published in the Gazette. A decision whether or not to revoke the TCO must be made within 60 days after lodgment of the request. Section 269SC(4) grants the CEO the power to make, if possible, a narrower TCO that would exclude the locally produced goods.

Under section 269SC(6), when a TCO is revoked, the revocation takes effect from the date that the request for revocation was received by Customs and Border Protection.

Section 269SD allows the CEO, in certain circumstances, to revoke TCOs where there has been no request from a local manufacturer. Circumstances where a TCO may be revoked at the CEOs initiative include:

- 269SD(1AA)/(1AB) – a general provision allowing for revocation of TCOs where the CEO believes they would not have made that TCO should they have received the application on a particular day. Such a TCO may include one that covers goods that are declared by the regulations to be goods to which a TCO should not extend, as per section 269SJ(1)(b). 28 days warning is given that it is intended that the TCO be revoked.
- 269SD(1) – where the general rate of duty for the goods in question has been reduced to “Free”.
- 269SD(2)/(2A) – As a result of advice from an officer, a Tribunal or Court decision or an amendment to the Customs tariff the TCO is classified to the wrong Tariff heading the TCO must be revoked and reissued under the correct classification. The new TCO may be given effect from the day the original TCO was made or from a later date (269SD(4)).
- 269SD(3) – allows for revocation and reissue of a TCO in the event of a transcription error in the description of the goods.
- 269SD(5) – allows for revocation of TCO containing description of goods in terms of their end use, which is prohibited under section 269SJ(1)(a).

All such revocations and intentions to revoke must be published in the Gazette (section 268SE).

Section 269SG allows the continued use of a revoked TCO under certain circumstances where the goods in question where in transit.

Revocation of TCOs due to non-use

The CEO may also, under section 269SD(1A), revoke a TCO if it has not been used in the previous 2 years. This power will not always be exercised as for large, capital equipment type goods importations under the TCO may only happen once every few years, in which case the TCO is still effectively in use and the CEO may exercise his discretion not to revoke the TCO. It is Customs and Border Protection’s policy to review TCOs on a regular basis. Currently, 1250 TCOs are being revoked pursuant to section 269SD(1A) (see Tariff Concessions Gazette TC 10/20, Wednesday, 19 May 2010 as an example).

Internal and external appeal of TCO related decisions

Under section 269SH, at the request of an affected party, decisions regarding objections and revocations at the request of a local manufacturer may be subject to an internal review by another officer of Customs and Border Protection. The CEO has 60 days to determine the outcome of an internal review on a revocation decision and 90 days for an application decision.

All internal reviews are subject to external review by the Administrative Appeals Tribunal. TCOs revoked at the CEO's initiative are not subject to internal review, but are subject to external review by the Administrative Appeals Tribunal. All requests for external review and their outcomes are published in the Gazette.

In addition to these arrangements, there are concessions that operate with respect to particular countries. Generally such concessions are provided for least developed or developing countries, as well as countries that Australia has entered into multilateral or bilateral trade arrangements. Schedules 5 to 8 of the *Customs Tariff Act 1995* set out tariff classifications and rates of duty for commodities originating from free trade partners that do not receive a free rate of duty, but receive preferential outcomes arising from Free Trade Agreements (FTAs). The relevant FTAs are:

- Australia-US Free Trade Agreement (AUSFTA);⁶¹
- Thailand-Australia Free Trade Agreement (TAFTA);⁶²
- Australia-Chile Free Trade Agreement (ACI-FTA);⁶³ and
- ASEAN-Australia-New Zealand Free Trade Area (AANZFTA).⁶⁴

In addition, Australia and Canada grant each other preferential tariff rates on a limited range of products agreed under the Canada-Australia Trade Agreement (CANATA)⁶⁵, established in 1960 and amended in 1973. As CANATA pre-dates the multilateral trading system, most of its provisions have been superseded by tariff reductions achieved by negotiation in the World Trade Organisation (WTO).

Box 2.4.3 below lists the range of countries that enjoy some form of preferential tariff arrangement with Australia.

Box 2.4.3: Preferential trade arrangements

Source: DFAT: Australia's Trade Agreements <http://www.dfat.gov.au/fta/>

Preferential trade arrangements operate with respect to goods originating from the following countries:

Chile
New Zealand
Singapore
Thailand
United States

Countries covered by the ASEAN – Australia – New Zealand Free Trade Area (AANZ countries) (New Zealand, Singapore, Myanmar, Brunei Darussalam, Vietnam, Malaysia, Philippines, Thailand, Indonesia, Laos and Cambodia)

Canada

61 See Sch 5 *Customs Tariff Act 1995*.

62 See Sch 6 *Customs Tariff Act 1995*.

63 See Sch 7 *Customs Tariff Act 1995*.

64 See Sch 8 *Customs Tariff Act 1995*. The AANZFTA countries are currently Australia, New Zealand, Singapore, Myanmar (Burma), Brunei, Indonesia, Laos, Cambodia the Philippines, Malaysia, Vietnam and Thailand.

65 For more information on CANATA see the DFAT website (DFAT, 2012).

Forum Island countries (Cook Islands, Fiji, Kiribati, Republic of Marshall Islands, Federated States of Micronesia, Nauru, Niue, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu)

Least developed countries including Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Cape Verde, Central African Republic, Chad, Comoros, Congo, Democratic Republic of Djibouti, Timor-Leste, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Union of Nepal, Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Tanzania, United Republic of Togo, Tuvalu, Uganda, Vanuatu, Samoa, Yemen, Republic of Zambia

Developing countries which may include⁶⁶ Albania, Algeria, Antigua and Barbuda, Argentina, Bahamas, Barbados, Bahrain, Belize, Bolivia, Bosnia and Herzegovina, Brazil, Brunei Darussalam, Bulgaria, Cameroon, Chile, People's Republic of China, Colombia, Congo, Costa Rica, Cote d'Ivoire, Croatia, Cuba, Cyprus, Czech Republic, Dominica, Dominican Republic, Ecuador, Egypt, El Salvador, Gabon, Ghana, Grenada, Guatemala, Guyana, Honduras, Hungary, India, Indonesia, Iran, Iraq, Israel, Jamaica, Jordan, Kenya, Korea, Democratic People's Republic of Korea, Republic of Kuwait, Lebanon, Libyan Arab Jamahiriya, Malaysia, Malta, Mauritius, Mexico, Mongolia, Morocco, Nicaragua, Nigeria, Oman, Pakistan, Panama, Paraguay, Peru, Philippines, Poland, Qatar, Romania, St Christopher and Nevis, St Lucia, St Vincent and the Grenadines, Saudi Arabia, Seychelles, Singapore, Slovak Republic, Slovenia, Sri Lanka, Suriname, Swaziland, Syrian Arab Republic, Thailand, Trinidad and Tobago, Tunisia, Turkey, United Arab Emirates (Abu Dhabi, Dubai, Sharjah, Ajman, Umm al Qaiwain, Fujairah, Ras al Khaimah), Uruguay, Venezuela, Vietnam, Socialist Republic of Zimbabwe

Administrative processes

The nature of these tariff arrangements makes the task of classifying goods for the purposes of assessing duty a complex one.

As a signatory of the International Convention on the Simplification and Harmonization of Customs Procedures (the Kyoto Convention), Australia is required, amongst other things, to provide tariff advisory services. Nonetheless, most importers use a customs broker or agent to expedite the clearance process as it requires a relatively detailed knowledge of Customs and Border Protection procedures and systems, and knowledge of tariff classification applicable to a variety of goods. Customs brokers must be licensed and an individual applicant for a broker's licence must demonstrate that they are a person of integrity and possess the requisite skills and knowledge to be a broker (see Pt XI, *Customs Act 1901*).

There is also a range of mechanisms by which a decision made by Customs and Border Protection affects the amount of duty a person has to pay. These are:

- internal review

Customs and Border Protection, on request from an affected person, provides internal reviews of most of its administrative decisions subject to its own administrative arrangements. For example, applicants can seek internal administrative review of advance rulings on valuation, rules of origin and tariff classification matters. In such cases, the review officer is not normally

⁶⁶ See Schedule 1 of the Australian Customs Tariff Act 1995.

the original decision maker. There are also some statutory internal review procedures, for instance, in relation to the granting or revocation of TCOs.

- administrative review

There is no direct right of review against a tariff classification decision in the Administrative Appeals Tribunal (AAT). However, a person can make a payment of duty under protest⁶⁷ and request the AAT to review the amount payable. The reasons for disputing the payment of duty could include the origin, valuation and tariff classification of goods applied. The AAT can directly review a decision to refuse a refund of customs duty, the substantive issue in dispute being the origin, valuation or tariff classification of the goods. The AAT can also review a wide range of other customs law decisions, including, for example, decisions regarding the granting of TCOs.

- judicial review

Any adversely affected person can apply for judicial review, including importers and Australian manufacturers.

Duty arrangements and low value goods

Generally, for goods that are valued for duty purposes at or below \$1,000, a duty rate of 'free' applies under by-laws made for Schedule 4 of the *Customs Tariff Act 1995*.⁶⁸ The customs value is generally the amount paid for the goods, converted to Australian currency at the exchange rate applicable on the day the goods were exported. This 'free' duty rate does not apply, however, to tobacco, tobacco products or alcoholic beverages. These products are subject to duty regardless of value.

GST classifications and calculations

General arrangements

Australia's GST arrangements⁶⁹ impose GST on goods⁷⁰ from overseas in two ways – on the supply of those goods (as defined by the relevant legislation),⁷¹ and on the actual importation of goods.

GST is imposed on goods from overseas as follows:

- GST is payable on the supply of goods by the supplier if the supply is 'connected with Australia' and subject to other conditions being met.⁷² Pursuant to section 9-25 of the GST Act, this occurs with respect to imported goods if the overseas supplier imports into Australia or installs or assembles the goods in Australia;
- Under section 13-5, GST is payable on the importation of goods by the person who makes the taxable importation⁷³ (subject to a deferral mechanism for approved importers).

⁶⁷ See section 167 *Customs Act 1901*.

⁶⁸ By-laws made under Schedule 4 of the *Customs Tariff Act 1995* - Item 32A by-law 0540003 and Item 32B by-law 0540004.

⁶⁹ These arrangements are prescribed in the *A New Tax System (Goods and Services Tax) Act 1999*, related legislation and ancillary regulations. In this report this legislation is referred to generally as the GST Act. Where necessary, references to regulatory instruments are separately referenced.

⁷⁰ 'Goods' are tangible goods; services performed overseas are not connected with Australia and not subject to GST on import. Digital products such as e-Books are not subject to GST on importation and only in very limited circumstances subject to GST on supply under the reverse charge provisions (see Division 84 of the GST Act).

⁷¹ The liability of a supplier for GST also depends on whether they are registered or required to be registered, whether the transaction is in the course or furtherance of the enterprise and whether there is consideration.

⁷² See above.

⁷³ See also information pertaining to the entry of imported goods per section 68 of the *Customs Act 1901*.

However, goods imported into Australia with a customs value at or under \$1,000 are not subject to GST on importation unless they are tobacco, tobacco products, alcoholic beverages⁷⁴ or part of a bulk order.⁷⁵

To deal with situations where the supplier is a non-resident, the GST payable on a taxable supply or taxable importation made by a non-resident through a resident agent is payable by the agent and not the non-resident (see Division 57 of the GST Act).

The GST on the supply and the GST on importation are administered independently. Therefore, when an overseas supplier is also the importer of the goods, they may be liable for GST on both the supply and importation of the goods. While the eligibility for ITCs will ensure there is no double taxation, GST can be levied on the same goods twice in these circumstances.

Under current arrangements, GST on the importation of goods is imposed at a rate of 10 per cent of the Value of Taxable Importation (VoTI). The VoTI is the sum of:

- the customs value on which customs duty is assessed;
- the amount paid or payable;
 - for the international transport of the goods to their place of consignment in Australia;
 - to insure the goods for that transport;
- to the extent that these amounts are not already included in the customs value;
- any customs duty payable in respect of the importation of the goods; and
- any WET payable in respect of the local entry of the goods.⁷⁶

The customs value of goods is the basis for calculating ad valorem customs duty. The cost of packing overseas, such as labour and packages is included in the customs value of the goods. The customs value must be in Australian currency. If the invoice is not in Australian dollars then the rate of exchange on the day the goods were exported, as published in the Commonwealth of Australia Gazette is used.⁷⁷

VoTI is calculated by the ICS using information provided in the relevant declaration document.

The GST payable on a supply, if the supply is connected with Australia, made in the course and furtherance of an enterprise that the supplier carries on and the supplier is registered or required to be registered for GST, is one eleventh of the invoice value of the goods. That liability is the same as if the supply was a domestic supply.⁷⁸

However, certain goods are exempt from GST (see below).

Further, GST is intended to apply to final consumption and not on business inputs. Therefore a business that is registered for GST will generally be eligible for an ITC to offset their import GST liability. For most businesses, imports are a ‘wash transaction’ with the GST offset by ITCs, which represents no net gain to revenue. However, under current arrangements a business cannot claim an ITC if the liability for GST has been met by another party in the first instance.

⁷⁴ See section 42-5(1) of the GST Act.

⁷⁵ See section 42-5(1) of the GST Act.

⁷⁶ See section 13-20 of the GST Act.

⁷⁷ These rates of exchange are available from www.customs.gov.au.

⁷⁸ The tax on supply is not calculated or collected at the time of importation.

To facilitate this process, the ATO operates a scheme to defer GST on imported goods. The deferred GST scheme covers GST only; it does not affect duty, which must still be paid at the time when the goods are imported. Deferral of GST on imported goods extends to all importations entered for home consumption, either at the time of importation (N10 import declarations) or from a warehouse licensed under the *Customs Act 1901* (N30 import declarations). Importers must apply to and be registered by the ATO to participate in the deferred GST scheme. Goods excluded from the scheme are:

- goods imported under the Tradex⁷⁹ scheme that are diverted into home consumption (this scheme provides an exemption from duty and GST where imports are integrated into goods that are subsequently exported within 12 months. Goods that are not exported or that are dealt with contrary to Tradex requirements will have GST imposed upon them by way of adjustment);⁸⁰
- low-value imports not entered for home consumption; and
- goods imported temporarily.⁸¹

Importers not registered for GST deferral are required to pay GST and duty at the time the goods are entered for home consumption or otherwise dealt with under the *Customs Act 1901*.

Imports from external territories into Australia are treated as a taxable importation for GST purposes. External territories include Ashmore and Cartier Islands, Christmas Island, Cocos (Keeling) Islands, Coral Sea Islands, Norfolk Island, Heard and McDonald Islands, Willis Island and the Australian Antarctic Territory.

GST exemptions

GST is payable on all imported goods unless the goods are covered by a legislative exemption. In general terms, the ordinary operation of the GST identifies a range of categories of goods and services that are GST-free, irrespective of their status related to importation, supply or value, and these are identified under Division 38 of the GST Act. Other items are not taxable by virtue of their status being input taxed, as with financial transactions, which is defined under Division 40 of the same Act. In relation to items that are imported, they are determined as being non-taxable importations by Division 13 in concert with the relevant customs legislation.

In relation to Customs and Border Protection determinations of GST status, declaration arrangements currently provide for exemptions to be claimed at the time of import, with a specific ICS code applicable for each type of exempt good. Over 230 different applicable GST exemption codes are in the ICS. However, some codes relate to numerous sub-categories of goods, so the range of GST exempt goods is greater than the number of ICS codes. Many, but not all, of these categories may be relevant with respect to low value imported goods.

79 Tradex is an industry assistance program which will allow for the importation of goods without payment of customs duty or other taxes, provided the goods are subsequently exported or incorporated in other goods which are exported. The Tradex scheme is administered under the *Tradex Scheme Act 1999*.

80 See Schedule 4, Item 21A *Customs Tariff Act 1995*.

81 See sections 162 and 162A *Customs Act 1901*.

GST exemptions fall into the following categories:⁸²

- money (as defined by section 195-1 of the GST Act).⁸³ There is one ICS code with respect to this category.

- certain food and beverages.⁸⁴

Goods that fall within this category include food for human consumption not otherwise excluded in the GST Act; milk and related items; tea; coffee and related products; fruit juices and related products; foods for infants and invalids; and natural water. There are 15 different ICS codes for this category.

- certain medical aids and appliances.⁸⁵

Goods that fall within this category are listed in Schedule 3 to the GST Act (and in Schedule 3 to the GST Regulations). Products that fall within Schedule 3 to the GST Act include, but are by no means limited to: heart monitors; pacemakers; printers and scanners specifically designed for software and hardware used by people with disabilities; voice output devices; continence pads; dentures and artificial teeth; needles and syringes; orthotics; hearing aids; special purpose car seats; orthoses (various types); walking frames; wheelchairs; nebulisers; ventilators; prescription contact lenses. There are 158 different ICS codes for this sub-category. Products that fall within Schedule 3 to the GST Regulations include, but are not limited to: alginate; hydro gel; polyurethane film; artificial ears; nose prostheses; supplements and aids associated with mammary prostheses; stoma products. There are 20 different ICS codes for this sub-category.

- spare parts for medical aids and appliances.⁸⁶

The category provides for goods that are supplied as spare parts for exempt medical and aids and appliances (see above) provided that they are specifically designed for that purpose. The same ICS codes apply as apply to the original items.

- certain health goods.⁸⁷

Goods that fall within this category include those for which there has been a written determination of the Health Minister. The Minister has issued the GST-free Supply (Health Goods) Determination 2000 (No 2). Schedule 1 to that Determination lists a range of goods, including: condoms; barrier dams; personal and surgical lubricants; sunscreen. While there are a number of sub-categories of goods that may fall within this category of goods, there is only one applicable ICS code.

- certain drugs and medicinal preparations.⁸⁸

Generally, drugs and medicinal preparations imported by a business entity are taxable importations. However, certain drugs and medicinal preparations imported by the person who will consume those goods may be exempt in particular circumstances. Goods which fall into this category include, but are not limited to, drugs or medicinal preparations imported for human use or consumption supplied to an individual and which are: supplied by prescription in relevant circumstances (for example, where restricted but permitted to be supplied by prescription under State or Territory law, where the medicinal preparation is a pharmaceutical

⁸² While exemptions are also available pursuant to subsection 42-5(1C) of the GST Act – at present no relevant regulations have been promulgated.

⁸³ See subsection 13-5(3) of the GST Act.

⁸⁴ See section 38-2 of the GST Act.

⁸⁵ See subsection 38-45(1) of the GST Act, in conjunction with para 13-10(b) GST Act and GST Regulation 38-45.01.

⁸⁶ See subsection 38-45(2) of the GST Act, in conjunction with para 13-10(b) GST Act.

⁸⁷ See subsection 38-47(1) of the GST Act, in conjunction with para 13-10(b) GST Act.

⁸⁸ See section 38-50 of the GST Act, in conjunction with para 13-10 of the GST Act.

benefit (within the meaning of Pt VII of the *National Health Act 1953* or within the meaning of section 91 of the *Veterans' Entitlements Act 1986* (and supplied under an approved scheme)); is an analgesic declared by the Health Minister to be GST-free or falls within a category provided for pursuant to the *Therapeutic Goods Act 1989*). While there are a number of sub-categories of goods that may fall within this category of goods, there is only one applicable ICS code, and it is the same that applies to exempt health goods (see above).

- course materials.⁸⁹

Goods that fall within this category are those course materials that are provided by the entity supplying the course. Importers may need to refer the details of the supplier to the ATO to determine eligibility. Further, the definition of 'course materials' requires them to be necessarily consumed or transformed by the students undertaking the course for the purposes of the course'. It is unlikely, therefore, that text books would qualify as GST-free as a 'course material'. The ATO has issued a GST Ruling on supplies that are GST-free for tertiary education courses (see GSTR 2001/1). One ICS code covers this category of goods.

- cars for use by disabled veterans⁹⁰ and for use by other disabled people.⁹¹

Separate ICS codes cover each category of goods.

- precious metals.⁹²

In circumstances where the supply would have been GST-free or would be input taxed if it had been a supply, the import of precious metals is exempt. One ICS code covers this category of goods.

- certain customs duty concessions.⁹³

Goods that fall within this category are those that are specified as qualifying for a customs duty concession pursuant to specific items listed in Schedule 4 to the *Customs Tariff Act 1995*.

These exemptions also apply to those goods which are duty free under their substantive tariff item in Schedule 3 to the *Customs Tariff Act 1995*. These goods include, but are not limited to:

- goods owned by and for official use of the government of a country other than Australia;
- goods for use or sale to persons the subject of a Status of Forces Agreement;
- goods imported by passenger and crew, inward duty free purchases, goods brought in or sent to Australia by members of the Defence Force stationed outside Australia, goods imported by members of forces of Canada, New Zealand or United Kingdom, and passengers' personal effects;
- goods subject to repair, replacement and product recall free of charge;
- goods donated or bequeathed for certain philanthropic purposes;
- goods that are not to be sold or to be used for the purpose of trade that became the property of the importer under a will or intestacy of a deceased person;
- decorations, medallions and trophies won outside Australia;
- goods on which no duty is payable and the value is insubstantial;

89 See section 38-95 of the GST Act, in conjunction with section 195-1 and para 13-10(b) GST Act.

90 See section 38-505 of the GST Act, in conjunction with para 13-10(b) of the GST Act.

91 See section 38-510 of the GST Act, in conjunction with para 13-10(b) of the GST Act.

92 See section 40-100 of the GST Act.

93 See subsection 42-5(1) of the GST Act, in conjunction with para 13-10(a) of the GST Act.

- calendars, catalogues and overseas travel literature, overseas price lists and other overseas printed matter; and
- goods imported by the holder of a Tradex order.

Twenty two ICS codes apply to this category of goods.

- certain containers.⁹⁴

Goods that fall within this category are those containers that qualify for a customs duty concession under Item 34 in Schedule 4 to the *Customs Tariff Act 1995* provided that the container will be exported from Australia without being put to any other use. This does not include sea-freight containers. One ICS code covers this category of goods.

- certain returned Australian goods.⁹⁵

Goods that fall within this category are:

- (i) goods originally acquired in Australia that were exported by their owners and subsequently re-imported with unchanged ownership. The provision only applies where:
 - the importer is the manufacturer of the goods; or
 - the importer has previously acquired the goods and the supply by means of which the importer acquired the goods was a taxable supply; or
 - the importer has previously imported the goods and the previous importation was a taxable importation; and
- (ii) re-imported goods acquired by the current owner prior to 1 July 2000 that would have been subject to the sales tax regime at the time of their acquisition.

One ICS code covers this category of goods.

- goods exempted by operation of the *Consular (Privileges and Immunities) Act 1972*; *Diplomatic (Privileges and Immunities) Act 1967* and *International Organisations (Privileges and Immunities) Act 1967*.

Goods that fall within this category are generally those goods imported by foreign consular officials for official use in a consular post or for official or personal use by consular officials; members and officials of diplomatic missions, or officials' families. There are six ICS codes applicable to these categories of goods.

Further details on GST-free items and non-taxable importations can be found at the ATO and Customs and Border Protection websites.⁹⁶

⁹⁴ See subsection 42-5(1A) of the GST Act in conjunction with para 13-10(a) of the GST Act.

⁹⁵ See section 42-10(1),(2) of the GST Act, in conjunction with para 13-10(a) of the GST Act.

⁹⁶ ATO information is at www.ato.gov.au. ICS codes are available at www.customs.gov.au/site/page5350.asp.

Observations

In relation to the bases upon which duty and GST are currently assessed, observations informing the development of potential solutions include:

- duty arrangements are complex. As such, the assessment of duty is difficult, time consuming and expensive, requiring substantial information from the importer;
- while it would be beneficial if duty arrangements could be simplified, the complexity of current arrangements means that the task of simplification is itself likely to be time consuming, and may well result in a number of complications. Further, even with simplified arrangements, duty assessment processes are still likely to be time consuming, information intensive and expensive to complete;
- depending on the revenue derived from duty assessments relative to collection costs, there may be a potential argument to be made for the removal of duty on lower value goods above \$1,000 up to a given level. In considering this issue, however, consideration needs to be given to the fact that information relating to duty processes is used for other purposes by border agencies and also the Australian Bureau of Statistics (ABS). It is outside the scope of this investigation to recommend any particular threshold levels;
- the basis for assessing GST is simpler than duty, but even then numerous factors impact upon the task of processing goods for revenue collection. A particular issue is how to deal with the range of GST-exempt goods. A challenge is to retain the policy underpinnings of these exemptions while enabling efficiency of border processes;
- an additional complication to streamlining the assessment of GST on low value goods is the issue of input tax credits. Reporting arrangements in the cargo environment do not require an ABN to be included in SACs or related reports. Introducing a requirement to do so would add additional costs to any new processes. The issue of input tax credits is also relevant to the international mail environment; and
- a third matter to be considered in relation to GST is the basis upon which GST is calculated. The inclusion of transport and insurance costs (into the value of goods) for assessing GST makes the process of assessing and determining liability at the border more difficult.

Revenue collection processes

Generally, Customs and Border Protection is responsible for calculating and collecting duty and GST on imported goods and for administering all matters concerning taxable importations. Under current arrangements, Customs and Border Protection does not provide an Authority to Deal while any revenue liability for duty and/or GST, and any fees and charges, remains. Given the current exemptions, this has limited application with respect to goods with a customs value at or below \$1,000 (unless they are excise equivalent goods such as alcohol and tobacco).

Customs and Border Protection's responsibilities for the collection of duty arise pursuant to the *Customs Act 1901*.⁹⁷ Its responsibility for the collection of GST on imported goods arises pursuant to a detailed set of arrangements involving the Commonwealth, the States and Territories, the ATO and Customs and Border Protection governing the administration of GST.

97 See generally Pt VIII *Customs Act 1901*

Under these arrangements, the ATO is responsible for administering the GST, while the States and Territories are responsible for meeting the ATO costs in undertaking this task. This relationship is governed by the GST Administration Performance Agreement made between the Commissioner of Taxation and the Ministerial Council for Federal Financial Relations, comprising the Treasurers of the Commonwealth, States and Territories. Key elements of this agreements are that:

- States and Territories are responsible for fully compensating the Commonwealth for the agreed costs of administering the GST (see cl 15);
- the specification of the nature of, and amounts payable for, GST administration activities (see generally cl 13, Schedule B); and
- processes for monitoring and reviewing the funding arrangements (Pt 6).
- The GST Administration Performance Agreement also contains performance measures, including on general cost effective administration and specifically on activities undertaken by Customs and Border Protection (see Schedule A – Performance Outcome Measures). In 2009–10, the cost associated with Customs and Border Protection’s role in collecting GST (including with respect to import and export activities, and the Tourist Refund Scheme) was around \$53 million, or approximately 8 per cent of the ATO’s total GST administration costs (see Schedule B – GST Budget and Administration Activities) (see Table 2.4.19).

As the GST Administration Performance Agreement indicates, Customs and Border Protection undertakes certain tasks with respect to the collection of GST at the border on imported goods on behalf of the ATO. The nature of this arrangement is specified in a Memorandum of Understanding and a Subsidiary Agreement made on 18 November 2011, which provides, *inter alia*, for:

- Customs and Border Protection to be responsible for the collection of GST, LCT and WET at the border on imported goods (see cl 27) and advises ATO of the amounts of GST deferred for clients;
- the ATO to pay Customs and Border Protection for the provision of services and the performance of functions that relate to the administration of GST (and LCT and WET) (see cl 6; see also cl 52 and 53);
- the provision of data between ATO and Customs and Border Protection (see cl 11-25);
- a requirement for Customs and Border Protection to provide facilities for clients to use their ABN as a unique client identifier when making import or export declarations and returns, except where the value of goods involved is below the import or export declaration threshold (see cl 31);
- Customs and Border Protection to require importers to provide the data necessary to acquit the obligations and calculate customs duty and GST, LCT and WET liabilities applicable to imported goods (see cl 32);
- Customs and Border Protection to be responsible for the risk management of liability of imported goods at the border in respect of the total population of importers. That strategic assessment includes ensuring importers comply with GST, LCT and WET legislation (see cl 37);
- both Customs and Border Protection and the ATO to use a variety of risk treatments to address non-compliance of GST, LCT and WET (see cl 38);
- the assessment and collection of duty, and if applicable GST, LCT and WET where a passenger has in their possession imported goods when they arrive into Australia (see cl 44); and
- reporting requirements in line with the broader Federal-State arrangements (see cl 47).

Table 2.4.19

Customs and Border Protection Performance outcome measures
(GST Administration Performance Agreement Schedule A)

Outcome	Measure	2007–08	2008–09	2009–10	2010–11
Management of GST revenue collection	GST liability assessed	\$21,598.3 m	\$23,674.3 m	\$21,881.8 m	\$22,900 m
	GST collected	\$2,987.3 m	\$3,122.3 m	\$2,832.3 m	\$3,000 m
Maintain compliance	Active compliance costs	\$21.92 m	\$24.1 m	\$22.6 m	\$21.2 m
	Compliance coverage – imports	53.50%	26.40%	20.84%	33.60%
	Compliance coverage – exports	7.36%	8.21%	23.00%	17.00%
	Audit coverage – Tourist Refund Scheme (TRS)	100%	100%	100%	100%
	TRS claims rejected	2.60%	2.40%	2.00%	1.40%
	GST adjustments – underpaid GST revenue	\$89.0 m	\$181.2 m	\$116.8 m	\$47.7 m
	GST adjustments – rejected TRS revenue	\$1.0 m	\$1.8 m	\$2.0 m	\$0.8 m
	Total GST adjustments	\$90.1 m	\$183.0 m	\$118.6 m	\$48.5 m
	Active Compliance Yield	4.1:1	7.6:1	5.25:1	1.93:1
Cost effective administration	Costs of import processing	\$17.7 m	\$17.6 m	\$19.9 m	\$20.5 m
	Costs of export processing	\$0.6 m	\$0.9 m	\$0.3 m	\$0.5 m
	Costs of import and export compliance	\$21.9 m	\$24.1 m	\$22.6 m	\$21.2 m
	Costs of administering the TRS	\$12.3 m	\$11.3 m	\$12.4 m	\$13.5 m
	Total costs	\$52.4 m	\$53.8 m	\$55.3 m	\$55.6 m
	Import declarations processed	3.4 m	3.1 m	3.3 m	3.5 m
	Export declarations processed	1.2 m	1.2 m	1.2 m	1.3 m
	Total TRS claims processed	406,167	450,744	444,441	477,043
	Total costs as % of GST liability assessed	0.25	0.23	0.25	0.24
	Total costs as % of total GST collected	1.75	1.72	1.97	1.80

Source: GST Administration Performance Agreement, Schedule A April 2012.

Air and sea cargo

Import declarations are used to clear goods with a value that exceeds the import entry threshold of \$1,000 from Customs control (see above).

Customs and Border Protection requires import declarations to be lodged into the ICS (see tables 2.4.20 and 2.4.21 for the number and value of air and sea cargo declarations). The ICS will make all the correct calculations in regard to duty and taxes payable based upon the information supplied, and using the TAPIN and TARCON systems. TAPIN is the Tariff and Precedents Information Network. Customs and Border Protection officers, authorised brokers and importers use TAPIN for tariff advice services to determine the rate of duty payable. The computer system, TARCON, stores and processes information needed for the administration of tariff concessions.

When the declaration is processed, Customs and Border Protection provides an Import Declaration Advice showing all amounts payable. The ICS produces a systems-generated invoice. ICS invoices can be initiated by Customs and Border Protection clients (through import declarations) or by Customs and Border Protection officers (through manual debit notes) and the invoice information is passed through to the Customs and Border Protection Financial Management Information System (FMIS) to await payment.

A payment may be made:

- in the ICS as an electronic funds transfer (EFT payments);
- over the internet by either credit card or EFTPOS; or
- at a Customs and Border Protection counter. In this case the payment options are varied and may include cash, cheque, credit card or EFTPOS.

Several internal Customs and Border Protection systems create transactions that result in outstanding debt amounts. The QSP system⁹⁸ manages Customs and Border Protection financial matters relating to revenue collection, client information and dishonoured payments. The detail needed to receipt a payment is obtained from the ICS using a report-based payment advice that combines the FMIS and ICS data.

Table 2.4.20

Revenue from air cargo, 2010–11

Import Declarations	Value	Tax and Duty payable *
> \$1,000		
1,596,515	\$60,744,652,189	\$1,053,495,593
\$1,001 - \$2,000		
375,527	\$539,773,065	\$62,538,281
\$2,001 - \$3,000		
202,996	\$499,219,780	\$46,145,020
\$3,001 - \$4,000		
132,986	\$461,975,681	\$37,474,761
\$4,001 - \$5,000		
98,127	\$439,623,014	\$32,921,924

Source: Customs and Border Protection Data 2012

Note: * Tax figures do not include deferred GST

⁹⁸ Customs and Border Protection's Financial System

Table 2.4.21

Revenue from sea cargo, 2010–11

Import Declarations	Value	Tax and Duty payable *
> \$1,000		
1,542,387	\$159,507,073,745	\$4,129,340,945
\$1,001 - \$2,000		
34,968	\$52,851,174	\$7,515,783
\$2,001 - \$3,000		
36,154	\$90,495,722	\$10,886,938
\$3,001 - \$4,000		
35,508	\$124,338,124	\$13,502,271
\$4,001 - \$5,000		
34,633	\$155,792,583	\$16,367,191

Source: Customs and Border Protection data 2012 at 8 June 2012.

Note: * Tax figures do not include deferred GST.

International mail environment

In the international mail environment, the processes to collect revenue are made more complex because advance information is not available to either Australia Post or Customs and Border Protection before the goods arrive at the border.

The first step is for Customs and Border Protection to identify packages containing goods that have a customs value above \$1,000, or packages containing alcohol and tobacco. This is done by physically inspecting the CN22 and CN23 customs declarations attached to all packages that are subject to physical inspection. To determine the value for revenue assessment, Customs and Border Protection does not rely solely on the information contained in any declaration or customs note attached to the good. Customs and Border Protection may also identify goods with a value listed at or below \$1,000 and require further corroborating information, if the declared value appears inconsistent with the goods.

Goods valued above \$1,000

Where articles are assessed as having a value above \$1,000, the intended recipient of the goods is required to lodge a FID with Customs and Border Protection and pay assessed duty, GST and an import processing charge before the goods are released.

Currently, this is a cumbersome process that occurs after the goods arrive in Australia, and involves both Customs and Border Protection and Australia Post. Until the requisite declaration is made and the assessed liability paid, those goods are held in storage at the international mail gateway (see Box 2.4.4).

Box 2.4.4: FID processes in international mail stream

Source: Customs and Border Protection

The following process shows the high level steps for importing postal goods with a customs value above \$1,000:

- 1 Customs and Border Protection officers screen packages arriving at international mail gateways and determine the total value of the goods for revenue purposes.
- 2 Where goods are believed to have a customs value above \$1000, Customs and Border Protection will notify Australia Post officers who assign a parcels postcard (PPC) number to the goods, retain the goods, and send a PPC notice to the postal address (assumed to be the importer) advising that the goods are being held pending payment of revenue along with an information sheet on how the person is to complete the Postal Import Declaration process.
- 3 Australia Post send a CSV file to Customs and Border Protection officers at the mail gateway (which contains a listing of all PPC records created nationally that day).
- 4 Customs and Border Protection officers upload this CSV file into the Postal Entries Database (PED), a user developed application used nationally by International Mail, Client Services and the Customs Information and Support Centre (CI&SC) to track the workflow of a postal article.
- 5 When an importer receives a PPC notice, they download a Customs and Border Protection Form (B374) from the Customs and Border Protection webpage.⁹⁹
- 6 The importer completes the form, including any permit information and provides it to Customs and Border Protection either in person, via fax, email or regular mail.
- 7 Customs and Border Protection receives the form and performs a number of checks to determine if:
 - a the form is correctly filled out; and
 - b the sender and recipient of the goods have existing client registration records in the ICS.
- 8 If the form is not correct, Customs and Border Protection contact the importer to ascertain the correct details.
- 9 Once a correct form is received, a Customs and Border Protection officer enters the details into the ICS by completing an electronic Postal Import Declaration.
- 10 If there are any community protection questions to be answered by the importer, Customs and Border Protection creates a PDF document containing these questions and sends it to the importer via email, fax or regular mail.
- 11 The importer is required to answer these questions in writing and sign them, and either fax, post or scan and email their responses to the Customs and Border Protection Client Services work area.
- 12 A Customs and Border Protection officer keys the importer's answers into the ICS and complete the Postal Import Declaration lodgment process.

⁹⁹ This only occurs where a licensed Customs broker is not completing the process on behalf of the owner. Postal Import Declarations made by brokers are already fully electronic.

- 13 The ICS transfers the financial information to QSP after the Postal Import Declaration progresses to a status of 'clear'. This information creates an Accounts Receivable invoice and generates a Customer Reference Number (CRN) that can be used to make a payment on this invoice electronically. The invoice information is sent to Customs and Border Protection's financial institution, Westpac within 5 minutes of creation. Once there, the invoice is available for electronic payment.
- 14 The next calendar day following successful creation of the invoice in QSP, a PDF payment advice is automatically generated by the financial reporting tool, ReportNet, and emailed to the relevant Postal Imports team the following business day, who manually distribute these to the relevant importers (via email if an email address has been provided or they are posted via regular mail).
- 15 The importer receives the payment advice and may choose to dispute the payment or pay either electronically or manually.
- 16 Manual payments are made in person to Customs and Border Protection Client Services counter. Electronic payments are made via a range of electronic payment options provided by Westpac.
- 17 Once payment is received into QSP, QSP automatically transfers payment notification to the ICS, and the Import Declaration progresses to a status of 'finalised'.
- 18 Customs and Border Protection International Mail gateways receive a daily Corporate Research Environment (CRE) report listing all Postal Import Declarations (including Customs Broker/Importer with Digital Certificate lodged postal import declarations) finalised the previous day. This report is uploaded into a Customs and Border Protection postal entries tracking database which produces another report that is used to advise Australia Post which items can be posted to the importer.

Excise equivalent goods

Tobacco, tobacco products and alcohol, to which excise is applied for domestic production, are subject to a duty equivalent to the domestic excise on importation.

When a package arrives at the border, if its total value is at or below \$1,000 a Customs and Border Protection duty assessor examines the goods and uses the information available to enter an assessment in the DutyCalc system. If the value is above \$1,000 the owner of the goods is required to lodge a FID.

Details of goods entered into the DutyCalc Post/Client Services version of the system create an assessment. If items have been deliberately concealed, the duty assessor can include a penalty on the item in the assessment.

This produces a Notice of Assessment for duty and GST, which is given to Australia Post with the parcel. Australia Post stores the parcel and sends the Notice of Assessment to the owner of the goods.

If the owner chooses to pay, they can make a payment by BPAY, online, over the telephone (automated system) or at a Customs and Border Protection counter. The payment is received into the Customs and Border Protection FMIS which sends notification back to DutyCalc twice a day updating the status of the assessment to 'paid'.

A report, listing all packages that can be released, is generated from the tracking database and provided to Australia Post who delivers the goods.

If after a certain time no payment is made, Australia Post requests permission from Customs and Border Protection to return the goods to the sender.

In 2010–11 of the 39,794 postal items processed for duty and/or GST liability in the international mail stream 17,318 were goods valued above \$1,000, and the remainder were alcohol and/or tobacco products. By comparison, in 2009–10, 45,206 items were processed for duty and/or GST liability, of which 19,056 were valued at over \$1,000, and the remainder were alcohol and/or tobacco products. The costs to collect this revenue in 2010–11 are detailed below (see Table 2.4.22).

Table 2.4.22

Customs and Border Protection employee and supplier cost of processing revenue

Revenue	Total estimated cost per activity	Assumptions/Comments
Inspections	\$934,074	10% of FTE in front of x-ray, 5% of FTE behind x-ray
Examinations	\$849,235	15% of exams are for revenue items
Post Detection Activity		
Notifying financial impediments to delivery	\$542,132	All costs associated with revenue
Support Services		
Support Centre	\$475,205	Cost associated with articles coming through post
Processing of FIDs	\$1,308,299	All costs associated with revenue
Total	\$4,108,944	

Source: Customs and Border Protection data 2012.

As noted by the Productivity Commission (2011, p 194), Customs and Border Protection has estimated that, once an international mail item has been identified for revenue purposes, manually processing a FID takes up to 45 minutes.¹⁰⁰

Customs and Border Protection has estimated that currently 13 FTE are solely dedicated to the manual data entry and processing of Postal Import Declarations. Additionally, Customs and Border Protection Information and Support Centre (CI&SC) receives over 3,000 phone calls per month in relation to Postal Import Declarations.

¹⁰⁰ The Productivity Commission estimated that this would represent about \$20.63 in labour costs based on average hourly cash earnings for clerical and administrative workers. Overheads would also be additional costs. This was compared to an estimate of the time it would take a New Zealand Customs officer to process a Private Import Declaration. New Zealand Customs estimated that it takes an average of 20-30 minutes of officer time at a cost of about NZ\$26.00 (\$A20) comprised of NZ\$18.50 (A\$14) in labour costs with overheads of NZ\$7.50 (A\$6) on average.

International travellers

Goods valued above \$900

The DutyCalc system was introduced in international airports in 2005 to calculate duty and GST for commercial low value goods and personal goods over the \$900 threshold, and alcohol and tobacco in excess of the passenger concession carried into Australia by international travellers. It is effectively a ‘receipting’ tool as the traveller is present and is required to pay duty and GST payable before goods are released.

DutyCalc includes features such as the ability to undertake searches through the Harmonised Tariff Chart ('Tariff Lookup'), a foreign currency converter, and the ability for assessors to collaborate in building an assessment – with one Customs and Border Protection officer entering the assessment details in one location, and another user receiving the payment from the traveller in another location.

DutyCalc integrates directly with Customs and Border Protection's FMIS to record and track financial transactions.

Commercial goods

Commercial goods are not eligible for passenger concessions. Customs and Border Protection officers must first determine whether the goods are commercial in nature. If so, they are required to establish their total value. This will usually be in the form of an invoice. If the traveller cannot produce an invoice at the time of travel, then the goods can be held on a B390 – Receipt for Goods pending the production of the invoices/receipts. If the traveller cannot produce receipts/invoices at all, then the goods can be held pending valuation.

If the value is deemed to be at or below \$1,000 and the arriving person still wants to import the goods, the Duty Collector will use the DutyCalc system to calculate and collect the customs duty/GST (and WET if applicable) that is payable.

Goods valued above \$1,000

If the value of the goods is above \$1,000 and the traveller wants to import the goods, they will require a FID. The goods will be held on a B390 - Receipt for Goods pending their formal entry. Travellers have 120 days to lodge their formal entry. If they do not enter the goods and pay the relevant duty and/or tax in that time, the goods will be deemed to be abandoned and disposed of accordingly.¹⁰¹

The total cost and staffing for air passenger processing in 2010–11 was approximately \$159.3 million and employed 1,555 FTE, of whom 1,497 were engaged in processing passengers at Australia's eight international airports. Of this, approximately 4 per cent of the cost is attributable to the processing of revenue at international airports (this includes staffing of the Tourist Refund Scheme booths) which equates to approximately \$5.5 million and approximately 60 FTE.

Compliance activities – revenue

In addition to the processes to assess and collect revenue, Customs and Border Protection also undertakes a range of compliance activities with respect to revenue. This includes an Enhanced

¹⁰¹ See section 218A of the *Customs Act 1901*.

Compliance Assurance Response to Revenue Risk, which targets revenue (and other border) risks through pre-clearance intervention.

Generally, these compliance activities include:

- regular compliance activities such as addressing non-compliance of GST, LCT and WET, checking these are correctly accounted for at importation, and undertaking joint compliance activities with other agencies in line with inter-agency compliance risk; and
- enhanced compliance campaigns, such as that carried out January to March 2011 on low value goods in both the mail and cargo environments (Customs and Border Protection, 2011b). The campaign involved a random sampling element and a focus on particular commodities and countries of concern: electronic goods; sporting goods (including bicycles and parts); musical instruments (including guitars); clothing; and cosmetics. Some 33,000 mail items and 32,000 assessments on air and sea cargo items were sampled with 1,942 instances of undervaluation. In the random sample, non-compliance was low, at 0.1 per cent in mail and 2 per cent in air and sea cargo SACs. Non-compliance was higher for the targeted high risk goods with a 3.2 per cent for mail and a 9 per cent for air and sea cargo SACs. This level of non-compliance equates to about \$57.5 million of revenue leakage across all mail items and air and sea SACs, which is 0.66 per cent of the \$8.7 billion in revenue that Customs and Border Protection collected in 2009–10.

Non-compliance can result in the issue of an Infringement Notice. The Infringement Notice Scheme applies to a range of strict liability offences where there is significant risk to the community, such as making false or misleading statements, failing to report on time or accounting for goods. In 2010–11, 314 Infringement Notices were issued, compared to 93 in 2009–10. Most (195) were for moving, altering or interfering with goods without authority. A further 111 were issued for underpayment of duty and the remainder were for false and misleading statement or failure to report as required.

Observations

In relation to the revenue collection processes, observations informing the development of potential solutions include:

- FID processes in the international mail environment are outdated and inefficient, but in part the lack of investment is due to small numbers of items required to be processed to date. However, with the ongoing growth in parcel volumes, there is a need for these processes to be updated;
- there may be some potential to utilise the DutyCalc tariff lookup functions to simplify tariff assessments. However, it is also important to pursue consistency between import streams as far as practicable. Simplification of the process in the mail environment should not occur without regard to the cargo environment, where industry participants are subject to a range of legal obligations with respect to the making of FIDs;
- there is potential for any reform to duty assessment processes in the international mail environment to be expanded over time. However, the potential complications associated with duty arrangements and the introduction of any new processes suggest that reform with respect to postal FIDs should focus on the current task (above the \$1,000 threshold), and any changes should be bedded down before an expanded task is considered;
- Customs and Border Protection operate a range of ICT systems in relation to the import of goods including ICS, CCF, QSP, FMIS, DutyCalc, TAPIN and TARCON. This complicates the task of assessing the cost of modifying entry processes and systems;
- concerns have been raised consistently by stakeholders in relation to the issue of undervaluation. While undervaluation does occur, the available evidence also suggests that the level and scope of the problem has been examined, and that border agency processes have been established to manage this issue;
- notwithstanding differences of views about undervaluation, reform to current processes needs to have regard to this issue, particularly if reform results in greater numbers of goods being subject to revenue collection. Potential changes include amendments to offence and penalty provisions. Depending on the processes for assessing revenue – for example, under simplified GST assessment arrangements – then there will also be an issue about the ongoing capacity of Customs and Border Protection to amend a declared value, even if processes initially operate as a default that the declared value is appropriate for revenue assessment; and
- in considering the level of funding for compliance activities, consideration needs to be given not just to the direct activities, but also to the overall nature of Australia's import task, and the relative proportions of revenue that may be raised on low value goods.

2.5 Related reform initiatives

Potential new approaches for the handling and administration of low value imports of goods may be facilitated by reform initiatives underway in Australia and internationally. In particular, potential solutions need to consider, and may potentially incorporate elements of the following reform initiatives:

- information provision in the international mail stream; and
- trade liberalisation initiatives.

2.5.1 Information provision in the international mail stream

Overview

A key reform being progressed internationally is the provision of electronic data for parcels moving through the international mail stream. One of the drivers of this move to electronic data relates to air security requirements for the transport of cargo (including mail).

Following the discovery of explosives on two private courier jets in late 2010, the US introduced new restrictions on parcels above 500g which required items in this category to be screened.¹⁰² Following the incidents, the security group of the UPU undertook further development on its own standards for the screening of mail. The UPU's Council of Administration and its Postal Operation Council endorsed a proposed set of standards in June 2012 and these could be formally adopted at the UPU Congress in Qatar in September 2012 (Post and Parcel, 2012). The standards would set minimum requirements for postal operators around the world to screen their inbound and outbound international mail. Under international mail security requirements, Australia Post customers are already required to provide acceptable photo or signature identification when lodging international mail (Australia Post, 2012b). The US already requires that '...the importation or exportation of such shipments in the same manner to both shipments by the Postal Service and similar shipments by private companies.'¹⁰³

The European Union (EU) has also laid down detailed measures for the implementation of common basic standards on aviation security¹⁰⁴ including the transport of mail. This standard includes the requirement that by 30 June 2014 all mail carried in the EU will be screened.¹⁰⁵

Australia is also participating in this global effort to enhance security. In May 2012, the US and Australia (Roxon and Clare, 2012) released a joint statement on global supply chain security which, in part, states:

...Seeking to build upon their existing cooperation on customs, transport, and maritime security issues, the United States and Australia hereby state their intent to work collaboratively to ensure that the goods, conveyances, facilities, and hubs within the air, land and sea environments that constitute the global supply chain are stronger and more resilient to possible disruptions – both manmade and natural – that could adversely impact their security, economic prosperity, and ways of life. The United States and Australia share the view that a coordinated international effort is critical to achieving this objective. The inherent intermodal nature of the supply chain necessitates better integration among relevant international organizations and stakeholders to ensure seamless security across all modes. The United States and Australia therefore intend to support the World Customs Organization (WCO), International Civil Aviation Organization (ICAO), the International Maritime Organization (IMO), the Universal Postal Union (UPU), and the Asia-Pacific Economic Cooperation forum (APEC) as these organizations continue to work towards strengthening the global supply chain.

¹⁰² This increased level of screening added delays to delivery and resulted in Australia Post adding a \$9 surcharge to parcels over 500g to the USA to pay for increased screening requirements (see Australia Post, 2010). This surcharge was removed in 2012.

¹⁰³ Section 405 International Postal Arrangements, The Postal Accountability and Enhancement Act 2006 (US).

¹⁰⁴ Commission Regulation (EU) No 859/2011.

¹⁰⁵ Commission Regulation (EU) No 859/2011, Section 6.8.2.2.

Such security initiatives, together with commercial drivers operating in the postal environment (USPS, 2010), have given impetus to a range of initiatives centred upon the capture and use of electronic data. These include:

The ‘Kahala Posts Group’ initiative

Background

Australia Post and five other national postal operators established the Kahala Posts Group (Kahala group) in 2003 to jointly explore the development of new integrated business models and commercial opportunities. The group now has 10 members comprising: Australia Post, China Post, Correos (Spain), Hong Kong Post, Japan Post, Korea Post, La Poste, Royal Mail, Singapore Post and the US Postal Service.

Initially, the Kahala group focused on the need for cooperative business practices that would assure performance standards for premium level international express mail services. In recent years, the group has concentrated on new logistics frameworks for the processing of larger parcels (greater than 2kg) and EMS mail items and which will give full expression to the client promise. The development of this framework is closely aligned to UPU protocols relating to item level data transfer between postal organisations, and between postal organisations to customs authorities.

Current focus

Australia Post is working to implement an integrated phased approach to several key logistic changes to support Kahala group objectives. In broad terms, Kahala group members are responsible for approximately 80 per cent of EMS items and parcels coming into Australia in the mail categories on which work is being undertaken.

One potential development includes information transfer systems which align to UPU protocols for item level data transfer between postal organisations, and between Australia Post and Customs and Border Protection.

A phased implementation of data capture protocols will allow for item level data transfers. Information in the data transfer will allow for a degree of granularity about the item thereby assisting border protection processes. Data will be comparable to the types of information available to other commercial express carrier operations.

The Kahala group will be pilot testing data for EMS and parcels throughout 2013, with an evaluation of the outcomes of the pilot in early 2014. Following this evaluation, final agreement will be reached on the timetable for progressive implementation of the initiative, with the primary focus on EMS and parcels. Due to their high number, packets remain an issue that is yet to be resolved even though many weigh above the one pound (500g) limit set by the US. Despite the proposed start dates for the collection of data, Australia Post does not expect the take-up rate to be high initially. The possibility of a delay in capturing data has arisen partly because some customs organisations within Kahala group countries do not have the resources to upgrade their own systems to accept the data. This is especially true if all packets were included. This could lead to a delay of two or more years to all European countries capturing data on EMS and parcels for transmission to other postal operators.

MEDICI - Mails Electronic Data Interchange and Customs Integration

Background

The Mails Electronic Data Interchange and Customs Integration (MEDICI) Group is a group of postal operators whose objective is to implement systems and data sharing protocols that expedite customs processes in the international mail environment. The systems and protocols are largely in common with the Kahala group, except that Kahala group members also organise themselves to achieve additional commercial outcomes. As with the proposed system to be used by the Kahala group, the MEDICI group uses the UPU 'standard item attributes message' to exchange customs information.

The MEDICI group utilises systems created and administered by the International Post Corporation (IPC).¹⁰⁶ Not all of the 24 members¹⁰⁷ of the IPC are involved in MEDICI group.

Current focus

The MEDICI group is developing a framework in which participating postal operators capture and electronically exchange the data needed for customs processes and assessing duty and tax. Several member countries have trialled these technologies and are progressing to more widely adopt these processes in a business as usual approach.

UPU – Universal Postal Union

Background

The UPU was established in 1874, and is the body responsible for setting the international framework of cooperation for almost all international postal operators. The scope of the policies and protocols is extensive and all member countries are bound to the service obligations set by the UPU.

Current focus

In recent times the UPU, like all large organisations, has recognised the growing importance of technology (UPU, 2011a). Although the UPU was established to manage the physical process of handling and moving mail, there has been attention given to ensuring that postal operators have access to an agreed framework to build new and improved services (UPU, 2011a).

In its 'E-Services Strategy and Action Plan' the UPU provides a strategy for electronic-based postal services, telematic links and enhancing the use of existing UPU products (IPS, IFS, EDI) (UPU, 2009b). It is in this context that the UPU has been advancing the adoption of its EDI standards, which Kahala and MEDICI have largely both adopted.

¹⁰⁶ The IPC was established in 1989 to provide 'leadership by driving service quality, interoperability and business-critical intelligence, and gives its members an authoritative, independent and collective voice', (IPC, 2012a).

¹⁰⁷ IPC member countries: Australia, Austria, Belgium, Canada, Cyprus, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Luxembourg, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, The Netherlands, United Kingdom and the United States of America, (IPC, 2012b).

The UPU EDI Messaging Standards sets out detailed description of the standard EDI messages that have been adopted through the UPU's standards approval process. It is produced and maintained by the Standards Board of the Postal Operations Council. The UPU EDI Messaging Standards include standards for:

- postal item tracking messages;
- postal dispatch pre-advice/response messages;
- postal consignment pre-advice/response messages; and
- carrier consignment pre-advice/response messages.

A complete Logical Data Model has also been developed, giving a structured overview of all information elements that can be exchanged through EDI, including definitions and lists of allowed values for every individual data element.

