



Submission to the Productivity Commission Inquiry into Cost Recovery

from Electronic International Trade Services Pty Ltd

INTRODUCTION

This submission is made by Electronic International Trade Services Pty Ltd on behalf of its importing and exporting clients. It relates to the array of "cost recovery" charges imposed on industries and consumers purchasing imported products, capital equipment, raw materials, components and, in some cases, exporting goods in which those charges remain embedded even if duty and GST has been recovered.

Our client base probably is representative of a group of importers and exporters who numerically, represent less than 1 per cent of the total number of importers and exporters (estimated at 140,000 by Lionel Woodward, CEO of Customs in his PanPacific 2000 address). However, the same group is responsible for more than 90 per cent of the total value of imports and exports. In essence "cost recovery" falls, basically, on large importing and exporting companies. For example, some large companies such as Coles Myer would expend more than a million dollars per annum on cost recovery based charges relating to its direct imports.

At this stage we would like to confine our submission to a discussion of the major issues generated by present cost recovery charges and the major changes that are mooted in the near future as a consequence of the application of information technology innovations and a fundamental shift in process from transactionally based input interfaces to periodic processes. Data to support particular analyses will be, hopefully, more available once the Commission has obtained its responses from the portfolio questionnaires. We consider that the best approach for us in this inquiry is to signal what we perceive to be the major issues for our "cost recovery" stakeholders and to build upon that foundation as the inquiry progresses to the Draft Report stage. We apologise to the Commission for this fragmented approach but believe our approach will ultimately be of more value as an inquiry resource than attempting to provide a complete response without the benefit of all the data or the associated analysis.

RELEVANT AGGREGATES OF COST RECOVERY

The main present costs that we have identified to date are:

Australian Customs Service (1999/2000 Financial Year)

Import Entry Fees	\$78,861,028
Refunds	\$870,730
Warehouse & Depot Licenses	\$4,075,000
Other	\$354,993
Total	\$84,161,751

Australian Bureau of Statistics (1999/2000 Financial Year)

Sales of Goods and Services	\$21,468,000
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Australian Quarantine Inspection Service (1999/2000 Financial Year)

Sale of Goods and Services	\$64,325,000
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* Appendix 1 provides the source documents obtained to derive these numbers.

The aggregate for such costs is of the order of \$170 million per annum which can be related to a total duty collection of less than \$3 billion and a collection of about \$360 million from imports at the 3 per cent level under the tariff concession system. Our point is that cost recovery in the imports/exports area of government compliance adds a considerable administrative cost element to the imports process in particular.

SOME ISSUES ARISING FROM PRESENT COST RECOVERY PROCESSES

1. Customs Issues

Our first point is that Customs' cost recovery has an inherent bias against imports. A fee which generates about 80 million dollars per annum is specifically directed to the account of imports. There is no charge applied to exports. This process violates the principle of equity in cost recovery. It is arguable that as users of import /export government services there should be a charge on the user, given that the vast majority of commercial operators within the Australian economy do not use these services. However that charge, in equity, should apply to all exporters and importers.

The second point is that Customs has, during the past ten years, pursued a process that has provided funds to service providers from electronic user fees that have not been subject to appropriate external scrutiny. There has been a level of funding to private service and systems providers that has not been subject to appropriate scrutiny by the Auditor General or the Department of Finance. Appendix 2 provides some correspondence in 1995 which relates to this issue.

Our final point is that there has been no direct user participation in the activity based costing exercises and calculations used by Customs to determine the level of cost

recovery charges. Over a very long period of time there has been an extensive process of cost analysis and rationalisation that has effectively excluded from the dialogue the people who actually pay for the Customs service- the importers

2. AQIS Issues

The single issue with present AQIS cost recovery charges is that there is no dialogue with AQIS about the level of charges. The power of the Quarantine issues in the community means that very few companies are prepared to confront the question of what constitutes a fair charge for cost recovery. We hope that the Commission's portfolio questionnaire will enable an exchange designed not only to determine what is appropriate to meet Community expectations but to calculate an appropriate cost. There should be no open-ended cost plus approach regardless of the desirability of the goal.

3. ABS Issues

Present ABS practice represents an inadequate level of service that does not meet user needs. This claim is reflected in the declining level of service income from consultancy services. There is little free service presently available from the ABS. Requests for information are invariably treated on a fee for service basis where the fee is requested up front without any surety that the information sought will meet the users' needs. The consequence is that many users are voting with their feet. They are not using what should be an essential market research tool because its sales process is too inflexible and there is no justification of the user pays price structure.

FUTURE COST RECOVERY ISSUES

The two major issues in the future will be:

1. The shift to periodic entry from transactional entry embodied in the Trade Modernisation Bill.
2. The possible privatisation of the Australian Quarantine and Inspection Service

Periodic Entry

This change has been considered by the Australian Customs Service for the past decade (in fact ever since the Customs and Excise Legislation Amendments of 1987 and 1989). The programme has shifted from consideration of partnerships to the present concept of "accredited clients". Accredited clients would be able to make entries once a month to reconcile all import shipments in the preceding month and pay the relevant duty plus a "cost recovery" charge. The amount of the cost recovery has been the subject of debate between Customs and the pilot programme participants (Coles Myer, Kodak, Dupont, Panasonic, Komatsu, Colorado, Ericsson and Nortel) who have been involved in the programme for the past five years.

The benchmark for this process should be the processes of the Australian Tax Office. Our area of interest is simple – commercial compliance. There obviously must be border protection measures of substance but these are a separate issue (just as fraud is separated from non-compliance by the ATO). The self-assessment process of the ATO

for the collection of much larger amounts of GST, company tax, income tax, and FBT from a much larger and more fragmented tax payer population is neither on a transactional basis nor attracts a "cost recovery" charge.

Our view is that, ultimately, Customs must operate with accredited clients on the same basis. There is no commercial compliance purpose in requiring the submission of a monthly entry reconciliation together with a payment of duty and a substantial cost recovery payment. If the ATO model is followed there are no costs to recover. If Customs wishes to audit its accredited client then it is at liberty under the Customs Act to do so just as the ATO has the right to audit under the Income Tax Assessment Act.

In summary, the introduction of periodic entry should reduce costs by about \$70 million for the ACS and should result in an equivalent benefit for large importers. There is no justification for a continuation of cost recovery charges when no costs occur.

The Possible Privatisation of AQIS

Our client base is acutely aware of the beneficial community role played by AQIS in ensuring that Australia is relatively free of the major plagues of animal, insect and plant diseases that afflict other countries and could debilitate our rural sector. For this reason it is obviously acceptable to users that a cost recovery process be employed that establishes and maintains a high level of border control from a quarantine perspective.

Our submission is that a laudable process should not be burdened by an excessive cost recovery mechanism. The concept of an unchallenged cost plus calculation is generally regarded by most businesses as an unacceptable model for commercial contracts, except in circumstances where the cost payer is allowed to participate in the development of the processes that attract the costs, and to monitor the delivery to ensure that supply inefficiencies are eliminated. This involvement is not really possible with AQIS.

The alternative is difficult to contemplate. If AQIS is privatised how will the Australian community ensure that the quality of service provided by AQISCO is not compromised by cost reduction programs designed to improve profitability and shareholder returns. To some extent the users of AQIS services will be captives to the company because of the existence of an externality. They will perceive a community responsibility that will colour their price negotiations with AQISCO.

We have not discovered to date the rationale for AQIS' cost recovery price schedule. It would be important to ensure that the community participates in the development of AQIS' cost recovery schedule before any decision is taken to privatise the activity and thereby change its policy imperative from community protection to profit maximisation through the provision of community protection services.

REQUESTS

1. Apply valid cost recovery principles to Customs processes under periodic processes. If there are no costs then the user should pay nothing. There should be no cross subsidisation of small users by Accredited Clients. Customs should pay close regard to the needs of users rather than the needs of other service providers.
2. Cease payments to systems developers from electronic user fees that have not been agreed by the major electronic users.
3. Establish clear principles based on cost recovery benchmarks for AQIS. Create a board of management with significant user participation that is charged with the responsibility of ensuring a fair and equitable pricing regime.
4. Review the products, delivery times and pricing practices of the ABS. Link user pay services to user needs.
5. Link all user pays service deliveries to a joint user/departmental calculation of an appropriate charge. Do not allow unilateral, unchecked prices to be established by the service provider.

APPENDIX 1

1.1

1999/2000 COST RECOVERY – TRANSACTION VOLUMES/VALUES BY CHART

Description	Total Transactions for 99/2000 Financial Year	Customs & AQIS Import Entry Charges (\$'000)	Trade Gate Fees (\$'000)	TOTAL COST (\$'000)
Import Entry via Sea (electronic)	994,877	30,492	3,302	33,795
Import Entry via Sea (manual)	3,726	195		195
Import Entry via Air/Post (electronic)	1,633,136	38,868	5,422	44,290
Import Entry via Air/Post (manual)	12,715	579		579
Import Entry ex-Warehouse (electronic)	66,511			332
Import Entry ex - Warehouse (manual) **	839			22
s77 Premises - Initial Licence Fee	0			0
s77 Premises - New Application	34			102
s77 Premises - Annual Fee (small premises)	20			30
s77 Premises - Annual Fee (large premises)	377			1,508
s79 Premises - Initial License Fee	45 ¹			315
s79 Premises - Annual Fee	530 ²			2,120
Refund Applications (electronic)	19,239			8,657
Refund Applications (manual)	1,615			105
Totals	2,733,664	70,134	8,724	92,050

1.2

AUSTRALIAN BUREAU OF STATISTICS ANNUAL REPORT 1999/2000

AUSTRALIAN BUREAU OF STATISTICS AGENCY REVENUES & EXPENSES for the year ended 30 June 2000

	1999/2000 (\$'000)	1998/99 (\$'000)	1997/98 (\$'000)
Revenues from independent sources			
Sales of goods and services	21,468	22,702	31,027

1.3

AGRICULTURE FISHERIES & FORESTRY ANNUAL REPORT 1999/2000

AUSTRALIAN QUARANTINE AND INSPECTION SERVICE
QUARANTINE AND EXPORT CERTIFICATION SERVICES
AGENCY OPERATING STATEMENT
Operating Revenues for the year ended 30 June 2000

1999/2000
(\$'000)

<u>Note 3B - Sales of Goods and Services</u>	64 ,325
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¹ Mean figure of an estimate range of 40 to 50, provided verbally by Australian Custom's National Business Group.

² Mean figure of an estimate range of 40 to 50, provided verbally by Australian Custom's National Business Group.

MF/MO

24 February, 1995

The CNCC Working Party
Review of Charging Arrangements
Customs House
5-11 Constitution Avenue
CANBERRA CITY ACT 2601

Dear Gentlemen

On behalf of the Institute of Chartered Accountants ("ICA") I would like to make a submission in respect of some of the issues raised in your terms of reference and issues paper ("the paper").

1. Level of Charges

Contrary to statements made in the paper, ICA is of the view that there has not been sufficient dialogue with importers and exporters (as opposed to service providers such as Customs Brokers) about the quantum and distribution of EEPC monies. We note that the ICA wrote to the then Comptroller General of Custom (Frank Kelly) regarding its concern with the so called "community survey" conducted by Electra. That survey consisted almost wholly of service providers.

There has been a continuing debate within CNCC for the past two years concerning the level of EEPC charges and, in particular, the fact that the ACS nominated that it was overcharging users by 1.55 per entry. The original proposal was that this sum should be given to Tradegate for its Electronic Initiatives Programme. We note that Tradegate already receives 55 cents per entry (or approximately \$1 million per annum) for that purpose.

ICA further notes that the TAPIN charge of 31 cents per entry was converted from a user pays subscription basis (ie. the users of TAPIN paid for the service) to a charge per entry that may or may not reflect actual use of TAPIN.



