



Commonwealth
Competitive Neutrality
Complaints Office



Customs Treatment of Australia Post

Investigation
No. 5



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The Commonwealth Competitive Neutrality Complaints Office

The Commonwealth Competitive Neutrality Complaints Office is an autonomous unit within the Productivity Commission. It was established under the *Productivity Commission Act 1998* to receive complaints, undertake complaint investigations and advise the Minister for Financial Services and Regulation on the application of competitive neutrality to Commonwealth Government activities.

Information on the Office and its publications may be found on the World Wide Web at www.cnco.gov.au.

Competitive neutrality policy

Competitive neutrality is a policy which aims to promote efficient competition between public and private businesses. It seeks to ensure that significant government businesses do not have net competitive advantages over their competitors simply by virtue of their government ownership. The Commonwealth, State and Territory Governments have agreed to implement this policy as part of their commitment to the National Competition Policy Reform Package.

The Commonwealth's approach is outlined in its 1996 *Competitive Neutrality Policy Statement* (CoA 1996). Competitive neutrality requirements automatically apply to Commonwealth Government Business Enterprises, designated business units of budget sector agencies and all in-house units that tender for competitive contracts. It may apply to other businesses if the benefits outweigh the costs.

The Commonwealth Government's competitive neutrality arrangements require that its designated government business activities:

- charge prices that fully reflect costs;
- pay, or include an allowance for, government taxes and charges such as payroll tax and local government rates;
- pay commercial rates of interest on borrowings;
- generate commercially acceptable profits; and
- comply with the same regulations that apply to private businesses (such as the Trade Practices Act and planning and environmental laws).

The Commonwealth Competitive Neutrality Complaints Office is located within the Productivity Commission and is responsible for administering the Commonwealth's competitive neutrality complaints mechanism. The Office can receive complaints from individuals, private businesses and other interested parties that:

- an exposed government business is not applying competitive neutrality requirements;
- those arrangements are ineffective in removing competitive advantages arising from government ownership; or
- a particular government activity which has not been exposed to competitive neutrality should be.



Common terms used in the report

Consignment: A lot, or group, of goods sent by one addressor to the same addressee. Consignments are the basic reporting level for Customs clearance.

Cost recovery charge: A charge levied by Customs to cover the cost of it screening a consignment.

Courier service: An international network of affiliated businesses which carries documents and parcels, usually by air, between countries as well as domestically. Usually offers a door to door service to customers with guaranteed delivery times.

Customs clearance: Process by which Customs allow goods into or out of Australia, having ensured, as far as practicable, that those goods pose no threat to the community and that relevant duty and commodity taxes have been paid.

Customs entry: Formal declaration to Customs of the content and value of a consignment entering or leaving Australia.

Import and export thresholds: Consignment values below which a formal Customs entry is not required to obtain a Customs clearance.

Informal Customs clearance: Streamlined process for clearing consignments with a value below the import and export thresholds. Where duty or commodity taxes are payable, this may involve the use of Informal Clearance Documents.

Non-postal items: Any items transported by an entity other than a postal agency, such as couriers and freight forwarders.

Postal agency: A body authorised by a national Government to provide the international services governed by the Acts of the Universal Postal Union.

Postal items: Letter post and parcels, as described in the Acts of the Universal Postal Union, when carried by, or for, a postal agency.

1 The complaint

1.1 Nature of the complaint

Australia Post is the national postal agency owned by the Commonwealth Government. It provides domestic and international mail services including express mail and parcel deliveries.

On 18 February 2000, the Conference of Asia Pacific Express Carriers (CAPEC) lodged a competitive neutrality complaint against Australia Post with the Commonwealth Competitive Neutrality Complaints Office (CCNCO). CAPEC represents the four largest private express couriers operating in Australia — DHL International, TNT Australia, Federal Express and UPS. These couriers deliver documents and parcels from and to clients in Australia.

In the complaint, CAPEC argues that there is significant and increasing competition between express couriers and Australia Post.