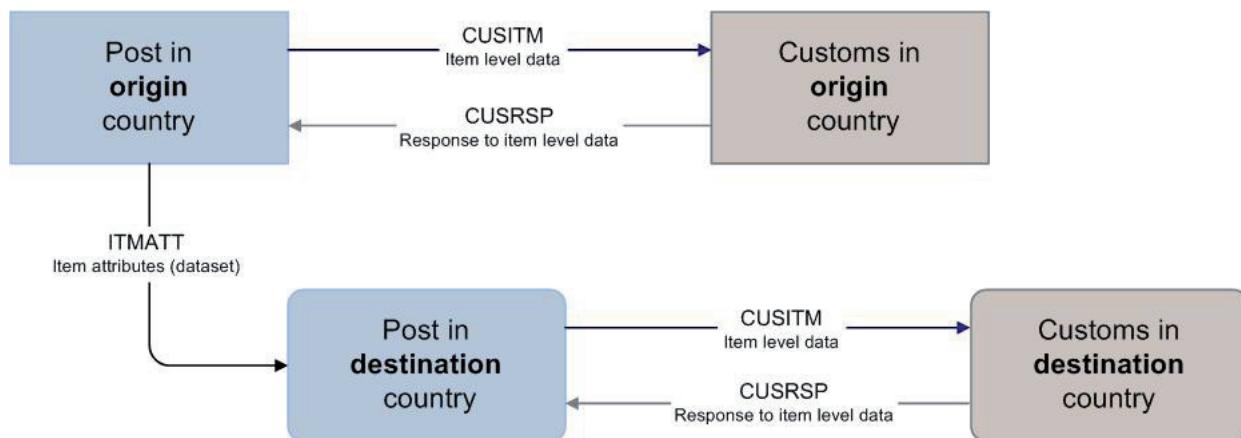
The UPU also has standards for the transfer of data electronically between postal operators and their local customs organisation. The WCO and the UPU have agreed standards for the electronic representation of existing UPU forms CN 22/CN 23 and CP 72¹⁰⁸ to transmit mail item information to its local customs authority (see below).

Information protocols in the international mail stream

A critical element to determine potential solutions is the international framework, including the processes, standards and obligations being developed for the transfer of information between postal organisations, and between postal organisations and customs authorities (see Figure 2.5.1).

Figure 2.5.1

EDI between postal organisation and customs authorities



For low value goods, the standards intended to operate in the international mail stream with respect to EDI have been developed having regard to the different standards of information required with respect to CN22 and CN23 customs declarations. The nature of information able to be transferred between postal authorities is set out in the ITMATT messaging standards (UPU, 2010), while the information to be provided between postal organisations and customs authorities for imported goods is set out in the CUSITM (UPU, 2011b) and CUSRSP (UPU, 2011c) messaging standards.

¹⁰⁸ CP 72 is a Customs Declaration and Dispatch Note.

ITMATT

The ITMATT message allows one party (normally, but not necessarily, the origin post) to advise another (normally, but not necessarily, the delivery post) of the existence, attributes and impending arrival of up to 99,999 identified items. A primary application of the message is that of the exchange of data, between posts, for transport security, customs and quarantine applications.

Under the ITMATT message standard, information is transferred in the body of the message for mail products. Generally, the information that may be contained in the ITMATT message standard corresponds – in whole or in part – with the information contained in CN22 and CN23 customs notices (see UPU, 2010).

The need for exchange of data, between posts, extends beyond that required for customs purposes. Address, weight, postage and insurance data required for customs purposes is potentially useful in other postal applications, while other data required for postal applications purposes might be appropriately exchanged in addition to the data needed for customs purposes. Of particular interest, in this context, are the data related to cash on delivery (COD) services, where these apply to the item:

- the COD amount;
- the method of payment;
- payment validation data;
- the payee; and
- the payment account and reference.

For further details of ITMATT standards, see UPU, 2010.

CUSITM

The acronym CUSITM stands for CUStoms ITeM: mail item information for customs purposes.

CUSITM is a message for a postal operator to transmit mail item information to its local customs. It covers the electronic representation of existing UPU paper forms CN 22/CN 23 and CP 72, agreed standards between the UPU and the WCO, plus additional attributes.

The main characteristics of this CUSITM messaging standard are:

- information can be for an inbound item or an outbound item;
- information can be for a parcel, letter or EMS item;
- part of the information on inbound items is received electronically from the origin post, through message ITMATT (UPU standard M33); CUSITM can forward this information to customs;
- message CUSITM partly derives and benefits from the ITMATT message which can electronically exchange mail item attributes between postal operators;
- as unlike other UPU standard messages, CUSITM is intended to be exchanged between a postal operator and a single partner, the local customs, based on a bilateral agreement; both parties may agree to adapt the standard to their own needs, so the standard acts as a model; and
- the message structure allows for easily adding data elements, if the postal administration and customs agree, without changing the global structure of the message.

For further details of the CUSITM standards, see UPU, 2011b.

CUSRSP

The acronym CUSRSP stands for CUSToms ReSPonse.

CUSRSP is a message for a customs agency to transmit mail item information to the local postal operator, usually in response to a CUSITM message. The main characteristics of CUSRSP are:

- information can be for an inbound item or an outbound item;
- information can be for a parcel, letter or EMS item;
- CUSRSP is usually sent in response to a CUSITM message in which a postal operator gave detailed information on mail items;
- CUSRSP can be used with or without any Customs physical treatment to;
- inform the postal operator, after Customs treatment of a mail item that has been presented to Customs, of findings and customs charges;
- request or inform the postal operator, without any Customs treatment if a postal item is to be presented to Customs or not. Customs charges may be raised even if the item does not have to be presented to Customs; and
- the message structure gives the possibility to easily add data elements, if required, with the agreement of the postal operator and Customs, without changing the global structure of the message.

For further details with respect to CUSRSP standards, see UPU, 2011c.

2.5.2 Trade liberalisation initiatives

Multilateral and bilateral trade negotiations

Australia has international free trade agreements in place with many countries. These can directly impact on duty collection in the mail and cargo environments, as they abolish or reduce duty on imports for some or all of the goods traded between the nations. Existing FTAs are:

- ASEAN-Australia-New Zealand FTA;¹⁰⁹
- Australia-Chile FTA;
- Australia-New Zealand Closer Economic Relations;
- Australia-United States FTA;
- Singapore-Australia FTA; and
- Thailand-Australia FTA.

¹⁰⁹ ASEAN countries are Brunei, Burma (Myanmar), Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand and Vietnam.

As more FTAs are signed, duty will decline as a revenue source. Negotiations on new FTAs include the following:

- Malaysia-Australia FTA;¹¹⁰
- Australia-China FTA;
- Australia-Gulf Cooperation Council (GCC) FTA;¹¹¹
- Australia-India Comprehensive Economic Cooperation Agreement;
- Australia-Japan FTA;
- Australia-Korea FTA;
- Australia-Indonesia Comprehensive Economic Partnership Agreement;
- Pacific Agreement on Closer Economic Relations (Pacer) Plus;¹¹² and
- Trans-Pacific Partnership Agreement.¹¹³

To give an indication of potential difference FTAs can make, Table 2.5.1 lists merchandised trade imports from countries which have signed FTAs and those currently in negotiation.

One issue to note in relation to FTAs is that the duty exemptions apply to the country of origin. This is not always easy to ascertain on imports, particularly in the mail stream. Goods imported from the United States, which has signed an FTA, may have been made in China, which is still negotiating its FTA. While this is an issue at present, over time this is likely to be less so as more FTAs are signed into law.

¹¹⁰ Concluded but awaiting domestic approval.

¹¹¹ The GCC comprises Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

¹¹² Participants in PACER Plus are Australia, Cook Islands, Federated States of Micronesia, Kiribati, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Republic of Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

¹¹³ Includes Australia, Brunei, Canada, Chile, Malaysia, New Zealand, Peru, Singapore, the United States and Vietnam.

Table 2.5.1

Imports from Free Trade Agreement countries 2010

Existing FTAs		FTAs under negotiation				Imports \$M
Country	Imports \$M	Country	Imports \$M	Country	Imports \$M	Imports \$M
Brunei	1,055	Bahrain	47	Peru		153
Cambodia	27	China	39,256	Papua New Guinea		3,017
Chile	939	Cook Islands	n.a	Qatar		501
Indonesia	5,322	Federated States of Micronesia	n.a	Republic of Marshall Islands		n.a
Laos	n.a	India	1,973	Saudi Arabia		406
Malaysia	9,101	Japan	18,192	Samoa		44
Myanmar (Burma)	n.a	Kiribati	n.a	Solomon Islands		5
New Zealand	7,203	South Korea	7,146	Tonga		n.a
Philippines	467	Kuwait	365	Tuvalu		n.a
Singapore	10,619	Nauru	n.a	United Arab Emirates		2,229
Thailand	11,004	Niue	n.a	Vanuatu		1
USA	25,400	Oman	35			
Vietnam	3,119	Palau	n.a			
Total	74,256	Total				73,370
% of Total Imports	35.4%					34.9%
Total FTAs						
Overall FTA total						147,626
% of Total Imports						70.3%
Total Trade excluding services						210,000

Note: Individual country data not available for all countries

Source: DFAT, 2010

APEC – Honolulu declaration

At the 19th APEC Economic Leaders meeting held in Honolulu in November 2011, the following declaration was made as one of a number of steps to further open markets and facilitate regional trade:

Establish commercially useful de minimis values in our economies that will exempt low-value shipments from customs duties and streamline entry documentation requirements, as a key contribution to our goal of an APEC-wide 10 per cent improvement in supply-chain performance by 2015 (APEC, 2011).

No specific level was placed on the de minimis, or low value threshold, but it will need to be taken into account when looking at alternative solutions for collecting duty and/or GST should a level of zero ever be practical in the long run.

Observations

In relation to the related reform initiatives, observations informing the development of potential solutions include:

- security issues that are driving information gathering in the international mail environment have the potential to facilitate positive outcomes for the simplification of import processing, and also possibly revenue collection;
- the provision of electronic data represents a significant opportunity to change the way parcels over 2kg and EMS items may be received and processed in the international mail environment. While these products represent only a portion of the total volume of all items to be processed, in the short term it incorporates the majority of items with relatively higher values. Combined with the application of data transfer to Customs and Border Protection, this information has the potential to aid reform to key elements of Australia's border processes;
- messaging standards for electronic data interchange and ICT requirements are relatively well developed, which allows for work to begin quickly on process changes using pre-arrival data;
- the nature of the information to be available under new messaging standards in the international mail stream informs the potential amendment of the bases upon which duty and GST may be assessed. In the first instance, the limited scope of HS codes to be provided means the electronic data to be available in the international mail stream is not likely to be useful for duty purposes under the Working Tariff;
- while potential general parameters for new processes are reliant on pre-arrival electronic data, there is considerable uncertainty as to the timing and extent to which this information will be available;
- generally, Australia's policy approach is to move away from the application of duty – hence it is less than immediately obvious that allocating considerable time and effort to dealing with this issue would be cost effective, particularly if it delays the introduction of processes to deal with GST (if they are feasible); and
- consistent with Australia's general approach to trade liberalisation, any reforms needs to have regard to trade facilitation and Australia's engagement in the digital economy generally.

RECOMMENDATION 2.1

The Australian Government, through its membership of international organisations and agencies, such as the WCO and UPU, advocate for, and support, appropriate initiatives with respect to the provision and development of electronic data interchange in the international mail stream.

3 DETERMINATION AND INITIAL ASSESSMENT OF POTENTIAL SOLUTIONS

3.1 Introduction

Current processes are struggling to cope with the growth in low value parcels – growth driven by many disparate forces but which, at least in part, is affected by the fact that unlike domestic retail sales, low value imports are generally not charged duty or GST.

At the same time, various initiatives are taking place in Australia and around the world which point to opportunities for new and better ways for the handling and administration of these goods – particularly in the international mail environment where a coordinated global effort is gathering pace to better capture and use data, driven by a confluence of security and commercial imperatives, and technological change.

It is in this light that potential solutions to the task of handling and administering low value imports have been developed and initially assessed. This investigation focuses on reforms that enhance cost effectiveness and efficiency, form part of an integrated package and which provide for reform that is sustainable over time.

It goes further than just looking at whether processes built around current regulatory arrangements may be done more quickly or cheaply. Given the parameters any new approach is required to cover more fundamental reform is likely required. The complexities embedded in current arrangements suggest potentially substantial modifications are required – in terms of which revenue instruments may be applied (that is, duty, GST or both); the volume of goods able to be assessed; the basis upon which liability should be assessed (for example, GST on the value of the good with or without transport and insurance costs); and the information needed to make those determinations.

Every such modification represents a compromise, and whether the compromises contemplated in this report will ultimately be acceptable or achievable is not certain. At present, however, there are many goods being imported into Australia to which neither duty nor GST is applied. In developing potential solutions, this investigation has striven to find ways to bring down collection costs as far as possible. Any modification that would facilitate this outcome is considered, recognising that only by doing so can necessary preconditions for reform be met.

This chapter:

- sets out the potential solutions that were initially investigated, and why;
- outlines the bases upon which initial assessments are made; and
- building upon the observations set out in Chapter 2, details the nature of the assessments for each potential solution. It also specifies which are considered most prospective, and hence the subject of further analysis (see Chapter 4).

3.2 Determination of potential solutions to be assessed

Determining the range of potential solutions to be assessed involves a number of considerations, including:

- the existing ways parcels are processed by express carriers, other air and sea freight forwarders, Australia Post and Australia's border agencies;

- current regulatory arrangements, including Australian legislation and international treaty obligations;
- alternative parcel processing systems operating internationally;
- local and international developments already occurring with respect to parcel processes, including through the WCO/UPU, MEDICI and the Kahala Group; and
- the external environment in which this issue is being considered, including but not limited to the growth in international e-commerce and parcel imports generally, and the potential for future border security and biosecurity risks.

Current import handling and administration processes from the initial point at which goods are ordered and paid for through to delivery are set out, in a stylised way, below (see Figure 3.2.1). At each stage of the import process, several different participants may be involved. Further, any given step may encompass a variety of activities, or a single activity which achieves or facilitates multiple objectives – for example, information capture may be used for a range of purposes, including billing, tracking, delivery and risk assessment.

The first issue, then, for the assessment process is what types of changes could be made to these processes given both the range of policy and business objectives to be achieved, and who is involved at each step in the import process – before, at and after the arrival of the goods into Australia.

An end-to-end process view is adopted to capture as many potential solutions as possible – and in particular, so as not to limit the potential solutions just to processes occurring at the border.

The underlying reason for this is straightforward – an end-to-end process approach is more likely to deliver reforms that improve efficiency and cost effectiveness. As the report detailed, for example, there are steps that can be taken prior to goods arriving in Australia that can enhance biosecurity outcomes (Beale et al, 2008:162–167).¹¹⁴

Similarly with respect to the assessment and collection of duty and/or GST, it is conceptually possible for these processes to occur at any point at or after the goods have been ordered and paid for – and even to a point in time beyond when the goods have been delivered to the customer. Automating these processes, and removing them from the border, could lead to the smoother processing of goods entering the country.

A further element considered at this initial stage is whether the bases upon which assessments for duty and/or GST are made on low value imported goods may be modified. In relation to the current low value framework, an individual order to the ultimate purchaser is the transaction that is generally considered; however, this need not be the case. Overall how assessments for these imposts are able to be reformed in ways that maintain the underlying objectives of these revenue instruments, while enabling assessment and collection processes to be simplified, is an important consideration in the context of examining reform solutions. Examples of such changes include simplified tariff arrangements and the collection of GST by overseas suppliers.

A brief description of the specific nature of each of the potential solutions investigated, together with a summary of the initial assessment of each is contained in section 3.4 below. Figure 3.2.1 shows those points in the current import process at which these potential reform solutions would

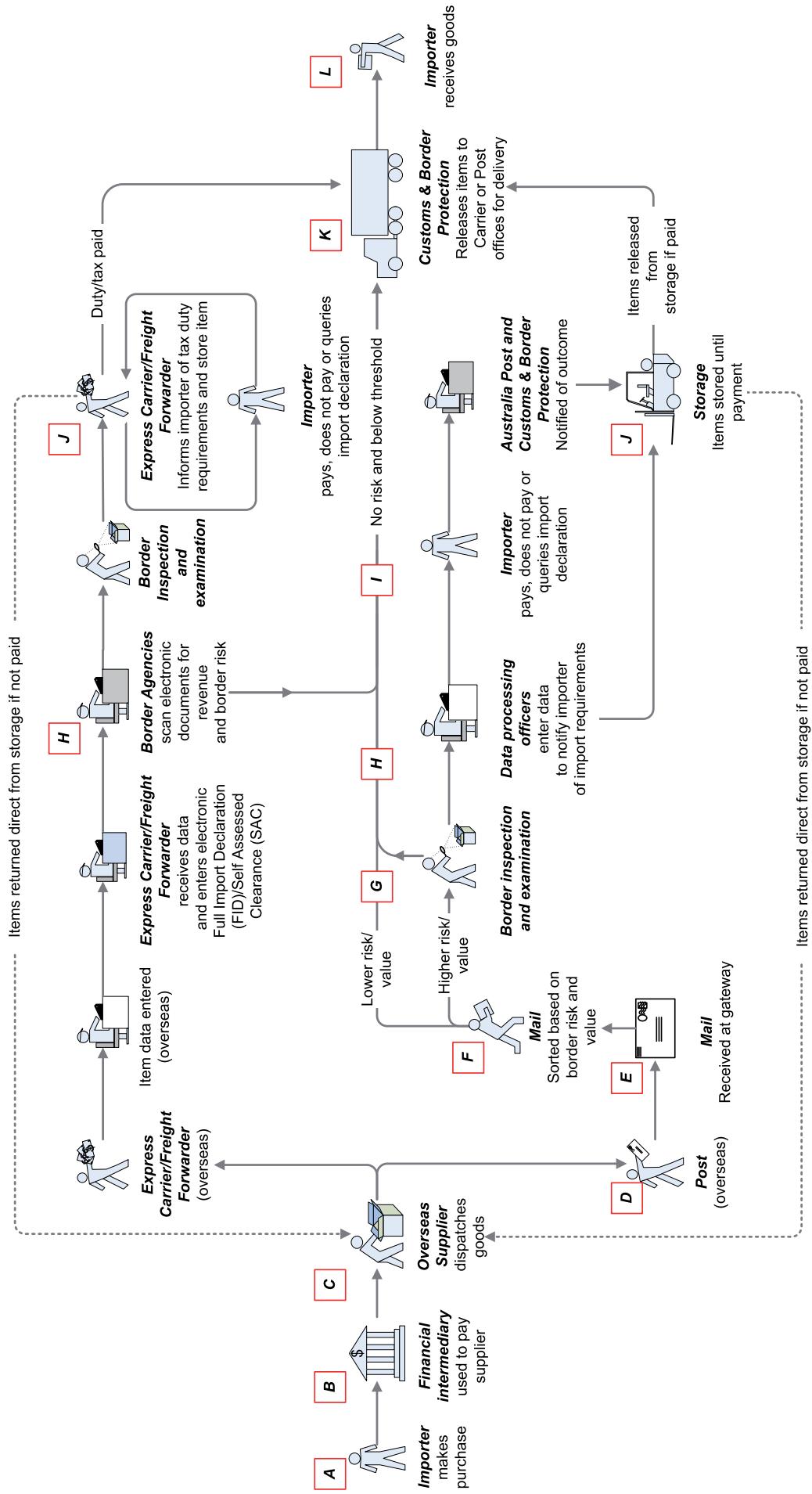
¹¹⁴ Recommendations within the Beale Report included a better understanding of risk pathways by analysis of available information; collecting more information on biosecurity risk material at the border to allow systematic analysis; and better information technology systems including a biosecurity system that links smoothly with that of Customs and Border Protection (see also DAFF 2012).

apply (as indicated by bolded letters below). Generally they may be categorised (with summary position in italics) as:

- simplification and/or alternate arrangements for the imposition of duty and/or GST liability:
 - simplified tariff arrangements (section 3.4.1)
(not supported) [H];
 - collection of GST on foreign exchange transactions (section 3.4.2)
(not supported) [B];
 - collection of duty and/or GST by financial intermediaries (section 3.4.3)
(not supported at this time) [B];
 - collection of duty and/or GST by overseas suppliers (section 3.4.4)
(supported for further analysis) [C];
 - collection of duty and/or GST by overseas postal authorities (section 3.4.5)
(not supported) [D];
 - deferral of payment of GST for all GST registrants (section 3.4.6)
(not supported at this time) [H];
 - reverse charging GST to registered purchasers (section 3.4.7)
(not supported) [H];
 - pre-registration for payment of duty and/or GST once liability assessed at border (section 3.4.8)
(supported for further analysis) [H];
 - self-assessment of duty and/or GST liability before arrival (section 3.4.9)
(supported for further analysis) [A]; and
 - declaration of duty and/or GST liability through the income tax assessment process (section 3.4.10)
(not supported) [L].
- systems changes to streamline international mail gateway and/or air and sea cargo operations:
 - improved processes, work practices and removal of duplication (section 3.4.11)
(supported for further analysis) [E], [F], [G], [H];
 - streamlined automated assessment of duty and/or GST for low value goods utilising electronic data provision in the cargo and mail environments (section 3.4.12)
(supported for further analysis) [F];
 - automation of postal import declaration processes (section 3.4.13)
(supported for further analysis) [H];
 - realignment of responsibility for revenue assessment and collection between Customs and Border Protection, Australia Post, express carriers and other freight forwarders (section 3.4.14)
(supported for further analysis) [J], [K]; and
 - reform of border agency fees and charges (section 3.4.15)
(supported for further analysis) [H].

Figure 3.2.1

Current import processes (potential for reform)



3.3 Basis for assessment

Assessment of each potential solution occurs on two bases – first in respect of the option itself and second in how it relates to other potential solutions. This is because a key consideration for efficiency and cost effectiveness is to enable coherent reform implementation over time. It is important that any short to medium term action neither unduly inhibits nor prevents desirable future reform, nor results in stranded assets and wasted investment.

In considering which potential solutions may fit within such an integrated package of reform, assessments at both the initial and detail costing stages were undertaken in an integrated way, having regard to a set of standard criteria derived from the Taskforce's Terms of Reference. Not all criteria are relevant to the assessment of every potential solution, nor are they applied prescriptively. The criteria used are:

- Cost: this relates to the potential costs of improvements to low value parcel processing, including costs associated with physical changes to border facilities, technology changes, administration and compliance costs. It includes not only the initial costs of implementation but also 'whole of life' costs in regard to new capital investment and ongoing compliance activity. Elements include:
 - infrastructure;
 - hardware and software developments;
 - resourcing (including training); and
 - ongoing support and maintenance costs.
- Efficiency: this relates to the level of efficiency which can be achieved in streamlining low value parcel processing, including in regard to revenue collection, such as:
 - future scalability;
 - flexibility and interoperability with overseas processes;
 - ensuring border protection processes are not compromised;
 - the capacity to change one aspect of a process (through new or changed technology) without impacting other aspects of the process;
 - downstream delivery; and
 - resourcing.
- Implementation: this focuses on the actual changes that may be required to existing parcel processing systems, including the degree of difficulty in implementing changes; opportunities for staged implementation; the balance between agencies and individuals in the change required; the level of support required for the change; and the timeframe for implementation. Elements include:
 - resourcing (including with respect to infrastructure, systems development, training, etc);
 - change management (including communications);
 - level of technology change required; and
 - infrastructure capability, usability and flexibility.

- Competitive neutrality: this relates to the effect that any new process may have on competitive neutrality, such as between Australia Post and independent international express carriers. The objectives of the Australian Government's policy of competitive neutrality are:
 - that significant Australian Government business activities do not enjoy net competitive advantages over their private sector competitors (or potential competitors) simply by virtue of their public sector ownership;
 - to eliminate potential resource allocation distortions arising from the public ownership of significant business activities operating in contestable environments; and
 - to encourage fair and effective competition in the supply of goods and services.
- Risk: this focuses on assessing the risks to the integrity of the border (community protection, revenue and biosecurity), which may arise from a revised process.
- Revenue impacts: this relates to the impacts on revenue for both States and Territories and the Commonwealth that may result from any reform to current low value parcel processing arrangements. Aspects to be considered include:
 - capacity to collect revenue;
 - level of revenue;
 - ratio between revenue and costs; and
 - potential for new revenue streams.
- Legislative impacts: this focuses on the extent of regulatory change that may be required to give effect to an improved process. This includes potential changes to:
 - legislation/regulations not involving international treaty obligations;
 - legislation/regulations involving international treaty obligations;
 - treaty arrangements; and
 - administrative policy.

In this context, regard is also given to the profitability of Australia Post in the international mail stream and the impact of change on Australia's interaction with the digital economy.

Based on the initial assessments of each potential solution, a determination was made as to which were to be subject to further analysis and consideration, including detailed costings. This further analysis is outlined in Chapter 4.

3.4 Initial assessment of potential solutions

Potential solutions examined in this investigation are listed and assessed individually. Consideration of solutions would not be complete, however, without recognising that some are mutually exclusive, while the viability of others depends on the take-up of complementary measures.

For example, potential reforms that involve voluntary compliance, that is, collection of duty and/or GST by overseas suppliers (section 3.4.4), pre-registration for payment of duty and/or GST (section 3.4.8) and the self-assessment of duty and/or GST (section 3.4.9), will only be viable if other solutions to ensure compliance with tax obligations are put in place as the goods are imported. Without some form of solution to identify goods on arrival at the border to ensure duty and/or GST is captured, there would be limited incentive for voluntary compliance.

A number of the technological solutions are also complementary. The pre-registration for payment of duty and/or GST, and self-assessment of duty and/or GST both require the establishment of an online system that would allow – but not require – taxpayers to self-assess their liability, facilitated by pre-registration.

Similarly, improved processes, work practices and removal of duplication (section 3.4.11), the automation of postal import declaration processes (section 3.4.13) and the realignment of responsibility for revenue assessment and collection between Customs and Border Protection, Australia Post, express carriers and other freight forwarders (section 3.4.14), have demonstrable synergies and all would be enhanced to the extent improved electronic data provision in international mail stream facilitates streamlined automated assessment of duty and/or GST (section 3.4.12).

There are also non-complementary solutions. The solutions involving establishment of a GST liability through the payment system (see sections 3.4.2 and 3.4.3) would not be used in conjunction with the other GST options such as pre-registration, self-assessment or collecting the GST from overseas suppliers. Similarly, the deferral of payment of GST for all GST registrants (section 3.4.6) and reverse charging GST to registered entities (section 3.4.7) would not be adopted concurrently.

3.4.1 Simplified tariff arrangements

Description

Due to the complexity of the tariff arrangements, the process of assessing duty on imported goods is time consuming, and often requires specialist knowledge. This complexity adds to the costs of assessing and collecting duty.

Under this potential solution, a simplified tariff structure would be established to apply to low value goods to make it easier for importers to identify a correct tariff code and prepare import documentation either before or on arrival of the goods into Australia.

A variation of this proposal would be to apply a simplified tariff between an upper and lower range below the current threshold level (with no duty applicable below the lower value). Under such an approach, it would also be conceptually possible that the threshold above which assessments would be based on the Working Tariff could be set higher than is currently the case.

This potential solution relates to the structure of the Working Tariff. Streamlining the way in which the current Working Tariff arrangements are administered is considered separately below (see section 3.4.13).

Assessment

In considering the potential for simplified tariff arrangements, an initial issue is whether such a reform would best be based on the existing WCO classification system (HS) (see section 2.4.4) or on some other methodology.

For a number of reasons, developing a new product categorisation system for low value goods is impractical. First, the administration costs of developing and maintaining a separate system would be considerable. Second, such an approach would likely increase importers' compliance costs of having to manage two systems. Third, the opportunity to apply international information exchange systems currently being developed, which are based on the HS, would be lost. Global initiatives to provide electronic information in the international mail stream encompass the provision of data

according to the HS classification at a six-digit level. While this level of information is insufficient for use under Australia's current tariff arrangements, it may facilitate the adoption of simplified arrangements.

For a simplified tariff structure for low value items based on the current HS based system to be effective, it would need to either:

- reduce the level of detail or number of tariff rates associated with the HS reporting code; and/or
- reduce the number of exceptions associated with the nature of the goods or their country of origin.

Reducing the level of detail for tariff rates

The task of reducing the level of detail required for tariff classifications is far from straightforward. This is illustrated below by reference to the simplified tariff arrangements that have been introduced in Japan.¹¹⁵

In Japan, imported goods with a customs value of less than 100,000 yen (A\$1,224)¹¹⁶ are assessed against a simplified tariff schedule – the structure of which is based on the first four digits of the HS code, with some exceptions at the six digit level.

Under Japan's simplified arrangements, however, a number of product types are excluded from its simplified tariff schedule, and continue to be subject to assessment under general tariff arrangements. These include milk and cream, preparations of pork or beef, petroleum oils and petroleum products, footwear and jewellery.

This suggests that the simpler a simplified tariff arrangement, the greater the range of exceptions that will need to be negotiated. Both the effort required for such negotiations, together with the administrative complexities arising from such exceptions, raise the costs of any reform of this nature.

The use of the HS classification system as the basis for any simplified scheme also gives rise to the issue that under simplified arrangements, either certain goods that would be subject to higher tariff rates than apply under the general tariff arrangements, or alternatively all rates would need to be reduced to the lowest common level – which in many instances in Australia is zero, or 'free'.

In Japan importers can choose which of the general or the simplified arrangements should apply to overcome potential inequities that arise if the tariff rate would be higher under a simplified tariff arrangement. If this approach were to be applied in Australia, this again would give rise to an additional level of compliance costs, as importers would be required to have regard to two tariff systems. To not allow such a choice would require substantial consultation and negotiation with Australia's international trading partners, with no guarantee of success, if the resulting tariff rate were above an agreed level.

Alternatively, if under a simplified tariff arrangement tariff levels were zero, or 'free', where there is inconsistency, this would come at the cost of revenue. Depending on the extent of simplification, at some point it would be simpler to remove tariffs altogether for low value goods below a certain threshold. While reducing revenue, this would be easier to implement and also reduce

¹¹⁵ Japan's simplified tariff arrangement is used simply to for illustrative purpose only. Nothing in this report is intended to assess, implicitly or explicitly, the appropriateness of these arrangements in respect of tariff policies in Japan.

¹¹⁶ As at 3 July 2012.

administrative costs (but not remove them if tariff classification is required for other reasons, such as border security, biosecurity and statistical purposes).

With respect to reducing the number of duty rates, consideration needs to be given to the range of applicable tariff rates in Australia relative to other jurisdictions.

Japan's general tariff arrangements, for example, have both a more varied and a wider range of applicable tariff rates than apply in Australia. As a consequence, even under Japan's simplified tariff schedule the applicable tariff rates, depending on product type, are 0 per cent, 3 per cent, 5 per cent, 10 per cent, 15 per cent or 20 per cent.

By contrast, the range of applicable rates in Australia under general tariff arrangements already tend to be lower and more limited – with rates generally set at either 0 per cent, 5 per cent or 10 per cent (with the 10 per cent rate applicable to textile and footwear products scheduled to be reduced to 5 per cent in 2015). The narrower range of tariff rates generally applicable in Australia reduces the scope for simplification.

Reducing the exceptions associated with the nature or origin of the goods

Tariff concessions either aim to provide industry assistance or enable compliance with international obligations. Schemes such as the Enhanced Project By-Law Scheme for major investment projects are given effect through tariff concessions. Similarly, the Tariff Concession System (TCS) is designed to help industry become more internationally competitive.

With respect to simplification, legislated tariff concessions are already periodically reviewed to ensure they are current and serving their intended purpose. For example, the 'Better Regulation Ministerial Partnership', announced in 2010 is aimed at simplifying the tariff concessions set out in Schedule 4 of the *Customs Tariff Act 1995*. The Partnership report recommended reducing the existing Schedule from 99 items to around 45 items by removing 23 items that are redundant, used infrequently or without clear policy intent; consolidating, where possible, items with similar coverage; placing similar items together in the revised schedule; and reviewing and removing obsolete by-laws that list goods under certain items in Schedule 4.

Legislation was introduced in 2012 to give effect to the first three recommendations and is currently before Parliament.¹¹⁷ Once passed, Customs and Border Protection will complete the project by updating systems, conducting industry education and completing the last recommendation to amend or remove bylaws which no longer deliver against government policy settings.

In relation to FTAs, any proposal to remove concessional duty rates for FTA partners is contrary to government trade policy. Furthermore, as FTA benefits are subject to the conditions of the respective FTAs, an otherwise simplified tariff schedule could add complexity for importers if they had the option to use the FTA agreed rate and comply with the FTA requirements, or use a simplified tariff schedule. Again, this would add to administrative burdens and costs.

In addition to the complexities that arise from the specific nature and structure of Australia's tariff arrangements, a number of additional aspects are of relevance.

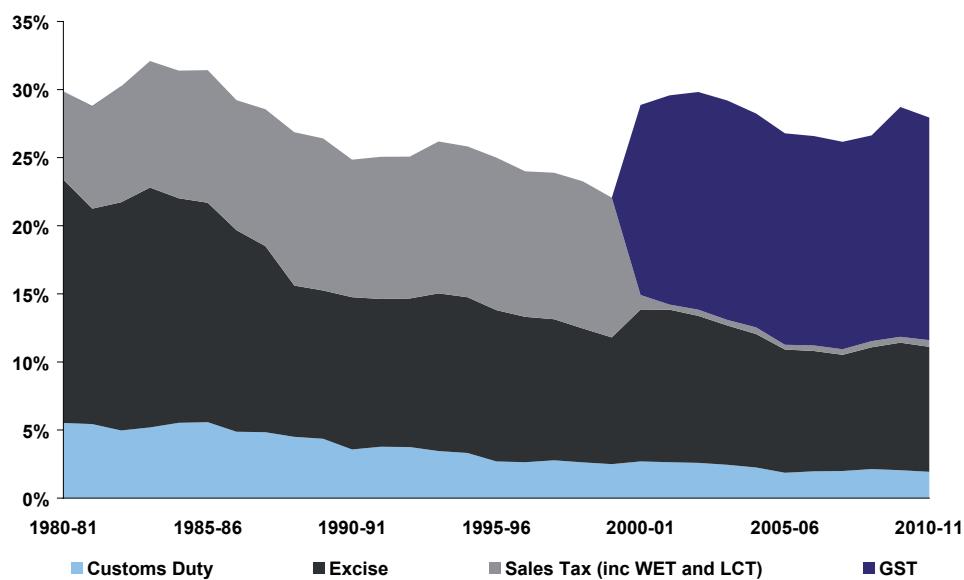
First, any proposal for a simplified tariff arrangement for low value goods needs to have regard to the relative and diminishing importance of duty as a source of revenue for Australia. Generally, this is reflected in the share of revenue derived from duty relative to other taxes (see Figure 3.4.1).

¹¹⁷ As at 28 June 2012.

While \$6.91 billion was raised from customs duty in 2011–12, this accounted for approximately 2.1 per cent of total Commonwealth taxation revenues – down from 4.8 per cent in 1986–87 (Australian Government, 1996 and 2012).

Figure 3.4.1

Indirect taxation in Australia as a proportion of GDP over 30 years



Source: Treasury (2012)

Furthermore, this share can be expected to fall given the range of existing and potential FTAs.¹¹⁸ Currently, approximately 35 per cent of goods are imported from countries with a FTA with Australia, rising to 70 per cent if all agreements currently being negotiated are finalised (DFAT, 2010). This raises the clear risk that the cost of implementing simplified tariff arrangements will be offset against an ever diminishing source of revenue.

Another factor is that while the duty revenue base is expected to decrease, the costs of implementing and operating a dual system of simplified and general tariff arrangements are likely to be significant. These include costs of systems development – particularly software – for a new system only applicable to low value goods. This software change would need to address not simply revenue collection issues, but also how information gathered through a simplified tariff system could be incorporated within Customs and Border Protection and DAFF Biosecurity's risk assessment processes.

Customs and Border Protection would also need to allocate additional resources to its existing internal review service on an ongoing basis to consider disputes about the application of a simplified tariff. There would also need to be a comprehensive education campaign, especially if the process was designed to be used by the general community.

Finally, duty is generally an ad valorem tax except for certain products, such as tobacco and alcohol, which are assessed on a volumetric basis. This means that the duty is proportional to the customs value of the goods. This gives rise to a potential issue between local retailers who import

¹¹⁸ Revenue can also be expected to fall based on proposed reductions to tariff rates for clothing and footwear, which are scheduled to reduce from 10 per cent to 5 per cent in 2015. It is beyond the scope of the Taskforce's terms of reference to consider appropriate tariff levels, but it is noted that this has been advocated by various stakeholders (see for example, the Australian National Retailers Association's submission (ANRA, 2011) to the Productivity Commission (2011)).

goods on a wholesale basis and individual purchasers from overseas suppliers who purchase on a retail basis – albeit often at lower prices than may be able to be obtained locally.

Table 3.4.1 provides an illustration of the net import duty and tax charges on the same piece of jewellery being imported at either a wholesale or retail price. The net liability for a retail importer on the same imported good may be higher than that paid by a wholesale importer. However, this issue arises primarily because duty is an ad valorem tax, rather than due to the threshold per se.

Table 3.4.1

Application of duty to wholesale and retail imports

Good	Import Value	Transport & Insurance	Duty 5% of value	GST 10% of VOTI	GST ITC for business importer	GST on retail sale of \$2000	Net Import Duty & Tax
Jewellery Wholesale	\$1,200	\$100	\$60	\$136	-\$136	182	\$242
Jewellery Retail	\$2,000	\$100	\$100	\$220			\$320

Note: Customs Tariff, Schedule 3, Section 14, Chapter 71, Sub-Chapter III, 7113. Jewellery tariff rate is 5 per cent with the exception of goods from Canada.

Conclusion

Due to the complexities associated with simplified tariff arrangements and the current and future revenue that might be obtained from duty, this solution is not considered sufficiently viable to undertake further analysis.

3.4.2 Collection of GST on foreign exchange transactions

Description

Under this approach, a new GST obligation could be imposed on financial institutions and online payment transaction providers with respect to foreign exchange transactions for low value goods.

GST would be payable on the financial transaction used to pay for low value goods purchased outside Australia. Financial institutions and other online payment transaction providers would be required to remit the GST liability on the foreign exchange transactions below a defined threshold and include the amount as taxable supplies in their BAS. If such an arrangement was ever to be introduced, it would be anticipated this cost would be passed on to the recipient of the goods to which the transactions relate.

Assessment

Under current legislation, the liability for GST on imported goods may arise in two ways – on supply, whereby the supplier of those goods from offshore is liable for GST on the price of the goods if the supply is ‘connected with Australia’,¹¹⁹ and on importation, where the person who enters the goods for home consumption on arrival into Australia is liable for GST on the value of

¹¹⁹ A supply of goods that involves the goods being brought to Australia is ‘connected with Australia’ if the supplier either imports the goods into Australia or installs or assembles the goods in Australia. Also a supply of goods is ‘connected with Australia’ if the goods are delivered, or made available, in Australia to the recipient of the supply.

the goods and the international transport and insurance costs. GST is not imposed on imported services, and financial services are input taxed.¹²⁰

Under this alternative approach, a new form of GST liability would need to be established whereby the liability would be imposed on the value of the exchange transaction as a proxy for levying GST on the supply of the goods or services.

The benefits of doing so, with a complementary elimination of the GST on supply and importation of goods from overseas, would be to remove the need to:

- determine the value of the good;
- identify the good as it arrives at the border;
- identify the purchaser or the seller of the good; and
- make changes to the current physical operating environment for freight forwarders and Australia Post.

Although outside the purview of this investigation, such a new form of GST liability could also be introduced in relation to imported services, currently GST-free mainly due to the technical difficulties of its collection. The Productivity Commission reported estimated revenue lost from intangibles, such as computer software, music and electronic books, was \$1 billion in 2010–11.¹²¹ As these data services are purchased using a foreign exchange transaction, the GST currently not remitted on these transactions would be able to be collected.

Notwithstanding these benefits, the changes required to introduce such an arrangement do not just require substantial change to GST legislation and administration, but more broadly they amount to a shift in the underlying nature of what constitutes GST supplies.

Financial supplies are currently input taxed because of the difficulty of assessing the taxable ‘consideration’ when the return to the financial supplier is typically a margin and not a fee.

Under current legislation, the actual exchange of monies does not, in and of itself, constitute a supply, and therefore is not taxable, and any fee imposed on the exchange of monies is GST-free.

Establishing a new financial supply liability on the value of a foreign exchange, therefore, would not fit the current GST structure and likely lead to unintended consequences in its application and administration. Further, major difficulties with this proposal in the context of low value goods are its potential coverage, and anticipated administration and compliance costs.

In terms of coverage, this proposal would not impose a tax on online acquisitions from retailers based offshore where the purchaser paid Australian dollars and was treated as the importer of the good. This is not a small omission from the e-commerce environment and would likely drive a commercial response from the domestic retail industry. That is, a domestic Australian retailer who currently pays GST on their domestic supplies could set up an overseas warehouse/distribution operation so orders placed with the domestic retailer are relayed to the overseas operation for direct delivery of the goods to the purchaser. If the goods are valued under the low value threshold, which is likely if the purchaser is the person who imports the goods under the

¹²⁰ Suppliers of financial services are not required to remit GST for the supply of the service but, unlike suppliers of GST free goods or services, the supplier of a financial service is not entitled to an input tax credit for the GST included in their business purchases. However, if the supply is not connected with Australia, Division 84 of the GST Act may apply to treat the imported service as a taxable supply and GST on this taxable supply is reverse charged to the recipient of the supply.

¹²¹ This estimate is drawn from the Tax Expenditures Statement 2011, which notes this estimate has a low reliability (see Treasury, 2012).

commercial terms of the purchase, the supply is not connected with Australia and no GST would be payable on the supply.

It may be possible to amend the law to deem the Australian retailer to be the importer which would mean that the final ‘supply’ would be from the domestic retailer to the purchaser and thus requiring GST to be payable as if it were a normal domestic sale. Such an amendment, however, would have considerable implications for the current import environment where several of the most commonly employed commercial trade terms, such as free on board (FOB), are arrangements where the purchaser takes responsibility for the goods, and their import, before the goods reach Australia.

Imposing an entirely new type of GST liability would also involve substantial system development and operational costs for financial institutions and online payment transaction providers to implement the changes. Similarly, there would likely be substantial compliance costs for the ATO. The approach is based on taxing all exchange transactions (within a band) and providing input tax credits to businesses. It would also require a new form of refund to consumers for exchange transactions for which the associated good supply would have been GST-free. The ‘churn’ – the collection and refund of tax – is potentially large and difficult to administer.

A registered entity would need to be entitled to an input tax credit on a creditable acquisition paid by a prescribed foreign exchange transaction, even though tax invoice requirements are not satisfied. A non-registered entity, a consumer, would need to be entitled to a refund of GST paid on a prescribed foreign exchange transaction in respect of:

- a goods and services consumed outside Australia (which may be claimed through the Tourist Refund Scheme);
- b goods and services that are exempt or GST-free;
- c a transaction that is not for the purchase of a good or service (to cover payments made to relatives or friends); and
- d goods and services purchased by foreign diplomats (claimed through the GST Diplomatic Mission Refund Scheme).

There would also be significant compliance costs associated with developing a process to enable people to claim a GST refund that is paid on transactions referred to at a, b and c above. Purchases made by people from overseas before departing Australia would need a mechanism whereby they could claim their entitlement.

A person would be required to provide documentary evidence of the GST imposed on a foreign exchange transaction as well as evidence that the payment was made for an exempted transaction before making a claim.

Conclusion

While relevant to be considered at this initial assessment stage, this approach requires substantial change to current tax legislation, is likely to be subject to a range of complications and exceptions, and give rise to avoidance behaviour.

This solution is not considered sufficiently viable to undertake further analysis.

3.4.3 Collection of duty and/or GST by financial intermediaries

Description

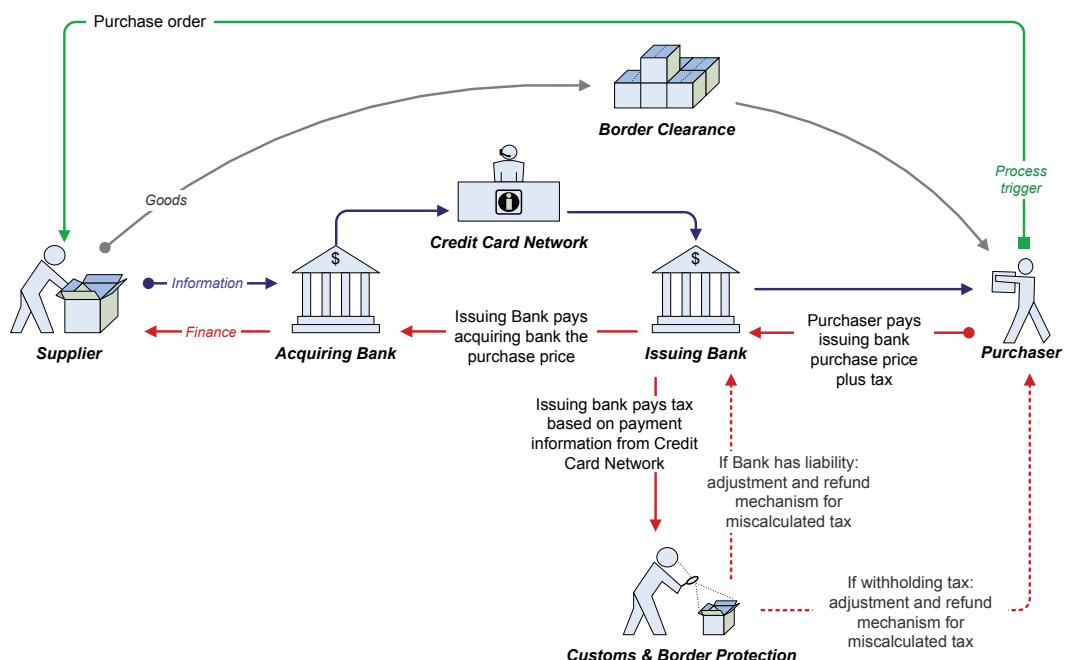
Currently liability for duty on imported goods is imposed on the person that imports the goods and arises at the time of importation, while liability for GST on imported goods may arise in two ways – as a taxable supply and the GST being imposed on the supplier or as a taxable importation and the GST being imposed on the entity making the taxable importation (this could be the supplier or purchaser) and will be ‘the person that imports the goods for home consumption at the time the goods are assessed on arrival into Australia’.

Under this proposed reform, duty and/or GST would be collected through the payment system on intermediaries, such as credit card providers, who are involved in the online purchase of goods from offshore suppliers at the time that the goods are purchased.

Such an obligation could be imposed either through a withholding tax arrangement – in which intermediaries are required to recover money with respect to a liability imposed on the supplier or purchaser – or by imposing a new and separate liability on the intermediary itself in place of a liability on the supplier or purchaser.

Both approaches as they apply to credit card payments such as Visa and MasterCard are illustrated below (see Figure 3.4.2).

Figure 3.4.2



As payment system intermediaries would be required to remit duty and/or GST on relevant transactions, it would need to be a condition of this approach that transactions would only be processed if the purchaser also paid the financial intermediary to cover the duty and/or GST liability.

Assessment

Online payments have become increasingly widespread due to the popularity of online shopping and banking.

Several payment systems are available for online merchants. These include the most widely used international credit and scheme debit cards, as well as systems that allow a third party, such as PayPal, to complete the online transaction.

The possibility of transferring the requirement to remit duty and tax from the supplier or purchaser to an entity in the payment system is often raised as a potential solution to the administrative and compliance difficulties of collecting duty and tax on overseas supplies of goods and services. The advantage of placing the duty and tax remittance requirement on the transaction intermediary is that tax could be collected at the time of purchase and the duty and/or GST remitted to the ATO by the payment system intermediary.

If universally applied, this would facilitate the collection of duty and/or GST and the movement of purchased goods across the border as both the assessment and collection of revenue liabilities would occur prior to arrival in the country. Moreover, by requiring payment of duty and/or GST at the time of purchase, consumers would be aware of those liabilities at that time, and this would most easily enable them to incorporate those costs into any purchasing decision.

However, while an attractive concept, there are systemic and application difficulties with either a withholding tax or with transferring the duty and tax liability to the payment intermediary.

Credit, scheme debit, and charge cards are the most common forms of payment for e-commerce transactions. At the end of June 2010 there were 20.5 million Australian issued credit and charge cards which could be used to access 14.6 million credit and charge card accounts (CPSS, 2011). It would be difficult for an online retailer to operate without supporting credit and scheme debit cards due to their widespread use for online payments.

Typically, under the credit and scheme debit card systems, a supplier, on receipt of the purchaser's card details, supplies those details and the payment amount to their acquiring bank for payment (although payment intermediaries such as gateways, may stand between the merchant and the acquirer). The transaction is switched through the scheme network – such as Visa Net – and the cardholder's bank authorises (or declines) the transaction and a message is sent back to the acquiring bank and on to the merchant. Any reduction from the amount due to the acquiring bank or supplier would breach the card issuer's contractual obligations to the card company.

GST is not payable on the import of services and on certain goods such as foods and medical supplies. Nor is GST payable on the supply of goods to a third party overseas, as could be the case if a gift was supplied from overseas to overseas as the result of a credit transaction originating in Australia.

To be able to assess if there is a duty or tax liability on the supply or import of the goods, information is needed on the nature of the goods purchased, the nature and location of the recipient of the goods (who may be different from the purchaser) and the sale price of the individual item. Under current arrangements, the GST calculation on imports also requires the cost of transport and insurance.

Currently, for the major online payment methods, no data transfer mechanism exists to deliver the required information to enable accurate tax collection. International scheme (credit and debit) cards, due to the need for rapid information transfer, security and limitations of magnetic strip technology do not transfer data on the detailed break down of a purchase. The data available

to the acquiring bank is limited to the total payment amount, the basic supplier details, and the credit card number (which identifies the issuing bank). As magnetic strip cards are replaced with chip cards, more detailed transaction data may become available in the future but advice from the industry is that this will not be available in the short to medium term.¹²² The issuing bank receives enough information on the transaction to inform the purchaser of the time of purchase, the supplier name and the payment amount.

There are intermediary companies, such as PayPal, that facilitate online payments. For a PayPal transaction, consumers either pre-fund an online payment account using traditional means, for example 'pay anyone' transfers using internet banking, BPAY, or payment directly from a credit or scheme debit card. Payments are made into the supplier's online account, and a fee is charged on a per-transaction basis, depending on the supplier's monthly sales volumes. Unlike the credit and scheme debit card systems, the intermediaries may have a direct relationship with both the supplier and customer, and it may be possible for them to set up systems to capture the information required to determine an Australian tax liability. However, developing such a system for only one section of a rapidly evolving payment system would not meet commercial neutrality policy objectives.

If the law could impose a duty and/or GST liability on a financial intermediary for the transactions its card holders or clients enter into with offshore merchants, a procedure would need to be put in place to allow the issuer to recover that amount from the card holder or client. Under all payment systems, the risk of non-recovery of the duty or GST would increase the risk profile of the transaction. In the case of credit cards, the amount due from the card holder to the card issuer would be a credit risk to the issuer, as it is liable to pay the face value of the sale to the card acquirer, whether or not it recovers the sum from the card holder.

Also, complex adjustment and refund provisions in legislation would be needed to allow tax and duty payers to amend or recover overpaid duty and GST. For example, for over deductions, a mechanism for refunds to unregistered card holders which did not constitute a risk to revenue would need to be found.

Finally, as with the other options to collect revenue liability before goods arrive at the border, processes would need to be developed to identify parcels entering the country with taxes that have been pre-paid.

Conclusion

While this proposed reform is conceptually attractive in that it would provide for the pre-arrival payment of tax on goods, the inability to determine the nature of the payment or the location of the recipient, and hence the associated duty or tax liability, is dissuasive. Any further development of this approach would require, as a prerequisite, reform of international payment system mechanisms, which is beyond the power of a single jurisdiction to mandate.

While noting the possibility that a global interest may arise for reform of this nature at some time in the future, this potential solution does not appear viable in the short to medium term, and so is not considered for further analysis in this investigation.

¹²² The two largest credit-card networks, Visa Inc. and MasterCard Inc., appear to be developing a capacity to gather more information about actual purchase behaviour for advertisement targeting. Visa has filed several patent applications for using credit-card transaction data to target digital advertisements and personalise other content, such as search results.

RECOMMENDATION 3.1

While recognising that, at this stage, data and systems limitations preclude the mandating of duty and/or GST collection from financial intermediaries, ongoing consideration should be given to initiatives of this nature that may facilitate the collection of duty and/or GST in the future.

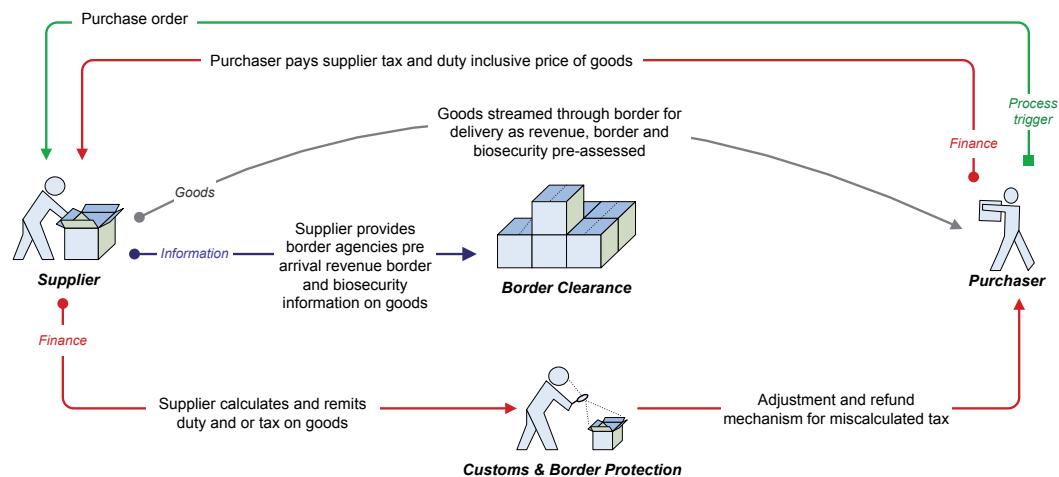
3.4.4 Collection of duty and/or GST by overseas suppliers

Description

Under this potential solution, duty and/or GST liability arrangements would be amended to extend the circumstances where offshore suppliers remit duty and/or GST. As the supplier is generally in a foreign jurisdiction, any obligation imposed directly on them at the time of purchase would likely be non-enforceable, and hence rely on voluntary cooperation by suppliers. As simplicity of application would be a key consideration in compliance in such circumstances, this measure would only seek to apply to goods up to a prescribed value. Given the added complexity of duty calculation, if a prescribed value limit is set for this measure, a variation would be to limit the approach to GST remittance only.

To have an impact on border processes, this reform would need to be coupled with legislative amendments that would allow goods on which the remittance of duty and/or tax by an overseas supply could be verified to be treated as duty or tax pre-paid for importation purposes. At the border, these goods would then only be subject to border security and biosecurity clearance. The way in which this approach would operate is illustrated in Figure 3.4.3. Alternatively, amendment to the tax on importation rules may be considered to enable assessment to be aggregated.

