

# **Productivity Commission Inquiry into Cost Recovery**

## **Submission**

### **Introduction**

The Australian Customs Service is responsible for collecting significant amounts Commonwealth revenue including Customs duty (approximately \$4.19 billion) and Goods and Services Tax on imports (approximately \$1.2 billion) which has not been deferred by importers. Customs is also responsible for processing approximately \$13 billion in additional GST on behalf of the Australian Taxation Office.

Customs has been cost recovering selected government services over a number of years. Currently the most significant cost recovery activities are the Passenger Movement Charge (\$226 million), Import Processing Cost Recovery charges (\$74.7 million) and Section 31 (of the Financial Management and Accountability Act) services (\$63.4 million).

The current Passenger Movement Charge was introduced in January 1995 as a cost recovery measure to recover the cost of Customs, Immigration and Quarantine processing of incoming and outgoing passengers and the cost of the issue of a short term visa.

The Import Processing Cost recovery charges was introduced in April 1997. This measure was introduced to be consistent with the general thrust of government policy which increasingly sees a closer alignment of costs with sectors of the community that benefit from the provision of public services. This measure therefore aligned the cost of processing imports with that sector of the community – that is, the importers – that generates customs work, rather than spreading the costs across all taxpayers.

The Section 31 services have varied from provision of services to other Government agencies not funded through the Budget appropriations to sales of assets and publications.

### **Nature and Extent of Cost Recovery**

Cost recovery in Customs can be segregated into three groups. The three groups are Customs Cost Recovery Charges, Section 31 Charges and Passenger Movement Charge.

## **Customs Cost Recovery Charges**

In the August 1996 Budget the Government announced that cost recovery charges would apply to certain Customs commercial activities. The decision was to apply full cost recovery to all activities directly or indirectly required to process cargo and import processing related transactions. The Government decision did not apply to the processing of export transactions or activity associated with Customs community protection functions relating to the detection and interception of prohibited drugs and other imports.

The charges for import related services were implemented on 1 April 1997. Attachment A provides a summary of the current cost recovery charges imposed.

Cost recovery was introduced by the Government to implement the general policy of aligning costs with the sectors of the community that benefit from the provision of public services – that is importers - and to assist in the reduction of the budget deficit. It was proposed as part of a package of savings/revenue measures needed to meet the portfolio's savings targets over the approaching four years. Customs annual funding, in effect, was reduced by an amount equivalent to that raised through cost recovery.

The measure forecast a net budget impact of \$46.09 million per annum. This represented, in the 1996/7 financial year, \$64.6 million less \$18.5 million. (Prior to the implementation of cost recovery charges in April 1997 a Cargo Automation Processing Charge was imposed on all electronic transactions. This charge resulted in collections of the order of \$18.5 million per annum.)

At today's date, import processing cost and revenue collection stands at approximately \$75 million per annum.

With the introduction of Cargo Management Re-engineering in Customs there will be change in the pricing structure for the cost recovery of import processing. Attachment B identifies the proposed new pricing structure. The actual prices will be settled a few months prior to the introduction of CMR.

## **Section 31 Charges**

The \$63.4 million in Section 31 Charges that will be collected by Customs in 2000/2001 is of a cost recovery nature. The most significant portion relates to charges imposed on other Government agencies for services provided. There is a small portion related to assets sales and the sale of Customs Publications.

Section 31 charges are imposed on external agencies and clients when an additional cost is borne by Customs for the delivery of a good or service and where no funding has been appropriated for the delivery of that good or

service. For example, Customs currently collects revenue on behalf of Australian Quarantine and Inspection Service (AQIS). Customs recovers all costs directly associated with collecting that revenue by invoicing AQIS on a monthly basis. Any costs associated with electronic systems or procedure modifications that are required to collect revenue on behalf of AQIS are recovered directly from AQIS by imposing Section 31 charges.

Of the \$63.4 million in Section 31 charges, 89% are charges recovered from other Government agencies. The majority of the remaining amount relates to the sale of assets and recoveries of property costs in respect of sub-leasing agreements.

### **Passenger Movement Charge**

The Passenger Movement Charge was introduced in October 1978 with the current PMC scheme introduced in January 1995 to replace the Departure Tax. This charge is collected by Customs on behalf of Customs, the Australian Quarantine Inspection Service and the Department of Immigration and Ethnic Affairs. The annual revenue from the charge is approximately \$226 million. The current charge is \$30 and is levied on all passengers departing Australia with the exception of those that are exempt through legislation.