It claims that Australia Post enjoys a commercial advantage in competing for business by virtue of differences in the regulatory arrangements for postal and non-postal items. Specifically, CAPEC refers to the preferential treatment accorded to Australia Post by the:

- higher dollar thresholds for incoming and outgoing postal items before formal Australian Customs Service (Customs) screening requirements take effect; and
- exemption for postal items from recently introduced reporting and cost recovery charges for ‘high volume, low value’ consignments.

In its complaint, CAPEC also contended that its members would be disadvantaged by the differing administrative treatment under the Goods and Services Tax of the transport services provided by Australia Post and express couriers.

However, the CCNCO received advice from CAPEC on 19 June 2000 that it had resolved the GST issue with the Australian Taxation Office and was withdrawing this aspect of the complaint.

1.2 The investigation

The Commonwealth's *Competitive Neutrality Policy Statement* (CoA 1996) specifies that Australia Post is subject to competitive neutrality requirements. *Prima facie*, the Customs arrangements referred to in the complaint breach Commonwealth requirements that government businesses comply with the same regulations as their private competitors. The CCNCO has investigated the complaint.

The CCNCO notes that, while the complaint concerns competition between Australia Post and Australian express couriers, the market involved is broader than this. The movement of parcels in and out of Australia involves international as well as domestic postal agencies and couriers. This means that the burden of any regulatory non-neutralities will be shared between Australian couriers and their affiliates overseas. Indeed, for consignments entering Australia, the burden may fall disproportionately on those affiliated companies.

In investigating the complaint, the CCNCO has had regard to:

- the general public interest requirements in the *Competition Principles Agreement*;
- the proviso in the Agreement that, for any particular activity, governments need only take action to promote competitive neutrality when the benefits outweigh the costs; and
- the requirement in Clause 21 (3) of the *Productivity Commission Act 1998*, that it give particular regard to ensuring the interests of users of the service are taken into account.

Consistent with the Productivity Commission Act, the CCNCO sought to give interested parties maximum opportunity to comment on the matters raised by the complaint. During the course of its investigation, the Office held discussions with the complainant, Australia Post, Customs, Commonwealth Treasury, the Department of Communications Information Technology and the Arts (DOCITA), and the Australian Taxation Office. It also received written submissions from Australia Post, DOCITA, Customs, the Customs Brokers Council of Australia (CBCA), and the International Air Couriers Association of Australia (IACAA) which represents smaller air express couriers. The submissions from the IACAA and the CBCA endorsed the concerns raised by CAPEC.

2 Background

The carriage of parcels and documents into and out of Australia is a significant activity. Letter class mail aside, Australia Post and air couriers together handle around 18 million incoming and slightly fewer outgoing items a year.

This section describes the Customs clearance procedures for postal and non-postal items and gives an indication of the extent to which the courier and postal systems compete. The extent of competition is relevant to this investigation because it will determine the resource allocation impacts of the differences in the regulatory arrangements for postal and non-postal services.

2.1 Customs clearance arrangements

Two of the major functions of the Australian Customs Service (Customs) are to facilitate trade across the Australian border (while protecting the community and maintaining appropriate compliance with Australian law), and to collect customs revenue, including tariff duties and commodity taxes. To assist these functions, the *Customs Act 1901* requires that Customs be ‘informed’ of items leaving and arriving in Australia.

Couriers generally report to Customs electronically about the content of consignments prior to their arrival at the border. These reports allow Customs to assess risks prior to the goods leaving or arriving in Australia. This is not possible in the postal system because Australia Post does not have detailed information about articles it transports. Customs, therefore, relies on physical inspection of the articles.

The application of Customs controls also depends on the type and value of the goods:

- Some goods — such as drugs, firearms and cultural heritage items — are subject to controls regardless of their value;
- However, for most goods, Customs requirements are value-based. Thus, the Customs Act stipulates import and export thresholds below which a formal Customs entry is not required and the consignment is screened free of charge, or at a reduced cost. These thresholds recognise that there is a value below which

the additional costs to transporters and Customs of formal entry procedures outweigh the higher revenue collection that would accompany those procedures.

These import and export thresholds are higher for postal items than for non-postal items. The differences in the thresholds arose from a 1986 initiative designed to:

- assist small business users of the postal system;
- reduce delays in mail deliveries; and
- reduce processing costs for Customs and Australia Post (Custom's Submission to the JCPAA 1998).