Figure 3.4.3



Assessment

The processing of incoming packages would be greatly facilitated if the duty and/or GST liability could be acquitted other than by the current method of invoicing the recipient as the goods cross the border and requiring payment before the packages are released for delivery.

Currently, overseas suppliers connected with Australia with an annual turnover of \$75,000 or more are required to register and remit GST.¹²³ Further, these suppliers can voluntarily register for GST.

¹²³ Note: some supplies that are connected with Australia can be excluded when considering if a supplier is required to be registered.

and remit the tax on their supplies to the ATO. Currently 13,200 overseas suppliers are registered for GST.

However, there is no obligation on an offshore supplier to register and remit GST or duty if they are not the importer. Many e-commerce suppliers may wish to identify through their terms of supply that the supply is not ‘connected with Australia’ – that is, the supply is structured to take place outside of Australia.

The ultimate determinant as to whether a supply is connected with Australia, as assessed by the ATO, is through an examination of the relationship and nature of interaction between the parties involved in the supply, and this is not always accurately represented in the terms and conditions.

Amending legislation to allow a supply from an overseas supplier to an Australian resident to be subject to GST, regardless of the commercial terms would impose a legal obligation similar to domestic suppliers. However, as the supply would be from a foreign jurisdiction, compliance with Australian legislation will likely remain unenforceable.

An alternate incentive may be provided to allow suppliers to enter a consolidated shipment – relative to the rules for taxable importations – which, in current circumstances are effectively treated as separate consignments, as one taxable importation through an appropriate reportable mechanism.

This could also promote compliance, reduce costs and import processing, provide improved delivery times and deliver greater efficiencies for related importation arrangements. However, appropriate consideration would need to be given to a review of the taxable supply and creditable importation rules in this type of circumstance. A trusted supplier may be able to participate in an arrangement that delivered the pre-payment of the financial liability that would normally be imposed on the importer, where they had included the amount in the purchase price.

The single most important factor determining the level of compliance therefore will be the perceived benefit for the participating supplier. Potential benefits include a lower tax processing charge and smoother cross border processing of the goods. However, suppliers may be commercially disadvantaged if they add a duty or tax to their invoice but competitors do not.

The likelihood of compliance will be enhanced if other reforms to the taxation of imports ensure that tax will be levied on all incoming goods – so that by the supplier remitting the tax, there would be a time and cost-saving advantage to the Australian customer.

To facilitate voluntary compliance, any proposed registration process would need to be simple. The current GST registration procedures are seen as a compliance burden by foreign businesses. Any reforms to register the supplier, would need to ensure that the revenue risk of having an entity outside Australia’s jurisdiction entitled to refunds, or to claim input tax credits, is appropriately considered. Partially due to this concern, the ATO is currently attempting to limit the instance of foreign entities registered for GST.

The compliance processes around establishing and calculating a duty or tax liability are also likely to be a burden to overseas suppliers not currently required to remit that duty or tax. While the supplier is in a position to know the purchase price and transport and insurance costs required to calculate GST liability, they would need to be familiar enough with the Australian tax legislation to know which goods are subject to tax and how the liability is calculated.

The compliance burden is considerably greater for duty calculation as the rate varies between even similar goods and can be further complicated by trade agreements and country of origin rules. Given the complexities associated with determining duties, the requirement for simplicity suggests that reform of this nature should focus on GST only.

While compliance may not be enforceable if this measure is introduced through the taxable supply rules, there is evidence to suggest that large regular suppliers would comply if there is a legal obligation, even if that obligation is not enforceable. The *Options for GST taxation of imported goods and services* report prepared for the GST Distribution Review (2012) notes that Amazon, which has structured its supply conditions so that it is not subject to tax on its sales to Australia, complies with many VAT and US taxation requirements. The report concludes that Amazon ‘complies with applicable tax law when its obligation is clear’.

Large regular suppliers of goods to Australia, such as Amazon, may see it as in their interest to maintain cordial relations with the Australian tax authorities. Recent experience in the US involving Amazon in both Texas and California suggests that this will be a driver of behaviour (Reuters, 2011 and 2012). However, if the supply is less regular, the incentive to remit tax for an unenforceable legal obligation is less compelling.

The purpose of removing the need to collect duty and/or tax from incoming goods at the border will not be served if the current GST legislation that imposes a tax on the importation of the goods, irrespective of whether the supplier has paid tax on the supply, remains unamended. Having a tax on both supply and importation serves the purpose of having a legal recourse to collect the tax liability in the event the liable overseas supplier does not comply. If compliance can be verified prior to arrival, the goods on importation could be given a GST-paid status and not be delayed by tax considerations at the border.

A difficulty would be the need to identify goods upon which duty and/or GST has been pre-paid when they reach the border. The nature and scale of this task in part depends on the number of suppliers who comply with the scheme, the volume of goods supplied by those entities and their relationship with freight forwarders or postal operators. For example, where individual suppliers ship sufficient volumes of goods, arrangements may be able to be put in place to keep these separate in any border processes. Some large regular suppliers of low value goods currently provide freight forwarders and/or Australia Post with a manifest of a consolidated shipment of their goods, so that the shipment can be identified and cleared at the border without the need for further screening.

A further difficulty is the compliance processes that would be required by the ATO to ensure taxes raised with respect to Australian GST by overseas suppliers would be remitted to Australia. Such compliance processes would incorporate a registration requirement underpinned by clearly specified and robust standards. Such processes would likely limit the extent to which such an approach could be applied to all overseas retailers – raising a potential issue of competitive neutrality.

Conclusion

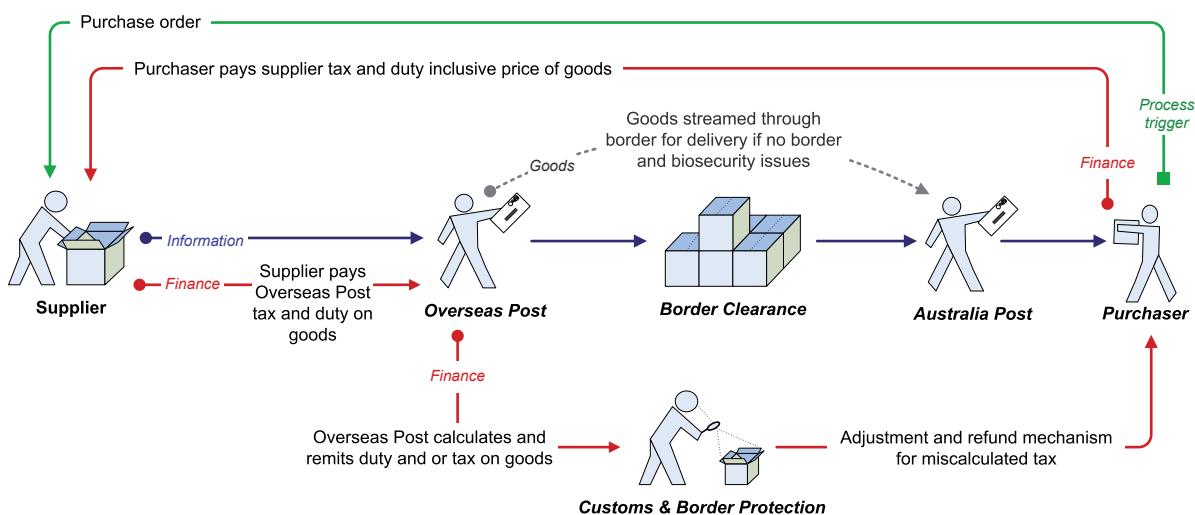
While noting this potential solution may rely on voluntary compliance and hence is not sufficient as a stand alone reform, it warrants further analysis as part of an integrated reform package. This solution could be examined in conjunction with the implementation of GST and/or duty assessment at the border, if lower thresholds are implemented in the future.

3.4.5 Collection of duty and/or GST by overseas postal authorities

Description

Under this potential solution, arrangements would be made with overseas postal authorities to collect and remit the tax on Australian-bound packages as part of the delivery process (see Figure 3.4.4).

Figure 3.4.4



As Figure 3.4.4 illustrates, under this potential solution Australia Post and foreign national postal services would enter agreements whereby suppliers in those participating countries would be asked, upon presentation of the parcel, to pay the relevant Australian duty and/or GST, along with the postal charge calculated for the parcel. The foreign postal service would then remit the collected tax to Australia Post on a regular basis. If universally applied, parcels arriving from a participating country would be given tax-free status.

Assessment

While no jurisdiction appears to have arrangements of exactly this type, the UK has entered into memoranda of understanding (MOUs) with the Channel Islands, New Zealand, Hong Kong and Singapore whereby suppliers in the foreign jurisdiction can commit to remit the UK VAT due on the supply to the local postal service, which then remits the revenue to Her Majesty's Revenue and Customs (HMRC). Except for the Channel Islands, these arrangements appear to have very limited application. Reforms removing the tax-free status for VAT purposes of the Channel Islands in April 2012 made those arrangements less relevant.

Noting the limited application of arrangements of this nature in other jurisdictions, benefits associated with reform of this type are that it could:

- remove the need for revenue assessment and collection processes at the border;
- limit the number of entities collecting duty and/or tax; and
- provide information on goods before arrival, to facilitate border security and biosecurity processes.

However, implementation issues in Australia would include:

- the need to introduce a capacity to identify goods where duty and/or GST has been paid;
- invoicing by overseas suppliers which will need to take into account the duty and GST liability;
- the need to achieve agreement with overseas jurisdictions to operate as a revenue assessment and collection agency, which may take some time to negotiate;
- the capacity of those jurisdictions to assess duty and/or GST liabilities;
- the mechanism for the recipient of the goods to challenge a duty or GST assessment and the adjustment and refund mechanisms that would need to be put in place, if the assessment is successfully challenged;
- the requirement for compliance arrangements to be introduced to ensure the task is undertaken in accordance with Australian legislative requirements;
- the reciprocal obligation that it would likely impose upon Australia Post to undertake an equivalent task with overseas jurisdictions; and
- the non-enforceability of duty and/or GST collection in overseas jurisdictions.

The absence of any known effective initiatives along these lines in the international postal environment suggests that the international interest required to progress this approach is lacking.

Conclusion

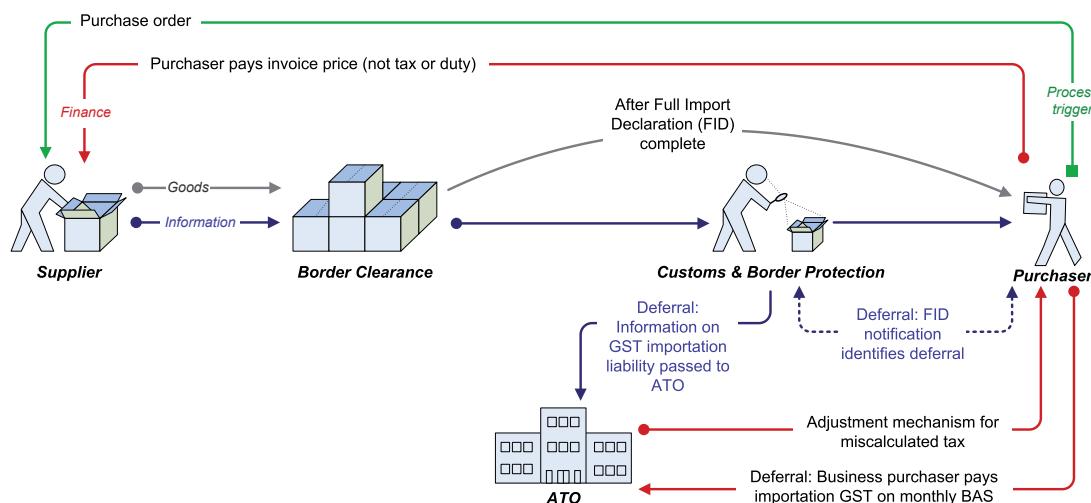
This potential solution was not sufficiently viable to warrant undertaking any further analysis.

3.4.6 Deferral of payment of GST for all GST registrants

Description

Under this potential solution, there would be a universal deferral scheme for GST for goods being imported by GST registrants, as input tax credits will generally be available with respect to goods these entities import (see Figure 3.4.5).

Figure 3.4.5



Assessment

GST is the principal revenue liability imposed on incoming packages above \$1,000. A common feature of the non-border solutions is to facilitate the processing of incoming packages by having the GST liability acquitted other than by the current method of invoicing the importer as the goods cross the border and requiring payment before the packages are released for delivery. This reduces the number of parcels that require payment before release.

As most businesses are eligible for an input tax credit for the GST they pay on their business-related purchases, when the importer is a registered entity there is no net revenue impact from the collection of GST. The objective of deferring the GST liability is to remove the necessity of collecting GST at the border on incoming items to tax-registered importers before the packages are released for delivery. Deferring GST collection results in the tax being remitted, not at the border, but on the eligible entity's Business Activity Statement (BAS). However having the GST remitted on the BAS saves the compliance costs of first remitting tax, then claiming it back.

Compared to reverse charging the business liability (see section 3.4.7) deferral is simpler as it applies to the tax on importation and does not require amendment to the importation legislation. Further, under deferral, eligible entities register their details with Customs and Border Protection, so it is aware that the business recipient of the imports is registered for GST deferral.

However, while the deferral solution has the potential to reduce the number of business imports requiring revenue collection at the border, hence facilitating faster movement of these parcels and reducing storage and back of house processing costs, a range of difficulties is associated with identifying the good as one being supplied to a GST registrant. Currently, there is no requirement to include an ABN on a mail article nor is it a requirement when completing a SAC in the cargo environment. This leads to difficulties in identifying these particular individual consignments on arrival in the gateways. The process of validating and/or searching for an ABN for unknown customers can be quite time consuming.

By its nature, the efficiency gains from this solution would be limited to reducing the GST collection requirement on imports by registered businesses. Data is not available on the proportion of low value parcels coming through the international mail gateways that are destined for registered business imports.

As at April 2012, some 10,425 businesses had voluntarily registered to defer their GST liability. In 2010–11, of the total \$19.31 billion GST payable on imports, \$16.4 billion was deferred under the current voluntary arrangements. In the postal environment, of the \$4.37 million total GST liability, only \$295,143 was deferred. The lower mail deferral rate reflects the higher proportion of non-registered entities using the mail system compared to air or sea cargo.

Deferral would not lessen the current import documentation requirements or manual recording of the tax liability. Therefore it would have limited impact in lessening the administration costs at the border. The legislative reforms required would also need the agreement of the State and Territory governments.

Finally, this potential solution only operates with respect to GST, and hence would only provide opportunities for streamlining processes if no duty assessment was required. This would occur if there are different thresholds for duty and GST.

Conclusion

This potential solution is unlikely to be warranted in the short term, but should be considered going forward as further information becomes available in both the cargo and international mail environments.

RECOMMENDATION 3.2

That the option of deferral of payment of GST for all GST registrants, while not supported at this time, should be considered further going forward. The proposal requires further research on the administrative benefits for Customs and Border Protection relative to the compliance costs to businesses.

3.4.7 Reverse charging GST to registered purchasers

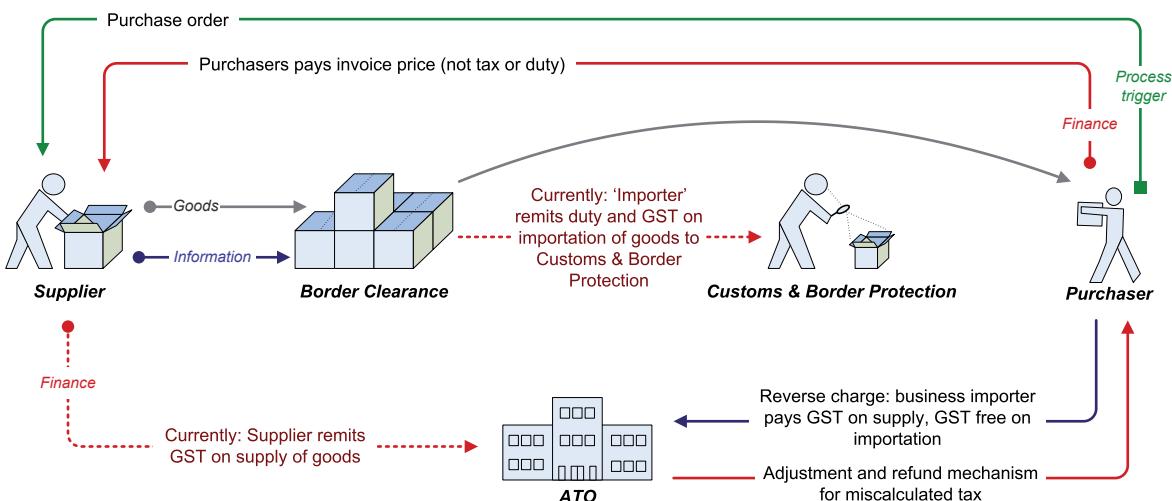
Description

Generally the GST system operates to impose the tax liability on the supplier of goods. Under this potential solution, where the importer is an entity registered for GST, the GST liability would be 'reverse charged' so that it would be remitted by the business domiciled in Australia.

To reduce the pressure on border procedures, this reform would need to be coupled with legislative amendments that allow goods on which the tax on supply are reverse charged to be treated as GST-free for importation purposes. Therefore the processing of the goods through the border would only be subject to border security and biosecurity clearance.

The way in which this approach would differ from the arrangements that currently apply is illustrated in Figure 3.4.6 below.

Figure 3.4.6



Assessment

Reverse charging a registered entity's tax liability on imported goods will result in the tax being remitted, not at the border, but on the business' BAS. In either case, the net impact on revenue is likely to be zero. However having the GST remitted on the BAS saves the compliance costs of first remitting tax then claiming it back.

This is a similar outcome to allowing business deferral for all GST registrants (see section 3.4.6). Both remove the need to collect GST at the border on incoming items to tax-registered entities before the packages are released for delivery.

However, the deferral approach seems simpler as it applies to the tax on importation and therefore does not need further amendment to the importation legislation. Further, under the deferral scheme, taxpayers register their details with Customs and Border Protection, so it is aware that a business recipient of the imports is registered for GST. Under the reverse charge system, not only would extra legislative amendments be needed to remove the tax on importation, a new process would need to be developed so that Customs and Border Protection could promptly and accurately know that an importer is registered for GST.

Efficiency gains would be limited to reducing the GST collection requirement on imports by registered businesses. Data is not available on the proportion of low value parcels coming through the international mail gateways that are registered business imports. However, as indicated above (see section 3.4.6) it would appear the proportion is not large.

Also, reverse charging would not lessen the current import documentation requirements or recording of tax liability. As such, its impact on administration costs at the border would be limited. The legislative reforms required would also require the agreement of the State and Territory governments.

Conclusion

This potential solution is not considered viable enough to warrant further analysis.

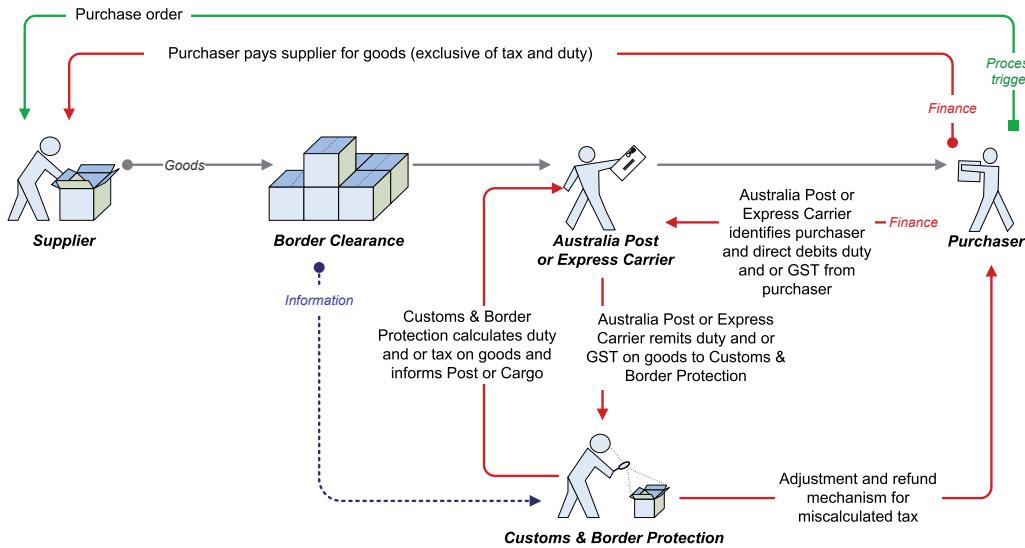
3.4.8 Pre-registration for payment of duty and/or GST once liability assessed at border (Direct Debit)

Description

Under this potential solution, a purchaser would be given the option of registering their details once, through a secure online portal hosted by government, to allow for direct debiting of amounts of duty and/or GST following an assessment of liability relative to a taxable importation. The registration would authorise the sharing of billing details with Customs and Border Protection, together with express carriers, other freight forwarders and Australia Post which process low value imports. Registration would allow purchasers to nominate the parties (Australia Post, express carriers and other freight forwarders) to pre-authorise the direct debit of amounts owed for duty and/or GST.

The primary function of this potential solution is process focused. It would be of particular benefit to express carriers, other freight forwarders or Australia Post in not having to store items until payment as this would be actuated at the time of assessment, and it benefits the purchaser or the recipient of the goods relative to processing and delivery times (see Figure 3.4.7).

Figure 3.4.7



Assessment

Freight forwarders (including express carriers) already have arrangements for some customers to pre-authorise the direct debit of amounts owed for duty and/or GST, any government fees and charges and any other costs in the import process. They do so because these arrangements reduce administration costs, delivery times and storage costs, as well as simplifying reconciliation processes. To date, however, their application has been less relevant in the postal environment – primarily because fewer goods are subject to a revenue liability in the international mail stream.

As e-commerce develops and cross border mail and cargo increases, more parcels will be subject to duty and GST, even on an unchanged policy basis. As such, pre-authorisation arrangements are likely to expand, which will give rise to a number of implementation and costs issues in both import streams. However, these issues are likely to be of greater consequence where greater volumes of goods are required to be assessed for a duty or tax liability due to a change in policy.

In both the international cargo and postal environments, these implementation issues include:

- creating and operating simplified registration processes incorporating relevant customer information, including relevant delivery addresses and bank account details;
- establishing systems which can identify and accurately link parcels to the relevant customer in the gateway/border environment;
- providing relevant tax invoices and receipts with respect to amounts charged; and
- appropriate systems to handle objections and complaints, for example where valuation of goods is disputed.

Under this proposal, purchasers would access a single point to update their details, thereby ensuring data is consistent for all parties accessing the registration system. This also minimises the cost of compliance for the purchaser relative to time expended and subsequent maintenance issues (for example, a change of address). A mechanism that links to the site may also be a feature of the notification to the purchaser of the liability (see section 3.4.12). Existing systems such as Australia.gov.au could host the entry point as it already hosts other online registration whereby people can provide proof of identity and access online services, records and information for other government departments.

Compared to other potential solutions in the cargo and postal environments being considered, the changes to enable this solution appear to be of relatively low additional cost, while allowing improvement in processes. To encourage take up, differential charging arrangements may be introduced. The extent and nature of these arrangements are considered further in the next stage of analysis.

While implementation issues in the cargo environment will arise under this proposed solution, to a large extent business systems already appear to be in place which could be leveraged off to cater for these changes. However, if these systems were required to deal with larger volumes, this would impose additional operating costs. The extent and nature of these costs need to be further examined.

In terms of systems development in the international mail stream, a precursor system may be trialled if it is agreed to implement an alternate 'e' mechanism for FID lodgment (see section 3.4.13). M-commerce¹²⁴ solutions may also be useful to authorise these types of transactions.

Conclusion

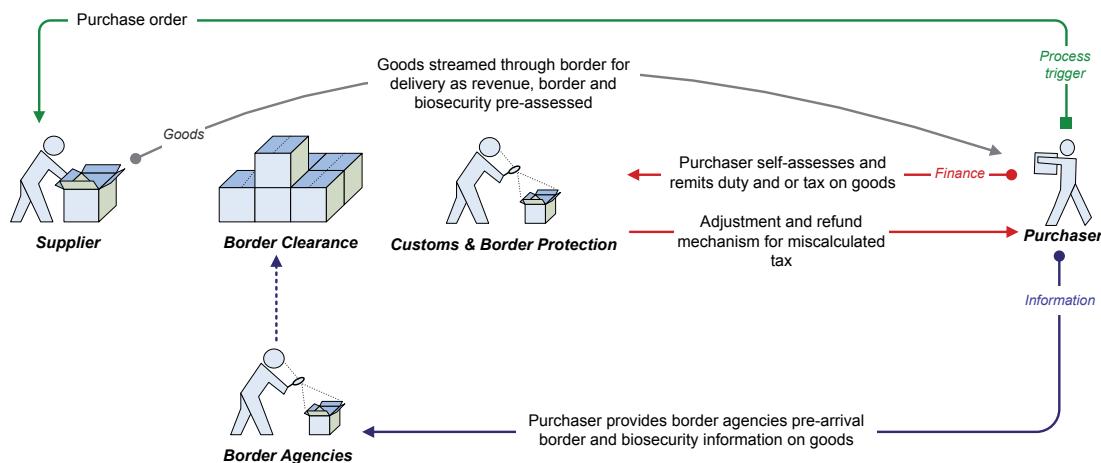
This potential solution is considered feasible, and should be subject to more detailed analysis in conjunction with other potential changes to border processes.

3.4.9 Self-assessment for duty and/or GST liability before arrival (with the potential for pre-payment)

Description

Under this potential solution, it is proposed that people importing goods into Australia would be able to voluntarily undertake a self-assessment of liability for duty and/or GST before the goods arrive into Australia. The purchaser would be required to access a government (ATO/Customs and Border Protection) website, provide the relevant information about the purchase and have duty and/or GST payable on the goods calculated – and potentially paid at that point. This process is illustrated below (see Figure 3.4.8).

Figure 3.4.8



124 M-commerce, also known as mobile commerce or mCommerce, is the ability to conduct a transaction using a mobile device, such as a mobile phone, a personal digital assistant (PDA), a smartphone, or other emerging mobile equipment.

Self-assessment and pre-registration (section 3.4.8) have been listed separately to distinguish the two concepts. In practice as both rely on establishing or adopting a facilitating website, and as the self-assessment procedures would be aided by the purchaser's ability to pre-register their details with the border and tax agencies, this potential solution should be considered in conjunction with pre-registration.

Assessment

An advantage of this proposal is that, particularly in the international mail stream, it would emulate processes currently available in the cargo environment to estimate duty and/or GST payable before the goods arrive in Australia.

Further, even without pre-payment, the provision of information about a purchase before goods arrive could facilitate border and biosecurity processes. Depending on the data quality, it may allow preliminary pre-arrival assessment that enables more efficient movement of parcels, particularly when the purchaser is a registered user, has a good compliance history, and is able to provide validated details of the purchase such as through e-invoices.

A further potential advantage of this reform is that it would enable assessment and payment of any duty and/or GST on the imported good before their arrival in Australia – albeit not as seamlessly as if this were done through either a payment system intermediary or to the supplier when the goods were purchased. Goods with such a pre-paid duty or tax liability would have the same status, upon reaching the border, as duty/tax paid goods and – subject to general compliance processes – would be assessed for border and biosecurity risk only.

This approach may also provide an additional data set to augment Customs and Border Protection and DAFF Biosecurity risk framework profiles. Over time this could reduce the 'in-gateway' costs in the international mail environment associated with the manual scanning and inspection of imports for border and biosecurity risks. However, before border agencies accept such information, substantial data testing would be required.

The implementation of this reform is likely to require investment in system development, as well as costs associated with changes to business processes.

For this reform to be workable it also requires a method by which the online documentation is linked with the incoming package on its arrival into Australia. In conjunction with the complementary take up of smart matching and scanning technologies at the border, one possibility for addressing this difficulty is the use of a unique 'identifier code' issued at time of registration. This 'identifier code' would be provided at time of purchase by the purchaser to the supplier for inclusion on the parcel at time of despatch, for example, in the name or address field of the recipient of the goods. However, such an approach may not always be feasible as not all online sites will allow additional information to be included in these fields.

A second substantial difficulty with this pre-payment approach is the purchaser's capacity to appropriately assess their liability for duty and/or GST. In the case of GST, purchasers would first need to know if the goods were subject to GST. To calculate their liability under current arrangements, purchasers would also need to have information not only of the value of the goods, but also any freight and insurance costs. This raises a question of whether an alternative basis for assessing GST should be considered with respect to low value goods – an issue which is considered further in section 3.4.12. In the case of duty, the assessment task is considerably more difficult as current arrangements require detailed knowledge of tariff classifications, duty rates and concessions (see section 3.4.1).

A third major difficulty is the potential for error given that self-assessment requires individuals to key in data. This risk is exacerbated where individually-keyed data contains an error that results in it being inconsistent with data provided to border agencies through other means – for example, by freight forwarders or Australia Post as electronic data becomes available.

As with any liability in a self-assessment regime, as well as the risk of inadvertent non-compliance is the potential for fraud. The risk to revenue of inadvertent or deliberate misstatement of liability will, to some extent, depend on the functionality of the technical systems put in place. It can be assumed, however, that the collection agencies will need to extend their current compliance audit activity. This cost needs to be considered in conjunction with the systems implementation costs.

Finally, a self-assessment system would rely on the voluntary participation of people ordering goods online from overseas. Experience in other countries with voluntary schemes suggests relatively low levels of participation may be expected. For example, both Canada and the UK have schemes whereby overseas suppliers can opt to pre-pay the duty or tax liability on behalf of their customer. Neither program is widely taken up. To encourage the take up of a self-assessment scheme in Australia, individual purchasers who voluntarily comply could be exempted from a processing charge, and could bypass the border clearance delay if the goods are not of border or biosecurity interest. As it is not always possible to determine the method of delivery of goods purchased online from overseas (post or cargo) to ensure this solution is available to all streams, a centralised data system would need to be developed for both the mail and cargo environments.

A substantial public information campaign would also be required for successful implementation, adding to the cost of this approach.

Conclusion

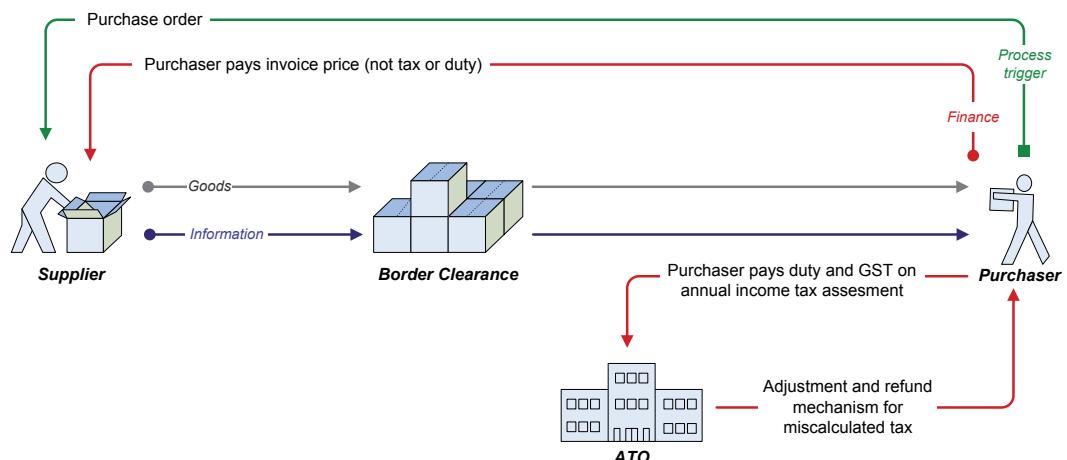
This potential solution warrants further analysis, but the process appears more practicable for GST than for duty and in any event is subject to a number of difficulties that will likely render it not feasible.

3.4.10 Declaration of duty and/or GST liability through the income tax assessment process

Description

Under Australia's income tax legislation, individuals annually declare their income and self-assess their income tax liability. Under this proposed solution, individuals and businesses would declare their importations and self-assess their duty and GST liability on imports of low value goods as part of their annual income tax return. The duty or tax liability would be netted into the annual income tax return or liability. A variation would be to allow businesses to declare this in their BAS, recognising that, in the case of GST assessments, it would generally not result in increased revenue due to the use of input tax credits. The nature of the proposed arrangement is illustrated in Figure 3.4.9.

Figure 3.4.9



Assessment

On face value, a number of benefits are associated with this potential solution – it removes duty and/or GST assessment and collection tasks from the border processes, thereby avoiding potential delays in delivery times, storage costs and the administrative burdens of invoicing and collecting revenue on imported goods. Further, while this reform would require legislative change, it would not face any of the extra-jurisdictional limits that constrain the effectiveness of other reforms that would seek to amend the way parties may become liable for duty and/or GST (see, for example, section 3.4.4).

Major drawbacks of this approach, however, are the low levels of compliance that can be expected and the possibility of fraud.

A report prepared for the GST Distribution Review (2012) noted that the US has some experience of this approach where many states impose a ‘use’ tax on the acquisition of goods and services from outside of the state that has not been subject to tax in the state.

It highlighted a 2010 US study into the collection of ‘use’ tax on state income tax returns which indicated very poor compliance (see Manzi, 2010). The study noted the average percentage of taxpayers declaring use tax obligations was 1.6 per cent across all states. This included states applying a simplified ‘use’ tax which estimated tax liability based on income. In states where the taxpayer was required to record and calculate their tax liability based on their imports the compliance figure fell to 0.5 per cent.

The GST Distribution Review (2012) suggested that, to encourage compliance, an Australian income tax based system would best be based on a simplified assessment with data matching with debit and credit card companies. While using credit card data may encourage compliance, it would impose substantial administrative burdens on both taxpayers and the ATO. Further, such a system runs counter to reforms to remove the obligations on taxpayers to lodge income tax returns. Under these reforms, approximately one million individuals earning less than \$18,200 will not be required to lodge income tax returns.

Conclusion

This potential solution is not considered sufficiently viable to warrant further analysis.

3.4.11 Improved processes, work practices and removal of duplication

Description

Under this potential solution, a suite of potential changes could enhance productivity and cost-effectiveness through improved processes, enhanced work practices, better measurement of resource utilisation and removal of task duplication. Specific initiatives include, but are not limited to:

- increased pre-arrival risk assessment of parcels entering Australia through the international mail stream;
- reconfiguration of physical processes within the international mail gateways, including belt design and scanning points;
- removal of duplication, including changes to processes for the opening of goods for inspection in the international mail stream; and
- establishment of additional performance criteria (based on both qualitative and quantitative outcomes) to support investment in new screening/x-ray technology and other decision making.

In the postal environment, substantial elements of these potential reforms are conditional on the availability of pre-arrival electronic data through the Kahala Posts Group and other UPU/MEDICI initiatives.

Assessment

The majority of parcels that arrive in Australia in the postal environment are subject to manual, labour intensive processes, which can vary depending upon the category of postal item being processed. In 2010–11, Customs and Border Protection and DAFF Biosecurity respectively inspected around 38 per cent and 61 per cent of the total volume of incoming parcels, packets and EMS articles into the international mail gateways for border security, biosecurity and revenue collection purposes. If the current gateway processes continue unchanged, then as parcel volumes grow either the proportion of incoming packages inspected by Australia's border agencies will decrease or costs will rise.

Consequently, there is pressure on the border agencies to increase their capacity to process parcels in a timely manner, while ensuring the integrity of the border is not compromised.

Some of this burden could be relieved through increased use of pre-arrival risk assessment of parcels entering Australia through the international mail stream. Provision of pre-arrival electronic data would enable the international mail environment to emulate the more efficient and cost-effective practices of the cargo environment. Over time, it should also enable most, if not all, aspects of the cargo reporting arrangements to operate across all import streams. Pre-arrival data in the international mail stream would increase the information base for intelligence and targeting activities, recognising that privacy issues on the use and storage of data will need to be appropriately managed.

Where pre-arrival data is available, better sorting of incoming packages on arrival in the gateway may allow for greater specialisation in the processing lines with belts reconfigured for 'revenue only', 'border', and 'biosecurity' purposes. This would require some initial infrastructure investment to modify current gateway layouts, provided this investment is justified based on productivity improvements. To the extent feasible, the costs and benefits of these changes are considered in Chapter 4.

Historically in the postal environment there has been some duplication of Customs and Border Protection and DAFF Biosecurity inspection procedures, although it should be noted that Customs and Border Security and DAFF Biosecurity seek to address different risks. This could compromise efficiency and cost effectiveness of the handling and administration processes without reciprocal benefit in terms of border security or biosecurity outcomes. Given the growth expected in parcel volumes, the overall border and biosecurity effort can be expected to be increasing over time. Consequently, there is an ongoing need for border agencies to review, refine and improve processes to reduce any duplication of effort.

At the gateways, Australia Post must be present in the secondary examination area to open parcels for inspection by the border agencies. This introduces a situation of double handling. Any change to this process requires regulatory change, as this step is required pursuant to the *Australian Postal Corporation Act 1989*. It appears that this change is permissible having regard to Australia's obligations under the UPU treaty, and would potentially improve the efficiency of moving goods through the secondary examination area.

The introduction of new technologies such as enhanced x-ray machines could increase border agencies' efficiency, both at primary inspection points and in the secondary examination area. It is beyond the scope of this investigation to determine what, if any, new technology may be available – now or in the future – to improve detection levels.

However, it would be beneficial if the proportion of goods referred for secondary examination with actual border security or biosecurity issues – where the process of examining goods is labour intensive – could be raised. New technology may assist border agencies to identify items of interest that require secondary examination, potentially resulting in an increased level of detection. In turn, this would allow border agencies to more effectively deploy staff in the international mail stream and inform future investment decisions.

Clear and consistent measures of performance outcomes, based on both qualitative and quantitative outputs that are reported on a regular basis, could potentially facilitate such investment. Such outputs could also inform other aspects of resource utilisation. In noting this possibility, it needs to be acknowledged that all parties involved in import processing at the border already have a range of performance measures in place, and further that they constantly seek to enhance the way in which performance is measured. For example, DAFF Biosecurity has just introduced a range of new performance measures focusing on compliance.

The challenge of improving the number of detections also points to the potential for ongoing improvements in research and analysis – both in terms of targeting and also assessing the nature of risks associated with particular products. This is particularly so for DAFF Biosecurity, where the range of potential risks is wide – necessitating focus on those which are highest and hence of most consequence. Any initiative in this area would need to build on the work already being undertaken by both DAFF Biosecurity and Customs and Border Protection. As with all elements of this proposed solution, issues with respect to benefits and costs are considered in further detail in Chapter 4.

Conclusion

This potential solution warrants further analysis.

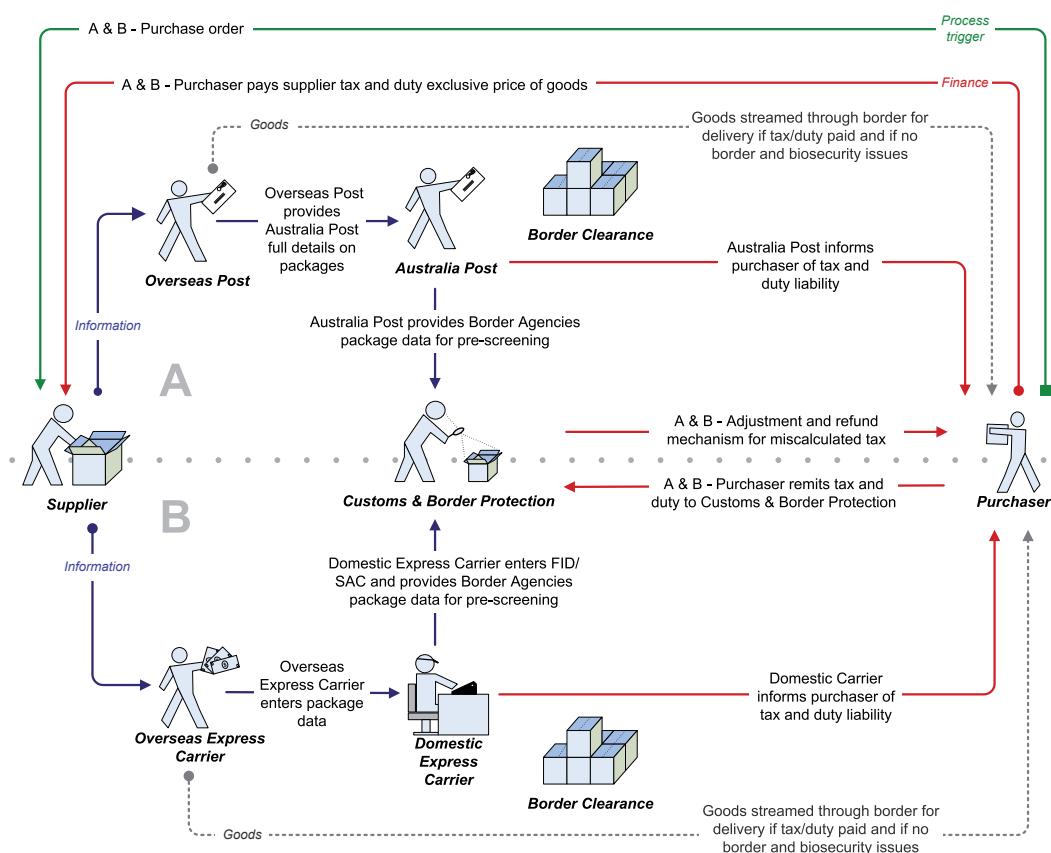
3.4.12 Streamlined automated assessment of duty and/or GST for low value goods utilising electronic data provision in the cargo and mail environments

Description

Under this potential reform, electronic data available in the cargo environment and the international mail stream, supplemented by keyed-in mail item data when electronic data is not available, would be used to streamline the automated assessment and notification of duty and/or GST for low value goods on which revenue is not currently collected.

In the mail environment, Australia Post would be responsible for the electronic and keyed data capture for the automatic assessment and notification of revenue liability. The automatic assessment of the revenue liability would be performed in a current Customs and Border Protection system (for example ICS). Figure 3.4.10 illustrates how this potential solution would operate.

Figure 3.4.10



Assessment

Streamlined automated assessment of revenue liability is considered because the more revenue assessment processes can be automated, the lower the costs of administration – for industry participants, including express carriers and Australia Post, for Customs and Border Protection, and, ultimately, the States and Territories.

In initially assessing this potential reform, two preliminary issues need to be resolved:

- whether greater automation of existing processes is able to be undertaken for both duty and GST, or only GST – in which case the low value thresholds that apply to duty and GST need to be separated; and
- on what basis can GST be assessed given the type of information that can be expected to be readily available in both the international mail and cargo environments.

In the cargo environment, information is already provided electronically into the ICS for low value goods through cargo reporting and SAC processes. This includes information with respect to declared value. However, it does not generally include other information currently relevant to GST assessments, such as freight and insurance, the treatment of exemptions and the application of GST deferral arrangements. Information on these and other elements – such as invoice term type¹²⁵ and valuation basis being adopted¹²⁶ – is currently only required and provided for goods valued over \$1,000. Further, no information is provided on tariff codes. This suggests that automated assessment for duty is likely to be very difficult based on current data availability, and also that the bases for assessing GST may need to be simplified if streamlined automated assessment processes are to be introduced.

In the international mail environment, parcels currently arrive from overseas with a paper declaration affixed to the exterior of each parcel, packet or EMS article. Consequently, Australia Post and the border agencies do not have access to item-specific information until the goods arrive at the border. As such, currently the only way to assess revenue liability is through an intensive physical process that first involves the manual checking of each article on arrival to determine whether they are above the prescribed value, then secondly the manual entry of information in relation to the good into the relevant computer system.

However, a number of international initiatives are in development for the electronic exchange of data between postal organisations. In particular, the Kahala group, to which Australia belongs, is aiming to pilot test the provision of pre-arrival data for EMS and parcels to its members in 2013, with an evaluation of the pilot in early 2014. Following this, there will be a final agreement on the timetable for the progressive implementation on data exchange including which products are in scope (the main focus will be on EMS and parcels).

The information that will become available through this process will be based on internationally agreed standards. At present the information to be provided for assessing duty will be at the six digit HS code level, and even then will only be captured on a voluntary basis. This limits its potential use for automatic assessments of duty in an Australian context, given the 10-digit code required under the Working Tariff. However, information on the declared value of the good (and transport and insurance costs), which in the first instance provides scope for a streamlined automated GST assessments to be undertaken, will be provided.

The introduction of electronic data in the postal environment will take time, and for an extended period it will only cover a proportion of the goods arriving into the country. For those items without pre-arrival data with a value above the relevant threshold, any assessment process would require that information be manually keyed in to enable tax liability to be assessed. Currently, the planned electronic data collection program in the postal environment is limited to parcels over 2kg and EMS items. These products make up around 20 per cent of total mail products entering the

¹²⁵ Invoice term types include: CFR—cost & freight; CIF—cost, insurance & freight; CIP—carriage & insurance paid to; CPT—carriage paid to; DAF—delivered at frontier; DDP—delivered duty paid; DDU—delivered duty unpaid; DEQ—delivered ex quay; DES—delivered ex ship; EXW—ex works; FAS—free alongside ship; FCA—free carrier and FOB—free on board.

¹²⁶ Valuation basis types are Computed Value, Deductive Value, Fall-Back Value, Identical Goods Value, Similar Goods Value and Transactional Value; see generally Pt VIII, DIV 2 *Customs Act 1901*; see also *World Trade Organisation (WTO) Valuation Agreement*.

gateways. This means that unless packets are brought into the data collection scheme, 80 per cent of incoming packages will not have advanced electronic data. In considering the implications of this, it is noted that while EMS and parcels greater than 2kg represent only 20 per cent of the number of mail products, based on sampling undertaken by Customs and Border Protection, they also represent the majority of goods with relatively higher values.

Having a separate GST liability threshold from the reporting or duty threshold would simplify the reforms required to effectively bring lower value imports into the tax system. However it would come at the expense of no improvement in duty or trade data collection.

Assuming duty and GST thresholds are separated, the question that then arises is the basis upon which GST should be assessed. Processes can be simplified if GST is assessed just on the value of the good rather than also including transport and insurance, and if, in the first instance, reliance can be placed on the declared value, subject to compliance measures and adjustment as required.¹²⁷ This is based on consideration of the following factors:

- having reviewed existing business operating models, using a simplified GST assessment approach would enable reform to be implemented in the quickest timeframe;
- an initial assessment of the potential effects of reforms on the operation of licensed depots and international mail gateways, particularly storage, indicate that this basis would enable the most efficient processing of goods through those facilities;
- the starting point in which reform is being considered is that goods valued at or below \$1,000 are not currently subject to GST. While a simplified GST assessment approach would differ from the general arrangements as they apply to domestic purchases or imported goods with a value above \$1,000, if applied they are far closer to these arrangements than is currently the case;
- to the extent that potential reforms are intended to be integrated, this approach is simplest to implement given the ancillary reforms being considered, such as enabling overseas suppliers to collect GST at the time goods are purchased; and
- it is consistent with the information that is intended to be made available electronically through the international mail stream, which allows for implementation of new systems that will not become stranded assets over time.

Implementation of this potential reform would have a number of costs (considered in detail in Chapter 4), including:

- manual data capture for goods without pre-arrival information;
- changes to Customs and Border Protection's ICT systems;
- additional storage; and
- collection costs.

Adopting this approach may provide an incentive for overseas retailers to reduce the declared value of goods when the break down between the value of the goods and their shipping cost is unclear. These matters may be best dealt with through compliance processes, having regard to the underlying legislative framework (see Pt VIII, Div 2 *Customs Act 1901*). There is also a potential issue where a declared value includes transport and insurance costs, which otherwise would not be subject to GST under simplified assessment arrangements.

¹²⁷ Adjustment may be required to the extent valuation is required to occur within the valuation framework established in Pt VIII, Division 2 of the *Customs Act 1901*, which is designed to give effect to Australia's commitment to facilitate international trade by the implementation of the WTO Valuation Agreement.

Another complication is the issue of treatment of goods which are exempt from GST (see section 2.4.4). A process would need to be put in place which at least provides for any GST inadvertently paid on these items to be claimed back, and also that it be able to be claimed upfront, if systems allow. For example, the import of medical aids may be difficult to identify as such and may be taxed at the border. An alternate mechanism, rather than Customs and Border Protection processing multiple small claims may be considered, in order to refund tax charged to the purchaser. Such a mechanism may be through the purchaser's GST registered medical practitioner or range of other qualified bodies qualified to assess the appropriateness of whether the good is a medical aid.

Once identified, any item requiring an import declaration (items above the \$1,000 threshold) would need to be set aside for the separate import declaration procedures (see section 3.4.13).

A potential additional benefit is electronically stored data from the international mail environment would be available as a historical reference to increase the efficiency of risk profiling, data matching systems and pre-clearance declaration processes.

Conclusion

This solution is potentially viable, and should be subject to detailed analysis in conjunction with other changes to border processes. To reduce the likely costs associated with a streamlined automated tax collection processes, this assessment will be undertaken based on:

- a separation of duty and GST thresholds; and
- the application of simplified GST assessment arrangements.

RECOMMENDATION 3.3

That given the complexity of duty arrangements, combined with the trend for duty rates to be lowered and/or abolished in the future, duty and GST low value thresholds be separated to facilitate a more efficient process for handling low value imports, including an option for revenue collection.

RECOMMENDATION 3.4

That to facilitate revenue collection, simplified GST assessment arrangements be applied to low value imported goods that would provide, *inter alia*:

- for assessment based on value (not including transport and insurance costs). If this is not acceptable, then deemed amounts should be able to be applied (with capacity for importers to apply specific rates if desired); and
- for processes that enable the use of a declared value of the goods in the first instance, subject to relevant compliance measures.

3.4.13 Automation of postal import declaration processes

Description

Under this potential reform, importers required to submit an import declaration on an international mail item would receive a system-generated notification and be able to access an interactive

website on which to enter and submit the import declaration information to Customs and Border Protection electronically. The facility would, once the importer has submitted the relevant declaration information, automatically calculate the duty and GST liability and allow the importer to pay electronically.

Assessment

Currently, for postal items liable for duty and/or tax, the importer receives advice from Australia Post that they are required to fill out a Postal Import Declaration (PID) (Customs and Border Protection Form B374)¹²⁸ available on Customs and Border Protection website before the goods are released. The owner sends this either via email, fax or post to Customs and Border Protection.

Upon receipt of a completed form, Customs and Border Protection officers manually enter the data into the ICS which automatically calculates the revenue liability. Customs and Border Protection notifies the importer of the liability amount which the importer then remits to Customs and Border Protection. Upon receipt of payment, Customs and Border Protection releases the goods to Australia Post for delivery. The current process can take up to a week for a declaration to be fully processed.

The processing of each declaration requires a high level of human interaction between Customs and Border Protection officers and the owner of the goods. Nationally, it equates to 13 FTEs dedicated to the manual data entry and processing of PIDs. Additionally, the Customs Information and Support Centre receive over 3000 phone calls per month in relation to PIDs. Customs and Border Protection charges a processing fee of \$48 per manual declaration but estimate that the entry of the declaration data into the ICS alone costs \$76.96, while notifying the importer of the declaration requirement and answering consequent queries through the support centre cost a further \$13.90 and \$12.18 respectively.

During 2010–11 Customs and Border Protection processed 17,318 PIDs from individuals importing goods through the international mail environment. This number would be expected to grow as online purchases increase.

The proposed reform would automate the process for submitting PIDs from end-to-end, including:

- generating an electronic request for the importer to submit an import declaration, which is delivered to the importer through normal postal channels under the current arrangements, or electronically if a pre-registration system is established (see section 3.4.8);
- having importers enter required information and submit it to Customs and Border Protection electronically, without having to provide a physical copy of the import declaration;
- enabling information capture by the ICS through an online import declaration portal, reducing the need for any manual processing by Customs and Border Protection officers;
- automatically calculating the duty or tax liability from the electronically entered data, which is forwarded online to the importer;
- automatically transmitting payment advice information to importers; and
- integrating of online remittance into the automated system.

The proposed reform would remove significant double-handling from notification of liability through to the release of the goods. An initial assessment by Customs and Border Protection estimated

128 A Postal Import Declaration is a FID made in respect of an item entering Australia as international mail.

the benefits of automating only the import declaration process to be a saving of approximately \$1 million per year. In an environment where the border security task is growing, this would enable these resources to be redeployed.

The number of requests for assistance to complete import declarations is growing and processing capacity is finite, and this will be tested as e-commerce continues to grow. Unless other reforms take the processing load off the gateways, automation is needed to cope with the throughput without causing unreasonable delays to delivery.

The importer would need to be able to complete the processes required without having to obtain a Digital-Signing-Certificate and register to use the ICS. This presents risks associated with 'proof of identity' and potential for additional compliance activity in its initial stages to ensure that importers use correct codes. This process could be linked with the pre-registration option at section 3.4.8 to overcome this in the case of regular importers.

Moving to a system with less direct Customs and Border Protection involvement in import declaration submissions will increase the risk of mistaken or fraudulent declarations. The risk to revenue of inadvertent or deliberate misstatement of liability, to some extent, depends on the functionality of the technical systems put in place. Even so, collection agencies would need to extend their current compliance audit activity. This cost should be considered in conjunction with systems implementation costs.

The development of a tool to aid importers to identify the correct tariff code is also a key consideration for implementation.

Conclusion

This potential solution is considered viable and hence subject to further analysis.

3.4.14 Realignment of responsibility for revenue assessment and collection between Customs and Border Protection, Australia Post, express carriers and other freight forwarders

Description

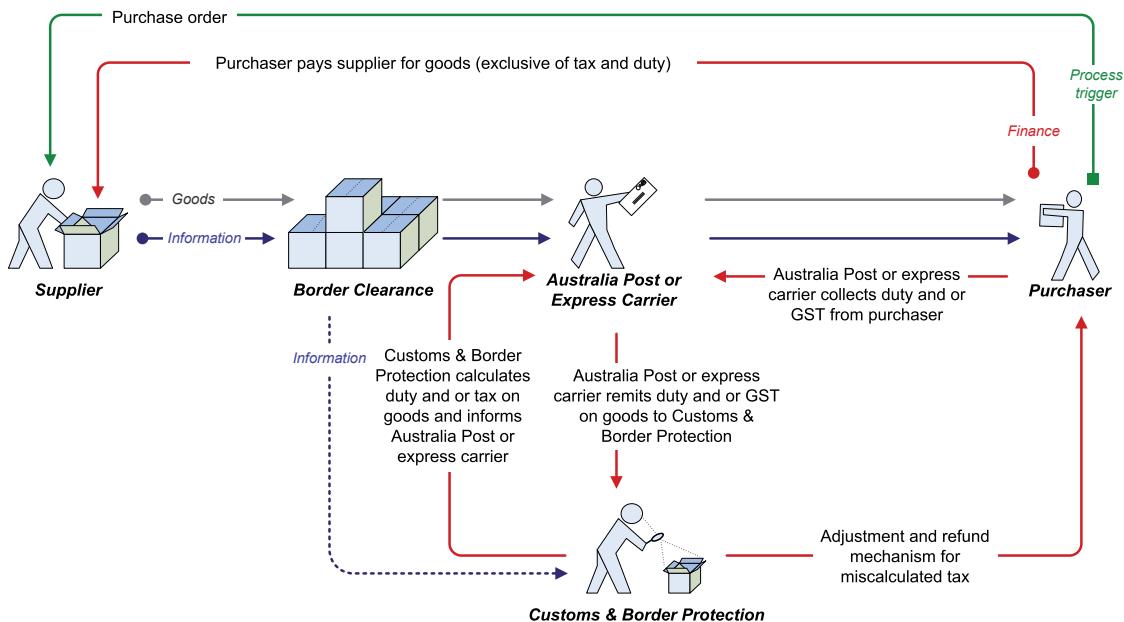
Under this potential solution, the tasks associated with revenue assessment and collection would be realigned between Australia Post, freight forwarders (including international express carriers) and Customs and Border Protection to eliminate unnecessary or duplicated procedures and to allow Australia Post, express carriers and other freight forwarders to clear low value imports on which duty and/or GST for which the recipient of the goods may be liable.

