



Australian Government
**Department of Immigration
and Border Protection**

Cost Recovery Implementation Statement

Cargo and Trade Related Activities
2015-16

Table of Contents

1.	INTRODUCTION	3
1.1	Purpose of the Cost Recovery Implementation Statement	3
1.2	Description of the activity	3
1.2.1	Import Processing	3
1.2.2	Licensing	4
1.2.3	Other Stakeholders	5
2.	POLICY AND STATUTORY AUTHORITY TO COST RECOVER	6
2.1	Government policy approval to cost recover the activity	6
2.2	Background	7
2.2.1	Import Processing Charges	7
2.2.2	Licensing	8
2.3	Statutory authority to charge	8
3.	COST RECOVERY MODEL	9
3.1	Outputs and business processes of the activity	9
3.1.1	Import Processing	10
3.1.2	Licensing	10
3.2	Costs of the activity	11
3.2.1	Import Processing	12
3.2.2	Licensing	13
3.3	Design of cost recovery charges	15
4.	RISK ASSESSMENT	18
5.	STAKEHOLDER ENGAGEMENT	19
6.	FINANCIAL ESTIMATES	20
7.	PERFORMANCE	21
7.1	Financial Performance	21
7.2	Non-Financial Performance	22
8.	KEY FORWARD DATES AND EVENTS	22
9.	CRIS APPROVAL AND CHANGE REGISTER	23

1. INTRODUCTION

1.1 Purpose of the Cost Recovery Implementation Statement

This Cost Recovery Implementation Statement (CRIS) provides information on how the Department of Immigration and Border Protection (DIBP) implements cost recovery for cargo and trade related charges. Charges relating to cargo and trade related activities include Import Processing Charges (IPCs) and broker, depot and warehouse licence charges. It also reports financial and non-financial performance for selected cargo and trade related activities and contains financial forecasts for the 2015-16 budget year and three forward years.

1.2 Description of the activity

DIBP is the gateway between Australia and the world, facilitating trade, travel and migration while protecting Australia from threats to the border. The cost recovery of cargo and trade related activities support this vision and DIBPs policy objective to provide effective border management through regulation and facilitation of trade across our borders.

Cargo and trade related activities that are cost recovered include import processing, licensing of customs brokers and warehouse and depot licensing¹ (these are outlined in more detail below). As importers and service providers generate the need for these activities it is appropriate for these costs to be recovered in line with the requirements set out by the Australian Government Cost Recovery Guidelines (AGCRGs).

In addition to cost recovery charges, the DIBP is responsible for administering several other trade and cargo charges and payments including, but not limited to, import duty, Goods and Services Tax (GST) and the Wine Equalisation Tax. Many of these other charges and payments are administered by the DIBP on behalf of the Australian Taxation Office (ATO) under a Memorandum of Understanding between the two entities. As these additional charges constitute duty and general taxation, having no link to cost recovery, they will not be considered in this CRIS. Information concerning these taxation and excise charges can be found on the ATO website (www.ato.gov.au).

1.2.1 Import Processing

Imported goods may arrive in Australia in a variety of ways. An individual can bring goods with them from overseas or they may be imported via international mail, air or sea cargo. Regardless of the entry pathway all goods must be assessed by DIBP for community risks, permit and approval requirements, and relevant taxes and charges (e.g. customs duty, GST, etc.).

While all goods imported into Australia need to be cleared by DIBP, only certain goods require the lodgement of an import declaration (to assist in the clearance process). Goods imported via air or sea, where the consignment value does not exceed the import entry threshold (currently \$1,000), require the lodgement of a Self-Assessed Clearance (SAC). For all imported goods above the entry threshold a Full Import Declaration (FID) is required. These declarations provide information about the goods including:

- Details of the importer;

¹ The Australian Taxation Office is responsible for administering Excise Equivalent Goods (EEGs) that are warehoused including the granting and administering of warehouse licences. Excise equivalent goods are imported alcohol, tobacco and fuel that would have been subject to excise duty had it been produced or manufactured in Australia.