Prior to this, the thresholds were the same for all modes of carriage (at the levels currently applying for non-postal items).

The CCNCO understands that competitive neutrality between Australia Post and courier services was not an issue in the 1986 decision given the very minimal overlap between the two services at that time.

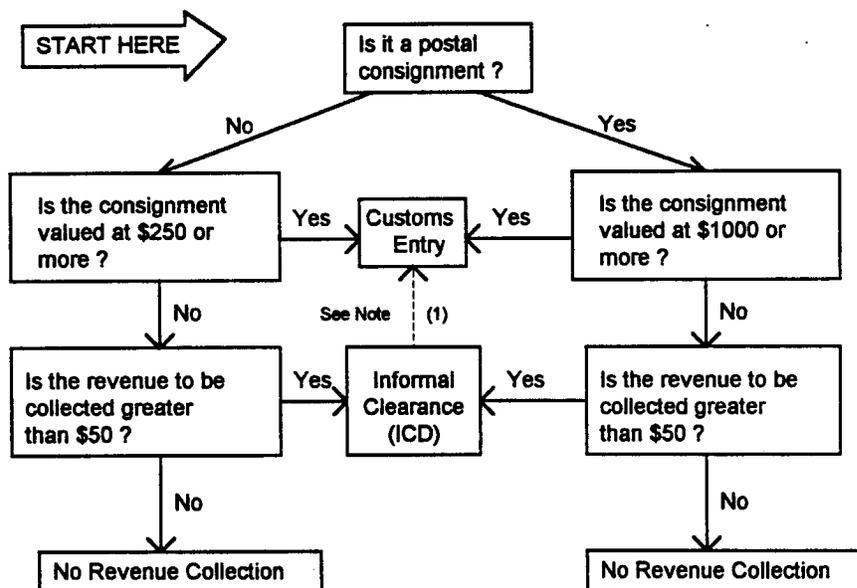
Different thresholds are not common internationally — in 1998, the United Kingdom was the only one of eight overseas countries surveyed by Australia Post to have higher thresholds for incoming postal items (JCPAA 1998, p. 113).

Incoming items

Clearance procedures

Figure 2.1 sets out the clearance process for incoming items. For incoming postal items a formal Customs entry is required if the value is more than \$1000. For non-postal items, the value threshold is \$250. As part of the entry process, any applicable duty or commodity tax must be paid. In 1997, there were around 2.1 million formal entries lodged (excluding sea transport) — mainly by express couriers and freight forwarders — accounting for about 11 per cent of consignments (by number) entering Australia in that year (see table 2.1).

Figure 2.1 The Customs entry process



(1) The importer can choose to lodge a formal Customs entry rather than use an ICD.

Source: Customs submission to JCPAA 1998.

For items valued below the thresholds, duty and commodity tax are still payable if the total liability exceeds \$50. For instance, if auto parts worth \$220 were imported by a courier, they would be under the threshold, but duty and GST (from July 2000) totalling \$55 would be payable. In such circumstances, informal clearance documents (ICDs) can be used. In 1997, there were 61 000 ICDs prepared, mainly for dutiable postal consignments valued at less than \$1000.

Table 2.1 Number of consignments by method of transport and Customs category, 1997

Transport method	Formal entry not required	ICDs ^a	Formal entry
Post	Approx 14 000 000m (<\$1000)	60 000	23 000 ^b
Non Post			
Air (mainly couriers)	1 900 000 (<\$250)	1 000	2 100 000
Sea	0	0	900 000
Total	Approx 16 000 000m	61 000	3 023 000

^a Informal clearance documents ^b Number of formal entries for postal consignments less than \$1500 in value. However, there are not likely to be significant numbers of postal consignments above this value.

Source: Customs submission to JCPAA, p. S817.

If the goods are valued below the thresholds *and* the duty and commodity tax liability is below \$50, they can be imported without a Customs entry. Moreover, the duty and commodity tax are waived. In 1997, of the 16 million consignments not requiring a formal clearance, nearly 90 per cent were postal consignments, with most of the remainder carried by express couriers.