Australia Post, express carriers and other freight forwarders would identify low value imports which are subject to a revenue liability and would receive an assessment of the liability from Customs and Border Protection (through the ICS or a related system). Once cleared by Customs and Border Protection and DAFF Biosecurity for border and biosecurity risk, freight forwarders and Australia Post would be permitted to remove the goods from licensed depots or gateways respectively and manage the further delivery, including collection of any tax to be paid on the goods from the recipient of the goods. However, they would be responsible for collecting and remitting the revenue due to Customs and Border Protection (or the ATO) periodically.

The proposed reform assumes that Customs and Border Protection will continue to calculate the GST and/or duty liability. The reformed processes could apply to both high and low value goods.

Another possible variation is to apply the reformed processes to low value goods only, but have Australia Post, express carriers and other freight forwarders responsible for the liability calculation. A further variation would be for the government – either through Customs and Border Protection or the ATO – also to be responsible for revenue collection.

Figure 3.4.11



Assessment

The principal benefit of the proposed reform is the ability to release the goods from the bonded facilities before payment of the revenue liability, reducing storage requirements at the border and improving delivery times. Further, by reducing the cross handling that occurs in current revenue processes in the international mail gateways, the reform could allow Customs and Border Protection to more effectively deploy resources in the gateways to screen for border security risks.

The potential solution also presents the option for Australia Post, express carriers and other freight forwarders to best exercise any commercial opportunities that may arise from the application of other complementary processes. For example, payment of revenues would be expected to be undertaken through current online payment systems. Australia Post, express carriers and other freight forwarders would likely impose a handling charge for collecting the revenue to offset the costs of undertaking this task.

In considering this potential reform, it is noted that other changes in distribution systems may be occurring completely separately from any changes being considered in this investigation. Through implementation of event management systems and related communications, recipients can choose the time and location of delivery. These capabilities could be combined with communication of the need to pay GST to streamline the payment and delivery process.

Arrangements of this type operate in a variety of jurisdictions with much tax and duty thresholds than Australia. In Canada, with a tax threshold of C\$20, all international mail items are presented by Canada Post to the Canada Border Services Agency (CBSA) on arrival. Duty and taxes payable are determined by CBSA and, if no further border action is required, the goods are released to Canada Post for delivery and collection of the revenue owed. All amounts must be paid at the time

of delivery and Canada Post charges the recipient a C\$8.50 processing charge. Canada Post is responsible for remitting the revenue collected to the CBSA.

In the United Kingdom, where import VAT applies to goods over £15 in value, import charges are calculated by the United Kingdom Border Force (UKBF) staff at postal depots where the packages are received. Once the goods are deemed of no further border or biosecurity risk interest to the border agency, they are released to Royal Mail for collection and remittance of the revenue liability. Once payment has been made to Royal Mail, the recipient of the goods can arrange for the goods to be delivered. Royal Mail charges a handling fee of £13.50 for express parcels imported through the EMS networks and also for high value standard parcels (valued at over €1,000). For all other import parcels, an £8 handling fee applies (Parcelforce, 2012).

Similar arrangements operate in the low value cargo environment in those jurisdictions. Canada operates the Courier Low Value Shipment (LVS) Program to streamline processing of low value shipments through customs and provide the courier industry with expedited release. When the goods are of no further border interest to the CBSA, they are released to the courier operator. A customs broker representing the importer estimates the duty and taxes to be paid. The broker remits the amounts owing the CBSA at the end of each month and recovers these costs from the importer.

Similarly, in the United Kingdom, express carriers may pay the duty or other applicable government taxes levied by Her Majesty's Revenue and Customs (HMRC) when a shipment arrives in the country to ensure the goods are able to be delivered promptly. The carrier collects this back from the importer.

The proposal is not, however, without complications.

Having Australia Post, express carriers and other freight forwarders responsible for payment and collection of revenue liabilities may cause additional processing complexity, and cost, when non-payment or a successful challenge by the importer gives rise to an adjustment event. Further, under current GST legislation, input tax credits are only available to the entity that pays the tax. Policy and legislative amendments may be required to ensure importing registered businesses retain their ITC entitlements, and it could cause potential downstream compliance management issues for the ATO.

Further, while express carriers and other freight forwarders may enter commercial arrangements where they will pay (and then recover the amount of) their clients' revenue liability, their inclination to do so will be tempered by the potential adjustment costs and risk of not being reimbursed. Nonetheless, to ensure competitive neutrality between import streams, both Australia Post and those businesses operating in the cargo environment at least need to have the option to choose to clear goods from licensed facilities in the manner outlined.

An alternative to Customs and Border Protection undertaking the calculation is for Australia Post, express carriers or other freight forwarders to undertake the revenue calculation, if there are cost savings to do so. The viability of having Australia Post, express carriers or freight forwarders perform the calculation increases if it is a simple GST calculation on low value goods only, with duty and tax calculation and collection for high value goods remaining with Customs and Border Protection. However, such an approach would require legislative change and may require more intensive compliance activities to be undertaken by Customs and Border Protection. A further difficulty with this approach is that if calculations are not centralised, in some circumstances an importer could receive two invoices for a single shipment containing both low and high value goods.

One further alternative to this reform would be for Customs and Border Protection to calculate the revenue due and retain the responsibility for collecting revenue. Under such an approach, Australia Post, express carriers and other freight forwarders would be required to hold goods at distribution centres until the payment is received by Customs and Border Protection as to do otherwise would likely raise the cost of collection significantly. The difficulty with this alternative is that it would likely impede delivery times significantly while payment is received, reconciled and advice provided to Australia Post, express carriers or freight forwarders to release goods. It would also require an increased level of compliance to ensure that goods are not released to the recipients of the goods before payment of revenue.

Conclusion

This potential solution is considered viable, and should be subject to detailed analysis in conjunction with other changes to border processes.

3.4.15 Reform of border agency fees and charges

Description

In the cargo environment import processing charges apply to goods that require FIDs, but not those which require SACs. In the international mail stream, only goods requiring FIDs incur specific border agency fees and charges. Separately, Australia Post is required to contribute to DAFF Biosecurity costs and, from time to time, pays for overtime costs incurred by Customs and Border Protection.

Under this reform, if duty and/or GST is assessed on a greater proportion of incoming goods as a result of a change to either the duty or GST threshold, the structure and level of fees and charges would be re-assessed with the aim of better allocating costs for the processing of import documentation and collecting duty or GST.

Assessment

Both Customs and Border Protection and DAFF Biosecurity administer or impose a set of fees and charges associated with lodgment of import declarations and inspection and other services that may be required to clear incoming goods.

These fees and charges are determined in accordance with the Australian Government's *Cost Recovery Guidelines 2005*, along with, in the case of DAFF Biosecurity, the *Quarantine Services Fees Determination 2005* and in the case of Customs and Border Protection, the *Import Processing Charges Act 2001* and ancillary regulations.

If efficiencies can be achieved in existing import documentation and revenue collection processes, there would be a case, consistent with the guidelines, for the realignment and possible reduction of these fees and charges. A separate question, however, is whether the charges currently applied are cost reflective, or whether cross-subsidies are occurring.

In both the international mail and cargo environments, Customs and Border Protection's import declaration charges vary depending on whether imported goods require a FID or a SAC and whether the documentation is entered electronically or manually.

FIDs are required when incoming goods are either over the \$1,000 duty threshold or otherwise subject to import permits. Declarations for air and sea consignments are generally lodged electronically, while manual processes are more commonly used in the international mail stream.

In 2010–11, of 17,318 FIDs processed through the postal system, 13,007, or 75 per cent, were manually entered. In contrast, of the 1.752 million FIDs processed through the air cargo system 1,315 or 0.08 per cent were entered manually. For sea cargo, of the 1.561 million FIDs, 1,106, or 0.7 per cent, were entered manually. Electronically entered FIDS incur a Customs and Border Protection processing charge of \$40.20 per FID. For manually entered FIDs the charge is \$48.85, which signals the higher processing costs associated with them.

SACs are currently not required in the postal environment for incoming mail with a value under the \$1,000 threshold and not requiring an input permit. As Australia Post recorded 48.06 million packages (parcels, packets and EMS articles) arriving in 2010–11 and, as only 17,318 were required to submit a FID,¹²⁹ 48.04 million packages came through the mail without requiring a SAC.

Further, Customs and Border Protection have advised that its costs to process a FID in the postal environment is \$76.96 per FID, with a further unit cost of \$13.90 and \$12.18 respectively to notify the importer of their liability and assist their inquiries through Customs and Border Protection Support Centre. Therefore full revenue processing cost recovery is not being achieved.

SACs are required in the cargo environment, however, there is no processing charge applied by Customs and Border Protection. In 2010–11 there were 10,572,671 air cargo SACs, and 57,246 sea cargo SACs submitted.

These figures indicate several areas where cross-subsidisation appears to be taking place as a result of either practice or process.

First, Australia Post does not need to submit a SAC on low value parcels arriving as international mail whereas freight forwarders are required to carry the compliance costs of submitting a SAC for their low value incoming packages. This concession reflects the fact that less data is available in the postal stream, but also means that less data is available to the border security agencies to assess the border security and biosecurity risk.

Second, although freight forwarders do not incur a direct charge for the processing of SACs, there is a cost for Customs and Border Protection in processing them. In effect, other charges such as FID charges cross-subsidise the processing of SACs in the cargo environment.

The freight forwarders have expressed concern that, as their proportion of high to low value packages is over 500 times that of Australia Post, that is, 500 times more likely to be subject to a FID processing charge, the Customs and Border Protection per package processing charge is correspondingly higher than for Australia Post.

Going forward, three changes may occur to the environment. First, the growth of e-commerce will result in a greater number of import document entries (if not a change in the proportion of FID/ SAC entries), implying a greater processing cost loss to Customs and Border Protection if a better cost recovery fee is not set. Second, any change to the duty and/or GST threshold downwards could change the relative proportion of FIDs and SACs, requiring an adjustment of the cargo cross subsidisation arrangements. Finally, the complementary recommended automation and process reforms may reduce the import documentation processing cost, allowing for a review of the processing charge during which the above issues could be addressed.

Changing of the duty or GST threshold will not affect the border and biosecurity objectives of Customs and Border Protection and DAFF Biosecurity. However, to the extent that the proposed reforms to the mail and cargo procedures result in better information being available for risk

¹²⁹ This does not include import declaration submitted for alcohol and tobacco products.

profiling or more efficient intervention processes, Customs and Border Protection and DAFF Biosecurity border and biosecurity processing charges could be reassessed. Depending upon the nature of any such arrangements, this could have implications for the costs currently recovered from Australian Post by DAFF Biosecurity.

Conclusion

This potential reform should be subject to further consideration having regard to other potential solutions being assessed. To the extent relevant, this analysis should also consider costs recovered from Australia Post by DAFF Biosecurity.

4 DETAILED ASSESSMENT OF POTENTIAL REFORMS

4.1 Introduction

Initial assessments of potential solutions to enhance the handling and administration of low value imports into Australia, including options for revenue collection, suggest a sustainable and cost effective pathway of reform may be possible. This pathway would seek to:

- limit the need for labour intensive interventions;
- avoid expensive investment and funding of additional capacity at Australia's international mail gateways; and
- enable goods to pass through border processes as quickly as possible.

Key to this approach are a set of complementary potential solutions that together seek to take advantage of the capture and potential uses of pre-arrival data in the international mail environment over time, harness the innovations that technological advances now make possible, simplify GST assessment arrangements to enable as efficient border processing as possible and create a set of reinforcing incentives to relieve pressure on border agencies, facilities and industry participants.

In developing such an integrated package of reform, this investigation is mindful that Australians have embraced online shopping. People like the choices, prices and convenience that the digital economy makes possible. At the same time, the investigation recognises concerns exist as to the fairness of current revenue arrangements – in particular, that unlike domestic retail sales, imported goods valued at or below \$1,000 are generally not subject to duty or GST.

This chapter examines the potential solutions that may most appropriately be incorporated within an integrated reform package. It details the reforms that this investigation regards as most prospective, and sets out the methods used to assess them.

To the extent feasible, these assessments include an analysis of cost, revenue effects, economic impacts and other qualitative outcomes, as well as outlining key implementation issues, particularly with respect to regulatory changes required, as well as the extent of process, infrastructure and technology modifications. Based upon this analysis, recommendations for change are made.

In every reform process, a balance needs to be struck between enabling debate to move forward as quickly as possible, and the level of information able to be gathered in the timeframe available upon which that debate may be founded. Given the nature and complexity of the task, and the timeframes available for this investigation, the costing of proposed reforms only aims to provide a 'rough order of magnitude' of anticipated benefits and costs across a range of alternative scenarios. While this can guide the direction of policy development, it does not constitute a business case. In making recommendations on reforms that appear most feasible, it is recognised that detailed business cases will need to be prepared before any funding for implementation is allocated.

4.2 Outline of approach

4.2.1 Potential reforms to be assessed

The package of reforms for which detailed assessment is undertaken consists of a number of components. Together, these components incorporate each of the potential solutions identified in the initial assessment as warranting further consideration (see Chapter 3). Due to the integrated nature of some of these potential solutions, some of them need to be assessed jointly. The nature of each reform component, and its relationship to the potential solutions identified in Chapter 3 is outlined below (Table 4.2.1).

Table 4.2.1

Reform components

Description	Chapter 3
A new import process encompassing, <i>inter alia</i> , a simplified GST-only assessment and collection process for goods valued at or below \$1,000 and the utilisation of pre-arrival electronic data in the international mail stream to enhance screening and revenue assessment processes (<i>Reform component 1</i>)	Section 3.4.11 (part) Section 3.4.12 (part) Section 3.4.14 (part)
Pre-registration of payment details (<i>Reform component 2</i>)	Section 3.4.8
Self-assessment and prepayment of liabilities (<i>Reform component 3</i>)	Section 3.4.9
Collection of GST by suppliers (<i>Reform component 4</i>)	Section 3.4.4
Additional reforms to enhance efficiency, including improved processes, work practices and removal of duplication (<i>Reform component 5</i>)	Section 3.4.11 (part)
Simplification of FID collection processes in the international mail environment (<i>Reform component 6</i>)	Section 3.4.13
Reform to border agency fees and charges (<i>Reform component 7</i>)	Section 3.4.15
Increased compliance activities and a review of offence and penalty provisions (<i>Reform component 8</i>)	Section 3.4.12 (part) Section 3.4.13 (part) Section 3.4.14 (part)

The central reform element (*Reform component 1*) encompasses a number of the potential solutions relating to system changes to streamline international mail gateway and/or air and sea cargo operations that incorporate an option for revenue collection. The remaining components are generally either designed to relieve pressure on border processes by shifting activity to suppliers or purchasers, or relate to ancillary measures that form part of an holistic reform package. An additional set of potential reforms dealing with improved statistical reporting (*Reform component 9*) were not dealt with in Chapter 3, but are considered beneficial based on consultation with stakeholders.

Further detail on each of these reforms is set out below and in Appendix D.

4.2.2 Methodology

Assessment of potential reforms is based first on a financial analysis of the key elements, supplemented by quantitative and qualitative analysis, including an illustrative assessment of the economic impact of GST revenue collection.

Generally, the financial analysis focuses on elements that involve revenue collection for goods across all import streams, as well as broader changes to border agency processes in the international mail environment. How this is done, however, varies for different reform components and is structured with regard to:

- the nature and extent of change required to implement reforms, and the granularity of data required to assess likely costs and benefits

For example, the analysis of the international mail environment is more detailed because the extent of change envisaged is greater – involving capturing and using data electronically in both the short and medium term for revenue purposes, and more broadly, potentially reconfiguring border processing over time. In the cargo environment, the risk-based border agency processes for air or sea cargo are not substantially changed;

- the availability and reliability of data concerning particular elements of the process

For example, detailed cost estimates to calculate GST collection costs in the international mail environment are based on information developed during this investigation. In contrast, estimates of benefits and costs using electronic data for border processing purposes are at best only illustrative because:

- the timeframes and quality of the data are inherently uncertain, as is the extent to, and timeframes in which, Australia's border agencies can reconfigure processes based on that data. A high degree of reliability cannot be prescribed to any potential benefits that may arise, even if detailed and reliable data on pathway costs could be extracted;
- the potential benefits of using electronic data in the international mail environment relate both to border agencies and Australia Post. While reforms may make Australia Post's international parcel delivery processes more efficient, the extent of this is beyond the scope of this investigation to assess; and
- the benefits of using electronic pre-arrival data arise because overseas postal operators incur the cost of collecting this data. At the same time, Australia Post will be required to undertake similar processes for outbound international mail. It is beyond the scope of this investigation to assess the costs of this activity on Australia Post and international postal operators, or the extent to which these costs should be attributed between security outcomes – which is a key driver of information gathering – and commercial imperatives.

- the nature of the proposed reforms themselves

For example, reforms to introduce new GST collection processes have clear financial costs and benefits; whereas reforms to improve performance measures or reporting requirements have less clear costs and benefits.

International mail environment

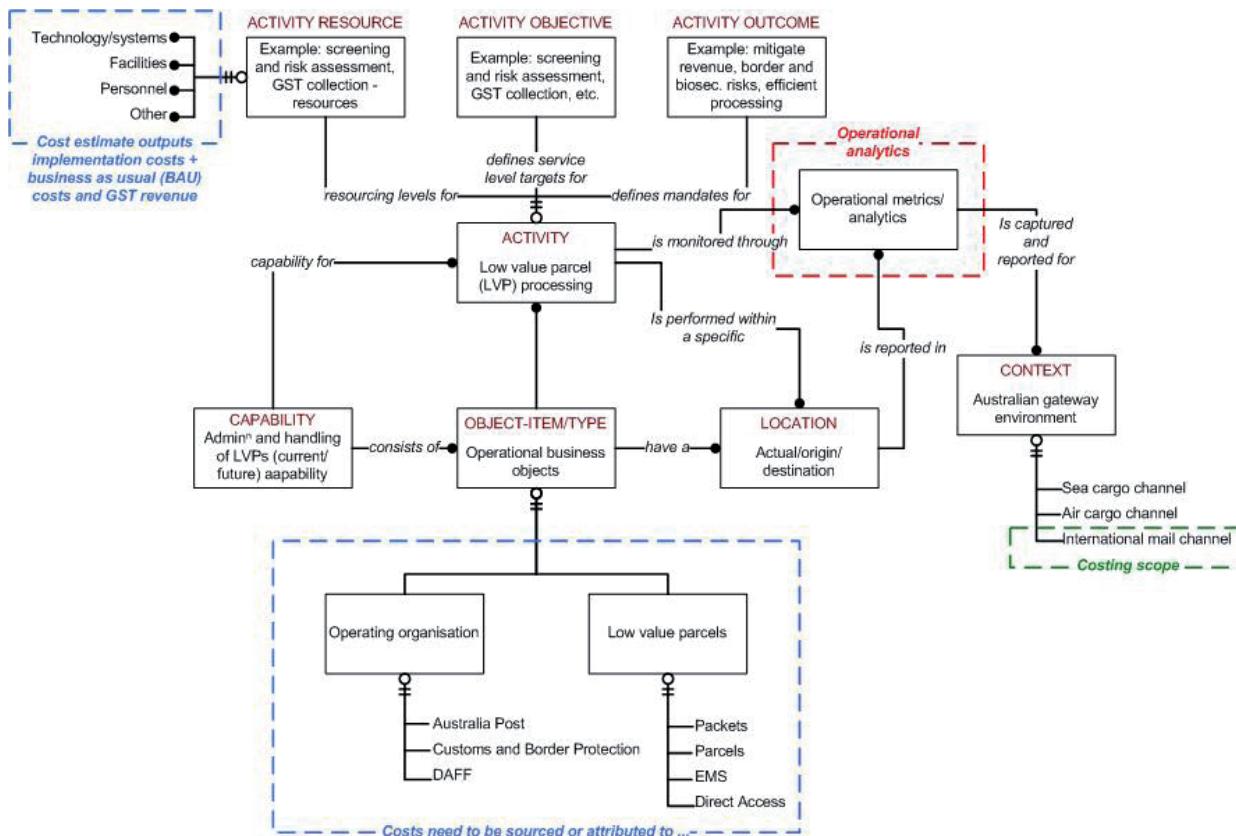
For reforms to the import of low value goods through the international mail stream, detailed financial analysis is based on information from Customs and Border Protection, DAFF Biosecurity and Australia Post.

The financial analysis focuses on the central reform components and those intended to take the burden of border processes by enabling collection of GST by suppliers or simplifying payment processes. It encompasses estimates of both ICT and general gateway costs, including financial benefits and costs of GST collection and border processing.

This assessment used a conceptual data model to define the minimum set of data elements relevant to derive cost estimate outputs, including implementation costs, business as usual (BAU) costs, GST collection costs and potential GST revenue derived (see Figure 4.2.1). This model generalises low value parcel processing arrangements in the international mail environment, incorporating both current and future activities. Various cost modelling techniques are combined and reasonable assumptions enforced to address constraints (see below).

Figure 4.2.1

LVPP Capability – Conceptual Data Model



ICT cost modelling

ICT cost modelling estimates incorporate:

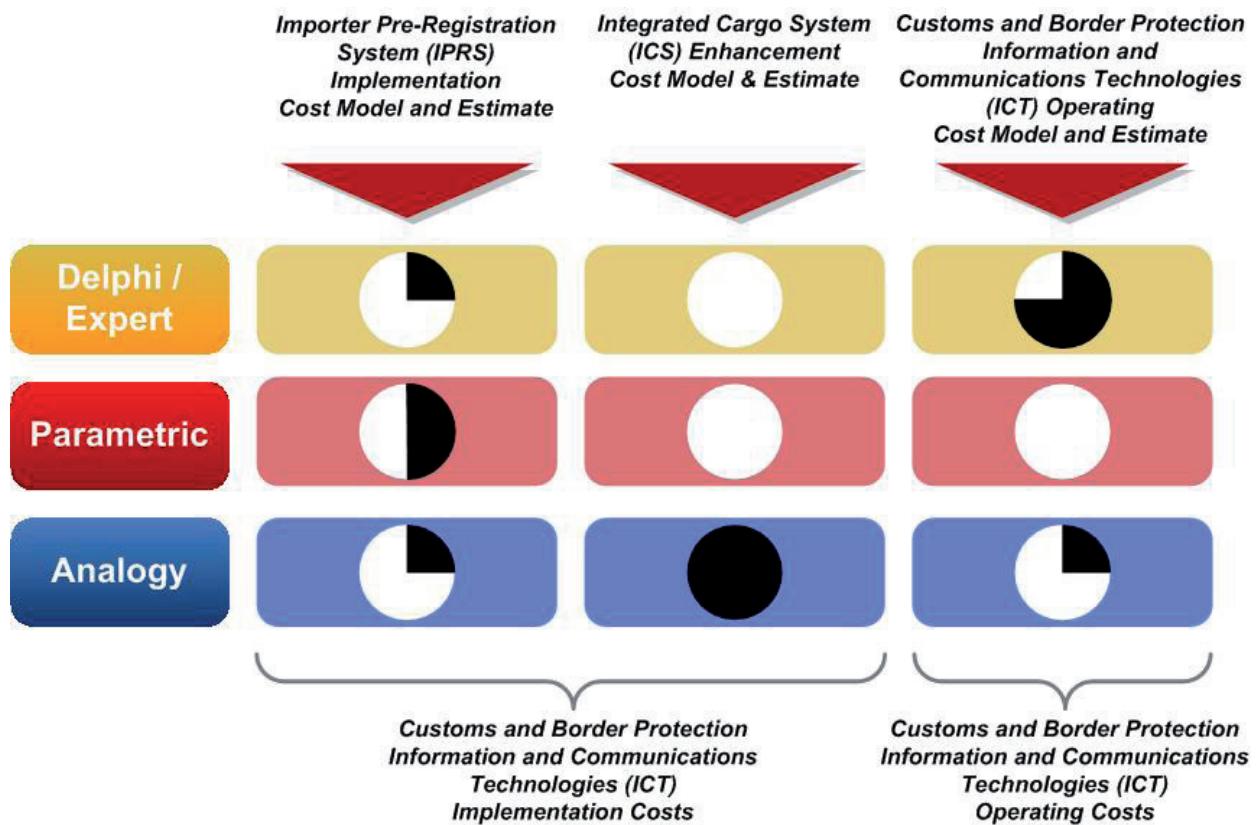
- implementation costs incurred in creating a future benefit to processing low value goods by acquiring an asset or enhancing an existing asset beyond its useful life; and
- BAU costs incurred in the course of low value parcel processing activities. They are variable or fixed, depending on whether they vary with the level of activity.

ICT costing is limited to the derivation of Customs and Border Protection related implementation and BAU costs. ICT costs pertaining to Australia Post in relation to revenue collection are derived and provided by Australia Post and are incorporated as line items within the broader cost model. DAFF Biosecurity ICT costs are not included as no systems changes were identified.

Each ICT cost element uses a range of estimation techniques, including delphi/expert,¹³⁰ parametric¹³¹ and analogy¹³² approaches (see Figure 4.2.2).

Figure 4.2.2

Cost estimation technique applied by ICT reform element



Note: The extent of shading of each circle denotes the proportional reliance on each costing methodology.

Due to data constraints, ICS enhancement cost estimates use an analogous Customs and Border Protection cost estimate.¹³³ As this provides only a partial estimate of anticipated costs for ICS and related systems changes to implement the proposed model, additional cost estimates by Customs and Border Protection supplement this analysis (see further below). While some elements of the costs associated with ICT enhancement do not depend on the different volumes associated with alternative threshold levels, estimates are subject to some uncertainty due to factors such as the number of messages ICT systems would be required to handle.

130 The Delphi and Experienced Judgement methods are techniques similar to engineering build-up, but with less detail. The primary data come from engineers' and system technical experts' professional judgment or expert opinion on systems and requirements, generally through extensive interviews, workshops, or questionnaires. The method depends greatly on experts' technical knowledge, the cost estimator's interviewing skills, and the capturing and documenting data provided. This can be very subjective and are best used only in the absence of empirical data. However, an experienced estimator working with an experienced technical team can produce good quality, early phase, high-level estimates.

131 The Parametric estimating technique uses generalised relationships between system characteristics and historical cost data. Parametric estimates are based on historical data and mathematical expressions relating cost as the dependent variable to selected, independent, cost-driving variables through regression analysis. Parametric estimates are used when a good deal of technical information is available and the unknowns are few.

132 Analogous estimates involve the comparison and extrapolation of data from like technical systems or capabilities. The cost data that supports an analogous estimate may be inflated or discounted depending on the differences in the system and adjustments for complexity of a system, salary and wages, materials, overheads, or economic factors (for example inflation).

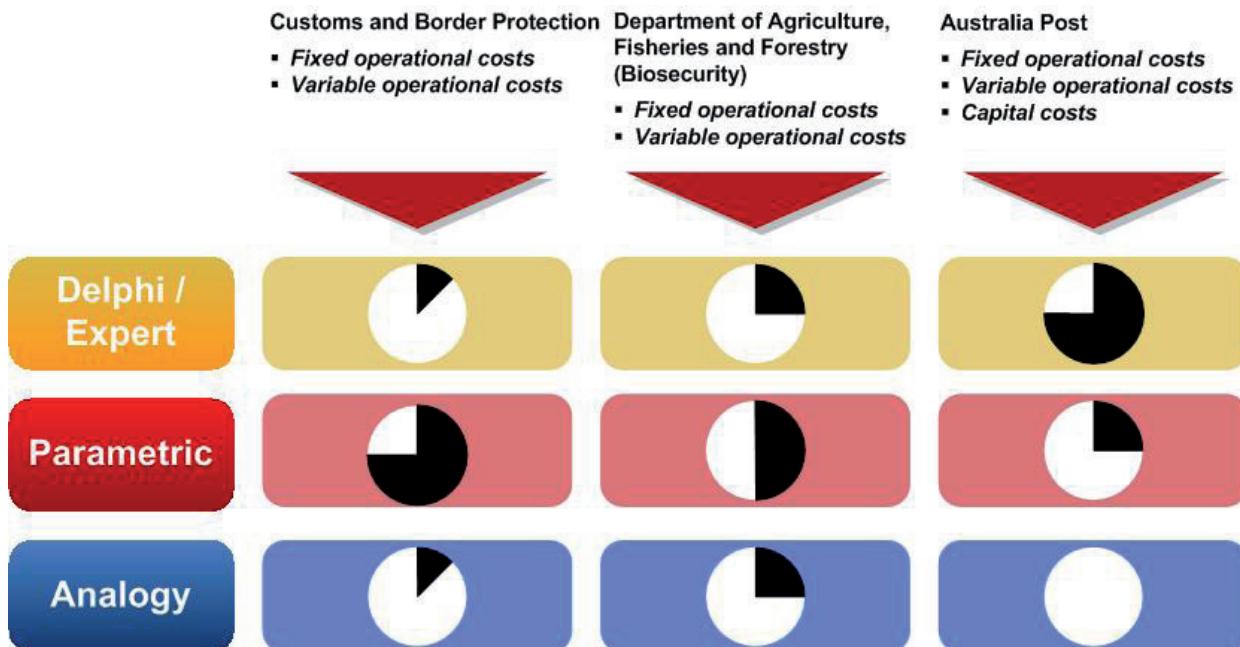
133 That is, they are not directly based on detailed system design, build, test and integration elements, and associated implementation costs.

Revenue collection and border process modelling

Most cost estimates for revenue collection and border process modelling use volumetric (parametric) techniques, based on calculating unit costs then multiplying by volumes for the attribution of total variable costs (see Figure 4.2.3). Costs and benefits are separated insofar as they relate to GST collection costs and other risk based border processes.

Figure 4.2.3

Cost estimation technique applied by agency



Note: The extent of shading of each circle denotes the proportional reliance on each costing methodology.

The financial analysis of GST collection relies primarily on information provided by Australia Post in relation to GST collection costs, with additional Customs and Border Protection ICT and ancillary costs considered. Australia Post's costs encompass three potential approaches to GST collection, which vary in application depending on how many parcels are required to be assessed for revenue. The differences in approach relate primarily to storage. Generally higher volumes mean higher implementation costs. The upfront implementation costs are significantly higher when volumes to be assessed become so large that automated storage processes are required, although automation also means that operating costs can be reduced. An activity-based cost model is used to assess costs for volumes of goods at different threshold levels. These costs are unitised and extrapolated over time, based on forecast growth by product type.¹³⁴ A level of parametric costing is required to extract totals from unit costs, and to deconstruct complex activity-based unit cost calculations. While reliance is placed on Australia Post's cost estimates, the following caveats should be noted:

- Australia Post activity-based cost estimates are determined for a simplified GST assessment approach which does not capture freight and insurance data. Advice as to the manner in which data is proposed to be captured indicates additional information on freight and insurance costs could be captured at minimal additional cost for higher value or larger items with a CN23

¹³⁴ Later modelling by Australia Post incorporated scenario analysis in which growth rates were variable, affecting both capex and opex estimates. This refinement has not been incorporated into this analysis.

declaration attached (although this will not always be the case).¹³⁵ For lower value items, costs will not be minimal for a variety of reasons including the way data is intended to be captured; the CN22 declaration does not include the postage paid; and postage is not always clearly marked on packets – for example, it may be stamped ‘postage paid’. No additional cost estimates are done due to time constraints and because assessment of the simplified GST assessment approach below indicates revenue assessment processes are already less cost effective at lower thresholds based on revenue as a proportion of cost, even with economies of scale from higher volumes (see further below);

- Australia Post’s activity-based cost estimates have evolved over the timeframe of this investigation as it sought to capture best available knowledge of alternative approaches to deal with volumes that may apply under different threshold levels and growth scenarios. While this refinement of cost estimates is beneficial, the point at which different approaches are most favourable is difficult to determine given uncertainties associated with parcel growth forecasts.¹³⁶

Customs and Border Protection and DAFF Biosecurity border processing costs were derived mainly through parametric means, with unit costs for intervention activities derived through delphi cost estimates. Analogous techniques are used to weight unit costs by article class, initially assuming that variations in effort would mirror those of Australia Post. The DAFF Biosecurity techniques vary in their distribution from those of Customs and Border Protection due to personnel cost derivation, the execution of which was underpinned by the best available information and analogy. However, limitations in deriving unit costs for border agencies to process articles with electronic data (EMS and parcels) preclude the definite confirmation of this unit cost difference, and therefore the magnitude of any net benefit.

Consequently, results are, at best, illustrative of the potential benefits from reconfiguring risk-based border processes in the international mail environment. Over time these estimates should be refined as further information becomes available – for example, through the proposed cost recovery impact statements (see below).¹³⁷ If unit costs for each border agency to process pre-arrival electronic data on articles are lower than the unit costs for each border agency to inspect articles currently with no electronic data (EMS and parcels), the uptake of pre-arrival electronic data would result in net cost benefits stemming from operational efficiencies (see below). In addition, adopting risk-based border processes using pre-arrival information enables border processes for both the cargo and mail environments to be better aligned, providing a more competitively neutral operating environment for all industry participants.

Cargo environment

Financial analysis of reforms to the import of goods in the cargo environment relies primarily on information sourced from international express carriers through CAPEC, either directly through consultation or in publicly available materials, together with information from Customs and Border Protection and DAFF Biosecurity.

The lack of granular data available for particular reform elements in the cargo environment means financial analysis of the information is based on scenarios to provide ranges of likely costs and benefits attributable to changed processes.

¹³⁵ Equivalent data is captured on a CP72 form, which is also used for low value parcels.

¹³⁶ As the costs of alternative approaches have evolved over time, the timeframes of this investigation also imposed constraints on the assessment of these alternative approaches – particularly with respect to higher volumes.

¹³⁷ Beyond the timeframe of the financial analysis undertaken for this investigation, more refined data for DAFF Biosecurity costs by activity was obtained which differed from estimated values.

To supplement this analysis, qualitative assessments are made based on information from industry participants in the cargo environment, particularly CAPEC representatives, on the scope of activity required for cargo reporting, declaration and clearances.

To further validate this analysis, cargo environment costs have been compared to the more detailed international mail environment costs to consider which costs, if any, are likely to differ from one import stream to another – and if so, the materiality of that difference.

Economic impacts

The broader economic impacts of potential reform to GST collection in both the international mail and cargo environments are assessed against the illustrative modelling undertaken by the Productivity Commission (see Productivity Commission, 2011: Appendix H).¹³⁸ Additional modelling has also been undertaken to verify these illustrative outcomes, incorporating more detailed estimates of anticipated retail online activity, collection costs that vary by threshold, the proportion of costs borne by government and consumers, and fixed costs associated with the implementation of reform.¹³⁹

4.2.3 Assumptions

This assessment process makes a number of assumptions for the costing process and to model revenue impacts. Key assumptions and, where relevant, factors affecting their reliability are outlined below. If an assumption relates only to the cargo or the international mail environment, this is specified. Where feasible, assessment incorporates sensitivity analysis having regard to the reliability of the assumptions. Where appropriate this report highlights how to improve the reliability of assumptions but doing so is beyond the timeframe of this investigation.

- Base case parcel growth forecasts

Base case forecasts for parcel growth in both cargo and international mail environments draw on publicly available forecasts of online activity (see section 2.2.4), industry-provided information and analysis of the historical growth of parcel volumes.

The initial years assume strong growth in online activity continues. However, as the marketplace matures and domestic online offerings develop, it is anticipated this growth gradually tapers down to long term growth rates for non-food related products by the end of the forecast period (15 years). This assessment recognises that as volumes of imported low value goods increase, this could lead to changes in supply chain arrangements whereby overseas retailers establish domestic distribution points due to transport efficiencies. Forecasts are not specified as they rely on commercial-in-confidence information.

- Future case parcel growth forecasts

To develop future case growth forecasts and enable modelling to occur across a wide range of volumes, an estimate of elasticity is applied to forecast how price increases due to the imposition of GST (together with any border agency fees and collection costs that may be applied) would transfer demand from overseas to domestic retailers (on a scenario basis). An initial elasticity estimate of -1 is adopted, with scenario analysis undertaken at alternative elasticities incrementally below and above this level. The estimates used have regard to analysis by the Productivity Commission (2011), CAPEC (2011) and the NRA (2012), as well as US research on the impact of sales tax on internet transactions (see Einav et al, 2012).

¹³⁸ This methodology undertakes welfare calculations based on consumer demand utilising a Constant Elasticity of Substitution.

¹³⁹ Given the range of potential outcomes, only a selection of scenarios are modelled.

Numerous factors affect the reliability of estimates of future case parcel growth rates.

First, the effect of imposing a GST depends on domestic and overseas responses – for example, whether it leads to changes in margins for either overseas or domestic sellers is inherently uncertain.

As the online purchasing environment is still growing and maturing, considerable uncertainty is also associated with any estimate of elasticity. A range of factors affect such measures, including the nature of the good, availability of substitutes, variety of uses of the commodity, buyer capacity, buyers' ability to postpone purchases, influence of habits and proportion of income spent on that good.

The shift between overseas online and domestic purchases also depends on the level of brand awareness of the good and the seller – for both, the better known, the greater the elasticity. Measures of elasticity also vary by the value of goods – particularly where the proportional differences in prices vary from the underlying value. For example, the measure of elasticity likely differs depending on value if goods purchased online from overseas for \$80 can be purchased for around \$100 in Australia compared to a good purchased overseas for \$800 that can only be bought in Australia for \$1,500.

Additional factors relevant to elasticity estimates include:

- the manner in which goods are categorised – a broad classification such as clothing would be associated with a lower elasticity as it compares the substitutability of, jeans with jackets; as compared to a narrower classification such as trousers. Even a narrower categorisation has variation – for example, brands of jeans – some of which may not be able to be purchased in Australia; and
- the nature of terms and conditions associated with otherwise like products – for example, a physically identical product – like a camera – may be purchased in Australia or online from overseas, but the nature of warranty conditions may vary depending on the location of purchase.

- Screening rates

In modelling both base and future cases, initial screening rates applicable in the current financial year for both Customs and Border Protection and DAFF Biosecurity are assumed to continue going forward for both cargo and international mail environments. This is because the Terms of Reference require any new approach to the handling and administration of low value imports not compromise border security.

One consequence is that in the base case, the number of parcels required to be screened increases over time as the volume of low value imports grows. Both Customs and Border Protection and DAFF Biosecurity are constantly improving how they undertake risk management, and this may provide opportunities for efficiency improvements and enhanced risk-based screening. This investigation recognises these initiatives, and seeks to build upon them (see below). However, a constant screening rate is assumed, rather than another approach such as a constant volume for two key reasons. First, it is not possible to determine how risk assessment processes may improve over coming years. Second, to the extent targeting improves, this is likely to benefit border processes in both base and future cases (albeit potentially to different degrees).

In the future case, screening and inspection rates in the international mail environment for goods with pre-arrival electronic data mirror those in the cargo environment. The timeframes to achieve these screening rates are based on an assessment of timeframes for changes in screening and inspection rates following the introduction of the Cargo Intervention Strategy.

The Taskforce is making these assumptions, purely for modelling purposes. Currently, neither Customs and Border Protection nor DAFF Biosecurity has reviewed actual information that will be made available through the international mail stream – and cannot commit to specific levels of reform in screening levels in set timeframes.

The Taskforce regards the assumptions as appropriate having regard to the following factors:

- the information being mandated both for security purposes and commercial imperatives;
- the messaging standards applying being determined through WCO and UPU processes;
- their implementation being overseen by national postal and customs authorities; and
- the information being used in accordance with a process already being applied in the cargo environment in Australia.

A complication is that goods arriving through the international mail stream may not lend themselves to the same level of screening and inspection rates as in the cargo environment. As information on the nature of goods in the international mail environment is poor, higher screening and inspection rates may be required. For the forecast period, only parcels and EMS will be covered by electronic data.

Given these uncertainties, this investigation treats the outputs based on this assumption as illustrative and contributive rather than determinative for its considerations.

- Electronic data availability

For goods which arrive in Australia, electronic data is already available and provided by express carriers, freight forwarders and other industry participants, and processed through the ICS. This data is used for risk assessment processes, and for the purposes of modelling it is assumed this continues.

For goods arriving in the international mail environment, the equivalent data is not currently available. Considerable work is being undertaken globally to enable this information to be compiled, delivered and used by mail operators and border agencies around the world in a standardised form (see section 2.5.1). However, when this data will become available for use in Australia is uncertain.

Factors relevant to these timeframes include:

- the current state of development of agreed standards and specifications for the transfer of information between international postal operators, and between customs agencies and postal operators;
- legislative requirements around the world that may require use of electronic data for security purposes in international trade;
- the commercial imperatives that encourage postal operators to develop and use electronic data to improve internal efficiencies (see USPS, 2010) and enhance the quality of service provision, for example, by enabling product tracking;
- the inherent complexities of progressing reform through multilateral organisations such as the WCO, UPU and EU; and
- the varying speeds of related reforms – for example, 2012 has seen the mutual recognition of air cargo security arrangements between the US, the EU and Switzerland through the US National Cargo Security Program recognition process and the rescheduling of the US Air Cargo Advanced Screening initiative requiring 100 per cent physical screening to

December 2012 (US Dept of Homeland Security, 2012; TSA 2012); while introduction of the EU's Uniform Customs Code, originally scheduled to be implemented in 2013, is now proposed to be implemented in a staged fashion by no later than 2020 (EC, 2012).

In this context, the modelling assumes that electronic data will become available in the international mail stream throughout the world (specifically US and EU) from 1 July 2014¹⁴⁰ in a staged manner over a four year period, with a lagged starting date for parcels over 2kg. It assumes no electronic data will be available for packets during the forecast period. Further, it assumes border agencies require two years from the initial data being provided to be able to assess its quality for risk management processes, and adjust border processes in a staged manner accordingly.

Given these uncertainties, issues relating to the availability of electronic data in the international mail stream are also considered in the context of developing a reform pathway (see Chapter 5).

- Basis for assessing GST

To reduce potential collection costs at the border, modelling assumes that a streamlined GST is assessed solely on the value of the goods, which in both the international mail and cargo environments is determined first on the declared value, subject to any adjustment by importers or their agents and any compliance measures (see further below). This differs from current arrangements in that it does not include an assessment based on a value including either transport or insurance costs. Given that many goods are offered online with free shipping, and thus include transport and insurance, there may be an issue with this treatment; for example, where postage is a non-negligible amount there may be an argument to include it as part of the value on equity grounds (see section 3.4.12).

It is possible, contrary to this assumption, GST on low value imported goods could be based on a value incorporating transport and insurance costs. For goods at the higher end of the value distribution, it is likely this could be done at relatively minimal additional cost according to how data is to be captured and what information is available on these items – now and in the future.

An alternative, to simplify processing for low value goods, may be to establish a default arrangement where a deemed amount for these items is added to the declared value, with a capacity for importers, or their agents, to substitute actual costs if they choose to do so.

A process to deem transport and insurance costs in this way could have additional costs to the one modelled, particularly for lower value goods in the international mail environment – both in terms of system design and ongoing operations. Based on initial discussions, ongoing operational costs would most likely be less in the cargo than the international mail environment. However, further consultation would be required if such an approach was considered desirable.

- Other assumptions

Other key assumptions include:

- basis for assessing duty;

Modelling assumes that there is no change to the basis or level upon which duty is assessed.

- proportion of goods purchased for business compared with personal use;

¹⁴⁰ There will be pilot testing with EMS and parcels for outbound mail to the EU only through to the end of 2013 with an evaluation of the pilot early in 2014. This will be followed by a final agreement on the timetable for progressive implementation (but this will focus on EMS and parcels).

In the international mail environment, 10 per cent of goods arriving into Australia are assumed to be for business purposes (being the percentage used by the Productivity Commission (2011, p. 181) in its estimates). Guidance is also taken from the proportion of FIDs deferred in the international mail environment, which is around seven per cent of value. Scenario analysis was undertaken for proportions at 5, 15 and 20 per cent. In the cargo stream, estimates are based on the information set out in Table 2.2.4.

- purchases of GST assessable goods in the domestic economy;

To simplify estimates of future revenue, the total household expenditure on goods and services is assumed to be constant for both the base and future cases – with future case expenditure covering any border agency fees, collection costs and GST payable on overseas purchases. As a result, the total value of goods (exclusive of GST) purchased from both domestic and overseas suppliers is less in the future case than the base case.

4.3 Analysis and recommendations

4.3.1 Enhanced processes for handling and administering low value goods, including an option for revenue collection (Reform component 1)

Description

Enhanced processes for handling and administering low value goods, including an option for revenue collection, encompass the following core elements:

- using pre-arrival electronic data to enable pre-arrival risk assessment in the international mail environment. This would improve alignment between border processing across import streams over time;
- establishing separate low value thresholds for GST and duty, applying consistently across import streams;
- introducing a simplified basis to assess GST at the border to enable streamlined automated assessments, applying consistently across import streams. GST on low value imports would not include transport and insurance costs, or alternatively would allow this amount to be deemed (subject to adjustment if required);
- using pre-arrival data wherever possible to facilitate assessment of GST liability;
- establishing manual processes in the international mail environment to identify goods and capture data for assessing revenue where electronic pre-arrival data is not available;
- permitting Australia Post, express carriers and freight forwarders to remove the goods from licensed depots and international mail gateways and manage the further delivery of the goods once cleared by Customs and Border Protection and DAFF Biosecurity for community protection and biosecurity risk. Customs and Border Protection would not require GST revenue to be paid prior to this clearance as freight forwarders, express carriers and Australia Post would be responsible for collecting and remitting the revenue liability; and

- permitting Australia Post, express carriers and other freight forwarders to charge a handling fee to recover the costs of collecting any GST revenue.

Some elements of the enhanced process only apply to the international mail environment where, due to the lack of pre-arrival data, visual inspections and manual data entry are necessary.

Over time, these could be integrated with complementary changes to reduce the burden of collecting revenue at the border – either by enabling suppliers to collect GST before the goods arrive in the country, or by simplifying how individual importers pay the GST on imported goods (see below). Handling fees, as well as other charges, could be structured to encourage take up of these options.

This reform seeks to better align border processes and reporting obligations across the cargo and international mail environments over time. This is shown in the stylised illustration of these processes for both the international mail and cargo environments, which are set out below (see Figure 4.3.1 and 4.3.2).

Figure 4.3.1

Overview process map – mail environment

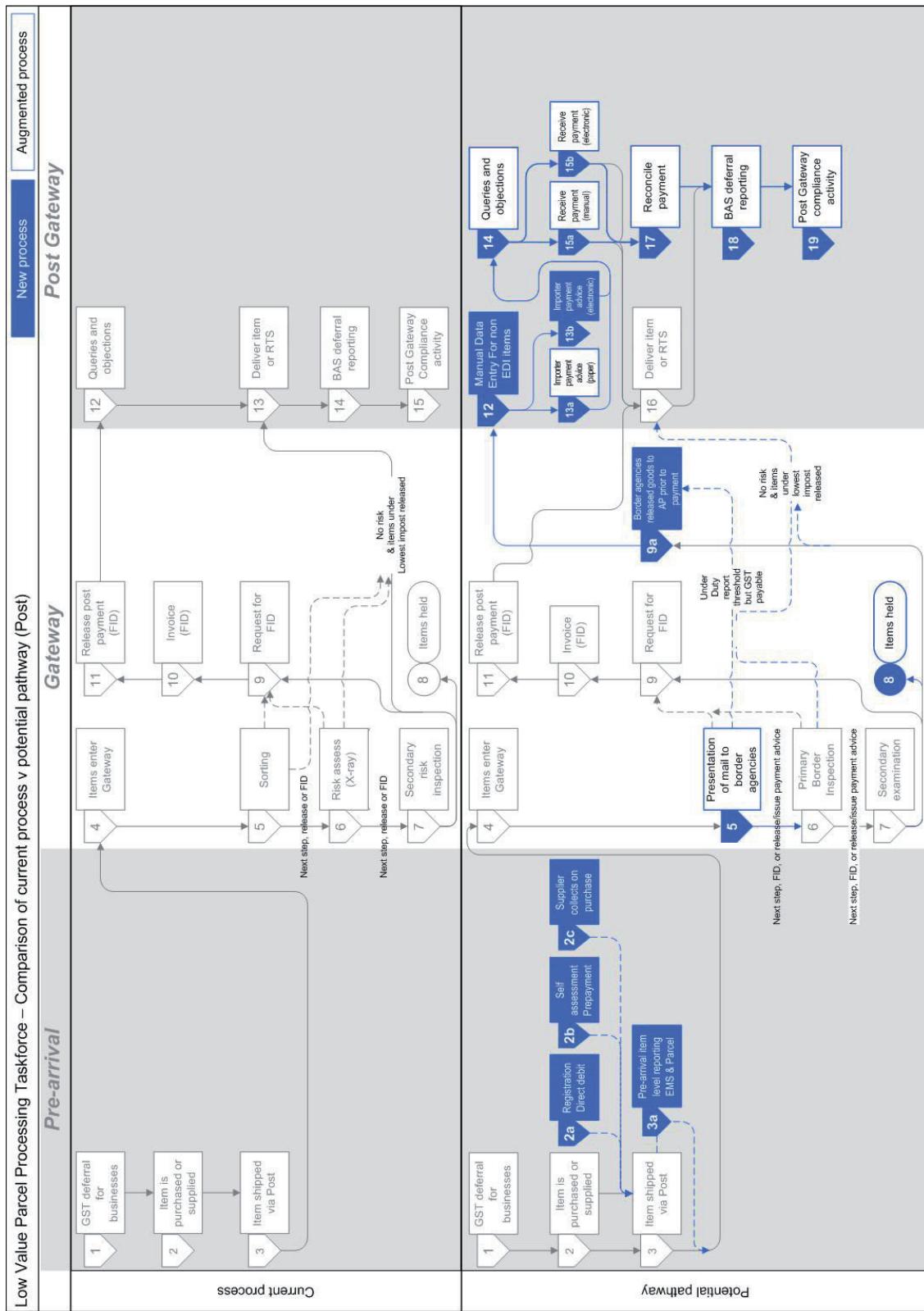
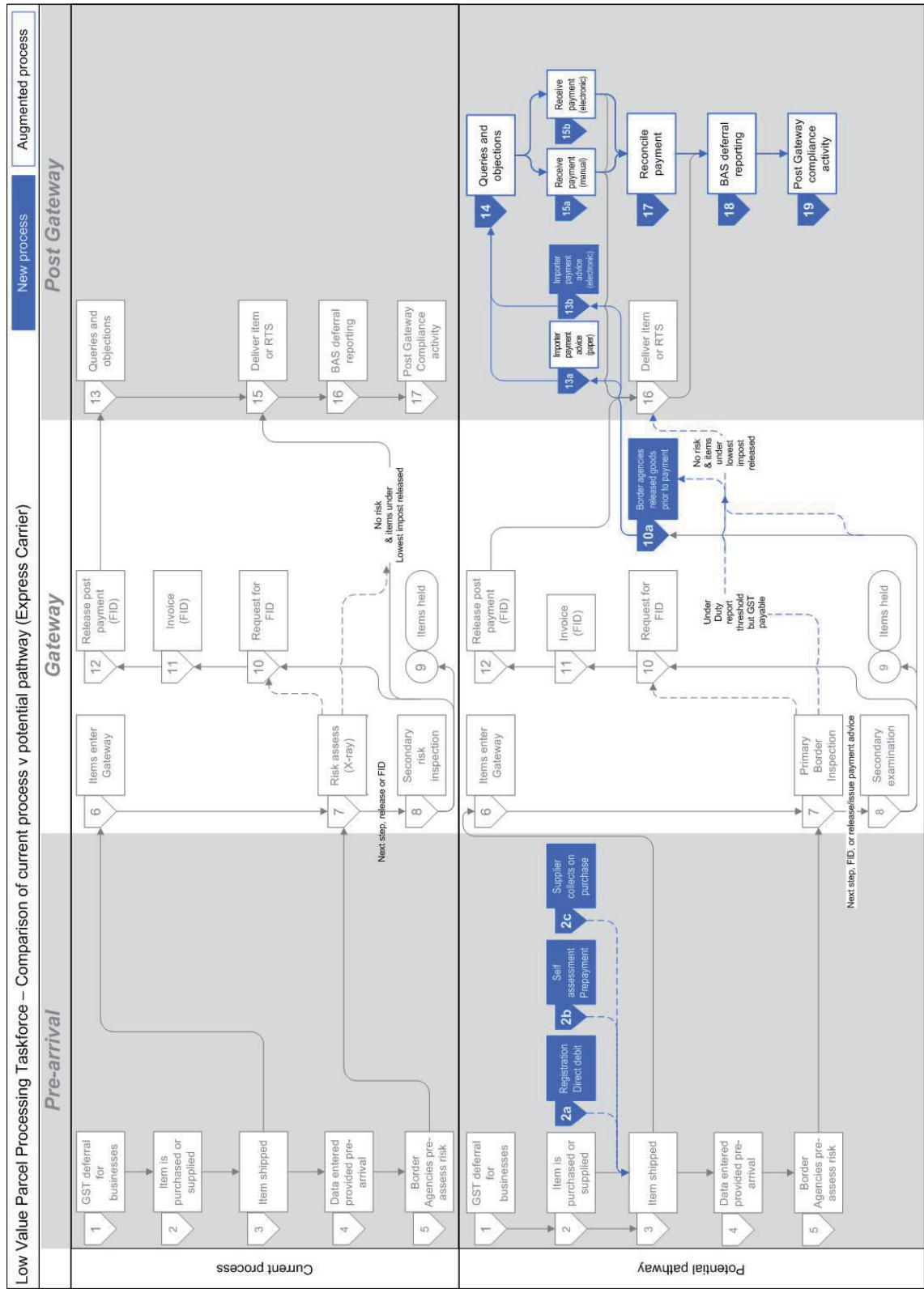


Figure 4.3.2

Overview process map – cargo environment



The elements of this reform, together with complementary reforms (see sections 4.3.2 and 4.3.3) are set out in further detail below.