In summary, ICA would be interested to know what EEPC charges are made by Customs Authorities overseas and whether those charges are remitted to private enterprise service providers. Tradegate is not a government instrumentality and the IDC charge should only relate to services provided to users. TAPIN should be paid for by user subscription. Customs rather than Tradegate should be directly communicating with its constituency, the importers and exporters, to determine what the trading community (as opposed to the trade services community) requires and is prepared to pay for.

2. EEPC Review Mechanism

ICA has repeatedly expressed its concern about the probity of decisions which direct surplus EEPC funds to "industry" developments which relate fundamentally to the service providing industry. It is fatuous to argue that because the services are on behalf of importers and exporters, their interests are satisfied. If service providers, such as consultants, brokers, carriers or government instrumentalities wish to develop software, then they should fund it themselves (collectively or otherwise). We doubt that major importers are aware that they are funding Tradegate's continuance or that their future funding of international trade services software is being contemplated as an issue in the present Working Policy consideration.

3. Compulsory Nature of Charges

We have previously expressed our view regarding TAPIN charges.

4. Competitiveness of Tradegate Services

ICA is unaware of the Tradegate tender process proposed so cannot comment on whether it will satisfy industry.

However, ICA is conscious that the existing arrangement has resulted in a monopoly and in a lack of transparency in relation to both the quantum and distribution of EEPC charges. ICA is unsure why Tradegate is the appropriate mechanism for electronic services provisions and considers that the ACS should review its involvement in Tradegate and its use of Tradegate and AT&T as monopoly service providers.

5. Future Development Funds

We note that the "industry" is not defined under this heading. ICA questions the need for any future development fund unless it can be clearly demonstrated that the development proposed is for the direct benefit of the users and payers. Additionally, there must be a process of expenditure review and audit that involves the Commonwealth Audit Office. As we said previously, we do not accept that there was a "community agreed" strategy for

Electra and we wrote to the then Comptroller General to comment on the sampling skew evident in the Tradegate survey at that time.

Conclusion

ICA is concerned that the CNCC should not be used to make decisions that are really the province of the Australian Customs Service and the Australian Government. Expenditure of public monies, tendering processes and the quantification of what constitutes appropriate "user pays" fees are issues of major importance.

It may be argued that the Working Policy is only giving advice to CNCC which in turn is only advising the ACS. However, the method of collecting viewpoints and presenting the advice must withstand public scrutiny. As the present Review is constituted:

- there is no public inquiry process;
- there is no opportunity for various interested parties to comment on the viewpoints of other parties;
- there is no opportunity to compare the final report of the Working Party with the consensus of viewpoints that will be submitted;
- apart from press advertisement, has the Working Party specifically solicited the views of major importers and exporters?

I will be happy to further discuss and clarify any of the submissions made.

Yours sincerely



Martin Feil
Chairman
Customs Committee
Institute of Chartered Accountants

**Customs National
Consultative Committee***Meeting No 14 - Sydney
Tuesday 4 June 1996***AGENDA ITEM 7****ANNUAL PRICING REVIEW****Background**

The Report of the Annual Pricing Review is the result of the 1996 Charging Review for Customs Electronic Systems (a process established at the Customs National Consultative Committee meeting in December 1994). This Review is conducted annually and involves examining the charging arrangements for the following Customs Systems:-

COMPILE (including Interim EDIFICE)
EDIFICE
TAPIN
Air Cargo Automation
Sea Cargo Automation
EXIT 1
EXIT 2

Charges to be considered in this report will include all components of the Cargo Automation Processing Charge (CAPC).

Comment

The major thrust of the 1996 report is to retain charges at current levels.

The Working Party has recommended retention of the Cargo Automation Processing charge levied as a hub facilitation charge on COMPILE/EDIFICE entries for 1996/97. The Working Party has further recommended that, subject to continued CNCC support for the concept of Fee For Service (FFS), Customs should develop a project proposal and seek funding through the Cargo Automation Development Fund to implement FFS.

Recommendations

Being mindful of the need to have the revised charging arrangements in place by 1 July 1996, the Working Party recommends that:-

- a) The CAPC charge be maintained at the current 1995/96 level for the 1996/97 financial year ie. \$8.75 per entry and 20 cents per line with 25 lines.
- b) Set a ceiling target revenue of \$19.8 million for 1996/97 based on the following components:

COMPILE	\$12.9 million
Electronic Initiatives Supplement	\$ 3.2 million
TAPIN Levy	\$ 0.7 million
EDI Costs	\$ 2.0 million
Development Fund	\$ 1.0 million

The total collections and expenditure for the financial year 1995/96 (which is reconciled against the target revenue: see detailed analysis in Section 3 of the Report) includes an estimate for the last quarter of this financial year. This was done in order to allow time for the completion of the task of the Working Party and in order for the CNCC to consider the resultant recommendations to be applied for the financial year commencing 1 July 1996.

- c) i) Continue the development of a full cost attribution model and use this as a base for moving to FFS from 1 July 1997; subject to continuing support from the CNCC for FFS and the availability of the appropriate funding.
- ii) As a method of obtaining the appropriate funding for (i) above: Submit a proposal to develop/modify a comprehensive billing system, together with the implementation of a full cost attribution model, to the CADF Committee for consideration.
- d) The annual CADF contribution be considered by the CADF Committee in the first quarter of each calendar year and then confirmed in consultation with the Customs Electronic Charging Review Working Party prior to the end of May; to allow time for this component of the target revenue to be incorporated in the annual pricing review before distribution to CNCC.

- e) The net volume and price variances collected through the CAPC charge in excess of the agreed target revenue (in the order of \$1.2 million for 1995/96: see section 3.1.2), be applied, in accordance with past practice, to further reduce the Electronic Initiatives Supplement repayments.
- f) The following guidelines be adopted in future for the preparation of guidelines for the conduct of the annual charging review:
 - i) CADF Committee consider the required contribution in the first quarter of the calendar year of the review;
 - ii) Feedback/issues requested from Industry by March;
 - iii) Commencing charging review by April (Working Party convened);
 - (iv) CADF Committee confirm their required contribution in time for inclusion in the distribution of the draft Charging Report to the CNCC members (late May);
 - v) Report to CNCC by mid June;
 - (vi) Publicise any charging change by end of June; and
 - (vii) Implement variations to charging regime in July.

Customs Electronic Systems

Review of Charging Arrangements

Working Party Report

to the

Customs National Consultative Committee

ISSUED: May 1996

Customs Electronic Systems Review of Charging Arrangements

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Attachment E	STATUS OF THE RECOMMENDATIONS FROM THE 1995 CHARGING REVIEW

1 Executive Summary

1.1 Introduction

The following Report is the result of the 1996 Charging Review for Customs Electronic Systems (a process established by the Customs National Consultative Committee (CNCC) meeting in December of 1994). This review is conducted annually and involves examining the charging arrangements for the following Australian Customs Service (Customs) Systems:-

COMPILE (including Interim EDIFICE)
EDIFICE
TAPIN
Air Cargo Automation
Sea Cargo Automation
EXIT 1 & EXIT 2

Charges to be considered in this Report will include all components of the Cargo Automation Processing Charge (CAPC). For completeness, this Report also includes the charges incurred for EDI and interactive communication services provided through Tradegate.

1.2 Conduct of the Review

A Working Party similar to last year was formed to support this year's Charging Review with a membership consisting of:

Mr Ken Porter	(Chair) Director, Business Centre (Customs)
Mr Graham Bannister	National Director, Business Development and Technology (Customs) - (Sponsor)
Mr Ron Aitken	COMPILE User IT Representative
Mr Andrew Robertson	Chief Executive Officer, Tradegate
Mr Nick Baker	Senior Partner, KPMG (Independent Financial Expert)
Mr Craig Sommerville	Director, Management Advisory Group (Customs)
Mr Peter Johnson	Director, Entry Applications represented Cargo Facilitation Branch (Customs).

In developing its recommendations for the 1996 Review, the Working Party met on three separate occasions and:

- called for and assessed submissions from CNCC members (see a copy of the 1996 Issues paper and submissions in Attachment C);
- reported on the recommendations from last year's Charging Review;
- produced figures based on the costing work carried out in the 1995 Charging Review in order to compare 1995/96 ACS target revenues with costs incurred; and
- liaised with the Business Development and Technology Division Management Advisory Group (MAG) who have completed the first phase of the development of a detailed cost attribution model which has made significant progress towards an activity based costing model which will produce comprehensive costing information in a timely and accurate manner.

This Report represents the completion of the Working Party's activities in responding to the Terms of Reference (TOR) and timetable approved by the CNCC at its meeting in March 1996 (see Attachment A for TOR detail).

1.3 Steering Committee

The Customs National Consultative Council has acted as the Steering Committee for the 1996 Review.

1.4 Status of Recommendations from the 1995 Charging Review

A summary of the recommendations of last year's Charging Review and the actions taken are included at Attachment E.

All recommendations have been either implemented or are further addressed in this current 1996 Review.

1.5 Summary of Issues from 1996 Issues Paper

This year the Working Party circulated a short "Issues Paper" to the members of the CNCC. This approach was considered adequate given that an extensive exercise was undertaken last year and the resultant issues were dealt with in the 1995 Charging Review Report.

At the date of this Report two submissions had been received on the 1996 Issues paper (see Attachment C for the full responses).

The issues contained in the 1996 Issues paper and related comments from CNCC submissions together with the Working Party's conclusions reached in respect of these issues are detailed below:-

1.5.1 Fee for Service or Hub Facilitation Charge

Both industry submissions addressed the issue of Fee for Service (FFS) and took opposing views. The Working Party believed that it was still appropriate to continue to move towards a FFS type charging regime; so long as CNCC support continued and funding for the necessary changes could be found.

1.5.2 Sender/Receiver Pays Principle

Recently concluded negotiations on the future of Customs contract with Tradegate for the distribution of Customs Value Added Services has concluded that a move to a Sender/Receiver pays arrangement will effectively remove any commercial impediments to network interworking and encourage strong competition. This principle is further outlined in the detailed discussion under Section two of this Report.

1.6 Development Fund for 1996/97 (as established in the 1995 Charging Review)

The Cargo Automation Development Fund (CADF) is jointly managed by an ACS/Industry Management Committee. Any proposed developments using this funding are based on an agreed ACS/Industry cost benefit analysis and must meet stringent criteria to be approved as a CADF funded project.

As at the date of this Report, two projects had been approved for funding through CADF with a combined estimated cost of around \$400,000.

In identifying the target revenues for 1996/97 the Working Party has included a top up amount of \$1 million for CADF based on a residual amount from the 1995/96 target revenue component.

Two future projects with an estimated cost of around \$300,000 were to be submitted to the May 1996 CADF meeting for approval.

1.7 Revised Charging Options Considered

The Working Party has considered two methods in relation to the setting of the CAPC for 1996/97, FFS and Hub Facilitation. Both methods are based upon estimated total COMPILE entries of 2.2 million for 1996/97 and a target revenue of \$19.8 million.

Target Revenue breakdown:

COMPILE	\$12.9 million
TAPIN	\$ 0.7 million
Electronic Initiatives Supplement	\$ 3.2 million
EDI Costs	\$ 2.0 million
Development Fund	\$ 1.0 million
Estimated revenue	\$19.8 million

i) HUB FACILITATION (STATUS QUO)

This alternative involves retaining the Current Entry Price with no change to the free line threshold (ie. **Status-Quo**).

ii) FEE FOR SERVICE

Under this method, each individual service would be charged and billed separately based on a unit charge per business transaction. The estimated costs outlined under this charging regime are indicative only and will require (subject to finding the appropriate funding) the continued development and implementation of a comprehensive Customs cost attribution model (see recommendation c) in Section 1.8).