Formal entries can be lodged either electronically or manually. Around 98 per cent of non-postal entries (outgoing as well as incoming) are lodged electronically. In contrast, the majority of postal entries are lodged manually. Also, there is no system in place to allow for the electronic lodgment of ICDs, meaning that couriers often find it cheaper to lodge electronic formal entries even when the less formal ICD route is available.

From 1 August 2000 express couriers will enter some low value consignments under the new High Volume, Low Value (HVLV) scheme. Under this scheme, couriers and other non-postal carriers will submit consolidated reports electronically on documents and bulk mail order items which have a low risk of Customs revenue leakage. They will also allow Customs to have access to their electronic in-house records on each consignment.

Cost recovery charges

Customs imposes a range of cost recovery charges for the screening and processing of incoming items.

- All formal entries entail a Customs charge for the importer (or owner). In the case of postal items, the customer pays the charge when collecting the parcel. In the case of non-postal items, the courier (or transporter) pays the charge to Customs and recoups it from the customer.
- Couriers (and others who report electronically) also pay a charge (albeit significantly lower) for items falling below the \$250 threshold. The precise charge depends on whether the item is entered individually or, from 1 August 2000, is part of an HVLV consignment (table 2.2).
- However, no charges apply to the screening of postal items valued below the \$1000 threshold (although, as noted below, Australia Post contributes resources to the screening function). Nor are there charges for processing an ICD (irrespective of the carrier).

The main charges that apply to incoming postal and non-postal items are listed in table 2.2.

Table 2.2 Customs charges applying to incoming items

<i>Item</i>	<i>Method of lodgement</i>	<i>Charge</i>
Formal import entry (postal and non-postal) ^a	Electronic	\$22.80
	Manual	\$44.55
Informal clearance document (manual lodgement only)	Manual	None
Air cargo not requiring a formal import entry	Electronic	\$2.40
High volume, low value (HVLV) air cargo not requiring a formal import entry (from 1 August 2000)	Electronic	\$45 per consolidated report

a. Transported by Air

Source: Customs.

In overall terms, cost recovery charges imposed on couriers (and other non-postal transporters) aim to fully recover the associated screening and processing costs. Couriers, and others such as freight forwarders using air transport, currently pay around \$40 million a year in Customs charges (Customs submission to JCPAA 1998, p. s817). Customs estimates that the HVLV scheme will raise another \$0.75 million, mainly from express couriers.

The costs of processing incoming (and outgoing) postal items are met from a number of sources. As noted, on postal items requiring a formal entry, the customer pays a cost recovery charge to Customs upon collection of the item. The costs of processing other postal items are shared between Australia Post and Customs. Australia Post provides various resources to assist Customs, including 90 personnel, capital equipment such as conveyors and free accommodation in postal premises. These resources are augmented by around 70 Customs personnel. Customs reports that its costs for processing incoming postal items are around \$3.5 million a year.

The implicit subsidy to the postal system arising from the non-recovered resource costs incurred by Australia Post and Customs, in conjunction with the differing threshold arrangements, disadvantages express couriers (see chapter 3).

Other users

Clearances of incoming items can also be arranged by the recipient, either in person or through a customs broker or freight forwarder. Customs brokers usually charge a fee for the service which is said to average around \$65 (including the Customs cost recovery charge). Most of these entries are lodged electronically, despite the absence of cost recovery charges for ICDs. This again points to the high administrative cost to transporters of complying with the manual lodgement requirements for ICDs.

Outgoing items

Virtually all outgoing items valued above the specified thresholds must be reported using a formal entry. The threshold for postal items is \$2000, while for non-postal items it is \$500. There are no cost recovery charges in place for processing these entries. However, regardless of the value of the goods, any outstanding duty, excise or commodity tax must be paid prior to clearance.

CAPEC pointed out that although the reporting requirements for outgoing items are less onerous than for incoming items, processing involves a minor cost and a delay, meaning that the lower threshold applying to non-postal items disadvantages its members relative to Australia Post.

2.2 Competition between postal services and express couriers

Different regulatory treatment of particular activities is most likely to lead to resource allocation distortions if those activities compete with one another.