Pre-arrival processes

Of the following changes represented, changes 2a, 2b and 2c relate both to the mail and cargo environments. Process 1 and 3 are shared but 3a relates only to the mail environment. For more information on where each of the process elements are intended to operate, see Figures 4.3.1 and 4.3.2.

1	GST deferral for business – no change proposed.
2a	Pre-registration for direct debit – Regular importers to be able to register ‘tombstone data’ ¹⁴¹ at an online government site, including authority for direct debit of taxes payable on low value imports. Importers to be issued with a unique ID which may be recognised on scan at gateway. Notification to importer by SMS to approve direct debit to prevent fraud (see further below).
2b	Self-assessment prepayment – Regular importers to be able to register ‘tombstone data’ at an online government site and provide details of imported goods – description, value, weight (if known), supplier and addressee – to obtain a valuation of GST payable. Importers can opt to pay tax at time of purchase. Importers to be issued with a unique ID which may be recognised on scan at gateway (see further below).
2c	Supplier collects tax payable at point of purchase. Regular suppliers to identify tax payable at point of purchase and collect from purchasers. Suppliers that are trusted would be registered through an online system - that is not a GST registration process - through which they would provide key information, including description of goods and taxes collected from purchasers including an option for grouped entry. These types of arrangement would be administered under the taxable importation rules, ¹⁴² and would not allow for ITC to be claimed by the supplier. On entry, goods would then be scanned and identified as pre-paid by the purchaser (via the supplier). Data provided by supplier pre-arrival can be utilised for risk assessment and potential clearance (see further below).
3	Item shipped – no change proposed.
3a	Pre-arrival item level reporting for EMS and parcels (international mail only) - This is effectively the initiative currently being developed with the Kahala Posts Group and the WCO/UPU Working Group to provide pre-arrival data to customs organisations to enhance risk assessment. Integrity and quality of data is yet to be tested for this purpose.

¹⁴¹ Tombstone data includes name and address.

¹⁴² Consequential amendments to the taxable supply rules and creditable importation rules under the GST Act would need to be addressed.

Border processes

The following represent changes in the mail environment as cargo border processes are unchanged except at 10a, where the same process change applies to all import streams.

4	Items enter gateway – no change proposed.
5	Presentation of goods – already operating in cargo environment. Allows for automated sorting process using e-data items identified as no risk, no GST (relative to the threshold requirements) to proceed directly out of border facilities. Items with no risk, but GST payable proceed to invoice point, invoice attached, payment advice generated and leave border facility. Other items proceed through border process.
6	Primary border inspection – no change proposed.
7	Secondary examination – no change proposed.
8	Items held – augmented process for electronic notification and reconciliation with Australia Post in international mail gateway of items and volumes held.
9	Request for FID – see reform component 6.
10	Invoice for FID - see reform component 6.
10a	Clearance – new process whereby low value goods released by the border agencies to express carriers/ Australia Post before revenue is collected. Express carriers/Australia Post will collect revenue and remit the GST to Customs and Border Protection at agreed payment intervals.
11	Release post payment (FID) – no change proposed.

Post border processes

12	Capture/reconcile data (international mail only) – items with e-data are scanned by Australia Post and reconciled with other pre-entry data sets, for example Kahala, pre-registration or self-assessment. Items with no e-data but over the threshold will have to key data manually to then be transmitted into the Customs and Border Protection system for auto tax calculation. Australia Post would generate a barcode based on this calculation and attached to the parcel – these items will then proceed to the border screening process. Automatic tax calculation occurs once items are transmitted into ICS or a related system, either through providing electronic data to express carriers/Australia Post, or by manual entry. At this stage, an invoice may be applied to indicate tax payable and/or payment advice generated.
13a	Payment advice – new process which produces a payment advice to the importer on taxes and other charges payable when item released by the border agencies. The advice is linked to the auto tax calculation data. Payment advices may be manual or electronic notifications.
13b	
14	Queries and objections – Augmented process to deal with queries and objections raised by importers in regard to tax calculation on payment advices. Proposed that express carriers/Australia Post administer this process and refer to Customs and Border Protection as appropriate.
15a	Receive payment - Express carriers/freight forwarders/Australia Post are responsible for collecting revenue and how they implement this process is their business decision.
15b	
16	Deliver item or return to sender (RTS) – no change proposed.
17	Reconcile payment – Payment advices may include other border processing charges. A reconciliation process needs to be undertaken by express carriers/Australia Post once payment is received from the importer.
18	BAS deferral reporting – no major changes proposed for this process but there may be downstream impacts if an expanded scheme saw increased volumes of registrants and consequent administrative requirements.
19	Post border compliance – A lowering of the threshold for GST liability potentially leads to increased compliance activity in relation to collection of taxes and integrity of data on mail items.

While reform aims to establish an environment that subjects all goods arriving in any import stream to the same reporting and border processes, this is not possible because low value goods arriving as packets under 2kg as international mail are not anticipated to have pre-arrival data at any point during the forecast period. As such, operations in the international mail gateways need to be structured to account for products both with and without pre-arrival data. Based on a review of existing processes (Figure 4.3.3), potential future processes are derived based on the reform model, which provides the basis for costing (Figure 4.3.4).

Figure 4.3.3

Process map – current mail gateway environment

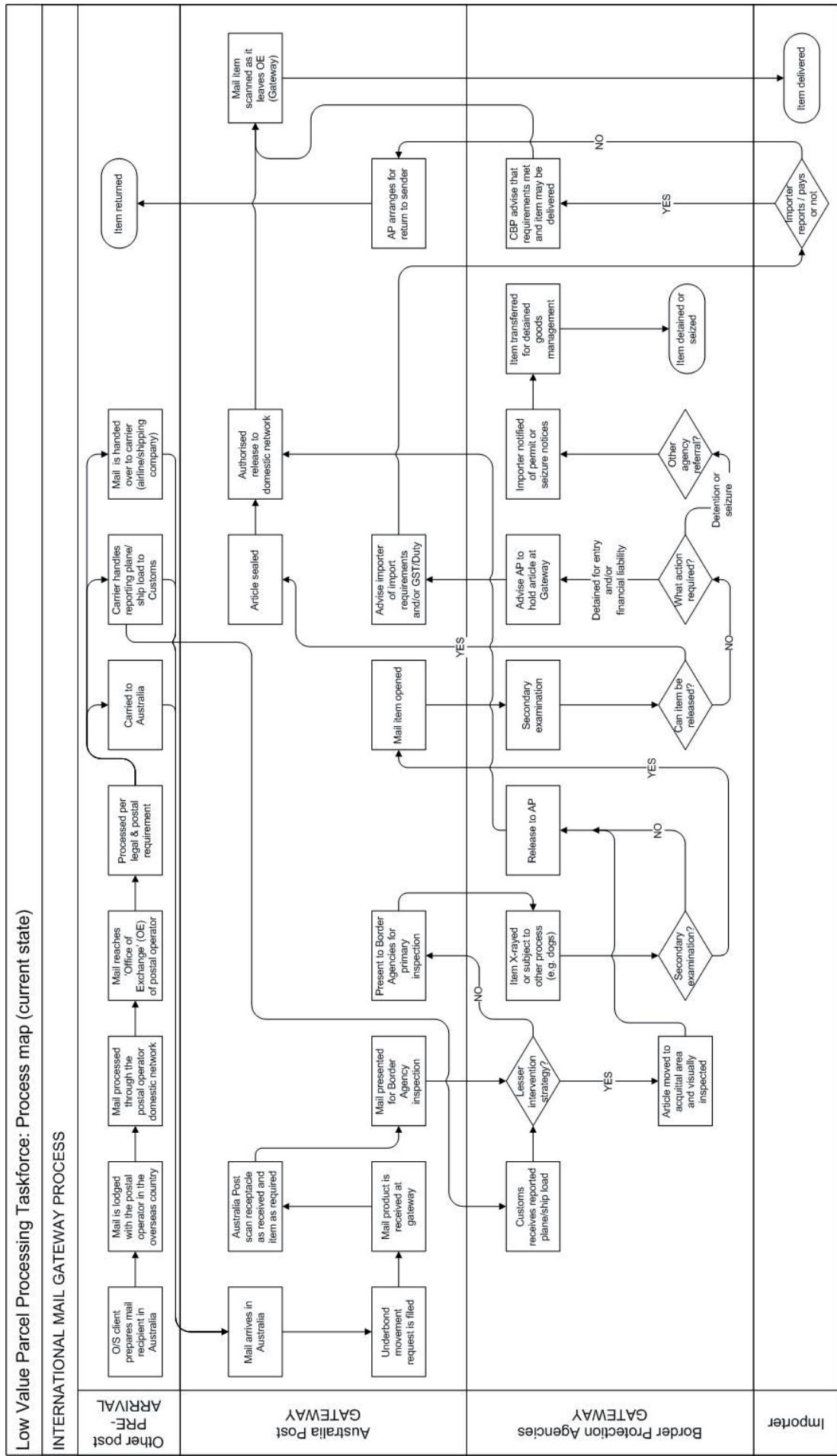
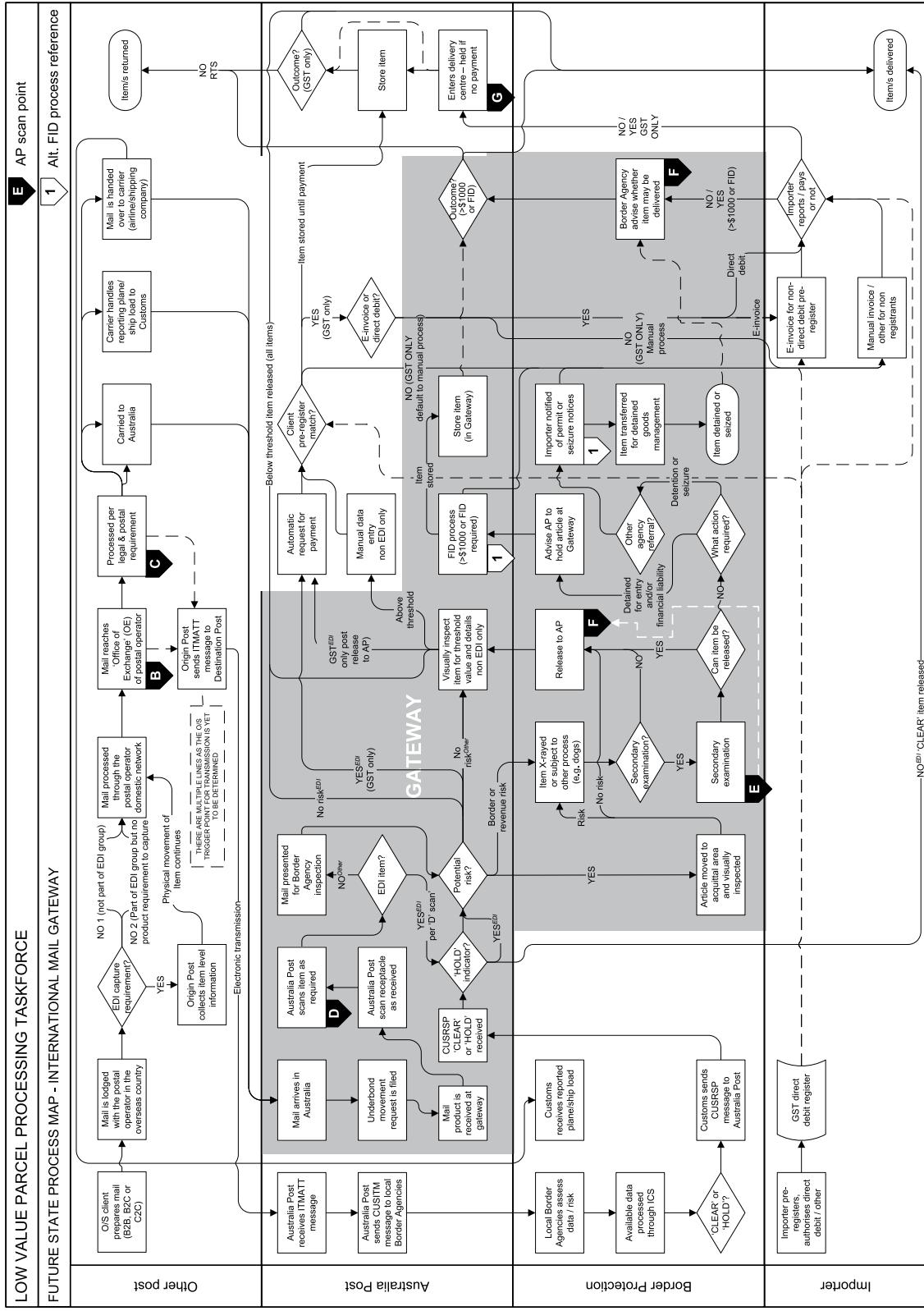


Figure 4.3.4

Process map – future mail gateway environment



Costs

International mail environment

The costs and benefits in the international mail environment are disaggregated to assess both GST collection activity and broader risk-based border processes. Estimates of GST collection costs are derived from activity based estimates provided by Australia Post together with relevant border agency costs (for example, ICT systems, compliance costs, etc). GST collection costs encompass capital costs associated with implementation and ongoing collection costs, estimated on a per item basis.

Costing broader risk-based border processes is derived from existing border agency cost structures. Due to the number and extent of the limitations, the analysis of risk-based border processes at this stage is illustrative only.

All results in relation to GST collection costs are for 2014 unless otherwise specified, as all elements of the proposed reform model could conceptually be implemented by then. Earlier introduction of the reforms was assessed, though timing of certain elements is not easily estimated. Due to the broad range of scenarios covered and the short time available, the costs provided by Australia Post in the model are at the very best in the +/- 50 per cent range. Confidence levels for other cost elements should at best be regarded similarly.

GST collection costs

Capital requirements

Capital requirements to implement reform in the international mail environment primarily relate to physical infrastructure and ICT changes, together with ancillary work such as legislation, business process changes, community education and communication, and stakeholder engagement.

A major potential component of these implementation costs is Australia Post's capital costs which includes items such as video scanning equipment and mail sorting machines. Estimates of the capital costs required to enable simplified GST assessment in the international mail environment vary substantially, depending upon the volumes of goods requiring revenue assessment. Storage facilities are potentially significant. Three different approaches have been assessed – one using the existing delivery network for storage (which could be used for volumes associated with GST thresholds of \$500 or above); the second using separate warehousing and manual handling of goods (to be potentially used for volumes associated with thresholds between \$100 and \$300); and the third using separate warehousing and automated handling of goods (for volumes associated with thresholds between zero and \$300).

Capital costs vary for each option depending on volumes, but range from around \$20 million for the delivery network option, to more than \$100 million for automated storage if all goods were required to be assessed. While the capital costs associated with the delivery network are relatively stable, capital costs associated with both warehouse options rise with volumes at the lowest threshold levels.

Costs relating to Customs and Border Protection's ICT systems changes that would apply to both the cargo and international mail environments are detailed further below. These costs relate to systems changes involving the ICS. An alternative approach in the international mail environment is to use the DutyCalc system. DutyCalc was designed to calculate duty and GST on alcohol and/or tobacco imports below \$1,000 in the passenger and mail environments. Data is currently manually entered into DutyCalc. Whilst DutyCalc can be changed to calculate GST only, with the increased

volumes of data needed to be entered under any changed process, the current application may not be able to support reforms on its current architecture/platform and may require system changes. This investigation would suggest that such an approach be avoided if possible. Changes to the ICS will be required for goods arriving as air and sea cargo in any event. To use different systems would embed different approaches across import streams. Further, advantages for improved risk assessment based on richer information databases may be lost, and add to future ICT costs for border processing as pre-arrival data becomes available in the international mail environment. Further analysis would need to be undertaken within government to identify the best approach and system capability to undertake GST calculation.

Ancillary work required to implement reform includes activities such as legislative reform, education and communication of changes, any rebranding, re-signing, marketing and industry engagement and consultation. In respect of the costs associated with legislative reform, this would involve activity across a number of portfolios and agencies. No attempt was made to determine the level of effort required for this activity, or the extent to which it may be accommodated as part of the ordinary course of departmental and agency activities across governments. To the extent that this is not possible – particularly in the case of Customs and Border Protection, who would be responsible for the bulk of any implementation – additional upfront budget funding would be required.

Ongoing collection costs

Ongoing collection costs are calculated incorporating visual inspection, manual data entry, storage, notifications, queries and objections, and payment. Some costs vary based on volume – others are constant even as the volume of goods assessed for GST increases. Of particular relevance is visual inspection. For costing, it is assumed that current visual inspection processes for packets (as compared to EMS items and packages greater than 2kg) for any thresholds at or above \$500 do not change – that is, they would be identified by Customs and Border Protection officers as part of general border risk processes. Separate visual inspection of all these items (particularly packets) at these higher threshold levels would prove costly yet identify very few items on which revenue would be collected. The estimated collection costs vary according to the volume of goods on which GST is assessed, which in turn depends upon the assessment threshold. It is not within the Terms of Reference to specify a particular threshold, but initial (preliminary) estimates of costs for volumes associated with different thresholds are set out below (Table 4.3.1). It shows that the costs of collecting GST decline as the threshold band declines, due to economies of scale.

Table 4.3.1

Initial (preliminary) estimated average GST collection costs per unit – international mail¹⁴³

	Threshold level			
	\$0	\$100	\$200	\$500
2014	7.06	10.04	12.75	15.19
2015	7.01	9.77	12.24	14.29
2016	6.93	9.46	11.69	13.67
2017	6.84	9.15	11.14	13.04
2018	6.75	8.85	10.63	12.53

¹⁴³ Not including operational costs associated with ICS system and ancillary costs, eg compliance etc.

Noting the uncertainties about the timing of pre-arrival data, this table also shows GST collections costs fall as pre-arrival electronic data becomes available. Further, the proportional reduction in costs is greater at higher threshold levels. This is because at these values, the proportion of goods that arrive as EMS or parcels over 2kg is higher than at the lower value levels.

In considering this information, it would be wrong to assume that simply because collection costs are lower at lower thresholds, a threshold set at these levels is more cost effective. While costs may decline as volumes increase, the revenue captured for GST also declines. This means at the lower threshold levels, the cost effectiveness of revenue collection processes fall as the value of goods being assessed declines. Simply put, whatever the economies of scale, a 10 per cent GST on a \$50 item only raises \$5, whereas on an \$800 item it will raise \$80 (see further below).

In considering these initial (preliminary) estimates of collection costs, numerous caveats also apply:

- these cost estimates are based on different approaches to process GST at different threshold levels, with new facilities and equipment to automate for larger volumes present at lower threshold levels. Such facilities would involve substantial upfront investment and disruption to work processes, which is more difficult to justify when the market is not mature and future volumes cannot be estimated with certainty. Australia Post capital costs at the lowest threshold level are estimated to be more than \$100 million;
- these initial (preliminary) estimates relate to core processing costs only. They do not include any amounts for ancillary activities such as compliance, dealing with GST exemptions post assessment, registration for GST deferral and additional call volumes and enquiries to Customs and Border Protection's helpdesk. As this investigation is not asked to recommend a threshold, estimations of these costs are difficult and to some extent arbitrary. Having regard to the costs associated with compliance activities undertaken through the Enhanced Compliance Campaign, a cost of \$2 per item for Customs and Border Protection compliance activities is assessed as appropriate for volumes at higher threshold levels; a lower amount per item figure may be appropriate for goods at lower values given the volumes involved but this is not assumed to be the case. An equivalent per dollar amount is added to cover the potential costs of dealing with GST exemptions, additional GST deferrals and enquiries;
- initial estimates of upfront and ongoing costs only include estimates with respect to preliminary work required to reconfigure existing ICT systems to implement the reform model. Further to this initial costing, Customs and Border Protection's IT Division estimated the cost of the initial back-end system changes at around \$3 million,¹⁴⁴ with the associated ongoing support costs of around \$1 million per year (see below). The ongoing costs may vary depending on the volumes of goods required to be handled through the system. At a \$500 threshold level, and applying the requisite conservatism with regard to confidence levels, this would add an additional cost of around \$1 per item – noting that the system would be used for both the mail and cargo environments. As it was not possible to obtain a clear view of the system architecture changes required for the ICS (and related systems) to undertake costings on a detailed system design basis, this cost is applied across all value bands (recognising for higher volumes this approach risks being distortionary); and
- as many scenarios were required to be assessed in a short time frame, the level of confidence is at best in the +/- 50 per cent range and should be used as a guide only.

¹⁴⁴ This cost estimate does not include costs associated with front-end user interface, business process change and other implementation costs.

Based on these caveats, a more conservative estimate of the anticipated costs associated with GST collection would adjust ongoing collection costs upwards (see Table 4.3.2), noting also the timeframes in which these estimates were developed and the confidence levels associated with them.

Table 4.3.2

Adjusted estimated average GST collection costs per unit – international mail

	Threshold level			
	\$0	\$100	\$200	\$500
2014	12.06	15.04	17.75	20.19
2015	12.01	14.77	17.24	19.29
2016	11.93	14.46	16.69	18.67
2017	11.84	14.15	16.14	18.04
2018	11.75	13.85	15.63	17.53

Based on these figures, the aggregate collection costs just for the international mail environment at the zero threshold level would be around \$450 million in 2014, compared to approximately \$11 million at the \$500 threshold level. This difference is due to the very high proportion of goods in the lower value bands.

Border security and biosecurity costs

Financial analysis of border security and biosecurity costs under this reform proposal is inherently difficult due to the uncertain availability of electronic data, as well as data limitations as to the level of effort required for various border process activities by different product type.

To provide some initial guidance on this issue, however, a pathway analysis was done applying various weightings to the activities undertaken by border agencies by different product type. Based on ratios of effort by product type between EMS/parcels and packets ranging between 7:1 and 12:1, the unit cost of inspection is estimated to be between \$0.85 and \$1.19 for Customs and Border Protection and \$0.57 to \$0.79 for DAFF Biosecurity for EMS and parcels greater than 2kg, and substantially less for packets. These estimates are only illustrative given the data constraints, and hence should be used cautiously. For comparison, the costs associated with processing low value goods in the air cargo environment, including inspections, are estimated at around \$0.80 and \$0.30 per item for Customs and Border Protection and DAFF Biosecurity respectively. Generally, neither cost estimate incorporates overheads associated with senior management.

These estimates use cross-referenced Customs and Border Protection and DAFF Biosecurity costs, as this was the best available approximation. Additional broad activity-based data provided by DAFF Biosecurity indicates that this approach is likely to overstate the unit cost of post-examination activities and underestimate those for screening/inspection activities.

Assuming that the number of goods requiring secondary inspection is constant under both approaches, potentially greater costs may be offset through the use of pre-arrival data in border assessment processes.

A further aspect of costs saving not able to be estimated in this context is the potential benefit to Australia Post from enabling border processes which use pre-arrival information. This is because

such changes need to be integrated with changes across their delivery network, including any ICT related changes. It is not within the capacity of this investigation to assess either these benefits or the scope of Australia Post's ICT costs for a new system that aligns with both Customs and Border Protection and DAFF Biosecurity border processes and its own operational activities – and then to disaggregate the proportion attributable to this process.

Cargo environment

Financial analysis in the cargo environment is based on information drawn from submissions made by express carriers to the Productivity Commission (2011), supplemented by further data provided in writing and in discussions of potential solutions throughout consultation. Information provided by the express carriers is used as a proxy for the cargo environment as these entities are responsible for most low value goods arriving as cargo. While the information is a guide to anticipated costs of this reform model in the cargo environment, it is less than ideal. It is not as comprehensive as that relied upon for the international mail environment. Further detail was sought, and to the extent it was provided, it is used to help analyse potential cost impacts – particularly with respect to recording business identifiers in the reporting process and in considering potential storage issues.

GST collection costs

Capital requirements

Currently imported cargo at or below \$1,000 can be cleared through Customs and Border Protection's risk assessment and revenue collection processes using a single check-box on a cargo report. The importer of such goods does not need to submit a separate import declaration.

According to Customs and Border Protection's IT Division, there are a number of possible options for changes to the ICS to implement a streamlined automated assessment for GST, each with different levels of associated costs. They are:

- reconfiguring the ICS so that Australia Post, express carriers and other freight forwarders can submit Short Form SAC documents for goods at or below \$1,000, have the system calculate the GST based on the declared value, and use the existing ICS/FMIS interface to generate appropriate invoices for GST payment;
- reconfiguring the ICS to calculate GST liability from the declared value on air and sea cargo reports, and use the existing ICS/FMIS interface to generate invoices for GST payment; or
- creating a new ICS clearance (declaration) for GST purposes. This option was recommended and would have the least impact to the ICS functionalities. This would, in effect, create a new type of import process specifically for low value goods.¹⁴⁵

Under this third option, the current process for cargo reporting continues. Freight forwarders and express carriers continue to provide cargo reports for low value consignments and the ICS continues to run cargo reports across border risk assessment filters. However, express carriers and other freight forwarders who submit cargo reports for goods that meet the GST-only requirements would also submit a low value import (GST) declaration. Any low value consignments that are not international mail items requiring GST payment would need to be identified from the value on the associated cargo report or related low value import (GST) clearance declaration. The ICS would generate a report listing all the GST liabilities for each cargo reporter that could be used to undertake compliance monitoring. These consignments would be treated the same way

¹⁴⁵ Under this option, short form SACs would still be required for excise equivalent goods.

as a Self-Assessed Clearance Cargo Report and processed clear without the need for a separate import declaration.

The GST amount would be recorded as deferred GST if the importer is registered for GST deferral, and the low value import declaration would be cleared for the consignment to be released for home consumption. The onus is on the low value importer reporter to collect the GST and make payments periodically. There would be no change to the current process whereby the ICS reports to the ATO on deferred GST amounts. This information is for the ATO's use in the BAS reconciliation process.

Collecting GST revenue for low value goods based on this approach will involve significant development costs associated with modifying the ICS and related systems. Currently, the ICS accepts data in the form of EDI via the Customs Connect Facility or via the ICS Interactive interface. Messaging volumes through these portals would increase. A period of testing would be required to ensure that the data provided on low value goods via express carriers, other freight forwarders and Australia Post is complete and of a quality to allow the ICS to accept it and able to calculate GST.

The ICS produces an electronic invoice and payments are reconciled in Customs and Border Protection's FMIS. Changes to the ICS would affect other systems with which it interfaces. Existing risk assessment processes for current low value imports would not be altered. Modifications would allow for calculation of GST liability and build in measures to require FIDs for goods over the threshold, or reject GST declarations for goods below the threshold.

The initial capital cost to undertake back-end changes to the ICS to accommodate this reform is estimated to be in the order of \$3 million, with up to \$1 million annually in ongoing support costs.¹⁴⁶ The cost estimate assumes messaging will be in standard EDI format via CCF or via the ICS Interactive interface. However, this amount should be viewed with some caution, as the nature and scope of any system change will depend on the final form of legislative arrangements, and its relationship to the underlying systems architecture of the ICS and related systems. Even small variations in definitions or requirements – for example, with respect to the basis upon which value is determined or the treatment of exemptions – may result in substantial differences in system requirements and implementation costs. Given the reforms outlined are set out at a conceptual level only, detailed design could result in costs that differ substantially from those provided in this report.

Any reforms also need to have regard to implementation costs for industry. In the cargo environment, these would include costs associated with training and providing advice to customers. There will also be costs associated with increased storage (see below) and reconfiguring ICT systems to interface with changes to Customs and Border Protection systems, in particular the ICS. Accurate estimates of these costs depend on the scope of change including the number of messages between private systems and the ICS. This in turn depends on volumes and hence the level at which any GST threshold may be set. An estimate of ICT changes costs for industry participants in the cargo environment is further complicated by the different ICT approaches adopted across the industry – some use proprietary systems, others a provided service. In considering reforms, business system requirement changes aim to be limited wherever possible to enable existing frameworks and systems to be used. Cost estimates of \$1,100 to \$1,500 per day are estimated for any ICT change requirement. Unknown costs relate both to interfacing with Customs and Border Protection systems and greater processing requirements for a greater volume of goods (see below).

¹⁴⁶ This is an initial high level estimate only and detailed analysis of business requirements would need to be undertaken to confirm total costs associated with this change.

Ongoing collection costs

In the first instance, the ongoing collection costs of a simplified GST assessment in the cargo environment are established by reference to CAPEC's estimates of costs required to undertake a FID, which was provided in its submission to the Productivity Commission (CAPEC, 2011). This is \$30 per item, which encompasses:

- additional time for customs brokers and tariff classifiers. This was based on brokers and classifiers taking about 10 to 15 minutes for each formal declaration, with hourly rates for brokers and classifiers estimated between \$60 to \$80 per hour;
- additional time for administrative support staff;
- additional costs for invoicing;
- additional storage space for consignments (as formal declaration items are held for longer than those processed through SACs); and
- on-costs such as building space, computer equipment etc.

The mid-point range of cost estimates for the time taken by customs brokers to complete a FID is estimated to be \$15. From this, it is derived that the remaining \$15 relates to costs such as invoicing and storage. These costs would generally be required under the proposed reform, though the extent of this is discussed further below.

Two issues arise about the costs associated with customs brokers under the proposed reform – first, whether a customs broker would be required to clear goods with only a GST liability if no duty assessment is required; and second how much effort would this task require given the level of detail required for a simplified GST assessment is intended to be significantly less than for a FID.

It is not intended or envisaged that the clearance processes would require a customs broker for low value goods. The goods to which this liability attaches are low value, hence the level of effort and risk associated for revenue assessments should be aligned with the potential benefits. As such, the costs of completing a clearance would be less than estimated for a FID simply based on hourly rates, which are estimated at around \$33 to \$50 per hour for administrative staff. Further, the level of information required for a simplified GST assessment is less than for a FID (see Chapter 2), and could potentially rely on information already through existing reporting processes. Discussions with industry suggest, but do not confirm, this cost may not differ substantially whether the GST assessment is based on the value of the good, or incorporates freight and insurance. In any event, potential costs for a simplified GST assessment are estimated to range between approximately \$15 and \$30 per item (not including Customs and Border Protection costs), though more likely at the lower end of this range. At the lower end, this accords with anticipated collection costs in the international mail environment for items at and above the \$500 threshold.

As the CAPEC (2011) report also notes, potential benefits from economies of scale are not incorporated into its cost estimates (though their estimates are also described as conservative). In the international mail environment, economies of scale are shown to reduce unit processing costs. While the processes are not entirely analogous across the import streams, it suggests that some level of saving is possible. To provide a more structured assessment, each cost item in the CAPEC FID estimate was assessed against related cost items used to build up GST collection costs in the international mail environment. Wherever possible, assessments are further informed by additional information from CAPEC representatives. Key observations of this review are as follows:

- A potentially significant issue is storage in the cargo environment – particular as capacity varies between organisations, and from city to city.

The average time for processing an item with a revenue liability (from receipt to delivery) is estimated at around 2-3 days, which includes receipt of goods, communication with client, receipting payment and delivery. This storage time is less than is estimated for the mail environment (approximately five days). This may reflect the different proportions of business customers across import streams, and who require more timely delivery of goods.

Some existing sites could be reconfigured, but not without cost and not in all cases. The impact on storage depends heavily on the threshold level and hence the volumes that need to be stored. According to one express carrier, a \$500 threshold would result in a 93.5 per cent increase in the volume of goods stored; while a \$750 threshold would result in a 37 per cent increase in storage required. Another indicated capacity constraints, based on current configurations, would arise from a 20 per cent increase in storage requirements at facilities in Melbourne and Sydney. However, this does not mean that additional storage would not be possible if reconfiguration occurred – for example, through racking and stacking (although concerns were also raised as to how such an approach may impact on business processes).

One component of the proposed reforms provides for goods to be cleared from licensed facilities prior to revenue liabilities being met by the recipient. This could alleviate some potential storage issues. However, this approach is intended to be optional, and its uptake would depend on the individual business models adopted by express carriers and other freight forwarders – particularly if they do not have a physical delivery network.

Second, the extent storage issues may be exacerbated will partly depend on the proportion of business customers who can register and have GST deferred. Unlike estimates for FIDs that involve duty collection, deferring GST means goods can be cleared from licensed facilities without delay.

- While express carriers can rely primarily on electronic information, some time is required to be allocated for manual data input – for example, claiming an exemption from GST if relevant, or adding an ABN or relevant business identifier. According to CAPEC, at higher value bands just over a quarter of all businesses have already supplied an ABN or CCID. However, this falls to just under 20 per cent for the \$501 to \$600 value band, and just over 10 per cent for goods valued at between \$0 and \$100. At the same time, the proportion of business customers also declines as the value of goods decline. Two observations may be derived from this – on the one hand, the extent to which manual data is required will be greater at the higher value end as the proportion of business customers is higher; on the other, there is already more data available.

For goods valued above \$1,000, a business identifier is already required under the FID process and this occurs. A similar requirement on goods of lower value should achieve the same result. By doing so, GST would then be able to be deferred, with a range of ancillary cost benefits in addition to being able to clear the goods from licensed facilities, such as cash flow gains as no GST payment would be required. However, simply because an ABN is provided does not mean that a business customer will opt for GST deferral.

- Invoicing and collection costs are potentially a greater burden because express carriers and other freight forwarders have narrower distribution networks and fewer outlets at which payments can be made. According to industry participants, relatively few direct debit arrangements are in place with existing customers. This highlights the importance of electronic payment methods, which generally are becoming more prevalent and which are considered separately in this proposed reform model (see section 4.3.2). The extent to which such arrangements are able to be put in place would reduce collection costs.

Revenue

Revenue estimates have been calculated for both the international mail and cargo environments. In both instances, movements in the thresholds at lower value bands create disproportionately large changes in the levels of potential GST revenue derived.

For example, in the international mail environment a threshold which encompasses the value band of \$1 to \$100 is estimated to raise an additional \$140 million GST revenue derived directly, while for between \$500 to \$1,000 just over \$30 million may be raised (Table 4.3.3). This variance in potential GST revenue is driven by the distribution of total article volumes across value bands, which are heavily skewed towards the lower end. At the lowest levels, revenue estimates are also highly dependent on the value applied within bands – in relation to which information is limited. Revenue projections at the lowest bands should be treated with considerable caution, but in any event are unlikely to be cost effective.

Table 4.3.3

GST revenue by value bands – international mail (\$ million)

Article Value Bands	Threshold level				
	\$0	\$100	\$200	\$500	\$1,000
\$1 - \$100	\$142.0	\$0.0	\$0.0	\$0.0	\$0.0
\$101 - \$200	\$46.9	\$46.9	\$0.0	\$0.0	\$0.0
\$201 - \$300	\$23.6	\$23.6	\$23.6	\$0.0	\$0.0
\$301 - \$400	\$14.9	\$14.9	\$14.9	\$0.0	\$0.0
\$401 - \$500	\$12.2	\$12.2	\$12.2	\$0.0	\$0.0
\$501 - \$600	\$10.2	\$10.2	\$10.2	\$10.2	\$0.0
\$601 - \$700	\$9.2	\$9.2	\$9.2	\$9.2	\$0.0
\$701 - \$800	\$4.9	\$4.9	\$4.9	\$4.9	\$0.0
\$801 - \$900	\$4.5	\$4.5	\$4.5	\$4.5	\$0.0
\$901 - \$1000	\$3.8	\$3.8	\$3.8	\$3.8	\$0.0
Total GST Revenue (\$m)	\$272.2	\$130.2	\$83.3	\$32.6	\$0.0

A different distributional outcome occurs in the cargo environment for two reasons. First, in the cargo environment it is estimated there is a greater proportion of business customers, particularly at the higher value levels (see Table 4.3.4). As business customers are generally entitled to an ITC for the GST paid on their importations, the higher the number of business customers, the lower the net tax revenue. Second, an average \$25 is applied for goods within the \$0 to \$100 value band, as compared to \$50 in the \$1 to \$100 band in the mail environment. This is done because the more detailed data in the cargo environment indicates this is the more appropriate value,¹⁴⁷ slightly different value bands apply and it illustrates the sensitivity of analysis to such assumptions. Were this nominal value to be treated as \$50 and the GST threshold set at \$0, modelling indicates that total GST revenue of approximately \$112 million would be generated in 2014. Of this total, approximately \$15 million would be generated through imports of articles in the \$0 to \$100 value band under the same conditions.

¹⁴⁷ Information based on average values by band which for the range \$0 to \$100 was noted to be \$28 relative to CAPEC related consignments. The source of the CAPEC input to calculation was based on information submitted to the Productivity Commission (see CAPEC (2011) (CIE Report).

Table 4.3.4

GST revenue by value bands – cargo (\$ million)

Article Value Bands	Threshold level				
	\$0	\$100	\$200	\$500	\$1,000
\$0 - \$100	\$10.0	\$0.00	\$0.00	\$0.00	\$0.00
\$101 - \$200	\$21.8	\$21.8	\$0.00	\$0.00	\$0.00
\$201 - \$300	\$15.8	\$15.8	\$15.8	\$0.00	\$0.00
\$301 - \$400	\$11.9	\$11.9	\$11.9	\$0.00	\$0.00
\$401 - \$500	\$10.3	\$10.3	\$10.3	\$0.00	\$0.00
\$501 - \$600	\$8.7	\$8.7	\$8.7	\$8.7	\$0.00
\$601 - \$700	\$7.5	\$7.5	\$7.5	\$7.5	\$0.00
\$701 - \$800	\$6.8	\$6.8	\$6.8	\$6.8	\$0.00
\$801 - \$900	\$7.9	\$7.9	\$7.9	\$7.9	\$0.00
\$901 - \$1000	\$6.5	\$6.5	\$6.5	\$6.5	\$0.00
Total GST Revenue (\$m)	\$107.3	\$97.2	\$75.4	\$37.4	\$0.00

These estimates are based on the value of goods only, and would be proportionally higher if they included transport and insurance costs. Accurate estimates of average transport costs at different value levels are not able to be obtained, given the range of different potential costs depend on the size and weight of the goods, and the terms of delivery. This is illustrated by the range of prices to deliver a good from the UK to Australia by different mail type (see Tables 4.3.5 and 4.3.6).¹⁴⁸

Table 4.3.5Parcel costs from United Kingdom to Australia¹⁴⁹

Weight (kg)	Global Express	Global priority	Global value	Global Economy
1	£64.80	£57.45	£39.40	£33.70
2	£76.80	£67.15	£51.80	£43.10
5	£108.55	£90.00	£84.00	£69.30
10	£150.05	£128.00	£122.00	£101.30
15	£194.05	£150.00	£149.00	£129.30
20	£237.55	£179.00	£176.00	£153.30
25	£281.05	£208.00	£203.00	£177.30
30	£324.55	£237.00	£230.00	£201.30
Add per 0.5 kg	£4.35	£2.90	£2.70	£2.40

¹⁴⁸ The Productivity Commission (2011), for example, estimated transport and insurance costs at 30 per cent of the value of the goods for air cargo – which would have a direct proportional impact on GST revenue.

¹⁴⁹ Australia Post does not accept EMS or parcels above 30 kgs.

Table 4.3.6

International parcel service standards for deliveries (UK)

	Delivery time	Guaranteed on time?	Compensation	Multiple items?	Online tracking
Global Express	Delivery from next working day to the USA, Canada and Europe and from 2 working days for the rest of the world	100% refund if not delivered on or before the stated delivery day	Up to £200 included (option to increase cover to £2500)	Yes	Yes
Global Priority	Delivery from 3 working days to Europe and worldwide	25% refund if not delivered on or before the stated delivery day	Up to £100 included (option to increase cover to £2500)	Yes	Yes
Global Value	From 4 working days	No	Up to £100 included (option to increase cover to £500)	No	No
Global Economy	From 28 working days (service does not cover Europe)	No	No	No	No

Source: www.postoffice.co.uk/letters-parcels/overseas-letters-parcels/compare-overseas-sending-options; www2.parcelforce.com/send-worldwide/non-account-services/, 6 July 2012

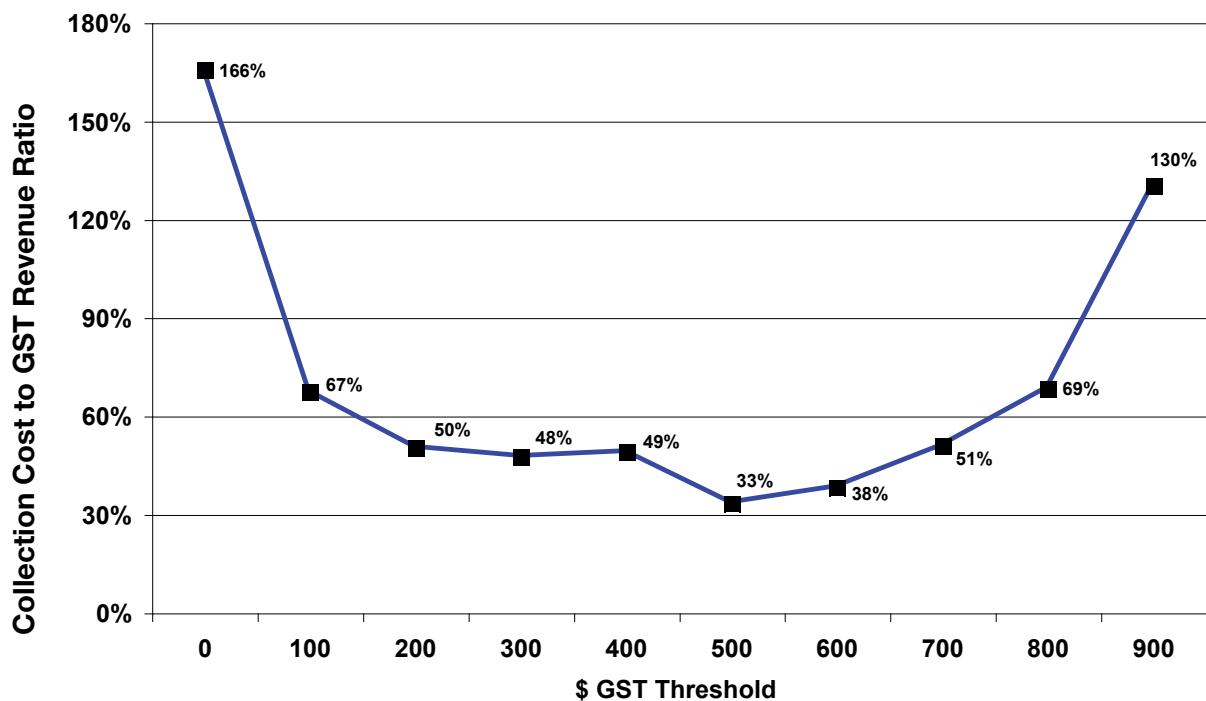
Over time, the potential revenue that can be derived from GST will rise as parcel volumes increase, and aggregate revenue will be higher if the threshold is set at lower levels. In the international mail environment at least, there are also benefits of economies of scale in processing costs which offset, at least in part, some of the additional upfront capital costs required to process greater volume of goods.

Nevertheless, at lower threshold levels, financial outcomes become less cost effective due to a narrowing of the gap between GST collection costs and the revenue able to be raised across different value bands.

This is demonstrated for the international mail environment by comparing collection costs as a proportion of GST revenue (see Figure 4.3.5). This shows that the proportion of costs to revenues is higher at high threshold levels due to the small volumes of goods on which revenue is assessed, declines as the volumes increase, then rises again as both costs associated with visual inspection apply and the value of the goods, and hence the potential GST revenue per item, falls. The results at the lower thresholds also point to the sensitivity of financial outcomes to variations in collection costs at those levels.

Figure 4.3.5

Adjusted collection cost to GST revenue ratio — international mail



Note: Automated Warehouse Storage option at lower thresholds.

Cost effectiveness will be enhanced as pre-arrival electronic data becomes available. For example, at the \$500 threshold level, the cost to revenue ratio is estimated to fall from 33 per cent to under 30 per cent (see Table 4.3.7).¹⁵⁰ The proportional benefits of electronic data for cost effectiveness are greater at higher threshold levels because the percentage of goods anticipated to have pre-arrival data is higher. The extent of this anticipated benefit is subject to the timing of electronic data being available, which is uncertain.

Table 4.3.7

Average collection cost and average GST revenue per unit – international mail

Threshold level		Year				
		2014	2015	2016	2017	2018
\$0	Collection cost (est.) (\$)	12.06	12.01	11.93	11.84	11.75
	Average revenue per item (\$)	7.28	7.39	7.48	7.58	7.66
	Cost to revenue ratio	166%	162%	159%	156%	153%
\$100	Collection cost (est.) (\$)	15.04	14.77	14.46	14.15	13.85
	Average Revenue per item (\$)	22.31	22.50	22.65	22.79	22.90
	Cost to revenue ratio %	67%	66%	64%	62%	60%
\$200	Collection cost (est.) (\$)	17.75	17.24	16.69	16.14	15.63
	Average Revenue per item (\$)	35.25	35.43	35.57	35.70	35.81
	Cost to revenue ratio %	50%	49%	47%	45%	44%
\$500	Collection cost (est.) (\$)	20.19	19.29	18.67	18.04	17.53
	Average Revenue per item (\$)	60.46	60.57	60.64	60.71	60.77
	Cost to revenue ratio %	33%	32%	31%	30%	29%

A similar outcome with respect to cost effectiveness arises in the cargo environment, but in this analysis the outcomes are more marked due to the estimates of collection costs and the proportion of business customers.

¹⁵⁰ The estimated average revenue per item at the \$0 threshold depends heavily on the value used to estimate revenue within the lowest value band – in this estimate a \$50 value was used which results in average revenue per item of \$7.28 in 2014. This would be significantly lower if a \$25 value had been used.

Assuming the costs for the proposed reform initially range from \$15 to \$30¹⁵¹ per item (as discussed above), and the full costs apply to all parcels arriving into Australia as cargo, the anticipated collection cost to revenue ratio at the different volumes increases as threshold levels fall, and exceeds 100 per cent at lower threshold values, and where collection costs are higher (see Table 4.3.8).

Table 4.3.8

Average collection cost to GST revenue ratio – air cargo (2014)

Threshold	Collection costs (2014)		
	\$16.4	\$24.6	\$32.8
\$0	171.7%	257.5%	343.3%
\$100	87.9%	131.9%	175.8%
\$200	68.3%	102.5%	136.7%
\$300	59.4%	89.1%	118.8%
\$400	54.3%	81.5%	108.6%
\$500	50.8%	76.1%	101.5%
\$600	48.1%	72.1%	96.2%
\$700	46.0%	69.0%	92.0%
\$800	43.0%	64.5%	86.0%
\$900	42.6%	63.9%	85.2%

As is the case with Table 4.3.4, these figures are based on an estimate of the cost to revenue ratio where the nominal value of the lowest value band is \$25, rather than a mid-point value of \$50 (the latter treatment is applied to the remaining bands). Were the mid-point (\$50) to be applied as the nominal value of articles in the \$0 to \$100 range, the aggregate cost to revenue ratios at the \$0 threshold would be expected to decrease – resulting in 2014 cost to revenue ratios of 157 per cent, 235 per cent and 314 per cent for collection cost of \$16.40, \$24.60 and \$32.80 respectively.

This table highlights how, as in the mail environment, at lower values the relative proportion of cost to revenue increases. However, these estimates do not assume economies of scale, and hence the proportion of costs to revenue rises rapidly. Also, in the cargo environment the proportion of higher value goods entering Australia for business customers is likely to be significantly greater than in the mail environment, and result in a lower net revenue benefit per good being processed. In turn, the earlier GST could be deferred, the better, as this removes potential delays and costs for with revenue collection and storage that will ultimately result in no net revenue. At higher values, the proportion of goods to business customers is higher, but registration for business deferral is far from complete. This provides an opportunity for action to reduce unnecessary costs, which could occur relatively promptly, given industry advice that for goods valued above \$1,000, customers generally have their ABN recorded and hence GST deferral is available.¹⁵²

151 Adjusted annually by 3 per cent. No additional amount added for Customs and Border Protection costs.

152 Deferral is available to those GST registered entities that both meet the scheme criteria and are approved to participate.

Table 4.3.9

Average collection cost to GST revenue ratio – cargo (2014)
(assuming GST deferral halves costs associated with parcels for businesses)

Threshold	Collection costs (2014)		
	\$16.4	\$24.6	\$32.8
\$0	85.8%	128.7%	171.7%
\$100	44.0%	65.9%	87.9%
\$200	34.2%	51.3%	68.3%
\$300	29.7%	44.6%	59.4%
\$400	27.2%	40.7%	54.3%
\$500	25.4%	38.1%	50.8%
\$600	24.0%	36.1%	48.1%
\$700	23.0%	34.5%	46.0%
\$800	21.5%	32.3%	43.0%
\$900	21.3%	32.0%	42.6%

The effect of encouraging GST deferral would be to reduce the collection cost to GST revenue ratio significantly (Table 4.3.9). As is the case with Table 4.3.4, the data within the table is based on an estimate of the cost to revenue ratio where the nominal value of the lowest value band is \$25, rather than a mid-point value of \$50 (the latter treatment is applied to the remaining bands).

Sensitivity analysis

In considering the potential impacts of change, sensitivity analysis has been undertaken on a range of assumptions, including the proportions of businesses receiving low value goods, growth rates and elasticities.

For the proportion of recipients that are businesses able to claim ITCs, the effects are straightforward – revenue decreases directly in proportion to the percentage change in rates.

For changes in growth rates, the impact is proportional. In the international mail environment, however, the effect on total volumes and volumes upon which GST applies differs slightly due to different growth rates being assumed for different product types in the international mail stream (see Table 4.3.10).

Table 4.3.10

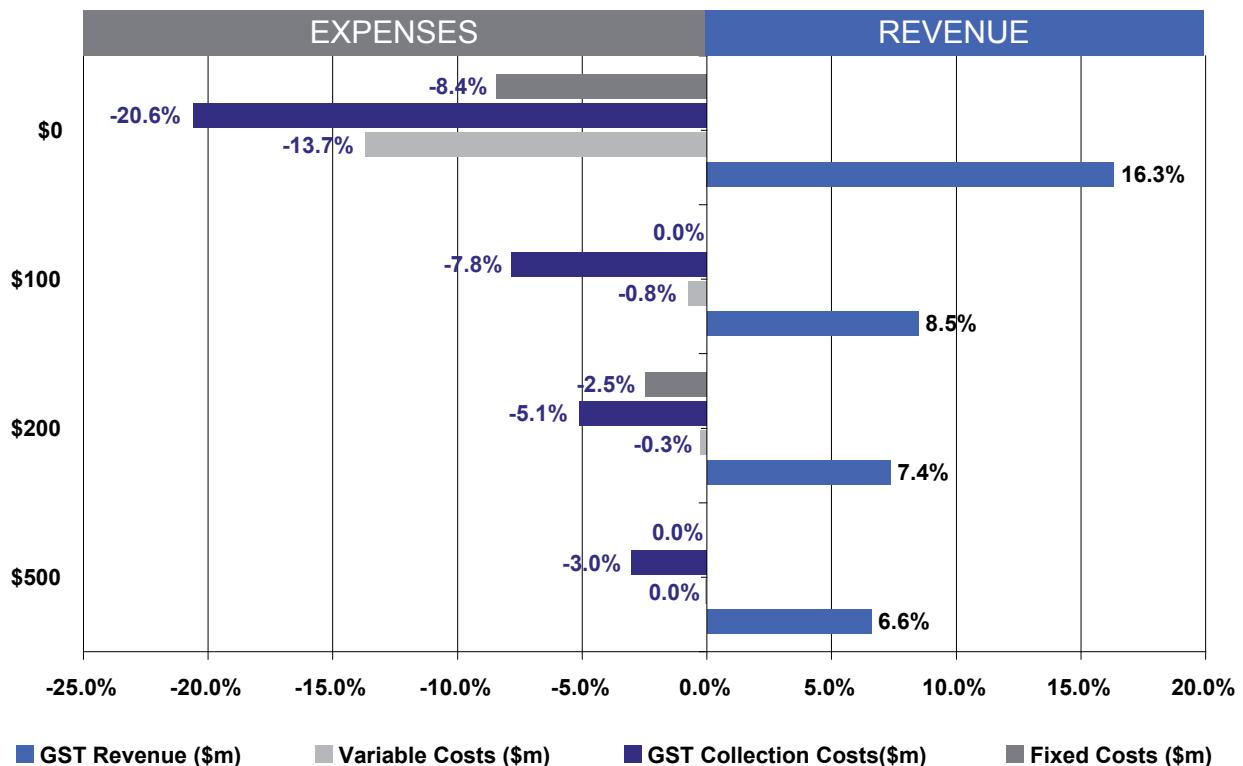
Impacts of changes in growth rates on total volumes and GST applicable volumes by threshold (2014)

	Threshold level			
	\$0	\$100	\$200	\$500
Adjusted growth rate by -1%				
% change in total volumes	-2.6%	-2.6%	-2.6%	-2.6%
% change in GST applicable volumes	-2.6%	-2.6%	-2.5%	-2.5%
Adjusted growth rate by +3%				
% change in total volumes	8.2%	8.2%	8.2%	8.2%
% change in GST applicable volumes	8.2%	8.0%	7.9%	7.7%

For price elasticity, the impact of change is disproportionately greater for lower value items. This is due to both volumes present within those bands (the large majority of total volumes) and the higher level of price change as a proportion of mean unit value. This effect is illustrated by comparing the effects of elasticities of -0.5 and -1 in the international mail environment, and shows effects both with respect to GST collection and broader border processing costs (see Figure 4.3.6). However, these sensitivities need to be viewed cautiously and as directional only, as they are based on preliminary implementation and collection costs. GST collection costs show a similar effect occurring for increases and decreases on any collection charge or border agency fee that might be attributable to any goods upon which GST may apply.

Figure 4.3.6

Elasticity at -0.5 – Proportional change compared to an elasticity of -1



Economic impacts

Analysis to date has focused on the costs and benefits of reform directly attributable to individual import streams – whether in the international mail or the cargo environments. However, adoption of the reform model proposed would have broader economic impacts. In particular, to the extent that it results in expenditure occurring domestically, rather than through overseas online shopping sites, this will contribute to shifts in consumer behaviour, higher domestic retail activity and larger domestic GST revenues. Further, the potential consumer welfare impact of any change will reflect the extent to which the tax base may be broadened and relative price distortions removed, against the magnitude of any collection costs. Other factors relevant to this calculation include the degree of substitutability between taxed and untaxed goods, the supply elasticity for the taxed good and the efficiency cost of public funds (Productivity Commission, 2011: Appendix H).

By way of example, the Productivity Commission (2011, Table H6) provides illustrative welfare effects of reducing the low value threshold to \$500 with different collection costs (see Table 4.3.11). This shows that for collection costs at around \$12.50, reform to tax arrangements is almost neutral under a high substitution scenario, with greater negative effects at lower substitution estimates. The low substitution scenario applied in that analysis is associated with slightly lower estimates of own-price elasticity than is assumed in the financial modelling set out above.