The current Passenger Movement Charge was introduced as a cost recovery measure to recover the cost of Customs, Immigration and Quarantine processing of incoming and outgoing passengers and the cost of the issue of a short term visa. Approximately \$17 of each \$30 charge relates to the cost incurred by Customs.

The Australian National Audit Office recently completed a performance audit "Passenger Movement Charge – Follow-up Audit" in which it stated: *"The 1996 Audit Report noted that the PMC was introduced as a cost recovery measure, but that in law it was a tax. The follow-up audit found that with the 1998/99 Budget decision to increase the PMC from \$27 to \$30 per passenger, a policy shift has taken place. The PMC is levied under Commonwealth taxing powers and is now partly applied as a general revenue raising source. As a consequence the PMC is no longer solely linked to cost recovery of Customs, Immigration and Quarantine."*

There is a distinction in Customs Cost Recovery activity between the Passenger Movement Charge and other cost recovery revenue. This distinction involves not only the pricing of the activity but the eventual use of the revenue. In both cost recovery groups below, Customs has control over the pricing of the activity and the ultimate use of the funds. Revenue from the Passenger Movement Charge is receipted directly into Consolidated Revenue and is not, at any stage appropriated to Customs.

## **Rationale for Cost Recovery**

The rationale for introducing import processing cost recovery charges was two-fold. The first area of reasoning concerned the Government's need to reduce the budget deficit. The second was the Government's desire to align the cost of processing imports with that sector of the community (the importers) which generated the costs, rather than spreading those costs across the entire community.

Cost recovery for import processing services remains consistent with the initial Government decision. Customs imposes cost recovery charges on importers. Those charges are aligned to the actual cost of processing imports. Customs is appropriated an amount equivalent to the revenue received from those charges.

## **Costing Issues**

Following the decision to introduce cost recovery charges, Customs developed an activity based costing model. The model is underpinned by the Customs Activity Dictionary that distinguishes approximately 140 activities that are undertaken throughout Customs.

All resources consumed in Customs are attributed to one of the 140 activities. The attribution is undertaken on a quarterly basis by way of a 'snapshot' process. Each staff member within Customs is required to identify time spent against the identified activities for a four week period. This information is then included in the costing model and reconciled against the audited Financial Statements. Administrative and property costs are attributed to activities based on the staff information collected. Information Technology costs are attributed to activities based on a sophisticated IT costing model. This model identifies and calculates the cost of running Customs commercial systems and allocates costs according to the activities that utilise those systems.

The end result of this model in its entirety is the calculation of the full cost of each activity undertaken within Customs.

All costs associated with the activities that are directly or indirectly required to process imports are recovered through cost recovery charges. Of equal importance is the costing of activities that are not cost recovered including export and community protection activities. The full cost of these activities are calculated in the model to ensure that no over-recoveries occur and to provide assurance to industry that these activities are not recovered through charges.

The model described above was utilised to calculate the initial costs incurred with regard to import processing related transactions in April 1997. The first externally audited review by KMPG of the charges undertaken in October 1997 identified that collections for the first six months of cost recovery were within 1% of anticipated collections.

Customs maintains this detailed activity based costing of its services to ensure that the costs recovered are clearly aligned to the costs calculated to process import transactions. The charges imposed are limited to the calculated costs of delivering the functions. Charges are externally reviewed/audited bi-annually to ensure that they reflect any changes in the costing structure, including efficiencies.

The full activity based costing model is provided to industry representatives through a number of forums. Industry representatives are provided with a full presentation of the findings of bi-annual reviews and detailed analysis on the costing methodology utilised by Customs to establish charges imposed for import processing activities.

### **Legal and Constitutional Issues**

The legal basis for the imposition of cost recovery charges is contained within the 'Import Processing Charges Act 1997', 'Customs Depot Licensing Charges Act 1997' and the 'Customs Act 1901'.

### **International Comparisons**

Several overseas countries impose cost recovery charges for import processing activities.