Traditionally postal and express courier services did not compete. The carriage of articles by couriers was low in number and confined to the very high value end of the market.

However, in recent years, there has been significant penetration by couriers of the lower value end of the market which was previously the province of the postal system. For instance, the volume of documents transported by express couriers has grown by over 650 per cent in the last decade. The total turnover of couriers' international business from Australia is now in the vicinity of \$250 million a year, compared to Australia Post's annual turnover on international mail of around \$350 million.

For their part, postal services have expanded their range of services to meet the competition from express couriers. Australia Post, in conjunction with its counterparts overseas, has developed an Express Mail Service (EMS). Australia Post's promotional material for the service states that it is a Door-to-Door International Courier and that:

You can save up to 40% on our major competitors' published courier prices ...

Flexible and Competitive - Compare what you're getting from the international courier you are currently using with the service and savings EMS International Courier has to offer you. Very likely, you'll discover you're paying a lot more than you should and that Australia Post's EMS International Courier can provide you with the service you need. (Australia Post 2000) www.australiapost.com.au

Further evidence of commonality between postal and courier services is that Australia Post contracts carriage of articles on some of its premium services to CAPEC members — particularly in the Asia Pacific. In other countries, such linkages have even extended to ownership. For example, PTT Post (the Dutch post office) fully owns TNT and Deutsche Post AG holds a 25 per cent stake in the express courier DHL.

Based on these developments, it is clear that there are significant and growing overlaps between the express courier and postal systems. Hence, differences in costs arising from different screening thresholds, cost recovery regimes and the like, will affect the distribution of business between the two systems.

As noted in chapter 1, this will have implications for overseas postal and courier services as well as their Australian counterparts. Indeed, for incoming consignments — where the regulatory differences appear to be most significant — the major impacts may well be on the overseas entities. However, the flow-on effects for the Australian arms of the postal and courier networks may also be significant.

3 Assessment of issues

3.1 Import and export thresholds

Air express couriers (and possibly other businesses such as freight forwarders) carry a significant number of items valued between the non-postal and postal screening thresholds.

For incoming consignments, the lower threshold for non-postal items results in three sources of cost disadvantage for express couriers:

- They are required to submit formal electronic entries for many items which would be subject to no, or only informal, screening, if carried by Australia Post. Although couriers *lodge* entries electronically, the information required for each entry must be extracted from manifests and, therefore, entails an administrative cost.
- They pay higher Customs charges on these electronic entries (\$22.80 per entry) than on consignments valued below the threshold and, therefore, subject to informal screening (up to \$2.40 item). In essence, the lower threshold for non-postal items serves to magnify the cost advantage that Australia Post derives from its exemption from Customs cost recovery charges (see section 3.2).
- They may incur a liability for import duty and commodity taxes which would not be collected if the consignment was handled by Australia Post. As noted in chapter 2, if an incoming item falls below the value threshold and the duty and tax liability is less than \$50, that liability is waived. Hence, for items valued between \$250 and \$1000, users of courier services will always pay any duty and tax liability, whereas users of the postal system will only pay if that liability exceeds \$50.

For outgoing consignments, the lower screening threshold for non-postal items has no implications for Customs charges — all outgoing entries are processed without charge.

However, the lower threshold again involves a greater administrative burden for couriers. Further, CAPEC argues that the requirement to lodge formal entries for

lower value consignments involves an additional delay, and thereby reduces the competitiveness of courier services relative to the postal system.

In quantitative terms, the cost disadvantages for express courier services that result from the differences in the screening thresholds for incoming postal and non-postal items are significant:

- Information provided by Customs and CAPEC suggests that the lower import threshold for non-postal items increases by some 300 000 items a year the number of consignments transported by couriers that are subject to formal screening. Commercial-in-confidence information provided to the CCNCO, indicates that the average cost for couriers of processing individual import entries is of the order of \$10. This implies that the additional administrative impost on express couriers amounts to a total of around \$3 million a year.
- In addition, the higher cost recovery charges applying to the 300 000 items individually valued at between \$250 and \$1000 add a further \$6 million to the cost of items transported by express couriers.