Table 4.3.11

Illustrative welfare changes as a result of reducing the low value threshold to \$500 with different collection costs

Substitution	Low ¹	Medium ¹	High ¹
	$\sigma = 1$	$\sigma = 2.5$	$\sigma = 5$
	\$ m	\$ m	\$ m
[1] Collection costs \$50			
Consumer welfare	-184	-158	-126
Producer welfare	0	0	0
Net tax revenue	60	70	81
Net welfare	-123	-88	-45
[2] Collection costs \$25			
Consumer welfare	-146	-130	-108
Producer welfare	0	0	0
Net tax revenue	79	83	88
Net welfare	-66	-46	-20
[3] Collection costs \$12.50			
Consumer welfare	-126	-114	-97
Producer welfare	0	0	0
Net tax revenue	90	91	93
Net welfare	-37	-23	-4
[4] Collection costs \$0			
Consumer welfare	-106	-97	-85
Producer welfare	0	0	0
Net tax revenue	100	100	99
Net welfare	-6	2	14
Break-even collection costs (\$)		1.14	9.68

Source: Productivity Commission, 2011.

Note: Elasticity of substitution $\epsilon = (1 - \sigma)^{-1}$. Perfect elastic domestic supply of domestic substitutes, government spending \$1 of tax revenue = \$1 of welfare

Based on the collection costs estimated for the international mail environment, this illustrative analysis suggests that, even at relatively higher threshold levels, reforms focusing solely on GST collection will have a negative welfare impact – particularly when the more conservative estimates of collection costs are applied, taking into account uncertainties associated with ICT changes and ancillary reforms such as increased compliance activity.

However, such negative effects need to be considered in light of one of the assumptions underlying this methodology, which is a conservative (1:1) approach that equates the benefit of raising an additional dollar of tax revenue to \$1 of welfare. Under this assumption all taxes will

have a negative welfare outcome (in the absence of externalities) due to the cost of collecting the tax. To the extent that it replaces other revenue collection – particularly for States and Territories whose revenue bases are poor – the benefit of reform may be higher. This methodology also does not consider the potential benefits likely to arise from the availability of pre-arrival electronic data, which will not only reduce collection costs over time – particularly for higher value bands – but will enable the expansion of risk-based border processes in the international mail environment.

To verify the illustrative results, additional modelling was completed as part of this investigation using the same analytical framework detailed above. Consistent with the results detailed above, this modelling indicates that even under simplified GST assessment arrangements, there will initially be a negative welfare impact from reform. However, this negative impact is generally lower for higher thresholds (see Table 4.3.12). Further, this analysis is done for a single year. As collection costs fall with the advent of pre-arrival data in the international mail stream, the negative welfare effects are anticipated to decline. So too, the net impact position should improve as pre-arrival data is able to be used for risk management purposes in the international mail environment. Conversely, the negative impact will be greater the higher the upfront implementation costs – these figures are estimated based on a uniform capital cost of \$26 million. Higher capital costs are anticipated, particularly at lower threshold levels.

Table 4.3.12

Illustrative welfare changes as a result of reducing low value threshold for GST
(est. tax revenue in brackets)

Substitutability	'Low' $\sigma = 1$	'Medium' $\sigma = 2.5$	'High' $\sigma = 5$
Scenario	\$ m	\$ m	\$ m
Threshold = \$100			
Collection cost : \$10.30	-117 (223)	-76 (231)	-20 (243)
Collection cost : \$15.30	-164 (198)	-114 (212)	-46 (230)
Collection cost : \$20.30	-212 (174)	-151 (193)	-70 (218)
Threshold = \$200			
Collection cost : \$13.10	-71 (171)	-44 (176)	-7 (181)
Collection cost : \$18.10	-93 (160)	-62 (166)	-19 (175)
Collection cost : \$23.10	-115 (148)	-79 (157)	-31 (169)
Threshold = \$500			
Collection cost : \$15.20	-43 (68)	-29 (71)	-10 (75)
Collection cost : \$20.20	-56 (62)	-39 (66)	-16 (72)
Collection cost : \$25.20	-68 (55)	-48 (61)	-23 (69)
Threshold = \$800			
Collection cost : \$50.10	-15 (21)	-10 (23)	-4 (24)
Collection cost : \$55.10	-16 (21)	-11 (22)	-4 (24)
Collection cost : \$60.10	-17 (20)	-12 (22)	-5 (23)

Note: Elasticity of substitution $\epsilon = (1 - \sigma)^{-1}$. Perfect elastic domestic supply of domestic substitutes, government spending \$1 of tax revenue = \$1 of welfare.

Assessment

This proposed reform aims to streamline the handling and administration of low value imports of goods, while at the same time introducing new processes to collect revenue on goods valued at or below \$1,000 (to a threshold to be determined by government). This constitutes considerable change, and while the broad business requirements are established, more detailed analysis and system development is needed to adequately determine and implement the required functionality, performance, scalability and integration complexity.

Both the costs of implementing reform and ongoing collection costs vary substantially depending on the volumes to be assessed. Australia Post capital costs for example, are expected to be around \$20 million for volumes associated with higher thresholds, rising to more than \$100 million due to the storage and handling costs associated with higher volumes at lower thresholds. Core ICT changes to Customs and Border Protection systems have been preliminarily estimated at around \$3 million but this figure is subject to variation based on volume and scope of task, and separately is likely to underestimate final costs as it is not based on a detailed design specification underpinned by legislative requirements. Implementation costs to industry participants such as express carriers were not able to be calculated. Recognising that all estimates are at a relatively low confidence level and are partial in that they do not include data on either implementation costs for industry participants or for ancillary work to implement reform by government agencies, the information available provides a rough order of magnitude estimate for the implementation of reform in the range of \$25 million to \$40 million at higher threshold levels.

Similarly, ongoing collection costs vary depending on volumes and import stream. Given the relative levels of revenue that can be raised on goods as values fall, analysis indicates that the cost effectiveness will decline where volumes are higher – that is, at lower threshold levels. The uncertainties associated with these estimates also point to the need to adopt a staged approach to reform of this nature.

How these costs will be borne will need to be determined. Australia Post, express carriers and other freight forwarders would not seek to incur either the costs of implementation or the ongoing collection of GST. Such costs will need to be passed on – either to the taxpayer or to recipients of goods (through a handling fee). As businesses are currently not generally recompensed for collecting GST, a handling fee is the most likely option in relation to ongoing costs. Some contribution by government may be relevant, for example, by the Federal Government to Australia Post, or by the States and Territories insofar as costs relate to GST administration (see further below).

Manual data entry for mail items lacking pre-arrival electronic data will increase costs to Australia Post. Reduced charges associated with pre-arrival options when compared to the manual option, particularly direct debit, could be an incentive to the importer to adopt this element of the process, resulting in a more efficient movement of the item through the border process. The fee may also impact consumer behaviour but the extent of any change will depend on what level the threshold is set at.

Even with the best of processes, manual processes demand strong control regimes to work effectively at all time to mitigate errors (for example transposition errors). It is to be expected that for these types of manual items there will be a higher rate of error in relation to the assessment – which would need to be addressed through Customs and Border Protection's current risk-based compliance systems. In and of itself, the higher the error rate, the higher the downstream cost of managing exceptions and the lower the satisfaction with the reform – no matter the efficiencies that the reform may deliver.

Separate from the effects of imposing a revenue requirement, how much this reform will support Australia's interaction with the digital economy is difficult to assess. However, one possible change from a lower threshold is that it encourages suppliers to take up pre-entry notification practices that support faster processing of items, and make border processes more efficient. A further benefit is that it may encourage faster development of Australian-based online retail activity.

Deployment of pre-arrival data in the international mail environment over time also allows for developments in assessing and tracking border security risks and improvements from economies of scale as changes are integrated into a business as usual approach. For importers of low value goods, the introduction of pre-arrival data provides the opportunity to be better assured of delivery timeframes.

Any change to the flow of cargo is a major issue for express carriers, other freight forwarders and Australia Post, given that their business models are geared to fast movement of goods through the border process. The proposed reform seeks to ensure as far as possible, service delivery is not degraded. However, changing the threshold for low value goods is likely to increase the volume of non-account customers, increasing costs to administration, storage and invoicing. These impacts will rise disproportionately with volumes – hence they will increase more the lower that any GST threshold level is set. At lower thresholds, risks also rise that customers will choose not to accept goods, leading to increases in returns to sender.

Implementation issues

- Process, infrastructure and technology changes

The key implementation issues for the process, infrastructure and technology are:

- the ICS and/or related systems needs to be scaled up to allow for potentially significant increased messaging volumes;
- while Customs and Border Protection has built a robust enterprise architecture, and has an established messaging standard that is widely accepted and used with industry, commercial operators and other government agencies, this system architecture and interactions with related systems will need to be clearly taken into account to ensure reform is able to be undertaken without disrupting existing services. This would allow the ICS and related systems to be used for any enhancements to ensure all systems are appropriately integrated and able to easily interact with both DAFF Biosecurity and Australia Post's own systems, as well as any platform that allows public interaction;
- new systems need to offer sufficient levels of flexibility, scalability and interoperability to ensure the architecture reflects 'design for life' considerations such that it supports changes as new platforms are introduced;
- as some of the proposed solutions (see below) allow for the public to potentially interact directly with the ICS, the interface must be secure; and
- solutions need to allow customers a seamless transaction whether the item is processed through the mail or an express carrier.

There will need to be a significant education campaign for consumers about any change so that undelivered parcels (awaiting payments) do not become an issue for licensed depots, international mail gateways, mail delivery centres and individual post offices.

Any changes would best be achieved through a program of phased implementation to ensure licensed depots and gateways are not overwhelmed by a sudden increase in the need to handle high volumes of items for revenue purposes. Issues with respect to staging of any pathway for reform are considered in further detail in Chapter 5.

For the foreseeable future, a large proportion of low value mail imports will arrive as packets (under 2kg) with no pre-arrival electronic data. While potential solutions have been developed to treat these goods for revenue purpose, they still need to be manually inspected by border agencies for community protection and biosecurity purposes. In the medium to longer term, this confines the extent to which technology can facilitate the movement of low value goods through the international mail gateways.

- Regulatory changes

Regulatory changes required under the proposed reform model include, but are not limited to:

- *simplifying taxation arrangements*: amendments to the *A New Tax System (Goods and Services) Act 1999* would be needed, first to allow the GST importation threshold level to be set independently of the duty threshold level as set in the *Customs Tariff Act 1995*, second to introduce a simplified GST assessment for low value imported goods or permit the deeming of values for transport and insurance in appropriate circumstances, and third to extend the circumstances where the overseas supplier of imported goods is liable for the importation tax (see below). Additional consequential changes are also likely to be required (see below);
- *streamlining procedures*: the provisions of the *Customs Act 1901* would need to be amended to allow low value goods to be cleared prior to revenue liability being met by the importer (provided appropriate financial security arrangements are in place with the relevant industry participant);
- *adjusting penalty and offence provisions*: amendments may be necessary to the *Customs Act 1901*, and the *Tax Administration Act 1953* to adjust the penalty provisions for undervaluation of duty or tax liabilities (see below); and
- *adjusting fees and charges*: amendments may be necessary to the *Import Processing Charges Act 2001*, the *Quarantine Act 1908* and the *Quarantine Services Fees Determination 2005* to adjust Customs and Border Protection and DAFF Biosecurity fees and charges to more closely reflect the activity costs of the agencies (see below).

- Other matters

- Input tax credits and refunds

Under the reforms, for low value imported goods, Australia Post, express carriers and freight forwarders are responsible for collecting the GST from importers, and remitting payment on a periodic basis.

Under the provisions of the *A New Tax System (Goods and Services) Act 1999* only the entity that imports the goods may be entitled to claim input tax credits if it is a creditable importation. While dependent upon how arrangements may be determined, it is likely that legislation will need to be amended to extend eligibility for an input tax credit to the registered importer, and remove eligibility from the postal or cargo operator, when it can be demonstrated that the importer has paid the tax equivalent amount to the postal or cargo operator.

The *Taxation Administration Act 1953* refund mechanism for inappropriately charged GST may also need to be amended. Under current legislation, the GST liability on importation is calculated by Customs and Border Protection and the importer is invoiced and remits the tax to Customs and Border Protection. If tax is overpaid, for example if paid mistakenly on a GST-free item, under the provisions of the *Taxation Administration Act 1953* only the entity that is liable for the tax is eligible for the refund.

There will be many instances under the proposed reforms where the postal or cargo entity responsible for determining if there is a tax liability could be unsure if the goods are GST-free or taxable. For example, under the medical supply exemptions, an electric reading aid¹⁵³ may be taxable or tax free depending whether it has been designed for the use by the disabled.

Perhaps more commonly, the import documentation on a low value import may not provide enough information to determine if the goods fall under the GST exemptions (see Chapter 2). In these cases if an express carrier, freight forwarder or Australia Post collects and remits tax on an import that is GST-free, there needs to be a mechanism established for the importer to claim back a refund on the tax paid. It is likely to apply to only a relatively small proportion of low value goods arriving into Australia, though it is anticipated to be relevant in relation to repaired or replacement goods. The potential low import value (GST) declaration should provide the capacity for an exemption to be claimed upfront. Consideration may need to be given to simplifying GST exemptions claimed at the border which relate to the *Customs Tariff Act 1995*, so as to remove the link between duty and GST arrangements.

Finally, a mechanism would need to be established to cancel the GST liability where a parcel is refused and returned to sender.

- Handling fees for international express carriers, other freight forwarders and Australia Post

With the role for revenue collection moving from Customs and Border Protection to express carriers, other freight forwarders and Australia Post, and taking into account the increasing volumes of low value goods which will need to be processed for revenue, there will be an increase in operating costs to these entities.

Consideration needs to be given to introducing a mechanism to recover administration costs associated with the revenue collection process. In the UK, Royal Mail and Parcelforce levy a handling fee of £8 (£13.50 for EMS) for items with duty or taxes payable to recover the costs associated with carrying out customs formalities, paying the import charges on the importer's behalf and collecting it from them. Similarly, in Canada, Canada Post imposes a handling fee of C\$8.50 per dutiable or taxable mail item (see section 2.2.3). Prior to the introduction of ICS express carriers included a surcharge in their fees to recover costs of the SAC process.

In the first instance, the amount of any handling fee relating to an individual business should be determined by that business itself.¹⁵⁴ In the international mail environment, however, a potential issue may arise in that the determination of any handling charge may involve costs that relate to tasks able to be undertaken either Customs and Border Protection or by Australia Post, and in the latter case, by Australia Post in its own right, as an agent of Customs and Border Protection or possibly even as a delegate of Customs and Border Protection. While this should not affect either the design or underlying cost of the reform, it could affect who would be responsible for particular costs. As this will likely require discussion with the States and Territories, it is not an issue that is able to be determined within the scope of this investigation.

¹⁵³ For more information on the GST-free medical aids refer to Schedule 3 - Medical aids and appliances of the GST Act.

¹⁵⁴ In the case of Australia Post, some notification to the shareholder of any intended handling charge may be appropriate.

Any handling fee that may be established would need to be set so that it, on average, covers the cost of collection plus a margin. The fee may also assist Australia Post, express carriers and freight forwarders being seen as service agents rather than tax collection agents, where the latter might have a negative impact on their brands.

- Gifts

The modelling has assumed that all parcels received which are valued above a threshold will attract GST. No differentiation has been allowed for gifts, as occurs in other jurisdictions. This is likely to only be an issue in Australia if a low threshold was used, since an exemption for gifts would be anticipated to generally apply to a relatively low value.

- No consequential changes are proposed for the passenger environment for border security, biosecurity and revenue processes insofar as these processes relate to parcels.

RECOMMENDATION 4.1

General

That reform to the handling and administration of low value goods, incorporating a new option to collect revenue, would best be achieved through the application of simplified GST assessment arrangements for low value imported goods between a separate low value GST threshold set above \$0 and below \$1,000. This would require modifications to existing processes, including:

- reconfiguring the systems to enable data capture and the simplified assessment of GST through reporting and clearance processes in the cargo environment, pre-arrival data exchanged electronically by Australia Post and Customs and Border Protection and data manually captured by Australia Post in international mail gateways;
- requiring Australia Post, express carriers and other freight forwarders to be responsible for collecting and remitting the revenue liability;
- permitting clearance of goods from licensed depots or the international mail gateways – on an opt in basis – prior to revenue liabilities being met (subject to financial guarantees being in place from the relevant cargo or postal entities). Entities would be permitted to incorporate their collection costs into any direct or indirect charges imposed on importers; and
- making ancillary changes to cater for increased numbers of business GST deferrals, more compliance activities and processing of claims with respect to GST exemptions.

Modifications would be based on the functional elements set out in Figures 4.3.1 and 4.3.2, which detail the process changes for both the cargo and postal environments. Further details of business requirements are set out in Appendix D.

A Steering Committee consisting of senior representatives from Customs and Border Protection, the ATO, DAFF Biosecurity, CAPEC, Australia Post, and a representative from the States and Territories would be needed to oversee the development and implementation of these change processes.

International mail environment

To further enhance the handling and administration of low value goods, complementary reforms could be undertaken in the international mail environment to establish more consistent reporting and import clearance processes across import streams. This would primarily be achieved through the use of pre-arrival electronic data to streamline border agency processes to allow more targeted, risk based assessment over time.

Together with the modifications required for revenue collection, this approach would require:

- a redesign of the physical layout of international mail gateways;
- b modifications of systems to capture and risk assess data provided by Australia Post in a manner consistent with current cargo reporting and clearance processes;
- c development of system interfaces with Australia Post; and
- d implementation of processes to manually capture value data to assess revenue liability for goods without electronic data (by Australia Post – possibly as delegate or agent of Customs and Border Protection).

Further details of design elements are in Appendix D. A Steering Committee consisting of senior representatives from Customs and Border Protection, DAFF Biosecurity and Australia Post would be needed to oversee the development and implementation of these process modifications. The Steering Committee should be supported by select technical working groups responsible for providing detailed advice on the functional specifications and design parameters in the following areas:

- a ICT systems design; and
- b business process design, including the physical layout.

Business case development

Given the nature and complexity of the task, and the timeframes available, the costing of the proposed approach aims to provide a ‘rough order of magnitude’ of anticipated benefits and costs across a range of alternative scenarios. While this can guide the direction of policy development, it is not a business case for the reform proposed. In recommending the proposed approach as the most feasible, it is recognised that detailed business cases need to be prepared and approved before funding is allocated.

4.3.2 Pre-registration for direct debit (*Reform component 2*) and self-assessment of GST prior to arrival (*Reform component 3*)

Description

These reform components are designed to facilitate faster movement of goods through the border.

Pre-registration for direct debit enables purchasers – on an opt in basis – to register through a secure online system that allows for:

- a once-off registration of key purchaser details;
- access to account information on a secure basis;

- direct debit of real-time assessment of imposts and charges from the importation of low value goods where the purchaser is the recipient of the goods; and
- generation of a tax invoice.

The purpose of this system is to facilitate electronic collection of any GST liability and other relevant fees and charges, thereby reducing the costs associated with this process.

Building on this functionality, self-assessment of GST¹⁵⁵ would provide purchasers the capacity – on an opt in basis – to enter the details of goods purchased from overseas directly to the border agencies prior to their arrival, and to pay for any taxes (and other fees) that may be associated with these goods. To facilitate GST deferral for businesses, the process would require that a new low value GST clearance declaration allow for inclusion of the ABN. This will ensure alignment with business and accounting practices for those entities registered for GST deferral.

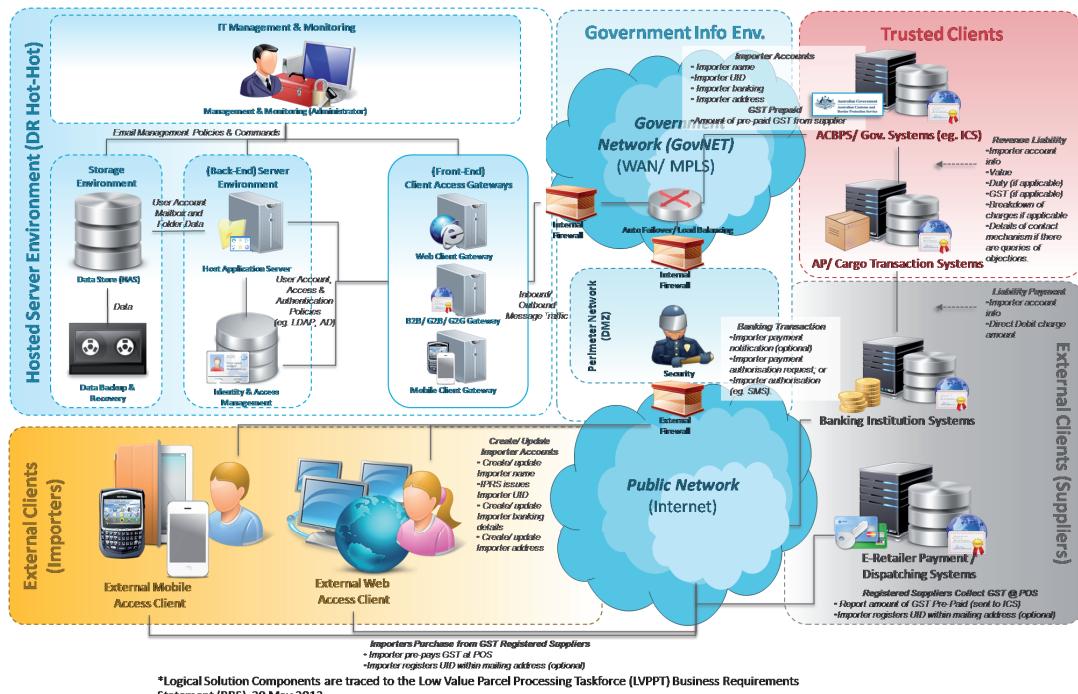
Costs

Costing for these reforms was undertaken jointly as it was determined that the costs associated with development of an Importer Pre-Registration System (IPRS) encompassing both elements was most efficient given the many common elements (even if it was determined that only partial functionality was ultimately required). The IPRS has also been designed to accommodate reform relating to the collection of GST by overseas suppliers (*Reform component 4*).

The role and function of the IPRS are illustrated below (see Figure 4.3.7). Brief details on functions and the business requirements for pre-registration and self-assessment are set out above and in Appendix D.

Figure 4.3.7

Importer pre-registration system (IPRS)



¹⁵⁵ Self-assessing duty has been excluded from this analysis because of the difficulty associated with identifying the correct tariff code by individuals (see Chapter 3).

Costing for the IPRS uses a high-level architecture view developed based on the identification of the combination of conceptual services and logical components.

ICT implementation costs primarily relate to costs which would be incurred in developing and acquiring this new system. These costs consist of:

- personnel costs;
- system costs to purchase physical solution components, including supporting software, servers, databases and software systems; and
- associated user acceptance testing and training costs.

The cost to implement the IPRS is estimated at just over \$5 million, with its development estimated to take approximately two years (see Table 3.4.13).

Table 4.3.13

IPRS Implementation Costs

Cost Category	Cost (GST Inclusive)
Personnel	\$ 4,969,981
<i>APS Personnel</i>	\$ 2,511,001
1. Needs determination	\$ 277,032
2. Capability requirement definition	\$ 600,682
3. Acquisition	\$ 1,633,287
<i>Contractor Personnel</i>	\$ 2,458,980
3.1 Acquisition - Software requirements analysis	\$ 491,796
3.2 Acquisition - Preliminary design	\$ 737,694
3.3 Acquisition - Detailed design	\$ 614,745
3.4 Acquisition – Code and unit testing	\$ 245,898
3.5 Acquisition - Integration and testing	\$ 368,847
IT Systems	\$ 77,515
Application Host Servers	\$ 58,768
Client Access Gateways	\$ 18,747
Total	\$ 5,047,496

A year on year operating cost was also extrapolated for an estimated 15 year life of the application. The total operating cost over 15 years, excluding capital costs is estimated at around \$58 million, or on a straight line application, approximately \$3.9 million per year.

Assessment

The need to enable pre-registration to better assure delivery timeframes and lessen the requirements for additional logistics management strategies (for example, storage of unpaid items) appears to be recognised by both industry participants in both the international mail and cargo environments. This is reflected in the functionality of the proposed system being similar to those which many entities already have in place. Unfortunately, these proprietary systems cannot be relied upon under the proposed reform because – for many online shoppers – it is not clear at the time of purchase which entity will be bringing their goods into the country.

For purchasers, this reform offers a better service proposition than simply receiving an invoice in the mail and then paying it to facilitate receipt of the item. Under this reform, the purchaser receives goods more quickly as the payment process can be dealt with upfront. Additionally, items purchased through this method may be subject to a reduced or waived handling fee. To drive acceptance, this may form part of the implementation strategy. This would require both acceptance-testing with consumers to determine the best approach and a significant communication and education campaign to get a critical mass of consumers using it.

For express carriers, other freight forwarders and Australia Post, reform of this nature also offers a number of benefits – including providing cash flow where they are responsible for the collection of revenue but only required to remit payment on a periodic basis, reducing delays in delivery times that may otherwise arise, thereby enhancing their customer experience and alleviating storage issues.

Overall, this reform supplements the broader reform model being proposed, and as such is worth pursuing. However, an issue arises in the timing of its potential implementation. It involves a substantial cost, and may complicate the introduction of the more central reform elements.

In relation to self-assessment, there are potentially many thousands of unique data entries to be made into a system such as this, which means there is a high likelihood of errors being made in manual keying by individuals. This will be particularly true for those consumers who may only use the system once or twice a year, and thus are not familiar with the system. Although the design requirements for this reform have called for the option of submitting supporting electronic documentation to validate the data entered, data entry errors will occur; accidentally or purposefully. This may add significantly to compliance costs in the short to medium term, as well as requiring the need for a help line to assist consumers.

Two other issues that negatively affect the self-assessment reform component are the ability of importers to know whether GST is applicable to an import, and whether freight and insurance may need to be included in the value of an import for GST purposes. The latter is complicated by some invoices having freight and insurance explicitly stated and others which just present an all inclusive price. Any decision to either move to a simplified GST assessment charged only on the value of the item (not including freight and insurance which is not always known), or deemed to make allowance for freight and insurance may cause confusion and inequity either way and prove unpopular. Whichever is chosen, there will need to be an education campaign for consumers explaining the changes.

Initially, self-assessment appeared to have the potential to work both independently and in tandem with other measures, such as the introduction of pre-arrival electronic data in the international mail stream. Collection of revenue using this approach could be made more seamless and, after initial implementation costs, potentially cost effective. However, a more detailed examination suggests significant procedural and technical difficulties associated with this component, and as a result it is not supported at this time.

Implementation issues

In order to implement the registration for direct debit, an online portal for users to provide the relevant data for registration (including proof of identity) would need to be established. The first implementation issue would be who manages the online system. In terms of government agencies, this would likely be either the ATO or Customs and Border Protection. Given the collection of GST is involved, and it requires extensive interface with Customs and Border Protection ICT systems, it is potentially more practical that Customs and Border Protection be the responsible agency. This would also ensure that there is a single agency responsible for all aspects of the GST collection process at the border. It is anticipated that if this were to occur, existing arrangements between the ATO and Customs and Border Protection would need to be adjusted to encompass this system.

A possible alternative to having a government agency responsible for such a system is to offer it for competitive tender. Australia Post, for example, is moving away from just processing hard copy mail to developing digital mailboxes, and may be interested in operating a portal on behalf of the relevant government agency. A serious complication, however, is having an entity that is involved in the import process, such as Australia Post, also responsible for a system that needs to be universal. There is likely to be some reluctance amongst industry participants if just one of them was to control such a portal.

One significant issue in regard to implementation relates to the method by which a direct debit item can be identified on arrival and as it moves through the border process. For reasons of privacy and security, it would not be feasible to use an individual's tax file number to achieve this outcome. Consequently, purchasers would need to be issued with a unique identifier code at registration, which could be included on the package by the supplier prior to delivery. In order to assure that this reform provides a functionally secure outcome:

- Australia Post, express carriers and other freight forwarders would have to agree on a universal process to recognise identification codes;
- the best solution would be to generate a unique code by one organisation (such as the ATO) and to have it recognised by all participants in the import process. To prevent instances of fraud, a proof of identity check would be required at registration (for example 100 point check);
- analysis and testing would need to be undertaken to understand the technical feasibility of online checkouts being able to accept unique identifiers in a way that is universally accepted (for example Fred Smith x2y5r73); and
- given the generally slow uptake of opt in solutions such as this, an incentive (such as a reduced handling charge) will need to be part of the implementation process.

A primary risk associated with this approach is the potential for fraud if the means of identifying these parcels on arrival at the gateway is not workable. Finally, there would also need to be an extensive education campaign to educate the public about this change and its benefits.

RECOMMENDATION 4.2

In order to streamline revenue collection on low value imported goods, a centralised system for pre-registration for direct debit could be established over time. Brief details of business requirements for the registration of direct debit reform are in Appendix D.

System development includes:

- a establishing an online registration web interface and software system;
- b integrating the system with the ICS and other Customs and Border Protection systems, as well as industry business systems; and
- c reconfiguring of the physical border facilities.

While this process change could facilitate a significant proportion of parcels quickly into the delivery stream depending on take up rates, its overall efficiency and cost effectiveness depends on the level at which a threshold is set.

4.3.3 Collection of GST by overseas suppliers (*Reform component 4*)

Description

As the reforms detailed above provide for the collection of GST on low value goods, suppliers may express a desire or be extended an opportunity to operate through a process which simplifies certain border processes and allows collection of GST voluntarily.

For taxable importations, a reduction of the threshold would require reporting arrangements and payment taxes to be managed for each consignment. Under the taxable importation rules, a new approach could be taken to improve the low value importation process, which may satisfy border security and GST requirements. A new process could be applied to regular and trusted suppliers, whereby the supplier would be encouraged to enter all importations, which are shipped together, as one importation and effectively remit the tax on the sum of that importation. Apart from regular and trusted suppliers, other trusted suppliers such as those where there may be an ongoing commercial arrangement with Australia Post, express carriers and other freight forwarders may take part in this arrangement. In these circumstances, the supplier would not be registered for GST¹⁵⁶ and not entitled to an ITC.

An alternate view in the full consideration of this issue also encompassed the application of the taxable supply rules for all suppliers. For technical and administrative reasons, this is less likely to be feasible and the primary mechanism considered for this reform approach is through the taxable importation rules. For completeness, it is briefly considered below, even though it does not form part of the final recommendation.

Costing for the development of the aforementioned IPRS encompasses the systems costs required to implement this reform component (see above).

¹⁵⁶ Consequential amendments to the taxable supply rules and creditable importation rules under the GST Act would need to be addressed.

Assessment

The assessment of this reform is bound by practical considerations. In short, it should make the process of administration easier. A tax arrangement of this nature may not be enforceable on suppliers outside the country, and hence suppliers must voluntarily comply. They will only do so if they regard it in their commercial interest, which is more likely to be the case if it is simple and limited in its scope and application.

The operation of reform to taxable importation rules would require that the trusted supplier register for a bulk reportable import scheme voluntarily administered by Customs and Border Protection through the IPRS – which would not be the same as registering for GST – where they would be required to provide consignment level information and remit an amount equivalent to the value of the GST for the sum of those consignments. At the border this would then be formally reconciled as a taxable importation at a grouped consignment level. An important concept here is that the application of a threshold would be relative to the grouped level of the consignments and not the individual consignments within, under this process.

The grouped consignment would effectively take the form of a higher level of reportable documentation than currently exists, that would be provided to Customs and Border Protection to be used to assess border security and GST risk. This would be operated in such a way as to provide incentives to the suppliers that, for example, supply goods on a delivered duty paid (DDP) basis, to lessen the cost ultimately borne by their Australian purchasers relative to the individual costs that would be borne otherwise. Overall, this reform would cause as little inconvenience to their purchasers as possible, improving the process by which goods are managed at the mail and cargo gateways.

Making the obligation universally applicable increases the risk that GST will, in effect, be collected on goods by an overseas supplier, but never remitted to Australia. To avoid such outcomes, a key requirement of an overseas supplier who wishes to participate in this process would be that, as a guide, they are able to satisfy the following requirements:

- there is a trusted relationship with all interested parties in the process of administering the border and taxations processes;
- the agreed process not only satisfies the requirements of goods entering the country tax paid, but that the supplier can also assure packing of items in such a way that:
 - assures the provision of pre-communicated electronic data to allow for risk assessment of border and revenue risk;
 - provides details in that electronic data interchange that links the record of account for a consignment, or range of grouped consignments, to the item that will enter the country;
 - assures that the packaging will have acceptable identification that can be recognised electronically through a scanning process by any of the border participants;
 - the scanning event would allow for reconciliation between the information provided and the record of account to occur, also that the amounts which are remitted, to the equivalent of the assessed value of GST, are matched to the assessed amount for a taxable importation; and
 - the physical consignment note, or grouped note, clearly identifies required fields including tax status so that it may be visually inspected.

The capacity to establish a reform of this nature increases if it is done in conjunction with broader reforms which make it certain that goods will be assessed for GST, as they arrive into the country,

unless it has already been assessed and paid. However, it is also recognised that, relative to border processes, the nature of the goods would be a large determinant as to the efficacy of this scheme relative to overall capacity of this approach to streamline delivery of goods.

While this reform may not be able to be universally applied to all overseas suppliers, there is scope to make a sizeable impact with the engagement of trusted suppliers. The reform would support, and be supported by, existing commercial trends towards the engagement of trusted suppliers to streamline border processes.

The proportion of imports by large volume low value commercial suppliers, such as Amazon, as against small, one-off suppliers is not known, but anecdotal evidence suggests a growth in the proportion of large volume suppliers. To the extent that the proportion of imports by large volume importers and the option to pre-pay the tax liability is taken up, pressure will be taken off the border revenue collection facilities, with complementary benefits to border and biosecurity screening where pre arrival data on the goods is provided. Moreover, by allowing pre-payment of the tax liability at the time of purchase, consumers would have no further liabilities, in most cases. They would also be able to incorporate those costs into any purchasing decision.

An alternative approach would be to extend the taxable supply rules, where appropriate, to impose an obligation on certain suppliers – that at present, would generally not be recognised as having a connection with Australia – to require them to collect and remit GST, even if this could not be made enforceable because they are operating outside Australia's jurisdiction.

While compliance may not be enforceable, there is evidence to suggest that large regular suppliers would comply if there is a legal obligation, even if that obligation is not enforceable. For example Amazon, which has structured its supply conditions so that it is not subject to tax on its sales to Australia, complies with VAT and US taxation requirements.

However, a major difficulty with imposing this obligation on the supplier, through the taxable supply rules, is that it would potentially draw more foreign entities into the Australian tax system, which comes at an administration and revenue risk cost to the ATO. Further, it is inconsistent with the direction set out by the Board of Taxation in its review of cross-border transactions. The other alternate approach, based on the taxation on importation, is the more likely approach to be pursued.

Implementation issues

- GST law changes

The compliance monitoring and revenue risk issues, noted above, of having suppliers outside of the Australian legal jurisdiction responsible for remitting tax is currently countered by having a tax on importation regardless of whether the tax on supply has been paid. That is, the current structure of the GST legislation for overseas supplies to Australia is for a GST liability to apply to both the supply of the goods, when the supply is 'connected with Australia',¹⁵⁷ and on the import of the goods (regardless of whether there has been tax paid on the supply). There is no double taxation as in cases where the supplier is the importer, they are eligible for an input tax credit for the tax on importation.

Where the supplier is liable for tax on supply and importation, consideration could be given to not requiring the supplier to treat the supply as a taxable supply and also that supplier not being eligible to claim an ITC. GST registered purchasers may prefer to be the entity liable

¹⁵⁷ An overseas supply of goods to Australia is 'connected with Australia' if the supplier imports the goods into Australia or installs or assembles the goods in Australia.

for the GST on the taxable importation to claim an ITC. Alternatively, rather than the current situation where the supplier must remit tax for both taxable supplies and taxable importations, then claim back an ITC, under the proposed reform, the taxable importation would be payable by the supplier as early in the process as possible to avoid goods being held at the border.

The proposed reform would need to consider consequential amendments to the taxable supply rules and creditable importation rules under the GST Act. The intent of the change would be to give effect to processes to enable voluntary compliance by overseas suppliers to take advantage of the commercial advantages from having their goods streamlined through the border process. Should there be some dilution of this perceived advantage, either because the suppliers have imperfect knowledge of the proposed reforms or because of some delay in their implementation, there would be a case for considering regulatory reform to extend the circumstances to where an overseas supplier has voluntarily submitted to a border and tax obligation. However, any change of this nature would need to be viewed in light of the broader direction of tax administration, which is contrary to this approach.

- Process, infrastructure and technology changes

The main process change this reform requires is for a mechanism to be put in place for those suppliers to be vetted by Customs and Border Protection and participate in the proposed scheme administered by Customs and Border Protection as trusted suppliers. The process of administering a new grouped consignment process would require the notification which may be roughly the equivalent of a master air waybill (MAWB). In a physical sense this would be attached to a pallet, or similar, and be able to be reconciled with details provided via the system and the grouped consignment note. The assessed value of the items would reflect the grouped value and not be assessed individually, so that the threshold applies effectively to the level of reporting and not to the case as to whether items may be broken up for individual delivery beyond the border.

If, on the other hand, items are individually noted, each item (and importer) will need a unique identifier, which can be placed on the package. In addition each package will need an identifier so that it can be ascertained that the taxes have been paid or need to be paid on that shipment. This may prove difficult to do until the bulk of items have data attached, and suggests that practicalities may require that this option be limited to suppliers who are able to provide data electronically so that goods may be tracked, or who supply in sufficient volumes so that the goods can be dealt with as a whole. The necessary ICT and reporting systems reconfiguration this involves has been considered in combination with the other reform in considering the cost and design of the IPRS (see above). This would also be more costly to administer and be more costly for the purchaser, relative to the recovery of the cost of reporting obligations, than the grouped alternative.

- Other matters

This reform could implement a system where the tax on importation can be effectively pre-paid by the purchaser, via the supplier, before the goods arrive at the border. This may require a reconfiguration of the ICT reporting arrangements to account for a new grouped consignment reporting structure, other than the reforms costed as part of the IPRS. This approach is aimed at not requiring an overseas trusted supplier to register for GST, only that they comply with the obligations of the proposed scheme.

RECOMMENDATION 4.3

To streamline revenue collection, legislative arrangements could be amended to enable and encourage appropriately regulated overseas suppliers to collect GST from purchasers of low value goods at the time of purchase.

Brief details of the business requirements of changes required to border processes due to this change are in Appendix D.

4.3.4 Improved processes, work practices and removal of duplication (Reform component 5)

Description

To complement the reforms set out above, this investigation sought to determine if additional enhancements to border agency processes and work practices in the cargo and/or the international mail environments could be achieved through:

- reducing the duplication of activities undertaken by the border agencies, and in the international mail environment, between Australia Post and the border agencies;
- further using research and analytical techniques to better focus activities on high risk goods and activities; and
- providing for ongoing development and implementation of transparent performance measures and reporting, to build upon the existing culture of innovation and actions already being undertaken by the border agencies.

Reduction in the duplication of activities

Initially, inspection activities undertaken by Customs and Border Protection and DAFF Biosecurity in the international mail environment appear to overlap because, at certain times, both inspect the same packet.

Closer examination, however, suggests that while in the past such duplication was present, a number of steps have already been taken to address this issue.

There are limited similarities in Customs and Border Protection and DAFF Biosecurity border risks. For DAFF Biosecurity, most risks occur through inadvertent or opportunistic importation of goods with a quarantine risk. For Customs and Border Protection, and to a lesser degree DAFF Biosecurity, the highest risks are from goods brought in as a result of criminal behaviour and sophisticated methods of concealment. While risks may differ, the processes to inspect/screen mail items, and some of the staff capabilities are similar. This suggests potential for skills and effort to be shared between agencies. This investigation finds that this type of shared activity is increasingly occurring.

Informal collaboration arrangements between Customs and Border Protection and DAFF Biosecurity have been in place for some time in international mail gateways. A MoU formalised this arrangement in July 2011. The border agencies now work more collaboratively to determine how both agencies can effectively work together to undertake required primary inspection/screening, while appropriately addressing border risks.

This collaboration provides Customs and Border Protection and DAFF Biosecurity with an opportunity to influence the handling and presentation of mail and enables Australia Post to

put in place business improvement activities without needing significant infrastructure changes. As a result, the volume of mail currently requiring intervention by both agencies has reduced significantly. In turn, this eases the pressure associated with increased throughput and capacity issues at most gateway facilities.

A similar culture of innovation is developing in the cargo environment. Under Annex A3 to its MoU, Customs and Border Protection and DAFF Biosecurity are working collaboratively in the air and sea cargo environments to:

- manage detained goods, unaccompanied personal effects, operation of x-ray machines, access to the ICS reports and other cargo related functions and approaches;
- develop cooperative arrangements for the development of border operations and surveillance activities involving cargo related processes and initiatives; and
- encourage greater information sharing, joint training initiatives and sharing of appropriate resources and cargo processes between the agencies.

This collaboration has resulted in a number of efficiencies to date. Some of these have included implementing collaborative screening to enhance the breadth of inspection activity within border facilities and the development of joint agency agreements where the border agencies collate and share risk information. However, given the growth expected in parcel volumes, the overall border and biosecurity effort can be expected to increase over time. Together with industry, Customs and Border Protection and DAFF Biosecurity should continue to review, refine and improve processes to reduce any duplication of effort by the border agencies, provided this is able to be achieved without compromise to border security and biosecurity outcomes.

One specific opportunity is the removal of Australia Post from its current role in opening mail in the international gateway. This requirement arises pursuant to section 90S(2) of the *Australian Postal Corporation Act 1989*, which provides for ‘an authorised [Australia Post] examiner to open an article in the presence of a Customs officer’, whereas Section 90T allows an Customs and Border Protection officer to open an article if it is suspected to contain drugs or drug precursors. There is no requirement within the UPU Convention for a representative of Australia Post to open articles for inspection by border agencies.

A change to allow Customs and Border Protection or DAFF Biosecurity to perform this role is likely to have only minor efficiency benefits, but would ensure clarity of responsibility in the processing of parcels in the secondary examination process. While this investigation did not find evidence of any issues in relation to security risks, this change would ensure that the opening and handling of goods is done by appropriately trained border agency officers.

Utilisation of research and analytical techniques to better focus activities on high risk goods and activities

For both Customs and Border Protection and DAFF Biosecurity, efficiency and cost effectiveness can be enhanced when, at any point in their risk management processes, intervention can be reduced on any particular item – for example, because the goods can be accurately identified earlier as not being of concern, or because, over time, the nature and level of risks that need to be managed can be refined.

The scale of the potential benefits differs between points in the risk management process, but can be material. For Customs and Border Protection processes in the international mail gateways, for example, the weighted cost of inspection for all products is estimated at around \$0.26 per item, while the average cost of secondary examination is estimated roughly at around \$60 per item.

Given that not all goods which are recommended for secondary examination result in identification of items of interest to border agencies, this points towards the level of savings better techniques could achieve.

It is not reasonable to expect that border processes can be made so precise that only goods containing prohibited or restricted items will be inspected or sent to secondary examination. However, pre-arrival data in the mail stream should provide a far more detailed information base for Customs and Border Protection and DAFF Biosecurity to assess, and target border risks. The development of better risk algorithms, for example, could improve rates of detection, and hence reduce unproductive interventions.

The reform process should allocate resources so both Customs and Border Protection and DAFF Biosecurity are able to take advantage of this enhanced information base from the outset. Given the timeframes involved in the provision of pre-arrival data, this does not need to be determined immediately. However, it provides a clear opportunity to enhance efficiency through the use of technology rather than continuing to rely on time consuming and expensive physical processes.

The process of refining the nature of risks to be assessed is iterative, and one already the focus of considerable effort. DAFF Biosecurity, for example, administers the Australian Centre of Excellence for Risk Analysis under a funding agreement with the University of Melbourne. Through this relationship DAFF Biosecurity already develops risk assessment tools, and reviews methodologies for collecting data, developing profiles and measuring performance.

While these are activities currently in place, availability of pre-arrival data should provide a step change in the level of information available to be assessed and used in risk management processes. Additional effort will be required to take best advantage of this information from the outset, including appropriate planning prior to the introduction of risk based processes in the international mail environment.

Provision for ongoing development and implementation of transparent performance measures and reporting

Australia Post measures throughput in the gateways for its own internal reporting and for quality of service where, if it meets targets, it gets additional payments of Terminal Dues and Inward Land Rates.

Customs and Border Protection and DAFF Biosecurity report regularly to Government on overall efficiency and effectiveness of processes against agreed outcomes and key performance indicators (set out in annual reports and in budget documents).

Both border agencies also have internal performance measures and reporting arrangements. For example, Customs and Border Protection has agreed arrangements for the inspection and examination of cargo and mail and measures improvement through:

- monitoring and review of performance reports and indicators;
- the ongoing handling and review of complaints;
- enhancement of systems to improve efficiency and effectiveness;
- management reviews of identified areas of interest; and
- encouragement of continuous improvement among staff working in these areas.

Further Customs and Border Protection publishes an annual Time Release Study (TRS) which measures the average time from arrival of goods at the border until permission is given for the goods to enter home consumption. The annual TRS:

- provides the border agencies with a holistic view of the cargo operating environment and how the different parties (government agencies and industry) affect clearance times;
- enables the measurement of year on year improvements in clearance times, including the effects of changes implemented as a result of previous studies or other initiatives;
- enables the identification of other improvement opportunities to further streamline border clearance processes and facilitate trade; and
- provides industry with a measure of border agency performance in delivering timely cargo clearance.

DAFF Biosecurity is continuing to reform the way biosecurity services are delivered. It recently reviewed (in conjunction with the Australian Centre of Excellence for Risk Analysis) performance indicators to develop new ones for the passengers and mail environments. These new indicators report how efficiently passenger and mail operations promote and enforce compliance with biosecurity regulations and pathway compliance. In turn, more accurate reporting will lead to better allocation of resources to manage biosecurity risks.

The nature of performance measures in place, however, does not always clearly indicate performance specifically with respect to low value goods. At one level this is understandable given the scope of activities undertaken by both agencies. For example, the processing and treatment of low value goods is only one part of Customs and Border Protection workforce management and planning considerations. However, with the greater volume of low value goods arriving into Australia, its growing importance warrants greater focus on measurement.

While both Customs and Border Protection and DAFF Biosecurity can provide data with respect to import declarations and articles scanned and physically inspected, little analytical data is captured or reported regularly for the assessment of efficiency of either the cargo or postal processes for low value goods on an integrated basis. This has been a constraint on this investigation, although it is noted that both Customs and Border Protection and DAFF Biosecurity have gone to considerable lengths to extract relevant data to assist in this investigation.

Nonetheless, the burden that this investigation imposed on these agencies reflected the current lack of easily accessible data or performance measures relating directly to low value goods. This also means that cost and performance outcomes for these goods are opaque. With increasing volumes arriving in Australia both as cargo and through the international mail gateways, the lack of direct performance measures and the inability to cost individual processes also makes workforce planning more difficult.

Developing and implementing transparent reporting measures to allow improvements in workflow and the use of personnel in the international mail gateways may alleviate some of these issues. Information gaps that could form part of such measures that have been identified throughout this investigation include:

- information on the time taken for goods to pass through particular stages of the border processes in the international mail environment;
- information on inspection, secondary examination and post examination volumes by product type in the case of Customs and Border Protection; and

- comparative performance data between international mail gateways, noting however that it was recognised early in the investigation that the nature of the task in each gateway differs widely, and so limited focus was placed on gathering further information given the scope of the investigation and the timeframes available.

In developing and implementing such performance measures, consideration will need to be given to the effort needed to collect this information, relative to the other tasks required to be undertaken in border processing. The task should become simpler as more pre-arrival data becomes available.

RECOMMENDATION 4.4

Building on the culture of innovation and continuous improvement that exists between Customs and Border Protection, DAFF Biosecurity and industry participants in both the cargo and mail environments, in order to enhance the quality, efficiency and effectiveness of border clearance processes, the following actions could be taken to enhance existing processes, remove duplication and enable the measurement of resource utilisation and efficiency:

- a remove the role of Australia Post in opening mail items in secondary examination in the international mail gateways;
- b as pre-arrival data becomes available in the international mail environment, provide funding to support additional research into risk analysis and risk management, so border agency activities in the cargo and mail environments appropriately focus on risk-return outcomes; and
- c facilitate future investment and resource allocation through developing and implementing additional performance criteria measuring the ongoing productivity improvements achieved by Australia's border agencies. The performance criteria could include, but not be limited to, the time taken to undertake inspection and examinations, as well as cross-border agency and cross-gateway performance measures.

4.3.5 Simplification of FID collection processes in the international mail environment (*Reform component 6*)

Description

Currently, making a FID in the international mail environment is inefficient and labour intensive. It can take up to a week for a declaration to be fully processed and goods released (see Figure 4.3.8 and section 3.4.13). Under the reform assessed, the process for submitting FIDs in the international mail environment would be automated from end-to-end to remove significant double handling from notification of liability to the release of the goods. The reformed process includes:

- an electronic request for the importer to submit an import declaration being generated, delivered to the importer through the post as under current arrangements, or electronically if pre-registration is established (see above);
- importers entering required information and submitting it to Customs and Border Protection electronically, without having to provide a physical copy of the import declaration;
- the online import declaration portal would enable automatic information capture by the ICS, reducing the need for any manual processing by Customs and Border Protection officers;
- automatic calculation of the duty or tax liability from the electronically entered data, which is forwarded online to the importer;
- automatic transmission of payment advice information to importers; and
- the integration of online remittance into the automated system (see Figure 4.3.9).

For further details of the basis for the assessment of the FID simplification process, see the business requirements in Appendix D.

Figure 4.3.8

Process map – current FID process in the mail environment

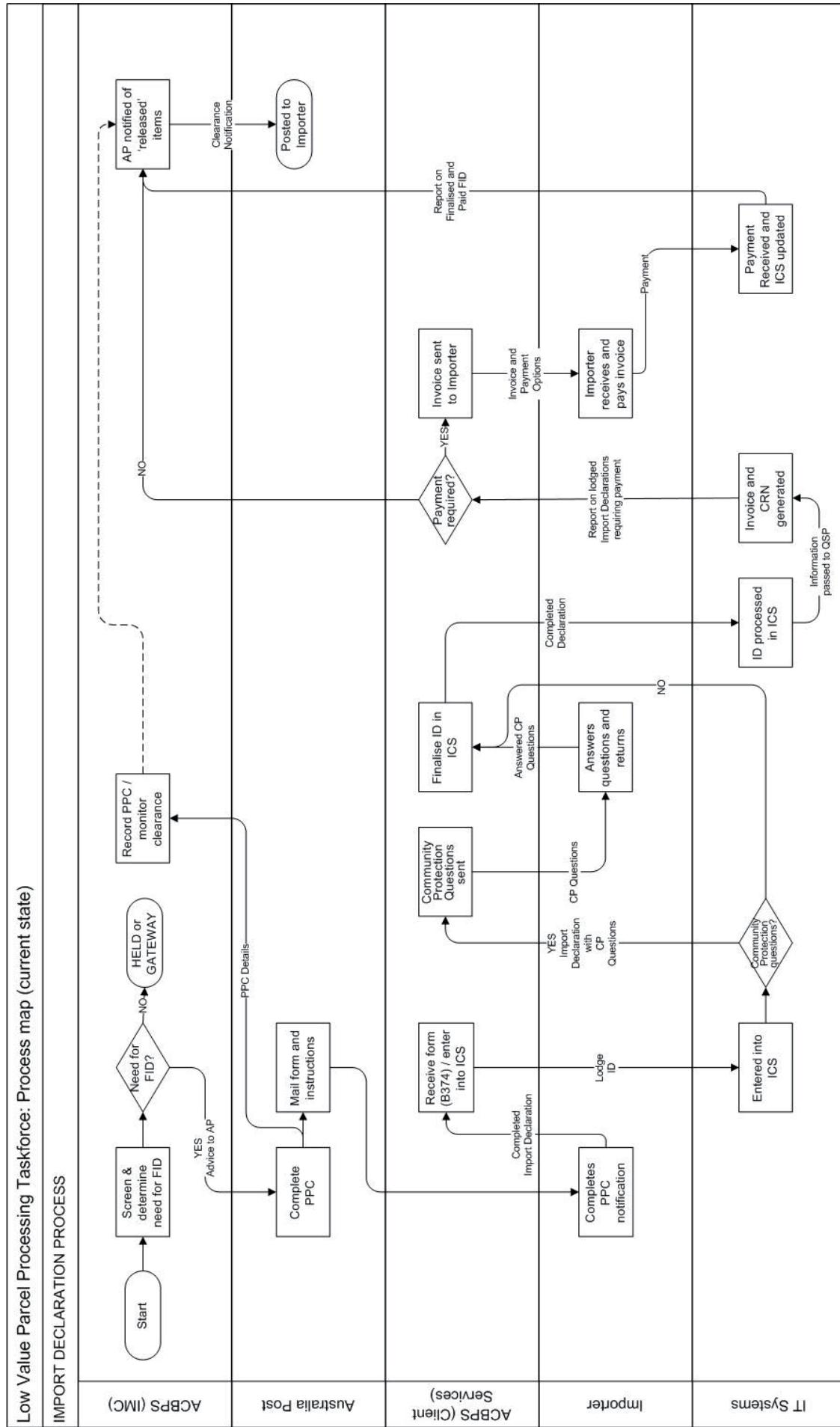
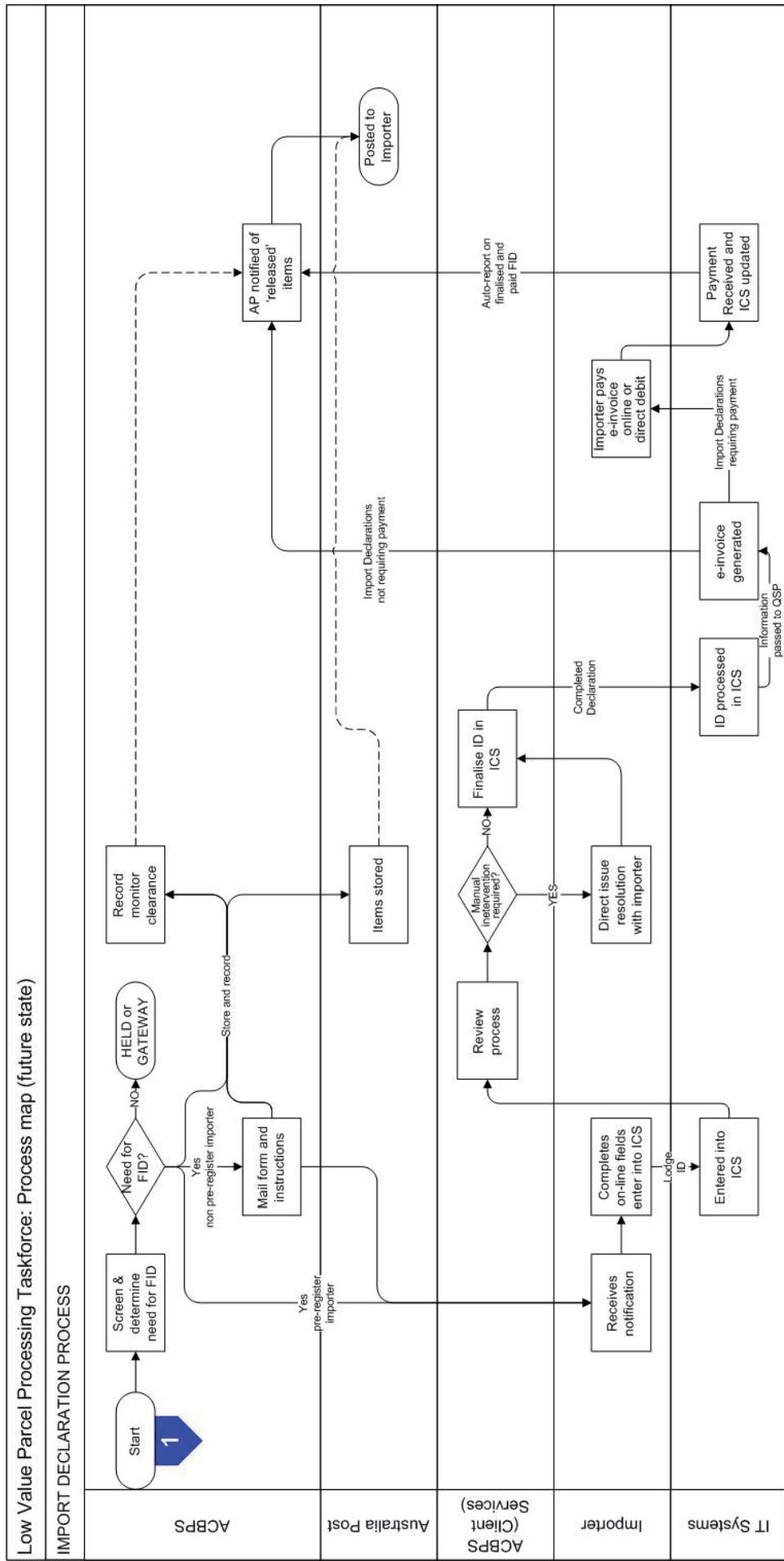


Figure 4.3.9

Process map – future FID process in the mail environment



Assessment

Based on Customs and Border Protection's current FID processing costs (incurred for international mail items above \$1,000 value) FID automation should deliver significant savings in the international mail gateway. Customs and Border Protection identified an overall cost of \$1.3 million¹⁵⁸ (2010–11) relative to processing manual FIDs, which equates to a cost of approximately \$76 per FID. However, this cost does not incorporate costs borne by Australia Post for notification and many of the direct interactions with importers required to complete a FID.