- Details of the owner of the goods;
- The value of the goods;
- The method by which the goods arrived in the country; and
- Community protection information associated with the goods.

To ensure effective border management DIBP undertakes a number of activities on these import declarations including:

- Provision of advice to industry on the import and export environment;
- Processing of import declarations and document receipting;
- Design and development of profiles and targeted compliance activities;
- Analysis of intelligence leading to strategic, operational or tactical services in relation to import processing;
- Cargo examinations and inspections;
- Determination of risks associated with transactions / threats and border controls; and
- Investigation and prosecution of serious breaches of legislation.

The cost of undertaking these activities for importers is recovered through a cost recovery levy applied under the Import Processing Charges (IPC) Act.

1.2.2 Licensing

DIBP licences customs brokers, depots and warehouses, including duty free operators so they can carry out their import trade, while the ATO under delegation is responsible for managing warehouses that deal specifically with Excise Equivalent Goods (EEGs).

Customs brokers provide a professional service to importers by arranging the clearance of goods on their behalf. The customs broker is responsible for clearing these goods through DIBP before they reach the Australian market. There are three categories of customs brokers:

- Corporate – A licensed corporate customs broker is a company or partnership that acts on behalf of owners of imported goods. The broker must employ a ‘nominee customs broker’ to lodge import declarations.
- Sole trader – A sole trader is an individual that is licensed to act on behalf of owners of imported goods. A sole trader may also employ nominee customs brokers. A sole trader cannot be employed by a corporate customs broker.
- Nominee – A nominee is a natural person that is licensed to act as a customs broker but only as an employee of a corporate or a sole trader customs brokerage. A nominee may be employed by more than one corporate or sole trader brokerage at any one time.

Depots are licenced to allow importers to have goods moved away from the wharf or airport for short-term storage and unpacking / deconsolidation. Once all legislative requirements are met, the goods can be released into home consumption or moved to a licenced warehouse for storage.

Depot licence holders may only use the premises for the following purposes:

- Holding of imported goods subject to customs control;
- Unpacking of imported goods subject to customs control;
- Holding of goods for export subject to customs control; and/or

- Packing of goods for export subject to customs control into containers.

Warehouse licences are granted by DIBP for the storing of goods by the importer or owner pending the goods being entered for home consumption (not including EEGs). There are a number of categories of warehouse licences, mainly:

- Private warehouse – The licence holder is the owner of the warehoused goods;
- General warehouse – The licence holder is storing goods on behalf of other owner/s;
- Providores and flight catering bonds – The licence holder stores goods which are then supplied to international aircraft or vessels as aircraft or ships stores; and
- Duty free store – The licence holder is permitted to sell goods to relevant travellers in a retail-type environment.

Warehouse licences for EEGs are issued under the *Customs Act 1901* by the ATO following the delegation of these responsibilities by the (then) Australian Customs and Border Protection Services (ACBPS) in July 2010. Licences are issued for warehouses that:

- Deal with EEGs, whether packaged or bulk;
- Deal with both EEGs and other imported goods (non-EEGs);
- Deal with non-EEGs and are operated by an entity that operates other premises that deal with EEGs;
- Are also an excise licensed place where EEGs are used in the manufacture of excisable goods; and
- Are private or general warehouses licensed to store EEGs.

DIBP (and ATO in relation to licences for EEGs) undertakes a number of activities in relation to licence application processing and ongoing compliance monitoring of licensed brokers and establishments. These include:

- Desktop assessment of applications;
- Interviews with prospective broker licence applicants;
- Fit and proper checks;
- Site inspections of warehouse and depot facilities;
- Granting of licences;
- Ongoing compliance program of site visits for warehouses and depots;
- Ongoing monitoring of broker licensing;
- Corporate support and infrastructure in support of licensing staff, systems and processes; and
- Renewal processing and invoicing.