The significance of these imposts is even more apparent when they are considered in per unit terms. Together, the additional administrative costs incurred by couriers and higher cost recovery charges appear to add around \$30 to the cost of many incoming, couriered, consignments valued between \$250 and \$1000. Based on price lists supplied by CAPEC, the \$30 impost would represent 15 to 20 per cent of the average charge for transporting an incoming item from overseas and as much as 50 per cent of the charge for transporting a lightweight item from New Zealand. In the CCNCO's view, these are material disadvantages which will have a negative impact on express couriers.

Moreover, the waiving of import duty and commodity taxes on postal items in the \$250 to \$1000 value range — if the total liability is less than \$50 — may add further to the disadvantage suffered by express couriers. For example, a non-dutiable item with a value, say, between \$400 and \$500 would attract indirect taxes (Wholesale Sales Tax, or GST) of around \$40 if brought in by a courier, but no taxes if posted. Businesses will be able to subsequently recoup GST payments through the input credit arrangements — thereby restoring neutrality with the postal system. But for some customers — mainly individuals — unable to access input credits, this aspect of the current arrangements will constitute a further disincentive to use couriers.

In contrast to the difference in the import thresholds, the difference in screening thresholds for outgoing items appears to have a much less significant impact on couriers' costs. This is because the information requirements for outgoing customs entries are not particularly onerous — being mainly related to ABS reporting

requirements and community protection objectives. As noted, CAPEC's major concern with the difference in the export thresholds relates to the delays involved when formal screening is required. The CCNCO is not in a position to quantify the impacts of such delays on the competitiveness of courier services.

Assessment

In the CCNCO's view, the case for aligning the thresholds for postal and non-postal items is compelling. The current differences result in a significant cost penalty for courier services, particularly on incoming consignments, as well as involving extra delay for couriered items. Given the significant and growing competition between courier and postal services, these cost imposts and delays will affect the distribution of business between the two systems and, hence, lead to a misallocation of resources.

The CCNCO notes that this finding is consistent with those of recent reviews by both the National Competition Council (1998) and the JCPAA (1998). Also, in its final submission to the JCPAA, Customs said that:

The guiding principle behind any adjustment to entry thresholds must be to ensure that the existing inequity between post and other modes of importation be removed. (p. s812)

In its response to the NCC report, the Government indicated that it would await the outcome of the JCPAA report before making any changes to threshold levels. To date, the Government has not responded to the JCPAA's recommendations.

Determining the appropriate value of the common thresholds is beyond the scope of this investigation. In essence, it involves balancing revenue and risk management objectives against administrative efficiency considerations. In its submission to the JCPAA (1998), Customs suggested that increasing the import threshold for non-postal items to \$1000 would be unlikely to result in a significant reduction in duty and tax collections. However, with the introduction of the GST, the potential leakage of revenue on incoming items brought in by individuals may have changed the equation.

The CCNCO recommends that the value thresholds for formal screening by the Australian Customs Service of incoming and outgoing postal and non-postal items be aligned, at levels which strike an appropriate balance between revenue collection and risk management objectives and administrative efficiency considerations.

3.2 Cost recovery issues

As described in section 2.1, cost recovery arrangements for Customs processing differ between postal and non-postal items. In particular, there are no charges for informal screening of incoming postal items falling below the \$1000 value threshold, whereas there is a charge of up to \$2.40 per item for the screening of non-postal items below the \$250 threshold.

The complainant has alleged that this regime provides a competitive advantage to Australia Post. CAPEC has raised particular concerns about the recently enacted High Volume, Low Value (HVLV) charging scheme.

The significance of the non-neutrality

The precise size of the advantage afforded the postal system by the differing cost recovery arrangements is difficult to determine:

- Based on the charges applying for informal screening of non-postal consignments, it could be up to \$2.40 per item.
- However, the nature of Customs screening for postal and non-postal items differs — the screening of postal items relies less on the review of electronic information and more on physical checking. In these circumstances, the resources contributed by Customs (approximately \$3.5 million) and Australia Post (\$5-\$10 million) for processing mail items may provide a better basis for estimating the advantage for the postal system. If, say, 50 per cent of these resources were devoted to processing incoming items other than standard letters (and items valued at over \$1000 for which cost recovery charges apply) this would equate to a per unit screening cost of under \$1.