The estimated charge for each method would be as follows (refer to section 3 for detail):-

Users	Hub Facilitation	Fee for Service
Who pays what charge?		
COMPILE	CAPC	CFFS
Air Cargo	User EDI	ACFFS+User EDI
Sea Cargo	User EDI	SCFFS+User EDI
EXIT	User EDI	EXFFS+User EDI
Base unit charge calculated on estimated volume of business transactions		
COMPILE	\$8.75 plus 20c per line above 25 lines	\$5.03 per entry
Air Cargo	\$0.19	\$1.30 per waybill
Sea Cargo	\$0.25	\$3.08 per manifest line
EXIT	\$0.95	\$2.05 per Export Entry
Total cost to user sector (\$millions)		
COMPILE	\$19.8	\$11.0
Air Cargo	\$0.6	\$4.6
Sea Cargo	\$0.3	\$3.6
EXIT	\$1.4	\$2.9

Legend:

CAPC	-	Cargo Automation Processing Charge
CFFS	-	COMPILE Fee for Service Charge
ACFFS	-	Air Cargo Fee for Service Charge
SCFFS	-	Sea Cargo Fee for Service Charge
EXFFS	-	EXIT(1&2) Fee for Service Charge

Note: All Fee for Service and EDI Charges are based on estimates and should be considered as indicative only. Charges shown do not include the Tradegate Interactive Data Charge (IDC) which currently stands at \$2.35 per COMPILE entry.

1.8 Recommendations

Being mindful of the need to have the revised charging arrangements in place by 1 July 1996, the Working Party recommends that:-

- a) The CAPC charge be maintained at the current 1995/96 level for the 1996/97 financial year ie. \$8.75 per entry and 20 cents per line with 25 free lines.
- b) Set a ceiling target revenue of \$19.8 million for 1996/97 based on the following components:

COMPILE	\$12.9 million
Electronic Initiatives Supplement	\$ 3.2 million
TAPIN Levy	\$ 0.7 million
EDI Costs	\$ 2.0 million
Development Fund	\$ 1.0 million

The total collections and expenditure for the financial year 1995/96 (which is reconciled against the target revenue: see detailed analysis in Section 3) includes an estimate for the last quarter of this financial year. This was done in order to allow time for the completion of the task of the Working Party and in order for the CNCC to consider the resultant recommendations to be applied for the financial year commencing 1 July 1996.

- c)
 - i) Continue the development of a full cost attribution model and use this as a base for moving to FFS from 1 July 1997; subject to continuing support from the CNCC for FFS and the availability of the appropriate funding.
 - ii) As a method of obtaining the appropriate funding for (i) above: Submit a proposal to develop/modify a comprehensive billing system, together with the implementation of a full cost attribution model, to the CADF Committee for consideration.

- d) The annual CADF contribution be considered by the CADF Committee in the first quarter of each calendar year and then confirmed in consultation with the Customs Electronic Charging Review Working Party prior to the end of May; to allow time for this component of the target revenue to be incorporated in the annual pricing review before distribution to the CNCC.
- e) The net volume and price variances collected through the CAPC charge in excess of the agreed target revenue (in the order of \$1.2 million for 1995/96: see Section 3.1.2), be applied, in accordance with past practice, to further reduce the Electronic Initiatives Supplement repayments.

The repayment of this "loan" will then be completed earlier than the current 1999 projected cashflow or the term will remain constant and future repayment amounts reduced resulting in an overall saving in interest. Any changes to the schedule of repayments will be subject to negotiation by Customs with the Commonwealth Department of Finance (DoF).

- f) Regarding the recommendation from last year's Report that related to the preparation of guidelines for the conducting of the annual Charging Review. The following guidelines be adopted in future:
 - i) CADF Committee consider the required contribution in the 1st quarter of the calendar year of the Review;
 - ii) Feed back/issues requested from Industry by March;
 - iii) Commence Charging Review by April (Working Party convened);
 - iv) CADF Committee confirm their required contribution in time for inclusion in the distribution of the draft Charging Report to the CNCC members (late May);
 - v) Report to CNCC by mid June;
 - vi) Publicise any charging change by end of June ; and
 - vii) Implement variation to charging regime in July.

2 Discussion of 1996 Issues of Principle

2.1 *Introduction*

This year the Working Party circulated a short issues paper to the members of the CNCC. This approach was considered adequate given that an extensive consultation exercise was undertaken last year and the resultant issues dealt with in last year's Report. The issues highlighted by Industry were taken into account when setting the 1995/96 price and developing the first phase of a cost attribution model. This model will allow Customs to produce the data for moving towards a full cost attribution system.

The submissions received for 1996 were small in number (see attachment C for a copy of the 1996 Issues paper and the two submissions received). The Working Party interpreted from the small number of submissions, that Industry was generally happy with the charging arrangements put in place as a result of the 1995 Review.

The issues raised in the two submissions received in 1996, reflected only those already outlined in the distributed Customs Issues paper. These issues have been fully considered by the Working Party in deriving this year's recommendations along with an update on some pertinent issues from last year's Review.

2.2 *Fee for Service or Hub Facilitation Charge*

Both Industry submissions addressed the issue of FFS and took opposing views. The Working Party under the guidance of the CNCC, supports the process of moving further down the path of introducing FFS.

The justification for FFS is that the direct beneficiary of the service, pays for that service. The so called Hub Facilitation approach means that a range of service charges are collected at a single point. This results in varying degrees of cross-subsidisation of those parts of Industry which do not incur a direct FFS by the Industry sector(s) which incur the Hub Facilitation charge.

After careful consideration and examination of procedures during 1995, a Customs Costing Model was deemed to be required. This model will utilise the

contemporary accounting practice of Activity Based Costing which initially identifies those activities which drive costs and is thought to provide the most meaningful and comprehensive information concerning the costs of providing particular goods or services.

As a result of the 1995 Charging Review and previous cost analysis exercises, the National Manager of Business Development and Technology (BD&T), has tasked his Management Advisory Group (MAG) with investigating the requirements for putting in place a costing model that would attribute the cost of BD&T against each of its users.

A small Working Party has been formed to define such a cost model based on activity based costing principles and using the corporate information that is currently available within Customs.

Once this detailed costing model has been fully developed more comprehensive information concerning costs will be available to Customs. This information will serve a range of purposes as well as providing a basis for FFS.

It is pertinent to note that the full requirements for a fee for service model include: developing/modifying electronic and manual systems; selecting and purchasing infrastructure; training of staff; and educating of all clients.

An indicative timeline for a move to FFS, commencing with the presentation of the previous Charging Review of Customs Electronic Systems, and subject to the decisions made at the June 1996 CNCC meeting and the funding constraint, is provided below:

June 1995	1995 Report on Review of Charging For Customs Electronic Systems presented to CNCC meeting. (Supported move to FFS in the long term.);
1-2 Quarter 1996	1996 Charging Review of Customs Electronic Systems Research and preliminary development of costing model;

- | | |
|----------------------|--|
| June 1996 | 1996 Report on Review of Charging for Customs Electronic Systems presented to CNCC meeting; |
| 3 & 4 quarter 1996 | Obtain funding then :- Industry Consultation and specifications for FFS. Development work (including refinement of costing model); |
| December 1996 | Progress Report to CNCC; |
| 1 & 2nd quarter 1997 | Continue development work and testing, introduce education program and staff training, infrastructure and installation; |
| June 1997 | Report to CNCC; and |
| July 1997 | Introduce FFS. |

2.3 *EDI Return Message Costs and the Tradegate Charge*

Electronic Data Interchange (EDI) Charges:

These charges are incurred for all EDI transmissions to and from Customs.

EDI is a method of exchanging data electronically between two parties. Unlike interactive/online systems which require access to 'real time' or immediate data communications facilities, EDI (and EDI-capable application systems) allow a user to store messages which can be sent or forwarded on for collection by their intended recipient some time later.

EDI charges are paid to the value added network providers (VANs) by Import/Export Industry participants as a consequence of interacting with one of Customs EDI-capable systems:

- Air Cargo Automation;
- Sea Cargo Automation;
- EXIT 1, EXIT 2;
- EDIFICE.

Tradegate services are delivered under sub-contract by various VANs. Primary VANs currently being used by Tradegate are AT&T and Telstra.

EDI charges are ultimately paid by the User to the value-added network provider.

Industry has always maintained the view that Customs should adopt commercially accepted practice and pay for any messages which they send.

Recently concluded negotiations on the future of Customs contract with Tradegate for the distribution of Customs Value Added Services (VAS) has concluded that a move to a Sender/Receiver pays arrangement will effectively remove any commercial impediments to network interworking and encourage strong competition.

This payment option will mean that a competitive rate for EDI traffic both ways, is sustainable. In addition, a substantial discount table has been agreed, which will give large discounts to all EDI message users. Access to large discounts through Tradegate was an option which Customs was asked to pursue in the 1995 Charging Review.

The expected additional cost of this decision for Customs is estimated to be in the order of \$0.1 million (estimated for 1996/97). The total EDI bill will move from an actual cost of around \$1.3 million in 1995/96 to around \$2 million in 1996/97 but the bulk of this amount (approx \$600,000) is related to increased EDI volumes (particularly EXIT 2 because of a change in legislative requirements).

Interactive Data Communication (IDC) Charges

Prior to 1991 Customs directly supported COMPILE data communications traffic. Around this time, however, Tradegate (supported by the CBCA) proposed that Customs pass responsibility for this task to them on the basis that this would provide a critical mass of users who could be readily EDI-enabled as well as having access to a range of other electronic services.

Customs agreed to this and Tradegate arranged for this service to be incorporated in the AT&T contract on a cost recovery basis.

IDC charges are incurred when accessing those Customs online systems that are available to the Import/Export Community. For example, when conducting an interactive/online session with COMPILE/TAPIN.

These charges, which are collected by Customs from COMPILE users at the same time as the CAPC, are paid to Tradegate.

The charges are expected to remain at around the current level of \$2.35 per entry for the 1996/97 financial year. The charge will include the send/receive EDI charges for those users who elect to move to the EDIFICE service thus maintaining price parity between COMPILE and EDIFICE.

As at present the IDC charge will continue to cover all components of the infrastructure communications network between the Compile/EDIFICE user and Australian Customs up to and including the modem at the users' site (ie. the network "tails" (connections between AT&T and the COMPILE user premises)).

2.4 *Development Fund (established as a result of the 1995 Charging Review)*

Background

The Working Party considered in the 1995 Review that a significant number of improvements are required to the integration and functionality of the existing electronic systems and that these improvements will further contribute to the efficiency of the trade and transport sector. Accordingly the Working Party recommended the establishment of a Cargo Automation Development Fund which takes revenue derived from charges related to the Customs electronic systems.

In identifying the target revenues for 1996/97 the Working Party has included an amount of \$1 million for CADF based on the amount in last year's Review and an estimate of the growing need for Industry required changes to the Electronic Systems.

CADF is jointly managed by a Customs/Industry Management Committee. Any major new developments using this funding are based on an agreed Customs/Industry cost benefit analysis and must meet certain criteria for acceptance.

2.5 *Strategic Directions*

Given the early stage of consideration of these initiatives and possible future directions of the Government, the Working Party concluded that it had no option but to frame recommendations relating to the forthcoming financial year in terms of currently known systems.

Although Customs is continuing to look at ways of improving its processing and procedures through initiatives such as CMS (Cargo Management Strategy), there are no scheduled major changes in the next financial year likely to impact on the number of COMPILE entries on which the target revenue for 1996/97 was based.

2.6 *Budget Neutrality*

An overriding parameter of the Review was that any recommendations should be neutral with respect to the Commonwealth Budget. (Refer CNCC TOR, Attachment A, point 2.)

As a result of the above requirement, wherever options include additional costs to Customs, these costs have been factored into the proposed FFS or Hub Facilitation Charge.

The baseline adopted by the Working Party for the revenue target of Customs is that established in 1992 when the Customs negotiated the EEPC with the CBCA.