Development of a new electronic interface that works in conjunction with the proposed IPRS or as a stand alone system could reduce these elemental per unit processing costs. Capacity to remotely service importers through centralising key Customs and Border Protection client services would deliver the most immediate efficiencies. Additionally, it could improve the level of client satisfaction and reduce the number of queries to Customs and Border Protection, including complaints, which would further reduce the overall cost of administration. Potential savings are in the order of \$1 million per annum, with those resources available for use elsewhere in border processing given volumes of low value imports continue to grow.

Improved turnaround times would shorten the time for the importer's compliance obligations for declarations, positively impacting on their costs.

As to the cost of the proposed change, while it was necessary for preliminary cost estimates derived for the reconfiguration of the ICS to be supplemented by additional analysis by Customs and Border Protection (see above), this analysis did encompass a detailed technical assessment of changes required for automated FID processing. This covers the technical analysis of ICS components (backend) and preliminary analysis to develop solution options to modify CCF components (front end), with the view to incorporate a web services information exchange capability (see Table 4.3.14).

Table 4.3.14

Cost estimate – FID automation¹⁵⁹

Capability Lifecycle Phase	APS Personnel	PSI Personnel	Total
CAPEX			\$971,551.35
1. Needs determination			
2. Capability Requirement Definition		\$424,800.00	424,800.00
3. Acquisition	\$54,731.35	\$492,0000.00	\$546,751.35
OPEX			
4. Run/Sustainment			not estimated
Total			\$971,551.35

¹⁵⁸ Customs and Border Protection submission to the Taskforce, 17 May 2012.

¹⁵⁹ The estimate excludes any costs associated with software and infrastructure purchasing and licensing. The costs associated with delivering a user interface are not included. Out -year costs have not been applied to the estimate.

Based on empirical effort distributions across the software development life cycle (SDLC) for historical software development projects, the scope of work costed above typically accounts for 50 per cent of the software development effort; with the remaining 50 per cent typically corresponding to the (remaining) ‘Detailed Design’, ‘Code and Unit Testing’ and ‘Integration and Testing’ phases. Given these empirical distributions of development effort, the cost to fully implement FID automation changes within ICS has been estimated to be around double the amount outlined above – that is, approximately \$2 million. However, this estimate is not derived on the basis of a fully informed architectural assessment of the ICS, which is required as the basis for a cost estimate providing greater levels of confidence.

Successful operation of this system is bound by user acceptance and ease of use. Currently, an individual would find it difficult to effectively use such a system without some consideration being given to self-assess factors that would generate the declaration and amount of duty to be paid. To optimise use of the system, the importer must be able to easily navigate and assess their liability, and the self-assessed amount should not generate workflows which nullify the efficiencies gained from implementing such a system. However, not all recipients of parcels over \$1,000 will have, or have access to, the appropriate skills to use the system in the manner described.

The system may operate more effectively with an easy to use lookup table that supports the importer’s decision making process throughout the process of making their declaration. However, Customs and Border Protection would continue to need to provide assistance, as it is required under the Kyoto Convention (see section 2.4.4).

RECOMMENDATION 4.5

To streamline duty collection processes, and to facilitate future reform, Customs and Border Protection systems could be modified to provide a web interface to enable completion of FIDs in the international mail environment.

Brief details of the business requirements for these modifications are in Appendix D.

The effectiveness of these changes should be reviewed after three years, and periodically thereafter, to determine if they can be used further for a greater volume of goods.

4.3.6 Border agency fees and charges (Reform component 7)

Description

Two proposed reforms were assessed with respect to fees and charges:

- revise the structures and levels of fees and charges to be applied or administered by Customs and Border Protection and DAFF Biosecurity to incorporate goods valued at or below \$1,000 on which GST would be collected under the reforms outlined above; and
- re-assess Australia Post’s responsibility for costs incurred by DAFF Biosecurity for work undertaken at the international mail gateways.

Revision of fees and charges

The fees and charges applied or administered by Customs and Border Protection and DAFF Biosecurity on imported goods, particularly in the cargo environment, include costs to lodge FIDs, as well as other treatment and inspection costs (see Chapter 2).

Under current arrangements importers of goods valued above \$1,000 appear to cross-subsidise importers of goods valued at or below \$1,000 because fees and charges are applicable on FIDs, but ordinarily not with respect to SACs.

As it is beyond the Terms of Reference of this investigation to recommend a particular threshold level, it is not possible to determine the actual level and structure that border agency fees or import processing charges should be set at under any future process. It is, however, possible to set out the principles that should apply to the setting of such fees and charges, and also the steps that may be taken to facilitate the application of these principles.

Currently, border agencies impose relatively few fees and charges on goods at or below \$1,000 because costs of collection outweigh the revenue it would raise. Under the reforms outlined above, more goods would be subject to revenue collection in both the cargo and international mail environments. In these circumstances, applying border agency fees and charges would be consistent with government policy to recover costs. For the sake of simplicity, however, a balance may need to be struck between full cost reflectivity based on the extent of border agency intervention, and applying an average fee to all low value items. The latter is more practical, partly because it is easier to incorporate into revenue assessment processes. Goods imported by businesses which are able to defer GST may have their fees waived if that is the only impost to be collected.

To determine the level of fees, Customs and Border Protection and DAFF Biosecurity would both need to undertake a detailed analysis of all of their costs and the fees and charges they either apply or administer for import clearances. In part this is because there is some uncertainty about costs in the international mail gateways at each process level and in part it is because any fee-setting process needs to consider both low and higher value goods – the latter being outside the Terms of Reference. The Australian Government's cost recovery guidelines (as applicable) set out the principles and processes for this analysis. In the case of charges administered by Customs and Border Protection, this assessment could require legislative change as charges are currently set pursuant to the *Import Processing Charges Act 2001* and ancillary regulations. In the case of Australia Post, there may be community service obligations (CSOs) which warrant the application of partial cost recovery arrangements.

RECOMMENDATION 4.6

- a That border agency fees and charges should apply to goods valued below \$1,000 to which GST is applied (if any).
- b That in setting the structure and level of border agency fees and charges for such low value goods, and to reduce cross-subsidies that currently exist, fees and charges applied or administered by Customs and Border Protection and DAFF Biosecurity be reviewed in accordance with Australian Government cost recovery guidelines. This will require Cost Recovery Impact Statements for import clearance processes for both Customs and Border Protection and DAFF Biosecurity, and potentially amendments to the *Import Processing Charges Act 2001*.

DAFF Biosecurity charges to Australia Post

Currently Australia Post contributes \$8.2 million to DAFF Biosecurity pursuant to the *Quarantine Service Fees (Australia Post) Determination 2010* by the Minister for Agriculture, Fisheries and Forestry to help meet DAFF Biosecurity's costs in the international mail gateways.

As the proposed reforms to fees and charges would affect low value goods arriving through the international mail stream, a consequential reform that would be required is for the government to review this determination.

It is not appropriate at this stage to seek to prescribe the outcomes of such a review. However, the following aspects may be relevant:

- to some extent, Australia Post differs from DAFF Biosecurity's other clients in that national legislative and international treaty obligations require it to handle much of its product, rather than business decisions. This is more so the case for smaller sized and valued items contained in packets, as compared to EMS type products that are based on commercial arrangements between postal operators, rather than as UPU Convention activities;
- funding arrangements that operate under the UPU mean Australia Post does not have any real capacity to pass through DAFF Biosecurity costs directly to customers;
- a complex argument needs to be resolved as to the extent to which the benefit of DAFF Biosecurity's work is enjoyed by the community generally, rather than individual customers – and whether funding should be based on a cost recovery basis or through budget appropriations; and
- as with all government agencies, DAFF Biosecurity is subject to budgetary disciplines, so to enable appropriate planning and implementation, no immediate changes should occur until after the proposed review. To do otherwise would potentially adversely impact on DAFF Biosecurity's critical activities in the international mail gateways due to cashflow and resource constraints.

RECOMMENDATION 4.7

Consequent to DAFF Biosecurity fees and charges being applied to low value imported goods with a GST liability and recognising that any fees and charges placed on Australia Post need to have regard to its ability to recover costs, that DAFF Biosecurity's charge to Australia Post be held constant until a Cost Recovery Impact Statement is undertaken for the mail environment in accordance with the Australian Government cost recovery guidelines, and current funding arrangements are reviewed.

4.3.7 Compliance issues, offences and penalties (Reform component 8)

In developing new processes for the handling and administration of low value goods, compliance issues, and the nature of offences and levels of penalties that apply with respect to the import of low value goods, need to be considered.

Compliance issues of particular relevance to the import of low value goods are considered below, noting however that some are not able to be addressed fully within the scope of this investigation's Terms of Reference.

Under-declaration of values

An incentive to under-declare the value of goods arises wherever there is a threshold below which duties or taxes are not applied. This is not a sufficient reason not to apply a threshold – rather it raises the question of what processes should be put in place to limit such activity, and where practicable, identify and penalise under-declaration where it occurs. The nature and extent to which such processes should be implemented depends upon the scale and impact of such under-declaration.

Anecdotal information provided during this investigation highlights instances of under-declaration of values under existing processes. Data has also been provided to this investigation to indicate the extent of this activity, and how industry participants and border agencies are already managing this issue.

Customs and Border Protection undertook an enhanced compliance campaign with respect to low value imported goods in early 2011. In total, 33,000 physical examinations were undertaken on international mail articles and 32,000 assessments were undertaken on air and sea cargo declarations to assess compliance with the low value threshold. These 65,000 interventions resulted in 1,942 instances of undervaluation and bulk orders in breach of the low value import threshold.

Results from the random sampling element of the campaign, which reflects the general population, showed non-compliance rates of:

- 0.1 per cent in international mail; and
- 2 per cent in air and sea cargo SAC declarations.

In comparison, Customs and Border Protection's ongoing activity directed at areas of high risk showed rates non-compliance of:

- 3.2 per cent in international mail; and
- 9.0 per cent in air and sea cargo SAC declarations.

The revenue leakage data collected from this campaign was used to estimate the total revenue leakage from non-compliance with the low value import threshold due to under-declaration.

On the basis that Customs and Border Protection was processing around 8.2 million air and sea cargo SAC declarations and 163 million international mail articles per year, the estimate of revenue leakage due to non-compliance with the low value threshold equated to around \$57.5 million per year. This represented approximately 0.66 per cent of the \$8.7 billion in revenue that Customs and Border Protection collected in 2009–10 financial year.¹⁶⁰

Customs and Border Protection findings may in part reflect that many online processes are automated, and hence not readily susceptible to manipulation. They are also consistent with the majority of Australian consumers being inherently law abiding, and hence not likely to be willing participants in illegal activities. The current threshold level is also a factor – as goods valued at or below \$1,000 are not subject to duty or tax, there is little need to make or be complicit in a false declaration at those levels.

The evidence suggests that in conjunction with the new process outlined above, additional compliance activities could reasonably be taken for under-declaration, including:

- periodic testing/sampling exercises by Customs and Border Protection to ensure that levels of under-valuation are not increasing. The cost of the equivalent exercise undertaken in 2011 was approximately \$680,000. This would enable the community to be fully informed about the level of non-compliance, and provide regular information so Customs and Border Protection can prioritise its activities;
- a review of offences and penalties to ensure that these are appropriate given the new process envisaged. For example, a separation of thresholds for duty and GST may require amendment to provisions in the *Customs Act 1901* that relate to false or misleading statements as these

¹⁶⁰ See Customs and Border Protection: Low Value Importer Threshold Enhanced Compliance Campaign Report, January–March 2011.

refer specifically to the loss of duty, and do not reference GST (see for example, sections 243T, 243U). Similarly, penalty provisions require amendment as they relate to duty foregone, which would not be relevant where only GST is being assessed. Further, consideration should be given to the creation of an offence within the *Customs Act 1901* for false or misleading statements on GST (though there are separate provisions which relate to GST in relation to false and misleading statements in the *Taxation Administration Act 1953* (see sections 8K, 8M).

More broadly, such a review should also assess whether additional offences are required, and whether penalty provisions are set at a sufficient level or need adjusting having regard to relevant community standards.

The offence provisions contained in the *Customs Act 1901* (and the respective penalty levels) were established prior to the growth in online commerce, and hence relate primarily to a general commercial trading environment. For example, penalty arrangements under Customs and Border Protection's Infringement Notice Guidelines,¹⁶¹ which provide for streamlined penalties processes, are capped at 20 per cent of duties unpaid. This is less likely to act as a disincentive for low value goods than high value commercial shipments;

- as more goods become subject to revenue assessment, the number of goods under-valued will increase even if the proportion of goods remains constant. In these circumstances – and more so should the incidence of under-valuation be shown to be increasing – there will be a need to devote additional resources to identifying non-compliance and undertake enforcement. Customs and Border Protection compliance activities are currently deployed to manage certain categories of risk-regulated goods, economic (including revenue) and the cargo process. In a trading environment where participants largely self-regulate, Customs and Border Protection ensures compliance through pre and post clearance monitoring and intervention activities that are proportionate to the level of risk. Where instances of non-compliance are detected, there are a variety of treatment options. These range from education, warnings, administrative action such as suspension and revocation of licences and the application of infringement notices, through to prosecution. Currently expenditure on post-transactional compliance activities across Customs and Border Protection is in the order of \$23 million to \$25 million.

Funding that reasonably would be allocated to this activity needs to be determined based on risk. It also needs to balance the costs of undertaking the specific compliance activity and the cost the activity imposes on the broader community. Finally, the timing and level of any increased compliance activities needs to cater for a reasonable transitional period as importers become familiar with the new process being put in place.

Additional funding should be provided for the purpose of post-transaction compliance activity if broader reforms are adopted having regard to the volume of goods to be assessed for revenue. To enhance the effectiveness of these compliance and enforcement activities through community education, the outcomes should be clearly reported on an ongoing basis; and

- the additional revenue data gathered in any new process should be incorporated into Customs and Border Protection's ongoing risk assessment processes to better identify entities and other characteristics associated with under-valuation and non-compliance. This will help guide where to target future risk management and compliance activity.

¹⁶¹ See www.customs.gov.au/webdata/resources/files/InfrinNoticeGuidelinesDiv5.pdf.

RECOMMENDATION 4.8

- a That Customs and Border Protection undertake periodic testing to assess changes in the levels of under-valuation occurring in relation to low value imported goods.
- b That a review of offence and penalty provisions in the *Customs Act 1901* and the *Taxation Administration Act 1953* be undertaken to ensure that they are appropriate having regard to the growth in low value imported goods and changed processes, including any separation in the thresholds for duty and GST.
- c In conjunction with the introduction of any new process that results in a greater number of goods being assessed for revenue purposes, additional funding be provided to Customs and Border Protection to enable it to undertake additional compliance and enforcement activities. The level of funding to be provided will depend on the volume of goods to be assessed for revenue.

Undeclared business activities

In consultations, representatives from the retail industry expressed concerns about how imports of low value goods are increasingly associated with greater participation in business-like activity. Such activity needs to be undertaken on a level playing field.

Implementing enhanced border processes that capture and use increased levels of pre-arrival data – particularly in the mail environment – should assist the ATO and other relevant authorities to identify undeclared trading activity. This would expand processes already in place to share appropriate information. Such enhanced sharing may better assist and inform the ATO in treating key risks to the tax system and identify cross jurisdictional tax issues. These types of risks may include the cash economy, phoenix arrangements and carousel fraud.

The value of this type of information was highlighted recently with Centrelink accessing information from eBay on large sellers to undertake a similar type of assessment – in that instance, with respect to welfare arrangements. The provision of more detailed information to the ATO may allow for better tracking across import streams to determine incidence of undeclared business activities.

Any such compliance activities must accord with appropriate privacy arrangements in Australian law and any related international agreements that apply to the handling of imported goods – whether through the cargo environment¹⁶² or the international mail stream.¹⁶³

RECOMMENDATION 4.9

That subject to appropriate privacy arrangements, access to additional pre-arrival postal and cargo data be used to facilitate enhanced ATO assessment of undeclared business activities.

Product safety standards

Consultation with the retail sector highlighted that the expansion in low value imports has given rise to issues about the quality of those goods, including whether they meet Australian safety standards. Some related material has been provided by States and Territories. It gives rise to issues of consumer protection, and also to competition issues where Australian retailers are

¹⁶² There are no specific issues relating to privacy in the World Customs Organisation Revised Kyoto Protocols.

¹⁶³ Under Article 5 of the UPU Convention: 'A postal item shall remain the property of a sender until it is delivered to the rightful owner, except when the item has been seized in pursuance of the legislation of the country of origin or destination.'

subject to higher standards and costly review processes to ensure goods being sold meet these standards.

While Customs and Border Protection does not have a role in determining whether goods meet product standards at the time of importation, it does support the Australian Competition and Consumer Commission, and the State and Territory fair trading authorities in their work monitoring product safety through providing import information for suspected high risk goods.

Many imported goods may be subjected to additional treatments following importation to bring them up to Australian standards requirements, but some of the standards are voluntary, and not enforceable under law.

Customs and Border Protection, however, enforces some import controls for product safety purposes for goods listed under the Customs (Prohibited Imports) Regulations 1956. These include:

- toys with high lead content;
- cosmetics with high heavy metal content;
- money boxes contaminated with heavy metals;
- erasers resembling food or confectionary;
- novelty cigarette lighters (particularly those designed to look like toys);
- jelly cups containing konjac; and
- certain other goods permanently banned under the *Competition and Consumer Act 2010*.

It is not clear new border processes would assist greatly in dealing with this issue – save that as more goods arrive, proportionately greater resources would reasonably be expected to be allocated to the task of assessing whether goods are contravening these regulations.

As the Productivity Commission (2011) noted, the appropriate policy responses are likely to extend far beyond border processes to issues such as whether Australian standards should be more clearly aligned to international standards.

Without a detailed analysis of these alternative policy responses, it is not appropriate to make specific recommendations in relation to the level of resourcing (given that these issues may be appropriately addressed in a different manner).

In adopting this approach, it should be stressed that this report is not making any observation with respect to the appropriateness or otherwise of the current product safety standards as they apply to any good or product.

Counterfeiting

Under existing arrangements, Customs and Border Protection has a role to enforce trademarks that are registered pursuant to Pt XXII of the *Trade Marks Act 1995* (sections 131-141).

Counterfeit goods, which are often of substandard quality, may be seized and dealt with under the Notice of Objection Scheme, where the goods are intended for a commercial purpose and a brand owner has registered their rights with Customs and Border Protection.

Under these arrangements, Customs and Border Protection undertakes a process of inspection and seizure whereby it identifies and holds goods where a trademark has been registered with

it, and where it believes the goods are counterfeit. In registering a trademark with Customs and Border Protection, the registering party is required to indemnify Customs and Border Protection for its costs of making an incorrect seizure.

Where a good is held, notice is given to both the importer and the owner of the trademark. Responsibility for enforcement of the trademark rests with its owner and if this is not done within prescribed periods, or consent for forfeiture of goods obtained, then the goods are released.

Various retailer representatives have raised issues about how counterfeit goods are handled at the border.

Like the issue of product safety, it appears from a brief examination that issues of counterfeiting need to be tackled holistically. This would include, for example, examining the appropriateness of current trademark legislation, and more broadly the nature of private intellectual property rights and the appropriate role of a border agency or government in enforcing such rights relative to the owner of those rights.

Without a detailed analysis of these alternative policy responses, it is not appropriate to make specific recommendations on this issue.

4.3.8 Improved reporting and provision of statistical information (Reform component 9)

The nature of the import processes, and the number of parties with an interest in these processes, means multiple reporting arrangements are in place. Potential solutions set out below are based on an examination of those reporting processes, but only highlight those for which steps to improve current arrangements have been recommended. These potential solutions relate to improved reporting to the States and Territories and greater information provision to the ABS.

Improved reporting to States and Territories

As the States and Territories are the recipients of GST revenue collected through border processes, an assessment was made of the reporting arrangements contained in the GST Administration Performance Agreement.

While the reporting levels are in the main set at appropriate levels, the fluid nature of the overseas online retail activity, and the uncertainty as to its potential impacts on future GST revenues suggests States and Territories would be assisted if they received further information periodically updating them on the volumes of low value goods arriving into Australia, the value of these goods and the extent to which electronic data is available on these goods to facilitate changes in processes. It is anticipated that such information would assist the States and Territories in determining their positions about any potential changes to GST assessment arrangements on low value imported goods.

RECOMMENDATION 4.10

That to better inform State and Territory policy and investment decisions which they may make as the entities responsible for GST administration costs, annual reporting of GST outcomes by Customs and Border Protection, via the ATO, to the States and Territories could be enhanced through additional reporting of:

- a item volumes, by value bandwidths (per \$100) where possible, over three years (the current year and two previous years) and projected growth in items for the next year, in volumes and percentages;
- b item volumes, by value where possible, by percentage that have item level electronic pre-arrival data; and
- c any changes in policy and practice that expand the availability of pre-arrival data in the international mail stream.

Provision of information to the Australian Bureau of Statistics (ABS)

Border processes provide information to the ABS used in key statistical publications, such as the Australian National Accounts. Such publications are central to government decision making and benefit from the most complete and accurate information that may be practicably available. Information gathered by the ABS through border process is also used for other purposes – for example, with respect to anti-dumping determinations.

In considering the proposed solutions set out above, consideration was given to the potential impacts that any change may have on ABS activities. For example, one benefit of assessing proportionally more goods for duty is it would result in richer data. Conversely, any decision to assess fewer goods would result in less data being available for the ABS (as well as the border agencies).

While the proposal for a simplified GST assessment would not significantly improve current data levels, it would provide more accurate data on low value goods currently not easily determined. Even the sampling exercises proposed to be undertaken periodically would assist the ABS in estimating the value of goods entering the country.

RECOMMENDATION 4.11

That information gathered through sampling exercises, current and future clearance processes, together with any additional information made available through the capture and use of electronic data in the international mail stream for low value goods, be supplied to the ABS for use in the preparation of the Australian National Accounts and other publications.

5 PROPOSED REFORM PATHWAY

5.1 Introduction

The Terms of Reference call for the development of a timeframe for reform. Based on the recommendations, the purpose of this chapter is to set out a reform pathway that is structured and measured to deliver achievable and sustainable reform over time.

As the proposed new approach for handling and administering the low value import of goods, including an option for revenue collection, comprises numerous components, the changes that need to be established and implemented are multi-faceted and inter-related. Reform of this nature is complex, and may be more so depending on the volumes of goods upon which revenue is to be assessed.

The critical factor in determining processing volumes is the tax threshold. It is not within the Terms of Reference to recommend any particular threshold. However, in considering the potential reforms to current processes, the assessment process makes it clear reform will be less cost-effective at certain processing volumes.

The disruption of import processes and activities that occurred following the introduction of the ICS highlights the need for careful implementation. The most important consideration is that the volume of goods being processed for GST should not increase unduly until the infrastructure and systems to manage it are fully implemented, tested and incorporated into relevant industry and border agency processes.

Many of the proposed reforms depend on legislative change. While it is assumed that these legislative changes could be done contiguously with the preparatory work required to implement new processes, endorsement and timing of such changes lies solely within the purview of the Parliament.

While legislative and infrastructure establishment phases can perhaps be expedited, the implementation phase needs to be introduced incrementally to bed down system changes before they are applied across a large volume of goods.

An incremental approach may also be taken with complementary reforms, so decisions on their establishment can be postponed until the central components are successfully implemented. For example, voluntary or non-enforceable pre-arrival tax remittance options will have a better take-up if the compulsory, comprehensive border process reforms are in place.

Finally, reforms depend, at least in part, on the availability of information to be provided by overseas parties. As the timing of the provision of this information is, to some extent, outside of Australia's direct control, staging reforms should depend on achieving certain targets for information provision.

5.2 Reform pathway

5.2.1 Overview

Figure 5.2.1 represents the three phases to the reform pathway:

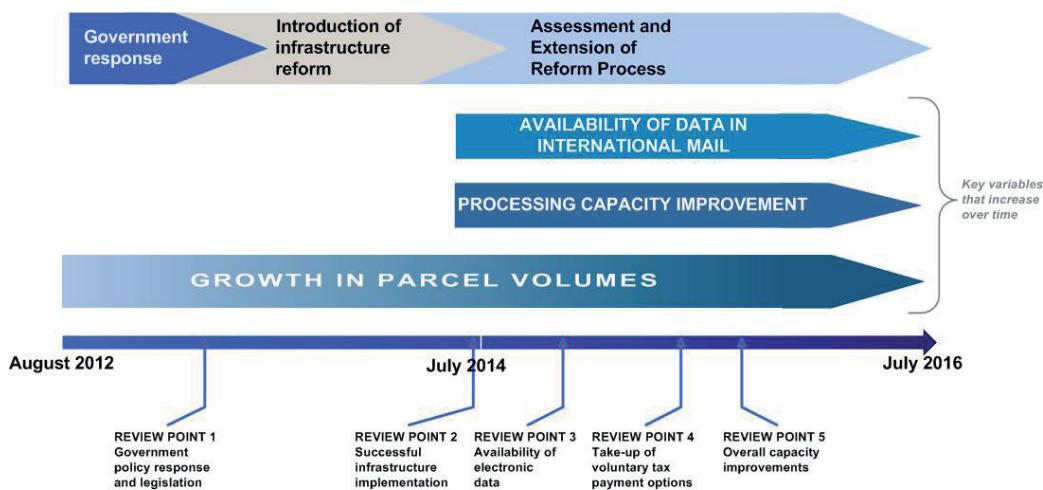
- Phase one encompasses the Government policy response to the report's recommendations and, assuming support, the introduction of the necessary amending legislation (*Government Policy Response and Legislation*);
- Phase two is the work required to put in place the proposed reform; the nature and scale of work required will depend on the threshold that is set, and hence the volumes of parcels to be processed for revenue purposes (*Reform Introduction*); and
- Phase three is the ongoing process of review and assessment to determine whether the reforms may be extended to greater volumes of goods than is likely to be feasible in any introductory phase (*Reform Assessment and Extension*).

Timing of the introduction of the proposed reforms and, more particularly, the incremental extension of GST to growing volumes of goods should be an iterative process. Availability of pre-arrival data in the international mail stream, growth in parcel volumes and the extent to which complementary reforms take pressure off the border processes will shape this process. This relationship is represented in Figure 5.2.1 by the variables increasing in weight from left to right so that, as volumes increase, so does the availability of pre-arrival data and the processing capacity from reform take-up.

The iterative nature of the pathway is represented by 'review points' to assess whether the reforms are delivering the anticipated border processing efficiencies. This allows for further consideration to increase volumes of low value goods assessed for revenue collection purposes. For example, a review point could be the number of parcels in the international mail stream that would require manual processing. The Government should set the review points in consultation with Customs and Border Protection, DAFF Biosecurity, the ATO, the States and Territories and industry participants, in particular Australia Post.

Figure 5.2.1

Reform pathway



Agency, industry and community engagement

Given the many agencies, industries, responsibilities and interests involved, ongoing engagement is needed to develop this systemic reform so border security, biosecurity, competitive neutrality and revenue requirements are balanced and the resulting system supports Australia's interaction with the digital economy, allowing for the large expected increase in online retailing, and does not impose unwarranted barriers to trade.

Stakeholders consulted held widely divergent views on where the systemic balance might rest. It remains important, in implementing any changes, to continue to engage with stakeholders to explain the context of reforms and encourage their support.

Industry representatives in the retail, post, cargo and border security environments were engaged throughout this investigation and appreciate the broad complexity of the issue. Reforms, especially to the GST threshold requiring more tax processing, will need an integrated response from these entities, involving additional costs for some. Continued extensive engagement will be required to ensure their adjustments are coordinated and no unnecessary compliance or administration costs arise.

It has not been possible to engage extensively with the broader community as part of this investigation. Changes to the taxation of low value imports, which could be reasonably assumed to be a consequence of the reforms outlined, may mean an increased tax liability and compliance costs for consumers. Consumers will require information regarding these policies, which are not intended to impose barriers to the development of the online market, but to support Australia's participation in the digital economy in a consistent and fair way.

Consumer groups should be encouraged to participate in ongoing dialogue and public education campaigns to increase awareness and understanding of the reforms in the public arena.

5.2.2 Key steps

Phase one: Government policy response and legislation

Assessment of the proposed recommendations

Key steps

1 *Government assessment*

The importation and taxation of low value parcels are cross portfolio responsibilities. The Government will assess the proposed reforms with input from a range of departments and agencies, including Customs and Border Protection, DAFF Biosecurity, the ATO, Treasury, DBCDE and Australia Post.

The proposed reforms are of direct relevance to the States and Territories as they would be the beneficiaries of any increase to GST revenues that would be collected as a result of changes to the GST arrangements for low value goods. The States and Territories are also responsible for the ATO's costs of GST administration. Based on the arrangements that exist between the relevant tiers of government, the States and Territories may be responsible for some of the costs associated with putting the reforms in place.

Given that any change to the tax legislation on imported low value goods may mean an increased tax liability and possibly new tax compliance costs for consumers and other domestic purchasers, it will be important for the Government to consult with the broader community, so that the ultimate effect of the reforms is to ensure consistency and fairness in tax arrangements for all members of the community.

2 *Legislative reform*

If supported, a range of legislative and regulatory changes will be required for the reforms. While it is beyond the scope of this report to comprehensively detail all possible changes, key amendments are set out below (see Table 5.2.1).

Table 5.2.1

Key legislative reforms required

Legislation	Amendment
<i>A New Tax System (Goods and Services) Tax Act 1999</i> and ancillary regulations	<ul style="list-style-type: none">– uncoupling GST importation threshold from the duty threshold– amending the taxable importations provisions to allow for non-border payment of tax– amending the ITC and refund provisions to ensure the entity on whom the tax liability falls has access to an ITC or refund where appropriate
<i>Australian Postal Corporation Act 1989</i> and ancillary regulations	<ul style="list-style-type: none">– amending the offence provisions to remove the requirement for only Australia Post to open items in secondary examination in the international mail gateways
<i>Customs Act 1901</i> and ancillary regulations	<ul style="list-style-type: none">– amending provisions for the clearance of goods– amending offences and penalty provisions
<i>Taxation Administration Act 1953</i> and ancillary regulations	<ul style="list-style-type: none">– potentially changing the penalty provisions for undervaluation of low value imported items
<i>The Import Processing Charges Act 2001</i> and ancillary regulations	<ul style="list-style-type: none">– potentially changing Customs and Border Protection fees and charges
<i>The Quarantine Act 1908, the Quarantine Services Fees Determination 2005</i> and ancillary regulations	<ul style="list-style-type: none">– potentially changing DAFF Biosecurity fees and charges

If the Government supports the proposed reforms, the decision and relevant legislation could be in place by 1 July 2013. The nature and timing of a Government response cannot be anticipated and this date is only a feasible target. Legislation requires consultation and drafting, and usually two Parliamentary sittings or more for passage. Of course, should it wish to, the Government could seek to introduce and pass the legislation more quickly, although the potential scope and complexity of the legislative change required under the proposed reforms should not be underestimated.

Phase two: Reform introduction

Key Steps

1 *Redesign of physical and IT infrastructure*

The physical infrastructure reform is chiefly the reconfiguration of sorting, inspection and storage facilities at international mail gateways and potentially at delivery centers and post gateway storage areas. Express carriers and other freight forwarders are also likely to require time to make arrangements if a Government decision results in higher processing volumes.

Customs and Border Protection's ICS, QSP, and FMIS systems would need to be modified to incorporate a separate GST threshold and changes to the receipt of tax remittance. New ICT systems would need to be developed if the non-border facility reforms, such as registration for direct debit, are implemented.

Australia Post's ICT systems would need to be developed for Australia Post's expanded role in tax revenue collection and remittance, including interfacing with the ICS.

Cargo entities and affiliated service providers would similarly need to reconfigure their systems to cater for their greater tax revenue collection and remittance responsibilities and would need to align their business systems with the modified Customs and Border Protection systems.

As the reforms would involve changes to existing processes, sufficient time needs to be given to adequately integrate and test systems.

2 *Education and training*

Any new process needs to allow sufficient time so workers across all areas of reform are given appropriate education and training on any new systems.

3 *Community awareness campaigns*

Consumer groups should be encouraged to participate in an ongoing dialogue and public education campaigns undertaken to increase the awareness and understanding of the reforms.

A key factor influencing the timing of the introduction of process reforms is the extent of ICT system change required for Customs and Border Protection and industry participants, including Australia Post, express carriers and other freight forwarders. It has been difficult to establish a clear view of the extent of this change, given the systems architecture of the ICS and related systems.

This investigation is particularly mindful that the ICS is used across Australia's import and export clearance process. Given past experiences with this system, considerable care needs to be taken to ensure reforms to low value parcel processing do not impair these broader activities.

Given the significant changes, uncertainties around EDI, and the costs and risks of reform, Australia Post suggests an incremental approach to implementation and a timeframe of two years for preparation of business cases and introduction of necessary infrastructure, ICT system and business processes for volumes associated with higher thresholds.

In relation to the gateway physical infrastructure reforms, Australia Post advises this could take 18 months for a high threshold or as long as 4 years for a low threshold if that is determined at

the outset. The timing depends on investment decisions, which in turn depend on the anticipated increase in parcel processing volumes. The business case will need to be developed when the Government's intentions regarding the tax threshold are established. In this reform pathway, it is envisaged that in the initial implementation, a threshold would be set that would require relatively low volumes of parcels to be processed for revenue, so that systems and infrastructure could be properly tested and bedded down.

Based on the Australia Post estimates, a two-year timeline has been taken as a feasible target for implementation of the ICT reforms, although if the Government chooses, an earlier implementation deadline might be set, if more resources are committed or the extent of the ICT reforms are scaled back. Government agencies would generally be able to act on this two-year implementation timeline once a Government decision is announced, although costlier elements of reforms would likely be staged to start when legislation is passed. It would be a commercial decision for industry participants as to whether they waited for the added certainty of legislation being passed before implementing system changes.

Complementary reforms, such as for direct debit and supplier remittance, could occur contiguously with the central border process reforms, or be introduced after the successful implementation of core reform components. The timeline for these additional reforms means they could happen during the two-year estimated implementation period, or be staged over a longer two to four year period.

Phase three: Reform assessment and extension

Phases one and two are interactive processes incorporating agency and industry engagement in establishing new low value parcel border processes. Phase three, however, is a conditional process with the timing and extent of implementation of the border reforms depending on an assessment of the throughput capacity improvements achieved by the infrastructure, system and process reforms. This assessment is represented in figure 5.2.1 as 'review points'.

Key review points:

1 *Government policy response and legislation*

The reforms require legislation which is conditional on the Government's policy response to the proposed reforms, the Parliamentary timetable and competing legislative priorities.

2 *Successful infrastructure implementation*

The extent of ICT system changes required for both Customs and Border Protection and industry participants, including Australia Post, is uncertain at this stage and therefore the timing, cost and efficiency of the changes will determine the capacity for volume improvements.

3 *Availability of electronic data*

The availability of electronic data in the postal environment and its successful incorporation into revenue, border and biosecurity processes underpins the cost and throughput calculations for the gateway reforms. Changes to the forecast availability of electronic data will directly affect the number of parcels in the international mail stream that require manual processing and therefore the throughput capacity of gateways.

4 Take-up of voluntary tax payment options

The throughput capacity improvements of several reforms to take the pressure off the border processes, such as direct debit or the supplier remittance of tax, will be proportional to their take-up. A low take-up will elicit a cautious approach to incremental volume targets.

5 Overall capacity improvements

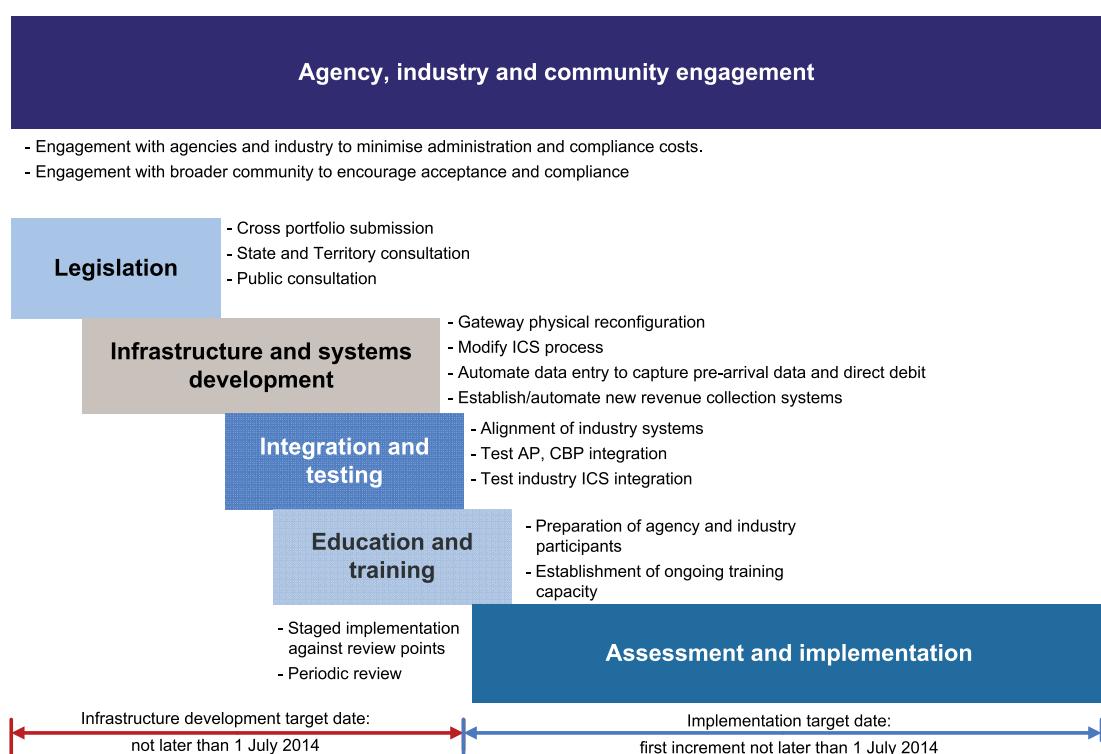
Border revenue, biosecurity and border security processes are complex, interrelated and high volume. The reforms will need to be assessed for their systemic improvements in border throughput capacity.

Depending on the Government's response to this report, phases one and two could be implemented in under two years, depending on the scale of the reforms to be implemented in the first instance. A feasible target to establish parcel processing reforms would be 1 July 2014, and possibly earlier, to the extent that tasks may be undertaken in parallel. Further reform to the parcel processing volumes depends on the assessment of processing capacity improvements and should be introduced incrementally (if at all). The timing of the subsequent increments will depend on how government agencies and Australia Post, express carriers and other freight forwarders assess their processing capacity in the light of the reforms. As improvements in processing technology and availability of pre-arrival data are expected to evolve over time, phase three has no specific end date, nor fixed dates at which thresholds may be lowered, and hence additional volumes required to be processed, as the Government will always have the option to review processing volumes.

Based on the elements detailed above, Figure 5.2.2 sets out the proposed sequencing for reform for the administration and handling of low value goods, including an option for revenue collection.

Figure 5.2.2

Sequencing of proposed reforms



RECOMMENDATION 5.1

That any implementation of reforms to the handling and administration of low value imports of goods, including an option for revenue collection, should ensure that:

- reforms with respect to the application of GST on low value goods be undertaken in conjunction with reforms to border processes in the international mail environment to enhance risk based assessment using pre-arrival data;
- reforms with respect to the application of GST occur in a staged manner having regard to the volumes of goods that need to be processed, the availability of data in the international mail stream and the costs associated with manual capture of data; and
- as the direct beneficiaries of any increase in GST revenue and the entities responsible for funding GST administration costs, the States and Territories are consulted with respect to any proposed reforms to the application of GST on low value imported goods.

No recommendation is made as to what threshold should apply with respect to a simplified GST assessment arrangement but it is recommended that due consideration be given to a staged introduction to ensure a smooth and efficient transition.

Appendix A

Biographical details for members

Bruce Cohen (Chair of Taskforce)

Dr Bruce Cohen is a barrister and a principal in private practice in the area of public policy. He is also an Honorary Research Fellow with the Grattan Institute and until March 2012 was the Chair of Victorian Rail Track (VicTrack), a Victorian government business with responsibility for the delivery of telecommunications, property development, freight and asset management services in the rail industry.

Dr Cohen has previously served on the boards of Melbourne Water, VENCorp and Snowy Hydro Limited, and as a Commissioner with the Victorian Competition and Efficiency Commission for its Inquiry into Reform of Melbourne's retail water sector. He holds a B. Comm., LLB (Hons) and M. Comm. (Hons) from the University of Melbourne, and a Ph.D. in Public Policy from the Australian National University.

Professor Caroline Chan

Professor Caroline Chan is Head of the School of Business IT and Logistics at RMIT University. Professor Chan undertakes research in e-commerce and Supply Chain Management. She has received numerous services awards include a 2007 GS1 Recognition of Excellence Award for Academic Advancements in Supply Chain Management.

Professor Chan holds a Ph.D. in Information Systems (Deakin), MEng in Systems Engineering (RMIT) and an Ir ('Ingenieur') equivalent to 'Bachelor of Engineering (Hons)' in Electronic Engineering (Petra).

Jim Marshall PSM

Jim Marshall previously held the position of the Executive General Manager, Postal Services for Australia Post which includes the mail, parcels and international mail businesses. In February 2011 he was appointed Board Director of Sai Cheng (a joint venture company established by China Post and Australia Post to provide one stop supply chain services). From October 2009 until 1 July 2010, Mr Marshall was the Chief Operating Officer of Australia Post and was previously General Manager of Australia Post's Mail and Networks Division.

Mr Marshall is also a Director of Australian Air Express and Star Track Express, two express freight companies that are joint ventures between Australia Post and Qantas. Mr Marshall has a B.A., B.Ec. and M.B.A. from Adelaide University and more than 25 years' experience as an executive in Australia Post, focusing on operations strategy and management.

Appendix B

How the Taskforce approached its task

Having regard to the timeframe in which this issue has been sought to be addressed, the Taskforce developed a process/work program that was both structured and iterative.

The methodology adopted by the Taskforce to address the matters set out in the Terms of Reference reflected three broad, overlapping phases of activities.

Phase 1 – analysis of reform context

In the first phase of the Taskforce's activities, the primary focus of its work was in the following areas:

Reviewing existing business and border agency processes

Potential new approaches to the handling and administration of low value imports of goods need to consider current business and border agency processes. This is because any reforms need to have regard both to the ongoing efficiency of any new arrangements and costs associated with moving from current to new arrangements – for government, for industry participants and ultimately for consumers. To this end, the Taskforce has reviewed:

- current international mail handling processes operating in Australia;
- air and sea cargo operations, such as by express couriers, freight forwarders, licensed customs brokers and cargo terminal operators;
- border security and biosecurity assessment processes for international mail, and both air and sea cargo;
- duty and GST assessment processes for international mail, and both air and sea cargo; and
- ABS statistical reporting requirements.

Reviewing regulatory arrangements

Reforms need to consider the regulatory arrangements under which industry participants, border agencies, consumers and other stakeholders operate. For example, reforms that would require changes to international treaty arrangements in the international mail stream must consider Australia's limited capacity to determine such reform. Similarly, timeframes must incorporate a sufficient period to change Commonwealth legislation and/or regulation. To this end, the Taskforce undertook a review of relevant instruments that may impact on the importation of low value goods. A brief summary of the key elements of these regulatory and administrative arrangements was contained at Appendix D of the Interim Report of the Low Value Parcel Processing Taskforce, published in March 2012.

Assessing current and future operating environments

New approaches need to have regard to the current and future operating environment, for example, opportunities to capitalise on developments in electronic data exchange and scanning technology, or international action – whether in the international mail stream or the broader trade environment. Approaches also need to consider current and future volumes of these low value imports, their characteristics and purposes. To this end, the Taskforce assessed:

- the current and expected volumes and attributes of low value imports in Australia (to the extent practicable);
- technological innovations with respect to parcel processing, tracking systems and import processing information management systems;
- international initiatives being undertaken with respect to international mail processing; and
- other international initiatives relating to low value imports including:
 - ongoing multilateral (e.g. WTO) and bilateral tariff reform processes which are being negotiated through FTA and which may reduce the number of goods subject to duty; and
 - the APEC Honolulu Declaration to ‘establish commercially useful de minimis values in our economies that will exempt low-value shipments from customs duties and streamline entry documentation requirements’.

Investigating alternative approaches which operate internationally

The Taskforce examined alternative approaches operating internationally as these processes may be inherently more efficient and also because the use of global standards may enable greater systems integration internationally, which would provide its own opportunities for efficiency improvements.

Key elements of the processes operating within these jurisdictions that the Taskforce examined include:

- the physical sorting processes utilised for security and/or revenue purposes, including alternative infrastructure designs and layouts; a range of sorting, tracking and scanning equipment; and a variety of manual handling processes;
- the nature and security of storage areas and facilities required for overflow goods awaiting revenue assessment (and the timeframes in which goods were cleared from these storage areas);
- the software and information management systems utilised for the assessment of revenue liability (and the timeframes in which those assessments were made for duty and GST purposes);
- the structure and operation of deferred payment schemes that enable goods to be cleared from mail gateways and cargo depots prior to revenue liabilities being paid by end customers; and
- a range of potential reforms currently being examined by mail and customs authorities that rely upon electronic data provision between postal partners, including enhanced risk assessment processes and streamlined revenue assessments.

As the Taskforce is required to respect confidentiality with regards to processes operating internationally, this report does not reference its views of specific aspects of these processes. However, the potential solutions which have been considered in this report have been determined having regard to these issues. It is noted that in each of the jurisdictions which the Taskforce visited, there is work being undertaken to enhance existing processes – primarily directed at the potential use of pre-arrival electronic data information for border security and revenue assessment purposes.

Phase 2 – Reform development and initial assessment

In the second phase of the Taskforce's activities, the primary focus of its work has been in the following areas:

Determining assessment processes

Potential solutions may be part of an integrated package or be mutually exclusive. Further, material differences in timeframes may affect when particular solutions may be able to be implemented. Actions undertaken in the short to medium term should neither unduly inhibit or prevent desirable future reform, nor result in stranded assets and wasted investment.

Potential solutions that may fit within such an integrated package of reform were assessed initially on a set of standard criteria. The criteria are based on the Taskforce's Terms of Reference, and include cost, efficiency, implementation, competitive neutrality, risk, revenue and legislative impacts.

Having regard to these assessments and their relationship with other possible reforms, a determination was made as to which of the potential solutions were subject to further examination, including detailed costings. The key factors taken into consideration in making this initial assessment are highlighted in this report.

These factors, together with detailed costings of selected solutions, the development of potential reform timelines, and a more detailed assessment of potential impacts, in consultation with industry participants and stakeholders, have been used in determining the Taskforce's final recommendations.

Developing reform options

In this phase, the Taskforce sought to develop a wide range of potential solutions for initial assessment, with more detailed work to be undertaken on short-listed solutions that appeared to the Taskforce to be most prospective (see below). In developing this range of solutions, the Taskforce had regard to a variety of factors, including the consideration of:

- the existing parcel processes being undertaken by air and sea cargo operators, Australia Post and Australia's government border agencies;
- current regulatory arrangements, including Australian legislation and international treaty obligations;
- alternative parcel processing systems operating internationally;
- local and international developments already occurring with respect to parcel processes; and

- the external environment in which this issue is being considered, including but not limited to the growth in international e-commerce and parcel processing generally, and the potential future border and biosecurity risks.

Initial assessment of potential solutions

The Taskforce assessed the range of potential solutions, and in so doing determined which potential reforms were subject to more detailed examination.

As noted above, the Taskforce recognised that potential reforms may not be mutually exclusive, and in some instances may be able to be undertaken contiguously and/or sequentially. Issues with respect to timing of potential solutions have been considered as the Taskforce developed its recommendations with respect to an implementation program for government (see further below).

In determining the potential solutions to be subject to more detailed assessment (and in determining its final recommendations), the Taskforce has made particular reference to the:

- broad range of issues raised during stakeholder consultations;
- information provided to the Taskforce by the border agencies; and
- information provided to the Taskforce with respect to alternative processes adopted internationally.

Phase 3 – Detailed assessment of prospective solutions (including costings)

In the third phase of the Taskforce's activities, the primary focus of its work has been in the following areas.

Detailed assessment of prospective solutions (including costings)

Following the first stage of the assessment, the Taskforce undertook a detailed examination of the reforms that it considers are most prospective. Where possible, this included undertaking detailed costings with respect to the changes that would be required. Where detailed costings have not been able to be undertaken, estimates have been made based upon the best available information.

Potential solutions for reform include changes to administrative processes, information systems and new infrastructure. To the extent that any such reforms may enable changes to existing threshold arrangements, the Taskforce again notes that any decisions with respect to this issue rest with the Government.

Development of reform implementation program

In determining its final recommendations, the Taskforce is required to develop an implementation program to be recommended to Government. This blueprint encompasses a proposed reform pathway for:

- the Government's assessment processes of the proposed recommendations;
- legislative and/or regulatory changes that may be required;

- the physical implementation of such reforms as may be proposed, including with respect to such of the following as may be required:
 - introduction of new handling and management processes;
 - construction of infrastructure;
 - development of information systems;
 - alignment of industry business systems with new handling processes; and
 - administrative processes.
- integration and testing between border agencies, industry participants and other stakeholders;
- education and training; and
- agency, industry and community engagement processes.

Appendix C

List of Stakeholders met by the Taskforce

Australia

Australia Post (AP)
Australian Bureau of Statistics (ABS)
Australian Customs and Border Protection Service (Customs and Border Protection)
Australian Federation of International Forwarders (AFIF)
Australian Music Association
Australian National Retailers Association
Australian Retailers Association
Australian Sporting Goods Association
Australian Taxation Office (ATO)
Bicycle Industries Australia
Conference of Asia Pacific Express Carriers (CAPEC)
Council of Small Business Organisations Australia (COSBOA)
Customs and Border Protection National Consultative Committee
Customs Brokers and Forwarders Council of Australia (CBFCA)
Department of Agriculture, Fisheries and Forestry (DAFF) Biosecurity
Department of Broadband, Communication and the Digital Economy (DBCDE)
eBay Australia & New Zealand
GST Policy Administration Subgroup
National Retailers' Association
Post Office Agents Association Limited
Productivity Commission
Retail Cycle Traders Australia
Shop, Distributive and Allied Employees Union (SDA)
Treasury
Visa inc.

International

Canada Post (CP)
Canadian Border Services Agency (CBSA)
Department of Finance Canada
Her Majesty's Revenue & Customs (HMRC)
Parcelforce (UK)
Royal Mail (RM)
Singapore Post
Singapore Customs
UK Border Force (UKBF)

Appendix D

Business requirements statement

Purpose

The purpose of this appendix is to describe the scope for (i) the elements of the Importer Pre-Registration System (IPRS), (ii) the low value parcel processing system at the gateway, and (iii) post gateway elements, for costing purposes. It is not intended that implementation of these requirements, in full or in part, are prescriptive for the effective adoption/implementation of any of the potential reforms outlined in this report.

Business Requirement

Definitions, Acronyms and Abbreviations

The following terms, acronyms and abbreviations are used in this appendix.

Term	Definition
ABN Client	Australian Business Number Client – A client who uses an Australian Business Number when they are submitting an Import Declaration.
ABN-DSC	A public key infrastructure digital certificate that acts as an electronic identifier for businesses dealing electronically with the government or with each other.
Australia Post	The Australian Postal Service
CCID Client	Customs Client Identifier Client - The unique identifier assigned to Customs and Border Protection clients who do not have an ABN or who elect not to use their ABN.
Consignee	The person/company who is the ultimate recipient of the goods. Whether or not they paid for the goods.
Customer Information & Support Service	Principal point of contact for the public with any queries relating to Customs and Border Protection matters.
Customs Broker	A person or corporation licensed by Customs and Border Protection to handle, on behalf of importers, the process of clearing goods through Customs and Border Protection.
DSC	Digital Signing Certificate – Software device used (in this context) to encrypt and decrypt electronic messaging between Customs and Border Protection and its clients.
Express carrier	Any one of the members of the Conference of Asia Pacific Carriers (CAPEC) which are: DHL, FedEx, TNT and UPS.
Finalisation	The final stage in the processing of an Import Declaration.
ICS	Integrated Cargo System – The ICS is the only method of electronically reporting the legitimate movement of goods across Australia's borders. The system features sophisticated risk management technology to help Customs and Border Protection officers target high-risk cargo, and introduces new compliance assurance models with an emphasis on working with industry to ensure accurate risk assessment and the swift movement of low risk freight.