Suffice it to say that the advantage, though contravening the principle of competitive neutrality, appears to be small compared to the advantage for the postal system arising from the differences in the screening thresholds.

Approaches to achieving competitive neutrality

While the advantage for Australia Post (and overseas postal operators) from free informal screening of incoming postal items appears to be relatively small, this is not, by itself, a reason for leaving the current situation unchanged. What matters is whether any inefficiencies that result from the advantage are larger than the costs of remedial action. If this is the case, then it is in the community's interests to make the necessary policy changes.

It would be possible to address the current non-neutrality by removing cost recovery charges for informal screening of incoming non-postal items. However, in the CCNCO's view, there is nothing to suggest that the current approach of seeking to recover the costs of informal screening of non-postal items is inappropriate. In essence, the charges help to ensure that the costs of screening are borne by the users of courier services. Concordance between the entity giving rise to a cost and the entity on which the charge falls is one of the requirements that an efficient cost recovery charge must satisfy.

From this perspective, removing cost recovery charges for informal screening of non-postal items in pursuit of competitive neutrality, could have adverse efficiency effects. In particular, it could lead to 'overuse' of courier services because the full costs to the community of sending an item to Australia would not be included in the price charged to the sender.

The converse approach of imposing cost recovery charges for informal screening of incoming postal items has considerable attraction. Like the charges for informal screening of non-postal items, such charges would, in principle, help to ensure that the costs of screening were borne by users of the postal system.

However, the scope to impose such charges is open to question. Information supplied by DOCITA raises doubts about whether Customs could legally impose a cost recovery charge on Australia Post for incoming mail. A key issue is whether Customs is providing a service to Australia Post, given that Australia Post does not solicit incoming mail and is not regarded as the importer of that mail under the Universal Postal Union (UPU) convention. That said, the Government's recent announcement that quarantine charges will apply to Australia Post indicates that the convention may not be a binding constraint.

But, even if it were legally possible to impose charges for informal Customs screening on Australia Post, it is not clear that Australia Post could efficiently pass them on to people sending mail and parcels to Australia:

- DOCITA suggested that provisions in the UPU convention would preclude cost pass-through to overseas postal authorities (although it appears that the relevant provisions can be subject to differing interpretation).
- Collecting the charge from the Australian recipients of incoming mail — as currently happens for items valued at over \$1000 — would be an alternative. However, given the high volume of items and the relatively small charges involved, this would be administratively inefficient.

If pass-through was not feasible, the cost recovery charges would have no impact on the price of incoming mail and parcels. Hence, they would not address the

competitive disadvantage suffered by couriers under the current arrangements. (As noted, the impact of this disadvantage mainly falls on CAPEC's overseas affiliates).

Moreover, if Australia Post could not pass on the charges, then in the absence of a CSO type payment by the Government, it would need to fund them from its domestic mail operations. As noted in IC 1992, such cross subsidies between mail users may be both inequitable and inefficient (p.136).

Summing up

The advantage to Australia Post (and overseas postal operators) from free informal screening of incoming postal consignments appears to be much less significant than the advantage it derives from the higher formal screening thresholds for postal items. In the CCNCO's view, addressing the threshold issue should be the priority for the Government.

Moreover, the possible imposition of cost recovery charges on Australia Post for informal Customs screening of incoming postal items raises legal and practical complexities that are beyond the scope of this investigation. In the CCNCO's view, this issue requires further consideration by the Government, drawing on specialist technical and legal advice.

The CCNCO endorses the principle of imposing cost recovery charges for informal Customs screening of incoming items. It recommends that the Government give further consideration the feasibility of imposing such charges on incoming postal items.

High-volume, low-value consignments

As noted in chapter 2, *Customs Amendment Act (No. 2) 2000* introduces a new charging regime for processing high volume, low value consignments brought into Australia by express couriers and other non-postal businesses that report electronically. The Act defines HVLV consignments as consignments consolidated in bulk form which individually are valued at less than \$250 — the screen-free threshold for non-postal items. From 1 August 2000, express couriers will pay a \$45 charge per consolidated report for an HVLV consignment (which may include 300 or more individual items).