3 Financial Analysis

3.1 What happened in 1995/96

3.1.1 Cargo Automation Processing Charge

The CAPC is a charge levied by Customs and payable/collected from COMPILE users on a per entry basis. This charge was created as a result of the 1995 Review and was based on an estimated COMPILE volume of 2.1 million entries for 1995/96.

3.1.2 CAPC Collections for 1995/96

Target revenue collection set during the 1995 Charging Review for the 1995/96 year was as follows:

COMPILE	\$12.3 million
Electronic Initiatives Supplement	\$ 2.5 million
TAPIN Levy	\$ 0.6 million
EDI Costs	\$ 1.8 million
Development Fund	\$ 1.5 million
TOTAL	\$18.7 million

Estimated collections for 1995/96 (which includes actual collections to date plus an estimate for the last quarter of the current financial year) are anticipated to be around \$19.4 million. This is because COMPILE transaction volumes will be around 2.2 million and not the 2.1 million predicted in the previous Charging Review and upon which the 1995/96 target revenue was based.

The EDI Costs component of the above target was based upon anticipated EDI costs for 1995/96 of \$1.8 million. However it is estimated that the actual EDI costs for 1995/96 will only amount to around \$1.3 million. (A cost shortfall of \$0.5 million.)

Therefore the net volume and price variances collected through the CAPC charge, in excess of the agreed target revenue will be in the order of \$1.2 million for 1995/96.

This variance can be defined as :-

1995/96 estimated actual Revenue	\$ 19.4 million	less
1995/96 Target Revenue	\$ 18.7 million	
Difference	=	\$ 0.7 million

plus

Total cost shortfall	\$ 0.5 million	
Total	=	\$ 1.2 million

The Working Party recommends that this amount is used to further reduce the balance of the EIS "loan". (See Section 3.2.2 ii))

3.2 Basis for 1996/97 Target Revenue

3.2.1 Analysis of costs based on the Audited 1994/95 Financial Statements

The basis of information in the column titled "Cost Analysis" (refer below table) was extracted/calculated as follows:

- The underlying data was extracted from Customs 1994/95 Audited Financial Statements for BD&T.
- This data was then broken up by Branch (and other cost pool) areas, inclusive of materiality checks back to Division/Branch budgets.
- Salary and administrative costs were then allocated to cost pools based on the following types of criteria:
 - Data Centre costs primarily allocated to application systems on the basis of CPU usage (adjusted by use of disk storage);
 - Development and Maintenance costs were allocated, as far as was possible, directly to those application systems for whom work was being undertaken.
- Overhead costs for BD&T Executive was allocated on a pro-rata basis.
- Capital outlays/costs were removed from the costing analysis and replaced by an estimate of depreciation.

- DoF on-costs of 20% were added to reflect (among other things) the unfunded nature of the Commonwealth's superannuation arrangements.
- All known BD & T Division prepayments were removed/adjusted for in the analysis.
- Amounts for Property costs were estimated as a % of total ACS costs.
- Salary costs for certain non BD&T personnel associated with COMPILE support and User Liaison were added.
- Finally, an allowance was made for both Corporate and Executive Division overheads.

Detailed spreadsheets showing this analysis in more detail have been provided at Attachment B.

The following table summarises the findings of the financial analysis.

Target Revenue Collection Based on 1994/95 Collections		Cost Analysis Based on 1994/95 Financial Statements	
How was it Collected ?		How & Where Costs were Incurred	
EEPC COMPILE	\$10,821,706	COMPILE	\$6,458,023
		Interim EDIFICE	\$141,102
		EDIFICE	\$703,361
		Single Status	\$420,217
		EFT/ Revenue Col.	\$2,143,313 \$9,866,016
EEPC TAPIN	\$595,098	TAPIN (TA)	\$2,182,718
EEPC EI Supplement	\$13 382,129	TAPIN (Search)	
		Air Cargo	\$4,783,752
		Sea Cargo	\$4,133,083
		EXIT	\$3,966,529 \$12,883,364
TOTAL	\$24,798,933	TOTAL	\$24,932,098

- Based on 1994/95 audited financial data, the magnitude of the revenue collected via Customs charges (\$24,798,933) correlates closely to the magnitude of the actual costs incurred (\$24,932,098).

3.2.2 Target Revenue for 1996/97

Prior to discussing possible alternatives to the current charging arrangements it is necessary to determine the target revenue (cost recovery) amounts required for 1996/97. The steps required in making such an assessment required the Working Party to:

i) *Establish what the Customs target revenue will be for 1996/97*

In accordance with existing CAPC agreements the following target revenues were anticipated for 1996/97:

Target Revenue Component	Target \$million
COMPILE User Charge	12.9
TAPIN User Charge	0.7
Electronic Initiatives Supplement (*)	3.2
EDI message costs	2.0
Development Fund	1.0
TOTAL Revenue Required	19.8

- (*) The EIS "loan" repayment has been increased for 1996/97 to enable early repayment or significantly reduced future repayments, subject to negotiation with DoF.

ii) Establish the rationale for the components of the target revenue.

COMPILE Component

The COMPILE target revenue has been increased by the Department of the Treasury estimate of the CPI for the financial year ended 30 June 1997, ie. 3%. An infrastructure project involving name/address (COS codes) matching of Importers has also been included, as this was requested by Industry and agreed to prior to the introduction of CADF and so could not be funded under the CADF guidelines.

Electronic Initiatives Supplement

The EIS "loan" from the Department of Finance is being repaid in accordance with an agreement with DoF. The repayment amount for the 1996/97 year has been increased by the Treasury CPI estimate. In addition it was thought beneficial to Industry and Customs in terms of savings in interest if the EIS was repaid more quickly than the current schedule of outcomes under which a 1999 repayment is planned. (This is reflected in the additional target amount for 1996/97 and the recommended usage of \$1.2m of the 1995/96 collections.) The timing of negotiations with DoF on the EIS would be influenced by the Commonwealth Budgetary Cycle timetable.

TAPIN Levy

The TAPIN levy, based on a 1992 arrangement with Industry, has been increased by an estimate of the growth in COMPILE. This year the CPI has also been attributed to this component so as to take some account of the general increase in the costs of providing this service.

EDI Costs

This element of the target revenue is based on the cost of EDI charges incurred in communication of data between Customs and Industry. The projections take into account the move to Sender/Receiver pays (approx \$0.1 million) and traffic growth (approx \$0.6 million) primarily as a result of EXIT 2.

Cargo Automation Development Fund

The Working Party has recommended subject to CADF Committee support that the contribution to the CADF be set at \$1 million for the 1996/97 financial year (see section 2.4).

The Working Party has recommended that the above figure be considered at the May 1996 CADF Committee meeting.

In future years the setting of the CADF amount to be collected in the following financial year, could perhaps be determined in the first quarter of the calendar year by the CADF Committee and this would allow sufficient time for the agreed amount to be incorporated in the Charging Review of Customs Electronic Systems.

Projects approved under the CADF criteria have to be initially funded from existing appropriations and reimbursed upon completion. In accordance with this procedure the reimbursement of these costs will be deducted from costing information provided during the annual charging review process in the year that funds are drawn down. If the funds are drawn down after the completion of this Review they will be applied in the Annual Review for the subsequent year.

3.2.3 Reasonableness of the target revenue for 1996/97

One question which arises out of the financial analysis is whether or not the target revenue for 1995/96 is reasonable in light of the costs identified by the financial analysis, after making some allowances for ACS usage.

Combining these results with the analysis of the 1994/95 financial data the following table has been derived to show an inflation adjusted estimate of a "reasonable charge" applicable for 1996/97. This figure was then adjusted based on a percentage usage by Industry. This principle was established in the 1995 Review and is currently 79.24 % for the chargeable ACS systems (see ACS Unit Cost spreadsheet in Attachment B).

This analysis gives the following table:-

Cost Extrapolation to 1996/97 As Based on 1994/95 Financial Analysis Data			
	ACS Costs Base Year 1994/95	Modified Base for Percentage Attribution after allowing for Suggested Industry Contributions	Notional Cost Recovery for the ACS in the 1996/97 Financial Year
Base Year 1994/95	\$24,932,098		
Yr: 1995/96 CPI: 4.75%	\$26,116,373		
Yr: 1996/97 CPI: 3.00%	\$26,899,864	79.34%	\$21,342,793

This figure of \$21.3 million supports the reasonableness of the \$19.4 million revenue target established in section 3.2.2 (*Section 3.2.2 shows what the ACS requires for 1996/97, inclusive of ACS message costs and the retention of a \$1 million CADF top up*).

3.3 Detail of 1996/97 Charging Arrangements

3.3.1 Overview

The Working Party has considered two methods in relation to the setting of the CAPC for 1996/97; FFS and Hub Facilitation.

(1) Status Quo (Hub Facilitation)

Where all charges associated with Customs electronic systems will be collected and recouped in accordance with existing arrangements, ie at a charge of \$8.75 plus \$0.20 per line, over 25 lines.

(2) A Fee for Service Charge

Where all system costs associated with Customs electronic systems will be collected and recouped on a fee by fee (system by system) basis.

3.3.2 Transaction Estimates and Description of Units of Measure

The cost allocation decision required the Working Party to evaluate the most appropriate allocation base to reflect the cost behaviour pattern of individual applications. It was necessary for the Working Party to estimate the volume of each allocation base.

The allocation base and 1996/97 estimate used for each application is as follows:

COMPILE:

Customs entries have been considered and it is estimated there will be 2,200,000 for 1996/97.

Air Cargo:

Air Waybills are reported both manually and electronically. It is estimated there will be a small increase in 1996/97 resulting in 3,441,783 bills.

Sea Cargo:

Manifest lines are a basic reporting unit in the industry. For FCLs (full container loads) these correspond to the number of containers. However, this is not the case with LCLs (less than container load). Containers are normally measured in "TEUS" (twenty foot equivalent units) terms.

Choosing an appropriate allocation base in this area does cause some problems. Generally, manifest lines reflect the level of activity and TEUS reflect the level of volumes. The Working Party has decided to use manifest lines and it is estimated there will be a small increase to the numbers of manifest lines which will then be 1,167,430 in 1996/97.

EXIT 1 and 2:

The most appropriate allocation base for EXIT 1 is the export entry (which contains the export clearance number) and manifests for EXIT 2.

It is estimated that there will be a small increase for EXIT 1 and EXIT 2 in 1996/97. With the introduction of new legislation in May 1996 however, there will be a resultant increase in reporting by freight forwarders and a large increase in electronic sub manifests.

The Working Party has decided to use the export entry as the allocation base. Although the export entry has been used as the allocation base it is important to note for measurement purposes that whilst all ECNs (export clearance numbers) appear on the manifest, there are other goods, and in significant numbers, that leave the country without an export entry, for example, exempt goods and personal effects. Consequently, for measurement purposes manifests are treated as being equivalent to entries. It is estimated that there will be 1,441,096 export entries in 1996/97.

3.3.3 Status Quo (Hub Facilitation)

Under this arrangement all the costs associated with the processing of Customs electronic systems, (ie including ACS return message costs), would remain the same as 1995/96 (ie. \$8.75, see table below for detail).

The *strengths* of this method are:

- Automated and centralised cost recovery retained; which is efficient for both Industry and Customs;
- Cost doesn't increase in an environment where Government funding and revenue is under intense scrutiny;
- This approach is better able to reflect the original funding intentions of Government. This intention envisaged Industry making a recurrent funding contribution towards Customs processing costs; and
- Given the clear identification of a charge on each COMPILE entry, it is far easier for a Broker to pass on these charges than it would be if charges and costs were dispersed across several users and systems.

The *weaknesses* of this method are:

- The single charge structure still implies a level of 'equalisation' (subsidisation) across users and across systems;
- It doesn't cover Customs costs for the provision of electronic systems; and
- There is still considerable scope for waste and a lack of motivation to behave in a cost efficient manner.