Term	Definition
Full Import Declaration (FID)	This declaration is used for the importation of goods into Australia and includes Nature 10, 20, 30 and 20/30 FIDs. It is entered into the ICS by importers/brokers that use information sourced from commercial invoices to create the import declaration which must be supplied to Customs and Border Protection prior to the goods being cleared.
Lodgement	A stage in the processing of an Import Declaration by Customs and Border Protection.
Payment Advice	A notice (invoice) to an importer of the amount of revenue (duty and GST) they owe the Australian Government for a particular importation, and must pay before the goods will be released.
Purchaser/Importer/Owner	Includes any person being or holding himself or herself out to be the owner, importer, exporter consignee, agent or person possessed of, or beneficially interested in, or having any control of, or power of disposition over the goods.
QSP Financials	The Customs and Border Protection financial system relating to revenue collection, client information and dishonoured payments.
PPC	Parcels Postcard.

The requirements are divided into three main areas.

1. The development of the IPRS, has a two-fold goal as:
 - A data entry application for self assessment; and
 - An online tax collection system.
2. Enhance gateway efficiency through:
 - infrastructure and/or information systems changes to streamline international mail gateway operations (with respect to both Australia Post, express carriers / freight forwarders and Australian border agency activities); and
 - process changes to streamline international mail gateway operations (as a total process involving Australia Post, express carriers / freight forwarders and Australian border agency activities).
3. Post gateway elements to cater for the changed business processes and consequent compliance activity.

Design Principles

The following principles were used to guide the design process:

1. This is an end-to-end process with individual elements which may or may not be adopted as part of a final solution;
2. There is a separation of threshold for GST and duty;
3. Customs and Border Protection maintains responsibility for the calculation of revenue liability;
4. Goods are released by Customs and Border Protection to Australia Post or express carriers / freight forwarders prior to the receipt of revenue due;
5. Australia Post or express carriers / freight forwarders have the responsibility for revenue collection;

6. While the solution does not propose any change to the duty collection process, there may be the opportunity to leverage off some elements in order to improve the current process; and
7. The process should provide opportunities to minimise impacts and cost of compliance effects to the importer.

Structurally, the appendix proposes several key elements of change to current processes that may accommodate any potential change to policy settings with respect to low value parcels. In summary those elements are:

- A proposal to maximise the availability of pre-arrival data in the international mail stream;
- A proposal to remove the duplication of resources applied to physical processes in the International Mail Gateways;
- A proposal to delineate responsibilities for the following;
 - Australia Post and express carriers / freight forwarders are to be responsible for data capture,
 - Border Agencies to be responsible for identification and assessment of all risks, and
 - Australia Post and express carriers / freight forwarders are to be responsible for revenue collection on low value goods.
- A proposal to maximise new and existing technologies to mitigate risk to revenue collection and the costs associated with that collection.

Phase	Process element	Element key points
Pre-arrival	1.0 Registration – direct debit	<ol style="list-style-type: none"> 1. This is a new process for purchasers. The key elements of this process are: 2. The purchaser registers key information through an online system including: <ul style="list-style-type: none"> a. Name and address details, b. Electronic channel notification option (i.e. for receiving invoice information), and c. Authority for direct debit from their nominated bank account for any taxes payable on imported goods. 3. The purchaser may have the option of completing a Self Assessed Clearance and paying taxes due at time of purchase, providing details of the purchase pre arrival (e.g. value, description, supplier details, etc). An electronic copy of the invoice is attached to the self assessment. 4. The purchaser is issued with registration identification (ID) for any on-line purchase that may be matched in the data reconciliation / capture process.
	2.0 Self-assessment	<p>This is a new process for regular purchasers. The key elements of this process are:</p> <ol style="list-style-type: none"> 1. The purchaser registers key information through an online system including: <ul style="list-style-type: none"> a. Name and address details, and b. Electronic channel notification option (i.e. for receiving invoice information). 2. The purchaser has the option of completing a Self Assessed Clearance and may opt to pay taxes due at time of purchase, providing details of the purchase pre arrival (e.g. value, description, supplier details, etc). An electronic copy of the invoice is attached to the self assessment. The purchaser is issued with registration ID for any on-line purchase that can then be matched in the data reconciliation.
	3.0 Supplier collects/informs	<ol style="list-style-type: none"> 1. Regular suppliers may register for a scheme to identify and collects amounts of tax payable at point of purchase and collect from purchasers/importers. 2. Suppliers would register with Customs and Border Protection and provide key information through an online system, including description of goods and taxes collected from importers. 3. Goods are scanned and identified as pre-paid as a taxable importation and reconciled at the point of entry. 4. Data provided by a supplier pre-arrival may be utilised for risk assessment and potential pre-clearance.
	4.0 Pre-arrival item level reporting for EMS & Parcels	<ol style="list-style-type: none"> 1. This process currently exists for express carriers/freight forwarders in the international cargo stream. In the international mail stream, this would leverage off current initiatives by which national postal agencies will incrementally introduce the item level data reporting, with the potential for sharing with border agencies to effect a pre-clearance of the consignment before it reaches the border. WCO/UPU protocols are being observed and driving systems development. The full implementation is being driven by several key factors which are: <ul style="list-style-type: none"> a. Participant country; b. Mail product type; and c. International security requirements. 2. It is important to note that though this process pre-informs risk, be it border or revenue, it does not of itself influence the effectiveness of a payment mechanism for tax. In order to maximise the payment of tax it may work, for both streams, in a complimentary way with 1.0 or 2.0.

Phase	Process element	Element key points
Gateway/ Border	5.0 Data reconciliation(for goods that have pre-arrival information) 6.0 Auto tax calculation	<ol style="list-style-type: none"> When the goods are received in the gateway of either stream, they are identified by registration ID at the initial scan point indicating pre-arrival assessment has been undertaken and taxes paid (either through direct debit or other method), the item is flagged in the system. If no other pre-arrival electronic data is available, details of the goods for tax purposes are manually input into the system, this occurs at 13.0 and those items proceed to 7.0. If no risk is identified, the direct debit option or other pre-arrival payment is activated, otherwise the streams will employ their own process to notify the purchaser and facilitate payment. The item is reconciled through ICS as taxes paid and notified as released to Australia Post or express carriers / freight forwarders for delivery.
	7.0 Presentation of Mail Items to Border Agencies	<ol style="list-style-type: none"> For items that have pre-arrival electronic data, this allows for an automated sorting process, otherwise normal risk assessment processes are applied by the border agencies. Items identified as no risk and no tax payable proceed directly out of gateway. Items with no risk, but tax payable proceed to leave the gateway/border. The good is then moved to the invoice point appropriate for the stream entity, have an invoice attached or payment advice generated, and proceed to be managed in accordance with storage requirements until payment is received. Other items proceed through the border process.
	8.0 Primary Inspection	<ol style="list-style-type: none"> Items of risk are subject to primary inspection which may include x-ray. Items leave the primary screen through the following channels: <ol style="list-style-type: none"> Items not requiring secondary inspection with no tax payable leave the gateway; and Items not requiring secondary inspection but duty payable proceed to the FID process. Items not requiring secondary inspection but with tax payable to the invoice point appropriate for the stream entity, have an invoice attached or payment advice generated, and proceed to be managed in accordance with storage requirements until payment is received.
	9.0 Secondary Examination	<ol style="list-style-type: none"> Augments the current process with changes to allow border officers to open parcels for examination. Provision of electronic data may assist with risk identification and process management. Items are either held at this point, released with no tax or duty payable or released with tax payable to the invoice point.
	10.0 Items Held	<ol style="list-style-type: none"> Normal processes apply in the international cargo stream. In the international mail stream, augmented process for electronic notification and reconciliation with Australia Post of items and volumes that are held.
	11.0 Automated FID Process	<ol style="list-style-type: none"> Normal processes apply in the international cargo stream. In the international mail stream, a simplification of the postal import declaration process for goods over \$1,000 requiring the payment of duty and GST.
	12.0 Release Prior to Payment	<ol style="list-style-type: none"> This is a new process whereby goods are released by the border agencies to Australia Post or express carriers/freight forwarders prior to revenue being collected. Australia Post or express carriers/freight forwarders become the revenue collectors and remit the GST to Customs and Border Protection at agreed payment intervals.

Phase	Process element	Element key points
Post gateway	13.0 Manual Data Capture	<ol style="list-style-type: none"> 1. This is a process that allows for Australia Post to manually key items that have no pre-arrival data. 2. Once keyed items are subject to the auto tax calculation per 6.0 and then proceed to 14.0 or 15.0.
	14.0 Manual Payment Advice	<ol style="list-style-type: none"> 1. This is a new process which produces a payment advice to the importer in regard to taxes and other charges payable when the item is released by the border agencies.
	15.0 Electronic Payment Advice	<ol style="list-style-type: none"> 2. The advice is linked to the auto tax calculation data at 6.0. Payment advices may be manual or electronic notifications. 3. The key reasoning for triggering the payment advice at this point is that it allows for any additional charges or advices to be included in one advice to the purchaser/importer.
	16.0 Queries and Objections	<ol style="list-style-type: none"> 1. This is an augmented process to deal with queries and objections that will be raised by importers in regard to tax calculation on payment advices. 2. It is proposed that Australia Post or express carriers/freight forwarders would administer this process and refer to Customs and Border Protection as appropriate.
	17 Receive Payment (Manually)	<ol style="list-style-type: none"> 1. Australia Post or express carriers/freight forwarders assume responsibility for the collection of revenue and this is a business process decision for Australia Post or express carriers/freight forwarders.
	18.0 Receive Payment (Electronically)	<ol style="list-style-type: none"> 2. Suggested payment methods are either online or at a postal outlet prior to delivery of the item.
	19.0 Reconcile Payment	<ol style="list-style-type: none"> 3. Payment advices may include other border processing charges (and duty payable). 4. A reconciliation process will need to be undertaken by Australia Post or express carriers/freight forwarders, once payment is received from the purchaser/importer.
	20.0 BAS Deferral Reporting	<ol style="list-style-type: none"> 1. There are no major changes proposed for this process but there may be downstream impacts if an expanded scheme was to be implemented.
	21.0 Post Gateway/ Border Compliance Activity	<ol style="list-style-type: none"> 1. A lowering of the threshold for GST will potentially lead to an increase in compliance activity in regard to collection of taxes and integrity of data on mail items.

Pre-arrival Elements

1. Registration – direct debit

Requirement ID	1.0	
Requirement name	Registration – direct debit	
Capability statement	<p>Purchasers will be able to opt-in to register through a secure payment website that allows for:</p> <p>the registration of key purchaser details;</p> <p>access to account information;</p> <p>direct debit of real-time assessment of imposts and charges that arise through the importation of low value goods; and</p> <p>generation of a tax invoice.</p>	
Condition ID	Conditions of Capability	Priority
1.01	Purchasers to be provided with a facility that will allow them to pre-register details to allow for real-time debiting of imposts and charges arising from the assessment of revenue payable on low value imports into Australia through the international mail and cargo streams.	Essential
1.02	Purchasers would be issued with a unique identifier for identification of the billable party and for the purposes of data matching. The identifier must be able to be used in one of the 'Customer' detail fields and be accepted by most IT 'checkout' protocols. As the item is processed, the unique identifier allows for better matching. An example of how this may work, in bold, would be: Joe Smith 2ax54 21 Plain Street Capital Hill ACT 2600	Important
1.03	Purchasers must be assured of the security of the operation of such a system.	Essential
1.04	Purchasers must be able to access the site through one portal to allow for the different import streams and management of purchasers' personal accounts.	Important
1.05	The site would operate as a unique notification and payment platform or mirror other accounts that may be active in the purchaser's name established with Australia Post and express carriers/freight forwarders.	Important
1.06	Purchasers must be notified that if they are to be issued with corresponding unique accounts from Australia Post and express carriers/freight forwarders.	Essential
1.07	Purchasers must be able to access their account at any time via a secure platform of their choice.	Essential
1.08	Purchasers may need to be able to access the same information via multiple platforms and user names and passwords should be consistent.	Essential
1.09	Purchasers must be offered a choice of platform in order to improve take up rates. Such platforms may include but are not limited to: <ul style="list-style-type: none"> • A public website; • Mobile platform/s (e.g. apps for iOS, Android and others); and • SMS messaging. 	Important
1.10	Purchasers should have the option of authorising direct debit without notification or with notification.	Important
1.11	The 'with notification' may be limited to one or more platforms in order to assure better outcomes relative to the cycle time of notification to pay.	Desirable

Condition ID	Conditions of Capability	Priority
1.12	The default operation of the purchaser's account would be the generation of a tax invoice printed from that account with an option to receive a paper statement. The paper statement option would be subject to a cost recovery charge to the purchaser's account.	Desirable
1.13	In order to support this channel strategy, Australia Post and express carriers/freight forwarders have a lower processing charge for this option than for a fully manual process of charging and notification.	Desirable
1.14	Australia Post and express carriers/freight forwarders should have the option of being able to redirect purchasers to their online sites in order to facilitate the actual process of payment.	Desirable
1.15	<p>Australia Post and express carriers/freight forwarders should include in the notification the detail of the importation which may include but not be limited to:</p> <ul style="list-style-type: none"> • Recipient details; • Description of goods; • Sender (if known); • Value; • Duty (if applicable); • GST (if applicable); • Breakdown of charges if applicable; and • Details of contact mechanism if there are queries of objections. 	Important
1.16	Australia Post and express carriers/freight forwarders should be able to revert to a manual process if there is not a discrete match between purchaser details and registrant details.	Essential
1.17	Australia Post and express carriers/freight forwarders must request the authorisation of purchaser before other types of notification that relate to other commercial activities are 'pushed' to them.	Important
1.18	Customs and Border Protection and DAFF must have an appropriate mechanism to assure that the border and revenue assessment processes are complete before Australia Post and express carriers/freight forwarders notify purchasers.	Essential

Constraints

The following constraints exist for this requirement:

- transactions must be processed by Australia Post and express carriers/freight forwarders via an appropriate messaging protocol to the existing ICS (or similar system) to ensure the consistency of reporting and to leverage off the existing links between ICS and Customs and Border Protection's current financial system; and
- each client who does not currently have an ABN may require a CCID. The algorithm that generates these codes must be able to adapt to the recording of multiple unique transactions.

2. Self-assessment

Requirement ID	2.0	
Requirement name	Self assessment – prepayment	
Capability statement	<p>Purchasers will be able to leverage off of requirement ID 1.0 with the precondition that 1.02 has been met. The capability is that this requirement should allow for the:</p> <p>Registration of key purchaser details (per 1.0); Access to account information (per 1.0); Pre-arrival assessment of imposts and charges that arise through the importation of low value goods; Generation of a tax invoice (per 1.0); Detail to promote effective pre-border clearance opportunities; and Identification at the entry point of the border gateways to allow most goods to be streamed through the border and revenue collection processes.</p> <p>For purchasers that are registered for the GST Deferral Scheme, there will need to be an amended SAC form that allows for inclusion of the ABN to facilitate deferral ensuring alignment with business practice and accounting practices for those entities registered for the scheme.</p> <p>NOTE: the processes that apply in 1.0 which are also relevant to 2.0 are not listed as a condition of capability below, it is assumed that they would exist for this process.</p>	
Condition ID	Conditions of Capability	Priority
2.01	<p>Purchasers are able to record unique transactions by providing details of:</p> <ul style="list-style-type: none"> • Item/s description; • Number/s of items; • Value of item; • Currency of the value charged; • Weight (if known) of one unit; and • Supplier. <p>This will assist to validate reported amounts and cross-reference other data sources, such as pre-arrival postal data through pre-arrival.</p>	Essential
2.02	Purchasers that are registered for the GST Deferral Scheme must be able to generate and submit an amended SAC form that allows for inclusion of the ABN to facilitate deferral, ensuring alignment with business practices and accounting practices, for those entities registered for the scheme.	
2.03	Purchasers must be able to attach or send an electronic copy of the invoice for purchase as part of self-assessment to validate reported amounts and cross-reference other data sources, such as pre-arrival postal data through pre-arrival.	Essential
2.04	<p>The portal must be able to estimate whether GST is applicable to the transaction. The purchaser may be asked to tick a response box to certain questions, such as appears when travellers check-in for airlines remotely. An example may be:</p> <p>Is this a medical good? (if yes this means it is GST-free); Is this good a food? (if yes, the purchaser may be asked a secondary question).</p> <p>The process of estimating an amount to pay should only be given if the good is effectively cleared through the portal in real time. For example, if the purchase is through Amazon the amount may show to 'pay now'. Otherwise there may be a message advising of when payment can be made, which will then be either validated in the gateway or held.</p>	Essential

Condition ID	Conditions of Capability	Priority
2.05	The prepayment may be optional and may be used to facilitate in gateway real-time billing of purchases. Item level data may be used to pre-inform risk assessment for border and revenue risks.	Desirable
2.06	In order to support this channel strategy, Australia Post and express carriers/freight forwarders may have a lower processing charge for this option than for direct debit alone or for a fully manual process of charging and notification in order.	Desirable

Constraints

The following constraints exist for this requirement:

- Transactions must be processed by Australia Post and express carriers/freight forwarders via a link to the existing ICS (or similar system) to ensure consistency of reporting and to leverage off the existing links between ICS and Customs and Border Protection's current financial system;
- Each client who does not currently have an ABN may require a CCID. The algorithm that generates these codes must be able to adapt to the recording of multiple unique transactions; and
- SAC and GST Deferral legislation and regulations will have to be amended to give affect to 2.02.

3. Supplier collects/informs

Requirement ID	3.0	
Requirement name	Supplier collects/informs	
Status	Proposed new process – potential complexities at law and administration	
Capability statement	<p>Suppliers may express a desire or be extended an opportunity to register voluntarily for a scheme which would allow them to remit amounts collected at the time of assessment under the taxable importation rules. A key requirement of an overseas supplier who wishes to participate in this process would be that, as a guide, they are able to satisfy certain requirements.</p> <p>If the supplier is connected with Australia, they will be required to register for GST and apply the GST at the point of supply.</p>	
Condition ID	Conditions of Capability	Priority
3.01	Supplier details of tax collected could pre-register to participate in a scheme that would pre-communicate amounts equivalent to GST that have been collected and potentially item level data to assist with the border risk assessment process, to Customs and Border Protection via the ICS.	Essential
3.03	Customs and Border Protection and DAFF would have to ensure that the pre-communication of data was via a channel and protocol that would allow for potential pre-arrival risk processes to be applied.	Important
3.04	Customs and Border Protection must still risk assess the value of the good and estimate the risk to revenue and record the results via ICS.	Essential
3.05	Customs and Border Protection, Australia Post and express carriers/ freight forwarders must agree on a process of identification of items that enter taxed and stream them through the tax process that would apply to other items, to ensure that they are not double taxed (once as a supply and once as a taxable importation).	Essential
3.06	Customs and Border Protection, Australia Post and Cargo Operators must not issue a second tax invoice for the tax component of the goods that cross the border as taxed and where a tax invoice would have been provided for the value of that good as purchased.	Important
3.07	Purchasers should benefit from a reduced handling fee for goods purchased in this way.	Desirable

Constraints

The following constraints exist for this requirement:

- currently, only entities that are connected with Australia and those that subsequently make taxable supplies (where they meet the requisite turnover threshold) are required to be registered for GST;
- complexities at law exist relative to suppliers that have no connection with Australia when they register for GST and remit the amount that they collect. If the supply is not ‘connected’ with Australia, the capacity of an entity to voluntarily register and portend to comply with a domestic Australian law, of which they have no connection, is not clear. Even if this approach was viable, for example via international tax agreement, it then presents issues relative to servicing of that law in the context of how compliance of the supplier is to be assured; and
- there may be GST law change, relative to taxable importations, that could facilitate the effective operation of this process.

4. Pre-arrival item level reporting for EMS & parcels

Requirement ID	4.0	
Requirement name	Pre-arrival item level reporting for EMS & Parcels	
Status	New process currently under development (international mail stream)	
Capability statement	<p>This process would leverage off current initiatives by which national postal agencies will incrementally introduce item level data reporting, with the potential for sharing with border agencies, to effect a pre clearance of the consignment before it reaches the border. WCO/UPU protocols are being observed and are driving systems development. The full implementation is being driven by several key factors which are:</p> <ul style="list-style-type: none"> • Participant country; • Mail product type; and • International security requirements. <p>It is important to note that though this process pre-informs risk, be it border or revenue; it does not of itself influence the effectiveness of a payment mechanism for tax. In order to maximise the payment of tax it may work in compliment to 1.0 or 2.0.</p> <p>NOTE: There is currently a team of people comprising representatives from Customs and Border Protection, DAFF Biosecurity and Australia Post scoping the parameters for the design and implementation of the systems, parameters and protocols for this capability.</p> <p>NOTE: Electronic pre-arrival information is currently available in the international cargo stream and the detail below applies to development of protocols for the international mail stream.</p>	
Condition ID	Conditions of Capability	Priority
4.01	Systems built to allow electronic data interchange or pre-arrival information of item level data must comply with UPU protocols: ITMATT, CUSITM and CUSRSP.	Essential
4.02	Outbound messaging protocols such as exist for ICS must inform Australia Post of the status of the good, as to whether it is 'clear' or whether it is required to be held.	Essential
4.03	Pre-arrival information of item level data combined with revised policy and practice should improve border processes and throughput capability in the gateway.	Important
4.03	Pre-clearance of items should be used to validate self assessment, activate electronic direct debit or notification at the earliest opportunity. If there is a clear message, it should also include the applicable amount of impost as assessed by ICS. Amounts may be debited or communicated to the purchaser at this stage but this is dependent upon the refinement of other in-gateway risk management practices of the border agencies which may formally exclude pre-cleared items from those practices.	Essential
4.04	Customs and Border Protection, DAFF Biosecurity and Australia Post must agree on a process of identification of items that have been pre-cleared for border risk in order to stream the items through the gateway. Additionally, they must also be able to identify if a person is registered for 1.0 or 2.0 and confirmation as to whether they have received electronic notification of taxes owing in order to determine whether the item can be streamed for delivery.	Essential

Constraints

The following constraints exist for this requirement:

- there is no definitive timeline for the introduction of item level reporting by postal agencies. The integrity and quality of the data (i.e. agreed mandated fields) for the purposes of border clearance is to be tested;
- transactions must be processed by Australia Post via a link to the existing ICS (or similar system) to ensure consistency of reporting and to leverage off the existing links between ICS and Customs and Border Protection's current financial system; and
- each client who does not currently have an ABN may require a CCID. The algorithm that generates these codes must be able to adapt to the recording of multiple unique transactions.

In Gateway Processes

5. Data reconciliation (For Goods with Pre-arrival information only)

Requirement ID	5.0	
Requirement name	Data reconciliation (for goods with pre-arrival data)	
Capability statement	<p>As items enter the gateway/border they are scanned for reconciliation with other pre-entry data sets. This may result from pre-arrival data from:</p> <ul style="list-style-type: none"> • Registration direct debit; • Self assessment with potential for prepayment; • Supplier collects/informs; or • Pre-arrival item level reporting for EMS & Parcel. • For the international mail stream, the pre-arrival item level reporting for EMS & Parcel will occur at this point with the information being reconciled with the identified parcels in accordance with agreed postal messaging protocols. <p>Items that have no pre-arrival data or identifiers proceed straight to 7.0.</p> <p>Manual capture</p> <p>For other items that do not have this data set but are over the threshold, a manual core process must exist and this is dealt with at 13.0</p> <p>NOTE: The process of receiving, reconciling and analysing pre-arrival data already exists for the international cargo stream but this stream could leverage off the alternate pre-arrival information mechanisms.</p>	
Condition ID	Conditions of Capability	Priority
5.01	Goods enters the gateway/border – Australia Post or express carriers/freight forwarders scan all products that have pre-arrival information at the point at which they are received in the Gateway.	Essential
5.02	<p>In the international mail gateway, technology will be required to scan, reconcile, data capture, access, process and/or record the following:</p> <ul style="list-style-type: none"> • Importer account (incl. tombstone details); • Linked ICS record and system message details; • Select and review items in account by singular or multiple field choice; • Input fields for all requisite fields; • Item level details; and • Create a unique job identifier. • New technologies may also be required for express carriers/freight forwarders. <p>The requirement here is that technologies must be capable of easy physical access for the warehouse environment.</p>	Essential
5.03	<p>All product types that are supported by full or proportional pre-arrival information from another postal agency or express carrier/freight forwarder must be scanned in order to reconcile the pre-arrival information. The purpose of the scan is to reconcile the following:</p> <ul style="list-style-type: none"> • Process 1.0; • Process 2.0; • Process 3.0; and • Border or other risk. <p>All revenue risk elements are dealt with in process 6.0.</p>	Essential

Condition ID	Conditions of Capability	Priority
5.04	<p>In the international mail stream, a new process to identify a pre-clearance process and outcome will need to be applied by Australia Post (as a consequence of the identification of the return message through ICS of 'clear'/'hold' or if there is not match) at this point to allow for better targeting of non pre-cleared items. This would apply at the point of scanning for all product types that are supported by full or proportional pre-arrival information from another postal agency.</p> <p>A commensurate process currently exists in the international cargo stream.</p>	Essential
5.05	<p>Reconciliation – where there is not immediate information available from a scan of a barcode that identifies pre-cleared data, Australia Post will have to capture data. There are two types of data capture, simple data capture and full data capture.</p> <p>A commensurate process of reconciliation currently exists in the international cargo stream and it is unlikely that manual data capture would be required for this stream.</p>	Important
5.06	<p>Simplified data capture – purchasers (as the importer) that have been issued with a unique identifier (e.g. 2ax54) and have used this in an appropriately identified area in the address field will (such as following the name, address, or other), in the first instance, require a simplified form of data capture.</p> <p>The keying of the identifier data will generate a unique profile or shortlist which can be sorted. Once selected, the account of the recipient is able to be viewed in real time and an assessment made as to whether there is a match.</p>	Essential
5.07	Assessing simplified data capture. If there is a match and there has been pre-assessment undertaken pertaining to information provided at 3.0, this may generate a 'clear' item – in this case the item is streamed (see also process 6.0). If 'hold', the item is processed through 6.0 and then proceeds to 7.0. If there is no match available or the item has been registered per 1.0 only then the item requires full data capture per 5.08.	Essential
5.08	Full data capture – this would require Australia Post to capture data types as identified in 5.02. There should be a real-time process to identify through e-screening if item is on a lesser intervention strategy or has a revenue risk. This must generate a return message and identify if this is clear to proceed. If the message is a 'clear', the item is streamed relative to being under the low value threshold and delivered or tax calculated (see also process 6.0). If 'hold', item is processed through 6.0 and then proceeds to 7.0.	Essential
5.09	For specified mail types, where there is no known pre-arrival information is available, a different process may be undertaken to visually scan items and only key those which have a definitive value above the threshold.	Important
5.10	Outcomes of reconciliation or values input must be able to be shared and accessed by border agencies in real time to be able to pre-populate their systems. In relation to outcomes this will assure the practice of assessment and progressing to 6.0 and release. The same for data capture but in addition, the data capture element should be once only and not duplicated for use in other systems (e.g. EXAMS).	Essential
5.11	In all circumstances, where ICS will require input to identify whether a good is GST-free or not, the item will have to be referred to 7.0 for assessment by an Australian Customs and Border Protection Service officer.	Essential

Condition ID	Conditions of Capability	Priority
5.12	All items at or over an estimated Customs value of \$1,000, or where the item is subject to additional tax and duty requirements (e.g. tobacco and alcohol), must be progressed to 7.0 and bypass 6.0.	Essential
5.13	All items where data has been captured or reconciled which do not have an appropriate tracking mechanism such as a barcode should have one applied at this point before proceeding.	Essential

Constraints

The following constraints exist for this requirement:

- there will be a long period of implementation for the effective assessment of product types that are supported by full or proportional pre-arrival information from another postal agency or self-assessment. This is because the data sets and risk parameters will have to be validated and refined;
- full data capture will require manual processing, though this need not be undertaken *in situ* if items are imaged and keyed in real time;
- assessment of GST status of an item (whether it is GST-free or not) as it relates to a taxable importation; and
- Australia Post is currently working to develop an integrated system in consultation with the Australian Customs and Border Protection Service to identify, track and assess all product types that are supported by full or proportional pre-arrival information from another postal agency. The development of that system process may form a constraint.

6. Auto tax calculation

Requirement ID	6.0	
Requirement name	Auto tax calculation	
Capability statement	<p>Items under \$1,000 will have a separate risk regime and calculation protocol pertaining to the calculation of taxes. This process may occur at the time that the following processes are observed and is not sequentially constrained to follow only 5:</p> <ul style="list-style-type: none"> • 2 • 3 • 4 • 5 <p>NOTE: the application of this process applies at this point only if there is pre-arrival data available. Where manual capture is required, this process follows 13. The protocol will most likely be driven by volume constraints and operate in most cases with the value nominated by pre-arrival or declaration of value being accepted for the calculation of GST. The exception will be if there is an obvious risk to revenue (this will be subject to implementation refinement of risk practice protocols).</p> <ul style="list-style-type: none"> • After data capture, low value items' tax values are automatically calculated in ICS. • Goods proceed to sorting process. • The recipient of the goods can be invoiced from this point if there are no other risks identified. • Australia Post is responsible for data reconciliation and or input but not assessment, as well as being responsible for notifications to the recipient of the goods for low value goods. 	
Condition ID	Conditions of Capability	Priority
6.01	This process should leverage off the current capability in the ICS.	Essential
6.02	The ICS module must provide a virtual assessment of the taxable value and record the amount of tax to be paid (and potentially identify different treatments applicable for different classes of goods (e.g. GST-free).	Essential
6.03	The ICS module must message the appropriately linked Australia Post or the express carrier/freight forwarder system to advise of both the taxable value and GST by item level.	Essential
6.04	Where the item has a 'hold' status, the values may be used to generate virtual invoices in the context that the item is subject to further investigation by border agencies. An invoice for payment would only be generated at the point at which this item had been scanned out of a border process. Invoice is generated but not sent at this point to ensure no unintended impact upon border risk assessment.	Essential
6.05	Where items have a 'clear' status they are streamed for release and notification to the recipient of the goods of their liability. See also 12 and 14 or 15.	Essential
6.06	Australia Post or the express carrier/freight forwarder must create or replicate data sets to allow for accounting activities to correctly attribute all invoice elements by purchaser/importer reference, job number and item level detail.	Essential
6.07	Updating of the items taxable value and subsequent tax owing in ICS must be messaged to Australia Post or the express carrier/freight forwarder systems to electronically advise of the tax status of the item, when calculated.	Essential
6.08	Some form of notification must be placed physically on the item to identify that the item's tax has been calculated, that a notice has gone out and that it is clear to leave the gateway.	Important

Condition ID	Conditions of Capability	Priority
6.09	Reconciliation of items through ICS with a tax imposed and a clear status automatically raises a liability for Australia Post or the express carrier/freight forwarder, to be accounted for on at least a daily basis. This is to be done electronically only.	Essential
6.05	All elements of the system must be capable of data transmission, sharing and notification in real time.	Important
6.06	Gateway must be designed to allow for hold items to be presented to different agencies as required.	Essential
6.07	Items referred to this process following 13 are referred to 14 or 15.0 following the calculation process.	Essential

Constraints

The following constraints exist for this requirement:

- legislation requires authority to assess GST (for taxable importations) and duty is vested in the CEO of the Australian Customs and Border Protection Service;
- physical capacity constraints in the current gateways to allow for process accommodation and IT infrastructure requirements;
- capacity constraints within the ICS and the potential for modification to current system. The ICS is the major IT system identified and down time could severely impact the effective operation of the process; and
- Australia Post is currently working to develop its own internal systems to link the parcel barcode to the invoice to ensure that parcels cannot be delivered/collected until tax is paid.

7. Presentation of goods to border agencies

Requirement ID	7.0	
Requirement name	Presentation of goods to border agencies	
Capability statement	<p>This process is augmented to account for changes to data reconciliation. It runs concurrently with 5.0 where there is pre-arrival data. In the international mail stream, Australia Post would be informed, through an automated process, of items presented according to:</p> <ul style="list-style-type: none"> • Security Risk (Customs and Border Protection, DAFF Biosecurity or both); • Duty; • GST; and • 'Clear' status – goods released for delivery. <p>In the international mail stream items that have no pre-arrival data will be subject still to current risk assessment/treatment practices.</p> <p>After initial scanning, Australia Post or the express carrier/freight forwarder is advised of a clear / hold status for items.</p> <p>Payment advice is triggered at this point for items under the low value threshold with no border risks and released to Australia Post for delivery.</p> <p>Items over the threshold with no other border risks are sent to Customs and Border Protection for processing of duty.</p> <p>The process assumes that Australia Post and express carriers/freight forwarders are responsible for revenue collection.</p>	
Condition ID	Conditions of Capability	Priority
7.01	Refinement of a lesser intervention strategy and product specific strategy to account for processes undertaken at 2, 3 and 4 which may have identified a 'clear' status. Note that this would not necessarily impact a sampling regime.	Desirable
7.02	Border agencies may have systems that allow for real time transmission of reconciled/captured data so that information is available with a scan by the border agent of the barcode on the item that identifies it and all known data sets. This may also pre-populate border agency case management systems (e.g. EXAMS, DGMS, etc) and link to historical case management information about the importer (recipient). This may allow for better end-to-end process management.	Desirable
7.03	As this is a preliminary risk assessment step, items are either given a 'clear; or 'hold' status. If 'clear', the item progresses to 12 and 13 (for manual keying if required), 14 or 15. If 'hold', the item progresses to 8 for border screening. At this point the border agency uses technology to identify potential risk and to pre-inform the next process that improves targeting. This is done through touch pad identification by category that alerts screeners to particular focus areas. As part of the total approach this provides an internal quality assurance mechanism.	Important
7.04	Gateway must be designed which allows for hold items to be presented to different agencies as required.	Essential
7.05	Payment advice triggered for low risk parcels not requiring border screening.	Important
7.06	Any parcel with data indicating it is above the duty reporting threshold should automatically generate a document (electronic or otherwise) to be sent for the importer to request completion of a FID and progress to 11.	Essential

Constraints

The following constraints exist for this requirement:

- Some or all of the gateways will need to be redesigned to allow the flow of low risk tax assessed parcels through the gateways and into Australia Post's and express carriers'/freight forwarders' delivery systems;
- Costs associated with redesigning the gateways may be significant; and
- Until the data arriving with the parcels is assured for quality there may not be any improvement in the flow of parcels through the gateways.

8. Primary inspection

Requirement ID	8.0	
Requirement name	Primary inspection	
Capability statement	Items with hold status move to the border screening process. Barcode data of items scanned at entry to gateway links to captured information and a 'work item'. Items are identified to move to secondary examination or released to a) no tax/duty payable; b) taxes payable or c) duty/tax payable.	
Condition ID	Conditions of Capability	Priority
8.01	One border agency may undertake risk assessment for both agencies.	Desirable
8.02	There will be no interference with the risk profiling undertaken by border agencies.	Essential
8.05	Systems need to be developed to validate the quality of the electronic data that arrives with the package.	Essential
8.06	Items valued above the duty reporting threshold (which requires a FID) need to generate a notification requesting a FID be done on the parcel (see 11).	Essential
8.07	Any package of no risk that is above the LVT but below the duty reporting threshold should be channelled to Australia Post or the express carrier/freight forwarder.	Essential
8.08	The information that arrives with the package could be viewed by the x-ray operator as the item enters the x-ray with any details pertaining to risk identification received from 4 noted on the screen.	Important
8.09	Border agencies could have systems that allow for real time transmission of reconciled/captured data so that information is available with a scan by the border agent of the barcode on the item that identifies it and all known data sets. At this point the process could include an in-line scanner before and after the x-ray. A default setting is 'clear' for items exiting the x-ray unless this is changed by the x-ray operator (as there are likely to be more 'clear' than 'hold' results). This could also pre-populate border agency case management systems (e.g. EXAMS, DGMS, etc), link to historical case management information about the importer (recipient), and inform the secondary inspection area on risks that have been identified through the screening process. This would allow for a better focus on risk management.	Important
8.10	If 'hold', the item progresses to 9 for secondary examination. At this point the border agent uses technology to identify potential risk and to pre-inform the next process that improves targeting. This could be done through touch pad identification by category that alerts screeners to particular focus areas. As part of a total approach this provides an internal quality assurance mechanism.	Desirable
8.11	Items with 'clear' status are released to Australia Post or express carriers/freight forwarders for delivery, see 12, 13 (for keying of manual items), 14 or 15.	Essential

Constraints

The following constraints exist for this requirement:

- Any changes to the work practices of border agency officers may require legislative change; and
- May require a significant redesign of the gateways with associated capital costs.

9. Secondary Examination

Requirement ID	9.0	
Requirement name	Secondary Examination	
Capability statement	<p>Border agencies open parcels in the secondary examination area.</p> <p>It may also need to be considered whether there is a need for a complete segregation of the secondary examination area in all gateways for border agency staff only.</p> <p>Items are held or released to a) no tax/duty payable; b) taxes only payable or c) duty/tax payable.</p> <p>NOTE: No significant changes are proposed for this process in the international cargo stream.</p>	
Condition ID	Conditions of Capability	Priority
9.01	Items are scanned into secondary screening to ensure that there is an appropriate mechanism to 'stop the clock' and assists Australia Post to meet their required delivery standards.	Essential
9.02	In the international mail stream, Australia Post is removed from the need to open (non drug-related) parcels. This requires review of section 90S and 90T of the <i>Australian Postal Corporation Act 1985</i> to ensure that this can be achieved in practice.	Important
9.03	Items with 'hold' status do not generate an invoice for GST.	Essential
9.05	Items with 'clear' status are released to Australia Post for delivery see 12, 13 (in the circumstance that they need to be manually keyed) 14 or 15.	Essential

Constraints

The following constraints exist for this requirement:

- Changes to the need for Australia Post to open packages will require legislative change; and
- The custodian role of Australia Post could be compromised without appropriate governance frameworks being shared by all agencies for this process.

10. Items held

Requirement ID		10.0
Requirement name		Items held
Capability statement		Electronic notification and reconciliation with Australia Post and as appropriate, express carriers/freight forwarders, of items and volumes that are held.
Condition ID	Conditions of Capability	Priority
10.01	Australia Post and, as appropriate, express carriers/freight forwarders need electronic notification of which items are being held so that no invoice is generated for tax. This notification should be provided through the same mechanism for other messaging of 'clear' or 'hold' notices with a terminology applied for an additional category which identifies that the item is not going to be released and which then accounts for nominated tax amounts. For reporting purposes, this may then be used to identify tax forgone because of such items.	Essential
10.02	For items released, messaging of 'clear' is sent and then the item progresses, value reconciled at 12 and notification sent per 14 or 15.	Essential

Constraints

The following constraint exists for this requirement:

- It may be difficult to prevent a purchaser/importer (recipient) from finding out that an item is being held (for compliance) if there is a fully traceable electronic system.

11. Automated FID Processing

Requirement ID		11.0
Requirement name		Automated FID process for the postal environment
Capability statement		A simplification of the postal import declaration process for goods over \$1,000 requiring the payment of duty and GST.
Condition ID	Conditions of Capability	Priority
11.01	When goods are scanned for data reconciliation and are identified as being over the duty threshold, they are directed to Customs and Border Protection for processing.	Essential
11.02	At this point in the process, an automated request for FID to the importer could be generated based on the data capture.	Essential
11.03	This would require an interface between the Australia Post and as appropriate, express carriers/freight forwarders, system and the Customs and Border Protection system to inform Customs and Border Protection that a request for FID has been sent to the importer. Australia Post and as appropriate, express carriers/freight forwarders, should also advise Customs and Border Protection of contact details for importers.	Essential
11.04	Importers must be provided with a facility that allows them to enter required information about their importation and submit this information to Customs and Border Protection electronically, without having to provide a physical copy of the import declaration.	Essential
11.05	Importers submitting FIDs must be able to do so without needing to complete the processes required to obtain a Digital-Signing-Certificate and register to use the ICS.	Essential
11.06	Importers must be able to submit a FID without needing to be an ABN or CCID client.	Essential
11.07	The information provided under 11.05 must be able to be processed by existing Customs and Border Protection systems without any manual intervention from Customs and Border Protection officers.	Essential
11.08	If insufficient detail is provided by Australia Post and as appropriate, express carriers/freight forwarders, through data capture, Customs and Border Protection must obtain contact information from the importer to which payment advice and other necessary correspondence can be transmitted.	Essential
11.09	Customs and Border Protection must be able to send any community protection questions relevant to the information provided in a FID to the importer to be answered electronically.	Essential
11.10	Importers must be able to answer any community protection questions through an electronic submission and this information must be able to be added to a FID without manual intervention from Customs and Border Protection personnel.	Desirable
11.12	Customs and Border Protection must be able to automatically notify the importer that a created Declaration has been received by Customs & Border Protection and is being processed when the importer completes and submits the Declaration.	Important
11.13	The advice referred to in 11.12 must be provided as soon as the Postal Import Declaration has been submitted to Customs and Border Protection in order to limit the potential for the client to seek assurance that it has been received.	Important

Constraints

The following constraints exist for this requirement:

- Postal Import Declarations must be processed by the existing ICS as this will ensure consistency with other financial transaction processing and make use of the existing links between ICS and the Customs and Border Protection's current financial system; and
- The information provided must be provided in an approved Customs and Border Protection form (B374), as per the *Customs Act 1901*.

12. Release prior to payment

Requirement ID	12.0	
Requirement name	Release prior to payment	
Capability statement	<p>This is a proposed new process which assumes that Australia Post and express carriers/freight forwarders are responsible for revenue collection.</p> <ul style="list-style-type: none"> Border agencies are only responsible for assessing community protection and biosecurity risks. If no risk is presented, items are released to Australia Post for delivery into network. Australia Post and express carriers/freight forwarders account for the tax liability as items leave the gateway and recover from purchasers/importers. Australia Post and express carriers/freight forwarders make business decisions about disbursement of items. These arrangements do not apply where there is a reporting obligation (i.e. item over \$1,000). 	
Condition ID	Conditions of Capability	Priority
12.01	Customs and Border Protection is no longer responsible for the collection of GST for packages above the low value threshold (LVT) and below the reporting threshold.	Essential
12.02	Customs and Border Protection releases the package to Australia Post and express carriers/freight forwarders prior to payment of the GST.	Essential
12.03	Reconciliation of items through ICS with tax imposed, and a clear status, automatically raises a liability for Australia Post and express carriers/freight forwarders, to be accounted for on at least a daily basis. This is to be done electronically only.	Essential
12.05	Items subject to GST deferral go straight for delivery.	Important
12.06	Need to change the ICS software to allow the release of a package above the LVT but below the reporting requirement.	Essential
12.07	Allows for storage at places other than the gateway/border.	Important
12.08	All packages with a liability must be traceable by Australia Post and express carriers/freight forwarders.	Essential

Constraints

The following constraints exist for this requirement:

- there may be a number of legislative changes required to implement the release of goods from Commonwealth control prior to the payment of GST; and
- if the LVT is dropped significantly this may cause a storage issue for Australia Post and express carriers/freight forwarders that may need to be addressed. This is particularly relevant if packages are sent to post offices for storage.

13. Manual Data Capture

Requirement ID	13.0	
Requirement name	Manual data capture	
Capability statement	<p>As items move from the gateway they are imaged for manual keying en route to a domestic parcel delivery centre. There are two options for this:</p> <p>Key data for tax purposes may be keyed in by Australia Post prior to items leaving the gateway; or</p> <p>Item is tagged with a barcode which creates a work item. The documentation on the items is imaged and the image is sent with the work item for offsite keying.</p> <p>This process works with requirement ID 6.0 which would automatically follow this process. Items are then auto assessed for tax purposes.</p> <p>NOTE: this process is required for the international mail stream.</p>	
Condition ID	Conditions of Capability	Priority
13.01	Goods have cleared from border risk assessment with only tax assessment required.	Essential
13.02	Goods have been subject to a visual inspection process for tax purposes in the gateway.	Essential
13.03	All items where data is to be captured that do not have an appropriate tracking mechanism such as a barcode should have one applied at this point before proceeding.	Essential
13.04	New technology will be required to data capture and record the following: <ul style="list-style-type: none"> • Importer account (incl. tombstone details); • Linked ICS record and system message details; • Input fields for all requisite fields; • Item level details; and • Create a unique job identifier. 	Essential
13.05	A new process to identify a tax calculation requirement identifier to be placed on the good may be required by Australia Post.	Essential
13.08	The values input must be able to be shared and accessed by Customs and Border Protection through messaging protocols via ICS. In relation to outcomes this will assure the practice of assessment and being calculated as per 6.0 and then released.	Essential
13.09	In all circumstances, where ICS will require input to identify whether a good is GST-free, GST assessable or questionable, the value input should record the assessment which will link to any record created in situations where a refund may be required.	Essential

Constraints

The following constraints exist for this requirement:

- full data capture will require manual processing, though this need not be undertaken *in situ* if items are imaged for keying at an alternate time;
- assessment of GST status of an item (whether it is GST free or not) as it relates to a taxable importation; and
- Australia Post will have to develop an integrated system in consultation with Customs and Border Protection to identify, track and assess all product types that will require a manual process to complete assessment, notification and payment. The development of this system process may form a constraint.

14. Manual payment advice

Requirement ID	14.0	
Requirement name	Manual payment advice	
Capability statement	<p>This is an extension of the current manual notification process.</p> <p>When goods are cleared, a payment advice is generated:</p> <ul style="list-style-type: none"> • Notices are pre-populated with details from processes 5.0 and 6.0; • Notices also contain a breakdown of all other border processing charges; • Notice is sent to importer (recipient) via mail channel; or • Notice instructs importer (recipient) of payment protocol. <p>The process assumes that goods that have entered the border process are scanned on leaving the border process to enable payment advice to be generated.</p>	
Condition ID	Conditions of Capability	Priority
14.01	If the recipient is not identified in an electronic notification mechanism at 1.0 or 2.0, then this becomes the default notification mechanism.	Essential
14.02	In processes: 5.0 to 10.0 this is the core process.	Essential
14.03	The invoice must satisfy the requirements of a tax invoice.	Essential
14.04	Australia Post and express carriers/freight forwarders may charge a fee for generating a manual invoice and collection of tax. This must be separately identified.	Essential
14.05	All other and additional charges, taxes and fees constituted under separate acts or regulations must be separately disclosed.	Essential
14.06	The process by which the manual invoice is actually generated is directed by a timing point of two hours after the creation of the record, except where that the item is scanned into an area controlled by a border agency to be further examined or held for the treatment of risk related to that item.	Essential.

Constraints

The following constraints exist for this requirement:

- This is the most costly notification process;
- Processing may take some time and could impact upon service obligations; and
- This is the most likely process to impact the longer term storage needs of Australia Post and express carriers/freight forwarders.

15. Electronic payment advice

Requirement ID	15.0	
Requirement name	Electronic payment advice	
Capability statement	<p>This is a new proposed process.</p> <ul style="list-style-type: none">• This option is only available to those that have registered online.• Notices are pre-populated with details from processes 5.0 and 6.0, and in the case of the international mail stream from 13.0.• Notices also contain a breakdown of all other border processing charges.• For low value low risk items this would happen immediately following 6.0.• Purchasers (as the importer) are notified of payment obligation by the channel of choice:• Electronic – email, account or other; or• Mobile – application or other.• Importer may pre-authorise direct debit through registration and authorise payment.• May incorporate a mechanism for purchasers to electronically report their FID obligations.	
Condition ID	Conditions of Capability	Priority
15.01	Same as for process 14.0 except for 14.02 and the condition that this must be provided in electronic form as per notification process at 1.0 or 2.0.	Essential

Constraints

The following constraints exist for this requirement:

- Australia Post and express carriers/freight forwarders may wish to still charge a fee (albeit reduced) for this service; and
- The system may require a significant education campaign.

Post-gateway

16. Queries and objections

Requirement ID	16.0	
Requirement name	Queries and objections	
Capability statement	<p>This is a proposed augmentation to the current process to deal with queries and objections that will be raised by importers (or the recipient) about the values represented on their payment notifications.</p> <p>There are impacts for Customs and Border Protection and DAFF Biosecurity because there may be a requirement to address the following:</p> <ul style="list-style-type: none"> • Valuation issues relating to the calculation of GST payable; • Issues relating to charges imposed by Customs and Border Protection or DAFF Biosecurity; • Purchasers/importers (or the recipient) may query Australia Post or express carriers/freight forwarders directly relative to their charges or other administrative issues; and • Australia Post and express carriers/freight forwarders would administer this system and escalate to the border agencies as appropriate. • Electronic and paper options should be provided. 	
Condition ID	Conditions of Capability	Priority
16.01	Importers must be able to query any aspect of the processing of their item from expected delivery times through to the assessment of taxable value or tax and the entry point.	Essential
16.02	Electronic and paper options must be provided.	Essential
16.03	The query or objection must be notified within an as yet to be determined timeframe that is appropriate.	Important
16.04	A 'stop the clock' mechanism must be applied to the number of days that the item is to be held until interest is surrendered and the item may be returned to sender.	Essential
16.05	Australia Post and express carriers/freight forwarders will administer the queries and objections program with escalation practices that refer importers to other areas of Australia Post or express carriers/freight forwarders, Customs and Border Protection or DAFF Biosecurity as appropriate.	Essential
16.06	Queries or objections that relate to assessment of GST must be escalated to Customs and Border Protection.	Essential
16.07	Requests that query the assessment mechanism must be recorded in terms of positive/negative outcomes and record such outcomes as will feed into a mechanism that will refine the assessment and/or risk profiles for ICS.	Essential
16.08	Where an objection is against the importer, normal notification processes relative to the ordinary administration of the law should apply.	Important

Constraints

The following constraints exist for this requirement:

- ability of Australia Post or express carriers/freight forwarders and Customs and Border Protection to deal with queries and objections in an appropriate timeframe; and
- resources allocated to this activity may be insufficient if there is an increase in the number of goods requiring assessment for revenue purposes.

17. Receive payment (manually)

Requirement ID	17.0	
Requirement name	Receive payment (manually)	
Capability statement	<p>Australia Post and carriers/freight forwarders will assume responsibility for collection of revenue payable and reconcile with payment advices generated.</p> <p>The revenue liability will be remitted by Australia Post or express carriers/freight forwarders, on a regular payment basis and the revenue recovered from the importer prior to release of the goods by Australia Post or the express carrier/freight forwarder. Payment can be received at the postal outlet prior to delivery.</p>	
Condition ID	Conditions of Capability	Priority
17.01	Manual payment of the item (in a Post Office or express carriers/freight forwarders depot) must enable the item to be released to the importer provided that they have attended the correct Post Office or express carriers/freight forwarders depot as notified per 14.0 or 15.0.	Essential
17.02	Normal payment and service practices to be observed.	Desirable

Constraints

There are no identified constraints for this item.

18. Receive payment (electronically)

Requirement ID	18.0	
Requirement name	Receive payment (electronically)	
Capability statement	<p>Australia Post and express carriers/freight forwarders will assume responsibility for collection of the revenue payable and reconcile with payment advices generated.</p> <p>The revenue liability will be remitted by Australia Post or express carriers/freight forwarders, on a regular payment basis and the revenue recovered from the purchaser/importer prior to release of the goods by Australia Post or the express carrier/freight forwarder. Payment can be received through an online payment portal.</p>	
Condition ID	Conditions of Capability	Priority
18.01	Electronic payment of the item (before it arrives at a Post Office or express carriers/freight forwarders depot) must enable the item to be released to the importer at the point at which they attend the correct Post Office or express carriers/freight forwarders depot, as notified per 14.0 or 15.0.	Important
18.02	Electronic payment processing times should be guaranteed by Australia Post and express carriers/freight forwarders,	Important
18.03	Electronic payment by the importer will generate a receipt at the point in time that the importer authorises payment.	Essential
18.04	If the purchaser/importer has paid but the item is not showing as paid in Australia Post or express carrier/freight forwarder systems and the importer has valid notification of receipt of payment from Australia Post or the express carrier/freight forwarder, the item must be released.	Essential
18.05	Normal payment and service practices to be observed.	Desirable

Constraints

There are no identified constraints for this item.

19. Reconcile payment

Requirement ID	19.0	
Requirement name	Reconcile payment	
Capability statement	<p>The payment advice generated may include costs that relate to duty and other border agency charges. Therefore there are also impacts for Customs and Border Protection and DAFF Biosecurity because there may be a requirement to address the following:</p> <p>Record that payment has been received from a customer for one or multiple items; and</p> <p>Appropriate payments that relate to;</p> <p>GST,</p> <p>Customs and Border Protection charges,</p> <p>DAFF Biosecurity charges,</p> <p>Australia Post charges,</p> <p>Express carrier/freight forwarder charges, or</p> <p>Other charges and/or imposts.</p>	
Condition ID	Conditions of Capability	Priority
19.01	Revenue received from an importer must be reconciled against charges, taxes and fees constituted under separate Acts or Regulations that were disclosed on the invoice.	Essential
19.02	There must be a mechanism to reconcile the items that are returned to sender with the non-payment of charges, taxes and fees. Only this, or commensurate governance arrangements for accounts, will allow Australia Post and express carriers/freight forwarders, to legitimately recoup monies which had been paid to Customs and Border Protection for items that left the gateway but for which there is no other capacity to recoup those monies.	Essential
19.03	There must be a reporting mechanism to record via ICS those unpaid amounts, with the default in that system to be as 'paid' until otherwise changed through this reporting mechanism.	Essential

Constraints

The following constraint exists for this requirement:

- The exact nature of the relationship between Customs and Border Protection, Australia Post, express carriers/freight forwarders, and the ATO is still under consideration.

20. BAS deferral reporting

Requirement ID		20.0
Requirement name		BAS deferral reporting
Capability statement		An expanded scheme may see the volume of registrants and administrative requirements rise for Customs and Border Protection and ATO.
Condition ID	Conditions of Capability	Priority
20.01	Operation of the system and obligations exist as per the current scheme, excepting that importers may have an additional obligation to keep records pertaining to any SAC and associated records that they have used to report a deferment of GST and reconcile via the BAS.	Important

Constraints

The following constraint exists for this requirement:

- May require amendments to SAC and GST Deferral regulations and information.

21. Post-gateway/Border compliance activity

Requirement ID	21.0	
Requirement name	Post-gateway/border compliance activity	
Capability statement	A lowering of the threshold may lead to situations where individuals may pose as businesses either to defer, claim back input tax credits or use a third party to avoid paying tax. This may cause additional risk based compliance activities to be undertaken by the ATO downstream.	
Condition ID	Conditions of Capability	Priority
21.01	An expanded scheme to identify fraudulent activity may be required to be considered under the terms of the memorandum of understanding between the ATO and Customs and Border Protection.	Important

Constraints

The following constraint exists for this requirement:

- It is possible that privacy and other considerations may need to be considered as part of the data sharing arrangement given the changed scope of application of the GST to a broader range of purchasers/importers.

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