The scheme is designed to provide a more streamlined, and therefore administratively cheaper, screening process than applies to other consignments. This reflects the lower revenue and community protection risks of items in these consignments.

However, in keeping with its exemption from cost recovery charges for informal screening, Australia Post is not subject to charges on similar high volume low value consignments. CAPEC alleges that this constitutes discrimination against non-Australia Post carriers. It estimates that the new charges could cost its members collectively around \$2000 a day.

Assessment

It is important to note that the HVLV scheme is a ‘new’ impost on express couriers only in so far as Customs previously chose not to collect cost recovery charges for processing HVLV consignments. Notionally, the \$2.40 cost recovery charge for incoming items valued at less than \$250 — introduced in 1997 — applied to each item in an HVLV consignment. However, because the associated reporting requirements were particularly onerous in the context of the significant number of items in each HVLV consignment, Customs continued to process such consignments free of charge.

Moreover, while the CCNCO accepts CAPEC’s argument that express couriers suffer a (small) disadvantage under the HVLV scheme, it does not see this as a problem with the scheme as such. Arguably, the scheme strikes a reasonable balance between the pursuit of revenue collection and community protection objectives, and reducing the cost of screening for low value items.

In its view, the source of the non-neutrality is again Australia Post’s exemption from cost recovery charges. Accordingly, it sees no reason to recommend any changes to the HVLV scheme.

The CCNCO recommends that the concerns of express couriers about the new High Volume, Low Value charging scheme be addressed as part of the Government’s consideration of the broader issue of whether Australia Post should pay cost recovery charges for informal Customs screening of incoming postal consignments.

3.3 Goods and Services Tax on transport services

In its original complaint, CAPEC alleged that differing treatment of Australia Post and express couriers under the Goods and Services Tax (GST) would unfairly disadvantage its members.

CAPEC’s major concern related to an additional administrative burden for express couriers from an implied requirement for them, but not Australia Post, to separately identify the domestic and international components of the transport service

embodied in incoming and outgoing international deliveries. This concern arose from the differing definitions of ‘place of consignment’ and ‘place of export’ for postal and non-postal items in the GST legislation:

- For incoming postal items, the place of consignment is the address of the recipient. For outgoing items, the place of export is the point of postage. These definitions will not require Australia Post to differentiate between domestic and international transport costs in determining any GST liability. In effect, there will be no domestic transport component.
- In contrast, the place of consignment for all other incoming items is defined as the last port or airport the item left before delivery. For outgoing items, the place of export is specified as the place where the item was containerised. CAPEC suggested that the Australian Taxation Office’s (ATO) initial interpretation of these definitions would mean that, for GST purposes, couriers would have had to separately identify domestic and international transport costs.

CAPEC argued that any need to separately identify international and domestic transport components for GST purposes would require couriers to re-engineer billing systems to cater specifically for the Australian market.

In the complaint, CAPEC also argued that the differing definitions could result in some users of courier services incurring a non-recoverable GST liability on the domestic transport component of outgoing consignments.

Subsequent to lodging the complaint, CAPEC informed the CCNCO that this issue had been resolved, and that it was withdrawing this aspect of the complaint. The CCNCO understands that the ATO has issued a private ruling stating that where express couriers transport items like those transported by Australia Post, they will be treated in a similar fashion to postal services for GST purposes.

3.4 Summary of recommendations

The CCNCO recommends that:

- the value thresholds for formal screening by the Australian Customs Service of incoming and outgoing postal and non-postal items be aligned, at levels which strike an appropriate balance between revenue collection and risk management objectives and administrative efficiency considerations;
- the Government give further consideration to the feasibility of imposing cost recovery charges for informal Customs screening of incoming postal items; and
- the concerns of express couriers about the new High Volume, Low Value charging scheme be addressed as part of the Government’s consideration of the

broader issue of whether Australia Post should pay cost recovery charges for informal screening of incoming postal consignments.

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