Status Quo Hub Facilitation		Cost Profile
COMPILE Users	Includes sufficient cost recovery for Customs message costs (CMC) and retention of the CADF fund.	\$8.75 ACS 20c /line after 25 lines
Air Cargo Users	Pay only for their own EDI costs ie. User Message costs (UMC) UMC is an estimate only	\$0.00 CMCs \$0.19 UMCs Based on 3.4m AWB
Sea Cargo Users	Pay only for their own EDI costs	\$0.00 CMCs \$0.25 UMCs Based on 1.16m M'fest lines
EXIT Users	Pay only for their own EDI costs	\$0.00 CMCs \$0.95 UMCs Based on 1.44m ECNs

An analysis of the distribution of lines per COMPILE entry under the current CAPC charging regime is as follows:-

Entry Size (lines)	Current Structure (\$8.75, plus 20 cents for lines above 25)	Percent of entries up to this size
1	\$8.75	64.12%
2	\$8.75	77.17%
3	\$8.75	83.15%
4	\$8.75	86.83%
5	\$8.75	89.27%
10	\$8.75	94.83%
11	\$8.75	95.35%
20	\$8.75	97.74%
25	\$8.75	98.29%
30	\$9.75	98.65%
100	\$23.75	99.76%

3.3.4 Fee For Service

Under this method, each individual service would be charged and billed separately based on a unit charge per business transaction (eg. COMPILE entry, EXIT ECN, Air Cargo Waybill, Sea Cargo Manifest). The end user would be responsible for EDI message charges to and from the value added service provider and Customs would be responsible for messages to and from the VAS.

As for the Hub facilitation method above the target revenue used to derive unit charges would include a CADF component and an estimate of the total EDI message costs to and from Customs.

The estimated unit costs outlined under this charging regime are indicative only, as FFS cost attribution will require the continued development and implementation of a comprehensive Customs cost attribution model (see Recommendations in Section 1.7).

This alternative allows the collection of the target revenue of \$19.8 million plus the User EDI Message Charges (UMC approx \$2.3 million).

The estimated charge for each system would be as follows :-

COMPILE	\$5.03 per entry
Air Cargo	\$1.30 per waybill
Sea Cargo	\$3.08 per manifest line
EXIT	\$2.05 per export Entry

A more detailed analysis of the choice of the most appropriate chargeable units would be necessary prior to implementing FFS charging arrangements. Some of the difficulties inherent in the choice on unit are highlighted elsewhere in this Report.

The *strengths* of this arrangement are:

- It can be argued that this approach is a more defensible cost recovery regime in that the 'user' only pays for what they use;
- Concerns regarding waste and/or lack of motivation to be cost aware tend to be minimised as the 'user' pays for what they use; and
- Concerns that the single charge structure under option (1) & (2) implied a level of 'equalisation' (subsidisation) across users and across systems - can be addressed.

The *weaknesses* of this arrangement are:

- De-centralised or system by system cost collection may incur increased costs for both Industry and Customs (see recommendations section 1.7); and
- Customs does not currently have facilities to levy charges on Air Cargo, Sea Cargo and EXIT in a fair and reasonable manner. A cost attribution model has been developed (see Attachment D) and will be expanded and refined as funding and resources allow.

FFS Fee for Service (FFS)		Cost Profile	
COMPILE Users	Pays full FFS for COMPILE ONLY (& associated systems), plus any IDC or EDI that is incurred	\$5.03	ACS 20c /line after 25 lines
Air Cargo Users	Pays full FFS for Air Cargo System Use, plus their own EDI costs ie UMCs.	\$0.00 \$0.19 \$1.11	CMCs UMCs FFS Based on 3.4m AWB
Sea Cargo Users	Pays full FFS for Sea Cargo System Use, plus their own EDI costs ie UMCs.	\$0.00 \$0.25 \$2.83	CMCs UMCs FFS Based on 1.16m M'fest lines
EXIT Users	Pays full FFS for EXIT System Use, plus their own EDI costs ie SMCs.	\$0.00 \$0.95 \$1.10	CMCs UMCs FFS Based on 1.44m ECNs

4 Recommendations

Being mindful of the need to have the revised charging arrangements in place by 1 July 1996, the Working Party recommends that:-

- a) The CAPC charge be maintained at the current 1995/96 level for the 1996/97 financial year ie. \$8.75 per entry and 20 cents per line with 25 free lines.
- b) Set a ceiling target revenue of \$19.8 million for 1996/97 based on the following components:

COMPILE	\$12.9 million
Electronic Initiatives Supplement	\$ 3.2 million
TAPIN Levy	\$ 0.7 million
EDI Costs	\$ 2.0 million
Development Fund	\$ 1.0 million

The total collections and expenditure for the financial year 1995/96 (which is reconciled against the target revenue: see detailed analysis in section 3) includes an estimate for the last quarter of this financial year. This was done in order to allow time for the completion of the task of the Working Party and in order for the CNCC to consider the resultant recommendations to be applied for the financial year commencing 1 July 1996.

- c)
 - i) Continue the development of a full cost attribution model and use this as a base for moving to FFS from 1 July 1997; subject to continuing support from the CNCC for FFS and the availability of the appropriate funding.
 - ii) As a method of obtaining the appropriate funding for (i) above: Submit a proposal to develop/modify a comprehensive billing system, together with the implementation of a full cost attribution model, to the CADF Committee for consideration.

d) The annual CADF contribution be considered by the CADF Committee in the first quarter of each calendar year and then confirmed in consultation with the Customs Electronic Charging Review Working Party prior to the end of May; to allow time for this component of the target revenue to be incorporated in the annual pricing review before distribution to the CNCC.

e) The net volume and price variances collected through the CAPC charge in excess of the agreed target revenue (in the order of \$1.2 million for 1995/96: see Section 3.1.2), be applied, in accordance with past practice, to further reduce the Electronic Initiatives Supplement repayments.

The repayment of this "loan" will then be completed earlier than the current 1999 projected cashflow or the term will remain constant and future repayment amounts reduced resulting in an overall saving in interest. Any changes to the schedule of repayments will be subject to negotiation by Customs with the Commonwealth Department of Finance (DoF).

f) Regarding the recommendation from last year's Report that related to the preparation of guidelines for the conducting of the annual Charging Review. The following guidelines be adopted in future:

- i) CADF Committee consider the required contribution in the 1st quarter of the calendar year of the Review;
- ii) Feed back/issues requested from Industry by March;
- iii) Commence Charging Review by April (Working Party convened);
- iv) CADF Committee confirm their required contribution in time for inclusion in the distribution of the draft Charging Report to the CNCC members (late May);
- v) Report to CNCC by mid June;
- vi) Publicise any charging change by end of June ; and
- vii) Implement variation to charging regime in July.

Attachment A

Customs Electronic Systems Review of Charging Arrangements

TERMS OF REFERENCE and Time Table

A TERMS OF REFERENCE AND TIMETABLE

The Working Party will be required to:

1. Review the operation of the charging arrangements which have applied since 1 st July 1995.
2. Assess the practicality of moving to the "fee-for-service" option within the constraint that the outcomes must be cost neutral to the Federal Budget.
3. Recommend charging arrangements to apply from 1 July 1996.
4. Produce a Report for endorsement by CNCC at the June 1996 meeting.

Timetable used for 1996 Review

January	1996	Working Party reconvened
February	1996	Working Party meet and agree proposed Terms of Reference
End February	1996	Issues Paper and Terms of Reference distributed to CNCC members
13 March	1996	Status Report to CNCC meeting
End March	1996	Issues Paper responses received and considered
End April	1996	Draft Report available to full Working Party
Mid May	1996	Discussion of draft Report at industry forum
End May	1996	Final Report
Mid June	1996	Recommendations endorsed by CNCC
1st July	1996	Revised charges implemented

Attachment B

Financial Analysis Documents

ACS Unit Costing Estimates

ACS COSTING INFORMATION 1994/95 - As Based on Audited Financial Statements									
COMPLETE Costing Components	Total Credits 1994/95	Total Credits as a %	1994/95 Percentages Grouped	CP 4.75% 1995/96	CP 3.00% 1996/97	Industry Contribution (IC) 1996/97	Percentages Grouped After IC Adjusted	1996/97 Percentages After Allocation	Target Revenue 1996/97
• COMPLETE	\$1,453,023	28.80%	38.57%	\$8,764,778	\$6,987,722	\$6,987,722	32.85%	32.85%	\$8,404,051
• EDIFICE (Tied)	\$141,102	0.57%		\$147,804	\$152,235	\$152,235	0.71%	0.71%	\$141,234
• EDIFICE (Tied)	\$703,361	2.87%		\$736,771	\$758,874	\$758,874	3.56%	3.56%	\$704,018
• TAPN (COMPLE TA Fee)	\$1,204,427	5.07%		\$1,324,908	\$1,384,653	\$1,384,653	5.12%	5.12%	\$1,012,809
• Single Status	\$917,481	3.68%	8.75%	\$980,491	\$980,338	\$980,338	0.74%	0.80%	\$183,750
• EPT/Revenue Collection	\$420,217	1.69%		\$440,177	\$453,383	\$453,383	2.12%	2.12%	\$420,509
TOTAL	\$2,143,313	8.80%		\$2,245,120	\$2,312,474	\$2,312,474	10.83%	10.83%	\$2,145,314
Air Cargo	\$4,783,752	19.19%		\$5,010,980	\$5,161,310	\$5,161,310	15.35%	15.35%	\$3,630,574
Sea Cargo	\$4,133,083	16.58%		\$4,328,464	\$4,459,287	\$4,459,287	13.26%	13.26%	\$3,308,553
EXIT 1 & EXIT 2	\$3,898,529	15.91%	51.87%	\$4,154,809	\$4,278,547	\$4,278,547	6.36%	6.36%	\$1,548,083
Other BEPC Components									
• El Supplement									
• Prior Year Adjustment									
Development Fund									
TOTAL ALL SYSTEMS	\$24,802,046	100.00%	100.00%	\$25,116,373	\$25,898,864	\$25,898,864	79.34%	79.34%	\$19,800,000

NR: No RMC

CMC 1994/95	CMC 1995/96	CMC 1996/97	CMC 1997/98	CMC 1998/99	CMC 1999/00
AC	\$2,150,364	\$2,305,449	\$2,448,877	\$2,591,348	\$2,735,449
BC	\$158,369	\$168,877	\$179,385	\$189,893	\$200,401
EXIT	\$1,204,427	\$1,284,653	\$1,364,874	\$1,445,095	\$1,525,314
TOTAL	\$3,513,160	\$3,764,881	\$3,993,136	\$4,226,336	\$4,461,164

CMC 1994/95	CMC 1995/96	CMC 1996/97	CMC 1997/98	CMC 1998/99	CMC 1999/00
AC	\$2,150,364	\$2,305,449	\$2,448,877	\$2,591,348	\$2,735,449
BC	\$158,369	\$168,877	\$179,385	\$189,893	\$200,401
EXIT	\$1,204,427	\$1,284,653	\$1,364,874	\$1,445,095	\$1,525,314
TOTAL	\$3,513,160	\$3,764,881	\$3,993,136	\$4,226,336	\$4,461,164

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[illegible]

As per ACS Audited Financial Statements 1994/95
As per ACS Audited Financial Statements 1995/96
Pro-Symantec NOT Attributed to Financial Statements
Final Dividend Exp. 1994/95 after adjusting for Pro-Symantec & not including capital

Total Dividend Expenditure Adjustments 1994/95
Pre-Paid Expenditure (1994/95) is NOT directly Allocated

DoF Salary On-cost (1994/95)

Total Divisional Depreciation on Consuming P & M:

SALARY		Data Centre										Other		Systems Dev & Maint	
Division	Executive	Mainframes				Mid-Range				Infra-Structure		Applications	Support &		
	(Includes Exec)	Production		Development		Production		EDI		Office	Data	Applications			
	Admin Support	Machine (CPU)	Disk Usage	Machine (CPU)	Disk Usage	Machine (CPU)	Disk Usage	Machine (CPU)	Disk Usage	Automation	Comms	Development	Maintenance		
Systems Subject to User Charging															
	COMPILE	6.78%	15.33%	4.10%	15.77%	6.30%			6.30%			5.57%	5.57%		
	Interim EDIFICE	0.29%	0.00%									1.39%	1.39%		
	EDIFICE (Trial)	1.43%	0.20%	0.00%	0.15%	0.00%			0.60%			5.34%	5.34%		
	TAPIN (COMPILE TA Facility)	1.91%	8.45%	1.58%	9.52%	12.52%						3.14%	3.14%		
	TAPIN (Tariff Test Searching)	1.58%													
	Air Cargo	6.93%	6.77%	9.78%	6.13%	7.12%			45.00%			4.18%	4.18%		
	Sea Cargo	8.96%	8.61%	11.23%	9.17%	17.13%			9.80%			11.38%	11.38%		
	Single Status	0.86%	0.00%	0.00%	0.00%	0.00%						3.14%	3.14%		
	EXIT 1 & EXIT 2	6.01%	5.84%	6.10%	5.83%	6.68%			34.50%			6.50%	6.50%		
	BFT/Revenue Collection	3.76%	5.27%	5.22%	5.49%	3.51%						8.25%	8.25%		
	EDI Gateway Host System Suppo	0.76%	2.08%	2.12%	1.76%	6.11%									
Systems Interfaced to User Charging Systems															
	TRACE	4.35%	7.67%	32.10%	7.38%	2.18%						1.39%	1.39%		
	Profile Engine	0.44%	0.00%	0.00%	0.00%	0.00%						2.21%	2.21%		
Systems Unrelated to User Charging Systems															
	REEF 2	3.28%	2.29%	7.80%	2.16%	10.22%						6.62%	6.62%		
	GLEAR	2.11%	2.50%	5.07%	2.55%	8.37%						3.02%	3.02%		
	LAPS	0.87%	0.88%	0.60%	0.46%	2.96%						1.74%	1.74%		
	LASER	0.51%	0.00%	0.00%	0.00%	0.00%						2.06%	2.06%		
	Drawbacks	0.85%	0.54%	0.44%	0.54%	3.74%						0.58%	0.58%		
	PASS	5.65%	12.60%	7.85%	12.59%	0.93%						10.34%	10.34%		
	Intercept	0.76%	1.45%	4.23%	1.51%	6.85%						23.11%	23.11%		
	OTHER (Unrelated Expenditure in	44.05%	16.63%	1.96%	15.69%	4.28%									
Total of ALL Application Groups		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%		
NOTE: Single Status costs are included in Sea Cargo															
Profile Engine Costs are included in Air Cargo, Sea Cargo, Revenue, Drawbacks															
Other costs include Carnet, Jams, Mapper, Other and Overheads															

EDU MONTHLY COST ESTIMATES (Based on March 1998 volume)

ESTIMATES FOR 1996-97

Predicted Growth Rates

Air Cargo (including SITA)	8%
Sea Cargo	15%
EXIT 1	1%
EXIT 2	500%

DISCOUNT TABLE		
AMOUNT	Rate	MAX Discount
Up to \$5,000	0%	\$0
5,001-20,000	20%	\$3,000
20,001-100,000	25%	\$20,000
100,001-200,000	30%	\$30,000
200,001-400,000	56%	\$110,000
over \$400,000	60%	N/A

GRAND	1985-1995 Estimated EDI costs
TOTAL	\$1,355,998

Applying these growth rates gives

[illegible]

Appl.	Cost per entry	Rates including Session Charge **
ACA	\$0.14	\$0.19
SCA	\$0.19	\$0.25
EXIT 1&2	\$0.73	\$0.95

100% of the total value of the contract.

GRAND	for 1998-1997 Estimated EDI costs
TOTAL	\$2,059,394

ACS Administrative reconciliation for 1994-95

Program	Division Totals	Executive Includes Admin. support	Data Centre										Other Infrastructure		Systems Dev. & Maint.		Gross Check
			Mainframes					Midrange									
			Production		Development		Production		EDI Gateway								
			CPU	Disk	CPU	Disk	CPU	Disk	CPU	Disk	Office Auto.	Data Comm.	Applications Development	Applications Support & Maintenance			
Administrative Expenses	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Exec Administration	421,136	421,136															421,136
Computer Services	8,018,554	80,488															8,018,554
System Development & Support	2,171,336		1,155,585	1,548,130	495,251	683,913	245,982	43,408	289,390		4,508,398	1,085,888	1,085,888				2,171,336
Regional Offices/Office Automation Development	2,697,171								704,571	1,992,600							2,697,171
	833,801																833,801
Total before adjustments	15,241,986	490,634	1,155,585	1,548,130	485,251	683,913	245,982	43,408	993,961	1,992,600	4,508,398	2,018,488	1,085,888				15,241,986
Adjustments FINEST to DIVISION	157,598	5,073	11,946	18,018	5,121	8,885	2,543	449	10,277	20,803	46,595	20,881	11,226				157,598
Total After Adjustments	15,399,584	495,707	1,167,533	1,566,148	500,371	670,778	248,525	43,857	1,004,238	2,013,203	4,554,993	2,040,350	1,097,114				15,399,584
TOTAL ADMINISTRATION FINEST																	

ACS Administrative Overhead Reconciliation for 1994/95

Program	Admin	Extract Overheads	Calc New Total	Allocate O/H to Other Programs	Percentage	Check Allocations
Border Management Division	16,997,000		16,997,000	23,898,151	27.59%	6,718,151
Coastwatch Branch	22,561,000		22,561,000	31,495,447	38.88%	8,934,447
Commercial Services Division	4,937,000		4,937,000	6,892,118	8.03%	1,955,118
Business Development & Technology Division	15,400,000		15,400,000	21,498,598	25.04%	6,098,598
Investigations Branch	868,000		868,000	932,537	1.09%	264,537
Intelligence Branch	985,000		985,000	1,347,152	1.57%	362,152
Legal Branch	216,000	216,000				
Budgets Branch	21,217,000	21,217,000				
Staffing Branch	1,350,000	1,350,000				
Executive Support Branch	1,571,000	1,571,000				
TOTAL	85,852,000	24,354,000	61,498,000	85,852,000	100%	24,354,000

ACS Salary reconciliation for 1994-95

Program	Division Totals	Executive Includes Admin. support	Data Centre										Other Infrastructure		Systems Dev. & Maint.		Gross Check	
			Mainframes				Midrange											
			Production		Development		Production		Disk		Disk							Disk
			CPU	Disk	CPU	Disk	CPU	Disk	CPU	Disk	CPU	Disk	EDI Gateway	Office Auto.	Data Comm.	Applications Development	Applications Support & Maintenance	
SES Salaries	\$ 250,563	\$ 250,563																\$ 250,563
Non-SES Salaries																		
Exec Administration	633,752	633,752																633,752
Computer Services	5,099,215																	5,099,215
System Development	852,104																	852,104
Support and Maintenance	1,708,055																	1,708,055
Regional Offices/Office Automation	2,814,343																	2,814,343
Development	1,825,850																	1,825,850
Total before adjustments	12,863,882	884,315																12,863,882
Adjustments FINEST to DIVISION	-131,457	-9,028																-131,457
Total After Adjustments	12,752,225	875,287																12,752,225
TOTAL SALARIES FINEST	12,752,225																	12,752,225

ACS Salaries Overhead Reconciliation for 1994/95

Program	Salaries	Extract Overheads	Calc New Total	Allocate OH to Other Programs	Percentage	Check Allocations
Border Management Division	82,901,000		82,901,000	112,011,375	52.38%	28,110,375
Coastwatch Branch	1,978,000		1,978,000	2,872,587	1.25%	894,587
Commercial Services Division	48,987,000		48,987,000	63,459,286	29.86%	16,492,286
Division	12,752,000		12,752,000	17,228,817	8.06%	4,477,817
Investigations Branch	6,843,000		6,843,000	8,975,684	4.20%	2,132,684
Intelligence Branch	7,015,000		7,015,000	9,478,291	4.43%	2,463,291
Legal Branch	1,705,000	1,705,000				
Budgets Branch	38,290,000	38,290,000				
Staffing Branch	9,757,000	9,757,000				
Executive Support Branch	5,818,000	5,818,000				
TOTAL	213,827,000	55,571,000	158,256,000	213,827,000	100%	55,571,000

Attachment C

Detailed Submission Papers and the 1996 ACS Issues paper

CNCC Working Party

**Customs Electronic Systems
Review of Charging Arrangements 1996**

ISSUES PAPER

Issued March 1996

BACKGROUND

As a result of the 1995 Review of Charging Arrangements for Electronic Systems and wide consultation via an industry "Issues Paper", the following arrangements were put into place for the ACS charging for the 1995/96 financial year:

A Cargo Automation Processing Charge was introduced which replaced the Electronic Entry Processing Charge from 1 July 1995. A unit charge per import entry of \$8.75 (plus 20 cents per line for each line over 25 per entry) was implemented.

A ceiling target revenue of \$18.7 million was established for the 1995/96 financial year based on the following components:

COMPILE	\$12.3 million
Electronic Initiatives Supplement	\$ 2.5 million
TAPIN Levy	\$ 0.6 million
EDI Costs	\$ 1.8 million
Development Fund	\$ 1.5 million

These arrangements will be reviewed by a Customs chaired Working Party on an annual basis.

CURRENT

The Pricing Review Working Party has been re-formed. After due consideration of last years issue paper, its responses and the resulting Price Review Report, it was decided that this year further views would be sought on the following four issues.

1. What comments/feedback, if any, do you have on the changes in the charging arrangements which were put in place as a result of the 1995 Review of Charging Arrangements?
2. Are there any issues arising from the implementation of recommendations from the 1995 Charging Review which the Working Party should be made aware of?

3. Are there any comments on moving towards full "fee for service" mechanism for Service pricing. (Refer to attachment (i))
4. Comments on a move towards a Sender/Receiver charging arrangement for EDI Message Exchange. (Refer to attachment (ii))

Issues paper - attachment (i)**Background Information - Fee for Service**

"Fee-for-Service" was identified as an important issue in last year's review. Whilst the Working Party Report to the CNCC at that time, indicated that there was in principle support from Industry for moving in the direction of "fee-for-service", the demanding timetable and volume of work involved in the initial review precluded any detailed analysis of the ramifications of moving to such an arrangement.

Some possible outcomes and possibilities relating to a move to "fee-for-service " are outlined below:

- multiple billing/collection mechanisms may be required and this can mean additional costs;
- may be possible to implement "fee-for-service" for some systems more easily than for others;
- in the short term if a service is provided on a "fee-for-service" basis and the service is then no longer required, due to technological improvements or some other reason, some revenue may still need to be collected through some mechanism to cover expenditure committed over a longer term;
- "Fee-for-service" would seem on the face of things, to be a fair and equitable distribution of costs, however the implementation of "fee-for-service" for some systems may be inconsistent with wider Government Policy;
- "Fee-for-service" was explored in last years pricing review as an option. That option is reproduced below to show how "fee for service" would work in practice.

Full Fee for Service Charge (FFS) (As appeared in 1995 Pricing Review)

Full FFS: in this option all the costs associated with the processing of ACS' electronic systems, (ie excluding the cost of EDI messages), would be collected and recouped on a fee by fee (system by system) basis.

The following *strengths* of this option are:

- It can be argued that this approach is a more defensible cost recovery regime in that the 'user' only pays for what they use.
- Concerns regarding waste and/or lack of motivation to be cost aware tend to be minimised as the 'user' pays for what they use.
- Concerns that the single charge structure under option (1) & (2) implied a level of 'equalisation' (subsidisation) across users and across systems - can be addressed.