- United States of America collects fees in two forms. The first is a harbour maintenance fee which is imposed as an ad valorem fee of 0.125% of the importer's cargo value assessed on cargo imports, exports and admissions to Free Trade Zones. The second is a Merchandise Processing Fee. This is a fee schedule for formal entries (generally those valued at over USD1250) at a minimum of \$21 per entry and a maximum of \$400 per entry with an ad valorem rate of 0.19%. The charges are levied and collected as part of the import entry process. The fees collected are paid into general revenue not to the Customs budget. The fee is provided for in Customs legislation.
- In Mexico a Customs Processing Fee is charged on all import transactions. There is no fee on exports. The fee is levied at a rate of 0.8% of the Customs transaction value of the goods. It is collected with the relevant

duty and VAT prior to release of the goods. The fee is paid to the Customs Service for agency running costs. The authority for the fee is in legislation separate from Customs legislation, a 'Fee Law'.

- Japanese Customs raises revenue from six different categories of charges other than Import Duty and consumption Tax/Excise and Tonnage Dues. Of interest in the charging regime are:
  - a charge for issuing Import/Export certificates per matter
  - a charge for supply of official trade statistics by computer magnetic tape (per matter)
  - a charge for national examination for licensing of customs agents (per application)
  - a charge for registration of licensed customs agent (per registration)
- The European Union Customs Code does not allow for charging for Customs services so none of the members can levy charges apart from merchant's overtime for services for clearing cargo provided out of hours. The basic principle in community law is that the provision of Customs services is a public service. The EU Code allows, however, for the members to retain 10% of the Customs duty levied as an administration charge.
- The World Customs Organisation (WCO) has advised that some countries levy charges on containers which are aimed at funding their anti-drugs effort but this is not supported by the WCO.

**Cost Recovery Charges****Attachment A**

The charges levied are as follows:

<b>Item</b>	<b>Charge</b>	<b>Paid By</b>
Import Entry via sea (lodged electronically) - Nature 10 & 20	\$29.65 plus \$0.20 per line after line 10	the owner, on entry into home consumption or into a warehouse
Manual Import Entry via sea - Nature 10 & 20	\$51.40 plus \$1.00 per line after the first line	the owner, on entry as above
Import Entry via air or post (lodged electronically) - Nature 10 & 20	\$22.80 plus \$0.20 per line after line 10	the owner, on entry as above
Manual Import Entry charge via air or post - Nature 10 & 20	\$44.55 plus \$1.00 per line after the first line	the owner, on entry as above
Manual Reporting charge for sea cargo	\$2.60 per bill of lading	the cargo handler, on reporting
Manual Reporting charge for air cargo	\$3.00 per house or straight line air waybill	the cargo handler, on reporting
Charge for air cargo not requiring an import entry	\$2.40 per house or straight line air waybill	the cargo handler, on reporting
Import Entry ex-warehouse (lodged electronically) - Nature 30	\$5.00 plus \$0.20 per line after line 10	the owner, on removal of goods from a warehouse
Import Entry ex-warehouse (lodged manually) - Nature 30	\$26.75 plus \$0.80 per line after the first line	the owner, on removal of goods from a warehouse
High Volume/Low Value Charge	\$45 per master/sub-master airway bill	the cargo handler, on reporting
Licensing Fee for Customs Depots	\$3000 per licence application	new applicants
	\$1500 annual fee, or \$4000 annual fee	depots with less than 100 transactions p.a., or all other depots
Refund Application Fee (lodged electronically)	\$45.00 per application	the duty payer, on application
Refund Application Fee (lodged manually)	\$65.00 per application	the duty payer, on application
S. 28 Location & Overtime Fees	\$40.10 (Location) or \$43.35 (Overtime) per hr or part thereof + transport costs	the company/individual requesting the service

**Attachment B****Proposed Cost Recovery Charges under Cargo Management Re-engineering**

The proposed charges to be levied are as follows:

<b>Item</b>	<b>Charge</b>	<b>Paid By</b>
Simplified Declaration <i>(Including ex-warehouse transactions)</i>	\$23.20	the owner, on entry into home consumption or into a warehouse or ex-warehouse
Full Declaration	\$29.25	the owner, on entry
Accredited Clients		the owner, on entry
- Periodic Declaration	\$1,275	
- RCR	\$9.40	
Manual Entry Charge	\$60	the owner, on entry
Self Assessed Clearance Documentation	\$2.15	the cargo handler, on reporting
Licensing Fee for Customs Depots	\$3000 per licence application	new applicants
	\$1500 annual fee, or	depots with less than 100 transactions p.a., or all other depots
	\$4000 annual fee	
Location Fees	\$40.10* per hour or part thereof	the company/individual requesting the service
Overtime Fees	\$43.35*per hour or part thereof	
Travel	\$0.58 per km*	

\*GST inclusive price