The following *weaknesses* of this option are:

- De-centralised or system by system cost collection may incur increased costs for both industry and the ACS.
- ACS does not currently have facilities to levy charges on Air Cargo, Sea Cargo and EXIT. A lead time is required to establish these.

	Option 3 Fee for Service (FFS)	Cost Profile Status Quo	
COMPILE Users	Pays full FFS for COMPILE ONLY (& associated systems), plus any IDC or EDI that is incurred	# \$6.10	ACS
Air Cargo Users	Pays full FFS for Air Cargo System Use, plus their own EDI costs ie SMCs.	\$0.00 \$0.50 \$1.34	RMCs SMCs FFS Based on 2.5m AWB
Sea Cargo Users	Pays full FFS for Sea Cargo System Use, plus their own EDI costs ie SMCs.	\$0.00 \$1.09 * \$3.40	RMCs SMCs FFS Based on 270k Cont

EXIT Users	Pays full FFS for EXIT System Use, plus their own EDI costs ie SMCs.	\$0.00	RMCs
		\$0.78	SMCs
		\$1.39	FFS
		Based on 1.08m ECNs	

- # Signifies a base charge per Entry, with an additional 20c/line after 25 lines.
- * This charge is estimated to generate full cost recovery only when the application is fully implemented across all Sea Cargo. Short falls on current volumes are absorbed in the COMPILE charge.

Issues paper - attachment (ii)**Background Information - Sender/Receiver pays.**

Since its inception in 1989 the Tradegate policy in respect of EDI charges was that of 'sender pays'. This meant that the user pays for all 'send' (outgoing) messages at the prevailing Tradegate kilocharacter (KCH) rate. Conversely messages received by a user do not attract any KCH charge.

This policy was developed on the basis of simplicity and used the telephone/fax charging methodology as a guide.

At the same time it was accepted that the policy could be overridden by individual trading partner pairs for commercial reasons.

Issues Arising

The 'sender pays' charging policy gave rise to the following issues over the past few years.

- Initially, Customs structured their charges for the Electronic Initiatives systems on the basis that the end user would pay all the message charges. Thus to exchange EDI messages with Customs the users paid for both send and receive messages. This became known as the 'sender pays all' charging principle.

This issue was partially resolved from 1 July 1995 when, as a result of the 1995 Pricing Review, Customs accepted the sender pays policy.

- The policy gave rise to some difficulties in establishing commercial agreements between value added networks (VANs) where interworking is required.

From a global perspective there is now a trend towards a sender and receiver pays charging philosophy in order to more equitably share the message cost between trading partner pairs. For Tradegate members who trade globally this has been policy since 1993, but covering the global charging component only.

As a result of a major assessment of its service provider arrangements Tradegate has concluded that a move to sender/receiver pays would greatly facilitate interworking and improve the potential for competition between VANs.

Customs supports the Tradegate view as it provides a level playing field for the network suppliers.

User Implications

'Sender/receiver pays' means that the user pays the VAN to send a message to the Customs mailbox and to retrieve the response from Customs from their own mailbox. At the Customs end Customs would pay to collect messages from its mailbox and to send responses to the end user mailbox. The per kilocharacter charge would typically be half of the prevailing 'sender pays rate'.

The likely impact of this change based on current volume connections is a reduction in end-user charges and a corresponding increase in charges paid by Customs.

It should be stressed that the charges paid by Customs are cost recovered through the Cargo Automation Processing Charge (CAPC) but will be substantially lower, on a per kilocharacter basis, than average user charges because of Customs greater volumes and corresponding eligibility for large discounts (see table below).

The real benefit to the interconnected network providers will be to eliminate all cross charges between them. This will result in a situation where the network who is responsible for a user will now be fully responsible for all of that user's charges.

List of Submissions:**No. Submitting Organisation**

- | | |
|---|--|
| 1 | Australian Chamber Of Shipping * |
| 2 | Customs Brokers Council of Australia * |

* *Indicates that the submission is reprinted in the following pages by permission of the author.*



ACOS

Australian Chamber of Shipping Ltd

A.C.N. 007 850 870

LEVEL 16 ANL HOUSE
131 YORK STREET
PO BOX 087
QUEEN VICTORIA BUILDING
SYDNEY NSW 2000
TELEPHONE (02) 261 3338
FACSIMILE (02) 261 3337

F A C S I M I L E

DATE: 29 March 1996
TO: Ken Porter, ACS 06 275 5084
REF: \tp\038\fax29mar.96
FROM: Gregory A Bondar
SUBJECT: REVIEW OF CHARGING ARRANGEMENTS
Number of pages: 1

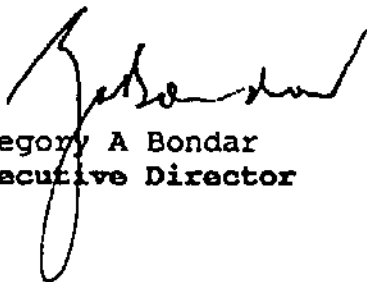
Industry comments have been sought on an Issues paper as part of the 1996 ACS Pricing review. The Chamber wishes to comment as follows:

- the issues paper incorrectly states that "there was in principle support from Industry" for a move to "fee for service" arrangements. It would be more precise to say that industry supported the examination of "fee for service" as one of a number of options in the future.
- this having been said, the shipping industry considers that a "user pays" regime already exists - the "user" of ACS systems is not a particular company but rather the cargo that requires the system to facilitate its movement. Charges are therefore best collected directly from cargo interests.
- the shipping industry would perceive the introduction of a "fee for service" as a powerful disincentive to use of ACS systems. "Fee for Service" could well see a drop-off of users in systems such as Sea Cargo Automation and an even more reduced likelihood of take-up of EXIT 2.
- Furthermore, the introduction of "fee for service" could well work against further enhancement of existing systems, thereby frustrating the development of a comprehensive cargo management strategy - clients are less likely to suggest enhancements to a system to benefit the whole cargo movement chain if they know these enhancements will simply cost them more.



- the spreading of "fee for service" charges throughout the ACS client base would lead to un-necessary fragmentation of invoicing and payment arrangements. This has already been acknowledged in discussions between industry and AQIS, where experience demonstrates that a proliferation of small charges inflates accounting costs and works against efficient cost recovery.
- The AQIS experience is instructive - already calls are emerging for a wide variety of charges to be merged and invoiced to one point - the party with the closest relationship to the importer and best able to recover them. This is precisely the situation which applies under the current Hub Facilitation Charge arrangements.

For these reasons the shipping industry would be opposed to any change to current arrangements, though of course industry would have no objection to a continuing annual review process to ensure that the level of the current Hub Facilitation Charge is equitable.



Gregory A Bondar
Executive Director



Customs Brokers Council of Australia Inc.

PO Box 303, Hamilton QLD 4007 Australia • Tel (07) 3252 1348 • Fax (07) 3252 1159

12 April 1996

Mr K Porter
Director Business Centre
Australian Customs Service
5-11 Constitution Avenue
CANBERRA ACT 2600

Dear Sir,

Reference is made to the letter of 5 March, 1996 addressed to the representative of the Customs Brokers Council of Australia Inc. ("CBCA") on the Customs National Consultative Committee as it relates to the Annual Review of Charging Arrangements for Customs Electronic Systems. The CBCA position as it relates to identified issues from the Customs Electronic Systems Review of Charging Arrangements Working Party Report ("the Report") of May 1995 is set out below.

FEE FOR SERVICE

The CBCA continues to endorse Option 3 - Fee for Service from the Customs Electronic Systems Review of Charging Arrangements Working Party Report ("the Report") of May 1995. In relation to this aspect the position of industry in general (as set out in Agenda Item 4, Customs National Consultative Committee Meeting No. 10 of 8 June, 1995) was, in relation to major users of ACS systems, support for the fee for service. In relation to this aspect it is noted in the Issues Paper, as an attachment to the ACS letter of 5 March, 1996, that certain weaknesses were identified by the ACS as to the fee service charge, however the issues identified are not seen by the CBCA as weaknesses for a fee for service but more an inability by the ACS to provide the necessary infrastructure to achieve the objectives.

EDIFICE PRICING

While Clause 2.7 of the Report recommended EDIFICE Option (2), it was noted by the CBCA that the cost structure principle between COMPILE and EDIFICE entry creation established in 1994 as to EDIFICE pricing must be maintained. These principles were:

- COMPILE users should not be disadvantaged, with respect to the overall EEPIC and IDC charges as a result of implementing EDIFICE;
- the total cost of processing a customs entry using EDIFICE should be no greater than the cost of processing an equivalent customs entry using COMPILE;

- 10.
- the total cost, including EDI charges, of processing a customs entry using EDIFICE will be itemised on the entry in a similar way to its COMPILE costs are itemised.

To meet these principles requires an identical price applying for both COMPILE and EDIFICE and a fixed EDI charge per entry. It is the CBCA's position that these principles must be maintained, particularly in relation to the proposal by Tradegate Australia Limited (as to the Cargo Automation Processing Charge) applicable to COMPILE lease line that *"these costs will be separately charged to those who opt to continue to use the lease line"*.

In addition, should the Tradegate adoption of a sender/receiver pays philosophy in terms of EDI charging become applicable, there will be an increase in messaging costs to be recovered by the ACS. Should Option 3 not be accepted these charges will be recovered in the CAPC and this is not acceptable to the CBCA.

Should you require any further direction in relation to the CBCA's position in relation to the review please do not hesitate to contact me.

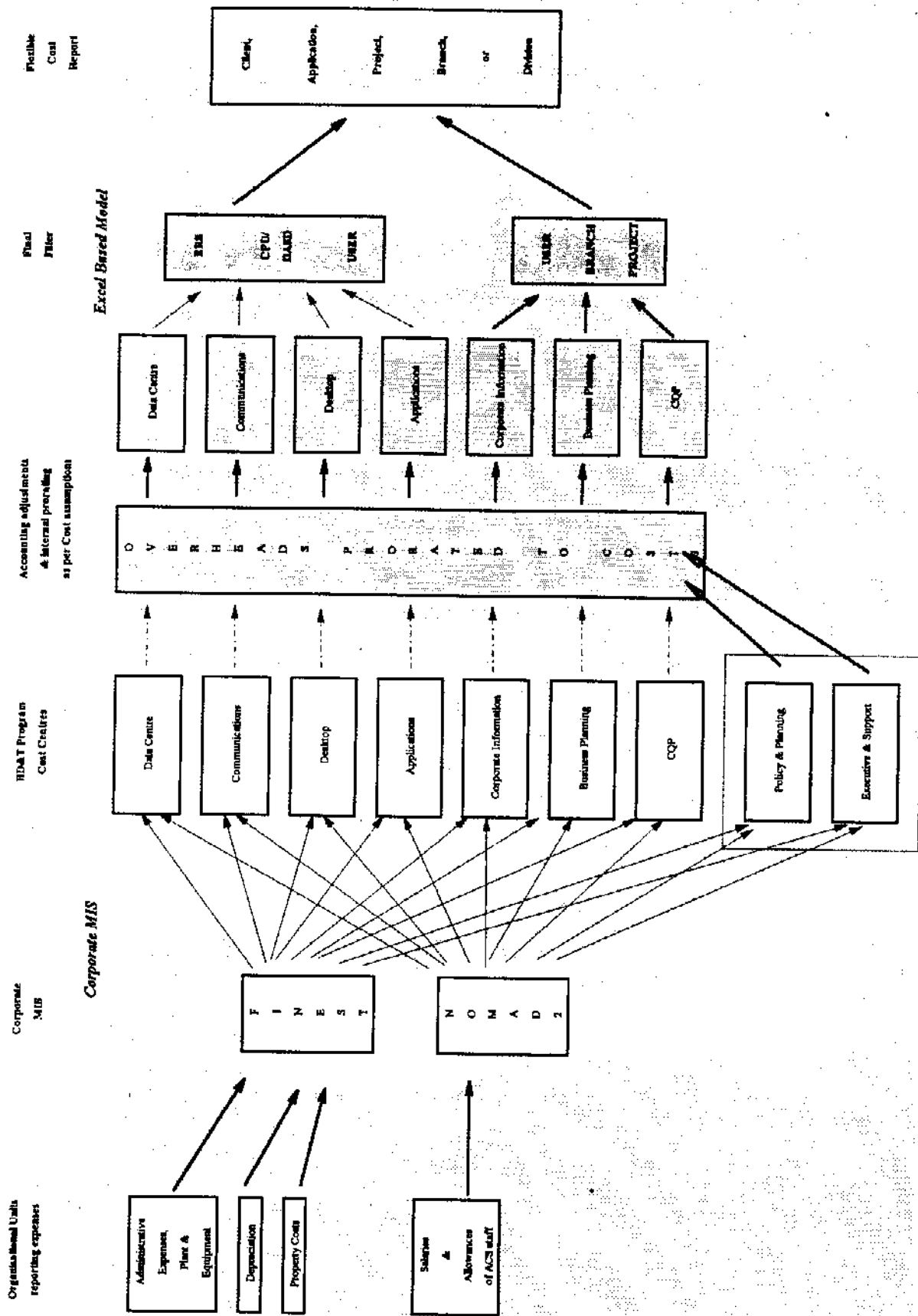
Kind regards,



STEPHEN J MORRIS
Executive Director

Attachment D

Costing Model



Notes to Accompany Costing Model

In recognition that ACS does not presently have a consistent or single means of delivering reliable costing information to management or clients, work is in progress to develop a detailed cost attribution model. The costing model shown above is the first phase in the development of an activity based costing model to enable ACS to produce comprehensive costing information which will meet a range of purposes.

Background

The BD&T Working Party tasked with the development of this costing model has sought input from other areas of ACS and met with representatives from other organisations who are further advanced in terms of costing their services. These included: CITEC(QLD Government IT Bureau); the Brisbane City Council; the Commonwealth Department of Human Services and Health; and the ACT Department of Urban Services who are government organisations with sophisticated financial attribution models, or who have gone down the path of full/partial cost recovery.

These meetings have been of great value as the information gathered regarding the range of mechanisms available for determining the true IT costs and the attribution of those costs has been extensive. These meetings were also helpful for raising issues which need to be resolved to enable progress towards a costing model to be as smooth as possible.

Attachment E

Status of the Recommendations from the 1995 Charging Review

E Status of the Recommendations from the 1995 Charging Review

Recommendations:

- (a) A new Cargo Automation Processing Charge as per Option 2(a) of the 1995 Report replaced the current Electronic Entry Processing Charge from 1 July 1995.

Action Taken: Implemented.

- (b) A ceiling target revenue of \$18.7 million be established for 1995/96 based on the following components:

COMPILE	\$12.3 million
Electronic Initiatives Supplement	\$ 2.5 million
TAPIN Levy	\$ 0.6 million
EDI Costs	\$ 1.8 million
Development Fund	\$ 1.5 million

Action Taken: Implemented

- (c) The unit charge per import entry be calculated based on the target revenue in recommendation (b) above and a projection of 2,100,000 import entries per annum giving a unit charge per entry of \$8.75 (plus 20 cents per line for each line over 25 per entry).

Action Taken: Implemented

- (d) A joint ACS/Industry review be conducted and independently audited prior to the commencement of each financial year to reconcile revenue collections against targets and actual expenditure and to recommend any necessary adjustments to pricing arrangements to the Customs National Consultative Committee for endorsement.

Action Taken: Implemented

- (e) Guidelines for the conduct of such annual reviews be developed for consideration and endorsement by the Customs National Consultative Committee by December 1995.

Action Taken:

Guidelines have been developed during the conduct of the 1996 Review of Charging Arrangements for Customs Electronic Systems. It was considered that the changes implemented as of 1 July 1995 needed further time to settle in and any changes in the operating environment be allowed to occur prior to formulating the path for the future.

- (f) A joint ACS/Industry Management Committee be established to define and manage the Development Fund.

Action Taken:

A Committee was established and manages the CADF fund which has been set up by the ACS as level three trust fund. As this Committee is the subject of review through a separate Reporting process, further analysis of its operation is limited in this Report.

- (g) The ACS to take steps to develop reliable cost Reporting mechanisms which will enable the implementation of Option 3 (Fee For Service) to be realistically considered for implementation in the 1996/97 financial year.

Action Taken:

A costing model is currently being prepared (see attachment D) which will attribute full costs to all Customs Electronic Systems. Only a portion of electronic systems are charged out through the annual Charging Review of Customs Electronic Systems, ie. those which provide for direct access by Industry.

All of the above recommendations were accepted by the CNCC when it met in June 1995.

Additional Suggestion from the 1995 Review:

As an adjunct to the recommended (Option(2a) of 1995 Report) the Working Party has concluded that a more equitable relationship between ACS electronic systems costs and unit charges would be achieved by modifying the base formula from 25 free lines per entry down to 1 free line per entry. The Working Party therefore recommends that:

- (h) Consideration be given to setting the Cargo Automation Processing Charge to \$8.40 per entry plus 20 cents for each entry line above 1 line per entry so as to achieve the target revenue defined in recommendation (b) above.

Action Taken:

This Option which most closely approximates a payment based on actual usage, was not accepted by the CNCC at its June 1995 meeting. The Working Party was of the view that changes to the charging structure, such as varying the number of free lines may be analysed further under a Fee for Service regime.

Appendix 4

Comments on selected questions from the Issues Paper

3.2 Rationale for Cost Recovery

What is your understanding of the rationale for their introduction?

Cost recovery fees for processing of imports were introduced within the 1996 Budget as “a necessary part of a Government-wide push to reduce the Budget deficit created by Labor”, according to the then Minister. A copy of his media release is attached.

Has the rationale changed since their introduction?

Obviously the rationale has changed, as “the Budget deficit created by Labor” no longer exists, according to the Government. We are unaware of any new rationale for continuing with these fees.

Was account taken of the public benefits of the activities for which cost recovery was implemented?

Clearly, no, as the fees are set at a 100% recovery rate.

Do you think the arrangements have achieved their objectives?

Yes, the Government has reduced “the Budget deficit created by Labor”.

How successful have they been in recovering costs?

Very. On occasions they have recovered above 100%. The minutes of the Customs National Consultative Committee (CNCC 25, March 1999) illustrate the point:

“Review of Charging

The Chairman advised that over-recovery occurred only in relation to the 1998 charging year. Over-recovery is enabling Customs to put more resources into Cargo Reengineering and Partnership Projects. Over-recovered funds will be factored into the October 1999 charges review, which will flow into the consideration of prices for the charging year commencing 1 January 2000.

Customs to provide a paper to Members (of the Committee) outlining the issues and options available for dealing with over-recovery. It will address the legal position in relation to under/over recovery and whether the funds could be paid into a CADF account.”

Without the full benefit of the discussion at this meeting it is, nevertheless, alarming that the inclination here seems to be to keep the money to spend on pet projects, rather than return it. The stress on this as a one-off event in 1998, should be tempered by the knowledge that full cost recovery was only introduced in 1997. The following minutes from CNCC (July 1999) provide an interesting update on this debate, but are extensive, so we have not quoted them here.

Section 3.3 **Economic Effects**

What impacts do fees and charges of regulatory, administrative and information agencies (including the ACCC) have on competition?

Customs duties are a legitimate form of revenue collection, ie another form of taxation. Yet companies paying taxes only to the ATO do not have to lodge returns for every transaction, nor do they have to pay fees to lodge a BAS etc. Companies who import goods, and therefore have to deal with both the ATO & Customs do have to lodge returns for every transaction and pay fees to lodge their Customs Entries. Clearly, this will have a distortionary effect on competition.

Customs principles for revenue collection should be brought into line with ATO principles.

Are you aware of cost recovery being wrongly applied to a particular activity?

Even if you accept that every importer should report on every transaction (which obviously we do not), little or no work has been done to acknowledge the public benefits of the entry system.

Many of the items required in a Customs entry are actually collected solely for the ABS statistical series. They are not required for the business of either the importer or Customs, yet no contribution is made by ABS for this service. In effect, importers have to pay for providing statistics to the ABS, which is quite external to their own business objectives. If they want to access more than general information from the ABS, they then have to pay again to retrieve it, through ABS consultancy services.

The collection of ABS statistics is an obvious public benefit. There is a shared public/private benefit in border control. Large companies do not want to risk their own reputation by bringing in disease to Australia, yet just as obviously Australians want the same protection. This is not reflected in the charging regime.

*Are the characteristics of client businesses important in setting fees and charges?
Are some parts of the industry having undue influence on the policy process...?*

These questions can be answered together. Customs does do a lot of consultation with industry. However, we think that they are misdirected in defining their clients.

We consider that the primary clients of Customs are those companies who pay for the services provided. However, the primary industry consultation body – the Customs National Consultative Committee – comprises the following members:

- Australian Air Transport Association
- Australian Chamber of Shipping
- Australian Federation of International Forwarders
- Customs Brokers Council of Australia
- Institute of Chartered Accountants
- International Air Couriers Association of Australia
- Law Council of Australia

The large, regular importers, who are the users of all of these services (including Australian Customs) are not directly represented.

We think that this has obvious potential for 'undue influence' because there are clearly occasions when the interests of these groups are not necessarily those of the importers. The CEO of Customs alluded to this in a recent speech about Cargo Management Re-engineering, when he said:

"We have a client base of about 5,500 representatives of a much wider community of about 140,000 (115,000 importers the rest being exporters).

Inevitably there have been concerns expressed by some in the Customs community. Change is always seen as a 'threat' and many Customs industry members have been resistant to the changes that CMR will bring. Perhaps this is because they see their traditional roles undergoing significant change, or even redundancy."

All of the members of the CNCC have one thing in common, their services are paid for by Importers – who are not directly represented.

Consideration should be given to importers being directly represented on this peak advisory committee – perhaps through 5 representatives of the top importing companies, drawn by lot and serving fixed 3-5 year (overlapping) terms?

3.5 Public administration issues

What issues and principles should be addressed in government guidelines for the design and administration of cost recovery? How should they apply?

The public benefit should be assessed, and the proportional cost for this borne by Government, not the Importer. In the example of ABS data collection the cost should be 100% borne by Government. In the case of border control there are mixed private/public benefits which could be shared. In the case of revenue collection, this should be brought into line with ATO principles ie, self assessment for Accredited Clients with no charges for remitting the taxes.

With regard to the cost recovery arrangements with which you are familiar, has the same agency both developed and implemented cost recovery policy?

Yes. As a general rule, there should be an independent mechanism for reviewing current and proposed cost recovery charges, outside of the Department which has designed the charges.

How can existing review and evaluation processes for cost recovery arrangements be improved? What criteria should be used? Who should be consulted?

Some of these issues are covered in previous comments, however we would like to make a suggestion. Customs is about to decide on a new pricing structure for Cargo Management Re-engineering which will be introduced with the Trade Modernisation Bill. This Bill has been circulated as a draft, but is not yet before Parliament. A more detailed review of these

changes by the Commission would provide a real life example of the principles applied in current cost recovery practice, as a useful, contemporary example.

This is outlined to in the CNCC meeting minutes of July 2000:

“CMR Pricing Structure

Mr Buckpitt outlined the process used to determine the pricing structure for cost recovery under CMR. Industry feedback received was overwhelmingly in favour of a simplified pricing structure, with all costs, regardless of intermediate services provided, linked to the import entry.

OUTCOME: Mr Buckpitt provided Members with the final pricing structure, which will be adopted when CMR is introduced. He advised that the prices used in the structure are estimates only and may change prior to implementation.”

These minutes beg a number of questions, which might be legitimately explored by the Commission amongst various stakeholders in the process, as a useful contemporary example.