The cost of licensing activities is recovered via a cost recovery fee for license applications and variations and a cost recovery levy for the granting or renewal of a license.

1.2.3 Other Stakeholders

Other key stakeholders for cargo and trade related activities include:

- Businesses and members of the population who consume imported goods – any changes to the price or structure of Government charges could have flow on impacts to the costs of these goods in Australia;
- Brokers – while they are not liable for IPCs, they often pay charges on behalf of owners of imported goods but are later reimbursed for those charges;

- Freight forwarders – these companies would be impacted as they are responsible for organising shipments which could include collecting charges on behalf of their customer and remitting it to DIBP. If prices change, freight forwarders would collect a different charge from their customers.
- The World Trade Organisation (WTO) – as the WTO is the regulatory body for trade agreements, any changes to charging arrangements could be of interest to the WTO; and
- International Governments – changes in trade prices may have broader impacts on international economies.

2. POLICY AND STATUTORY AUTHORITY TO COST RECOVER

2.1 Government policy approval to cost recover the activity

On 17 September 2014 the Government announced the Joint Review of Border Fees, Charges and Taxes (Fees Review). The Fees Review was commissioned prior to the 2015-16 Budget to identify and recommend to Government how charging arrangements could be improved to better support future border operations and industry outcomes.

The goals of the review included:

- Exploring deregulation opportunities to minimise, where possible, the administrative burden for industry and government and to consider better aligning border charges levied by the Commonwealth;
- Achieve at a minimum a revenue neutral position, balancing user charging arrangements for the management and protection of our border without unduly impeding economic growth and Australia's international competitiveness;
- Explore opportunities to consolidate the number of border fees, charges and taxes, and reduce complexity associated with their collection;
- Incentivise industry towards efficient and compliant behaviour while ensuring an appropriate distribution of costs across the users of Australia's border; and
- Align fees and charges with future border initiatives, new services being requested by industry and longer term objectives.

A key element of the review was consideration of changes over recent years in the operational environment managed by DIBP. The most significant of these challenges being the substantial increase in the volume of cargo traffic across the border, the increasing complexity of supply chains, and the growing sophistication of serious and organised crime. Changes in the border environment also mean that the client base is expanding. The increasing trend of internet shopping has resulted in the emergence of new consumers and merchant types, expanding the client base with which the DIBP interacts, further increasing the complexity of the operating environment.

Following the completion of the Fees Review, in the 2015-16 Budget² the Government announced the restructuring of IPC and import-related licence charges (effective from 1 January 2016) to:

- Increase import processing charges to fund the cost of investing in cargo and trade-related reform activities that will continue to improve the services provided to industry, while supporting stronger borders and national security initiatives;

² http://www.budget.gov.au/2015-16/content/bp2/html/bp2_revenue-06.htm

- Remove the current price differential for IPCs between air/post and sea cargo pathways to better reflect the similarities in risk and volume profiles across the pathways and improve consistency of cost sharing associated with processing imports;
- Introduce a consistent price differential for IPCs between electronically and manually lodged declarations to encourage electronic lodgements and better reflect the additional work required by DIBP to manually enter and process these documents;
- Introduce an application charge for Broker and Warehouse licences, noting that there will be a commensurate reduction in the licence grant fee for warehouses. This will reduce the cost burden on the current licensing program by charging all applicants, regardless of the application outcome;
- Introduce a variation charge for warehouse licences in line with the variation charge for Depot licences; and
- Increase existing customs broker licence charges to partially address the current under-recovery of the cost of these activities.

2.2 Background

Cost recovery of selected cargo and trade related activities was initially introduced in the 1996-97 Budget to recover costs borne by the Government in conducting the commercial customs activities required to process imports. While initially the charges were set to only recover the cost of providing cargo reporting and import entry processing services, a number of changes have occurred since then.

2.2.1 Import Processing Charges

Since the introduction of IPCs in the 1996-97 Budget the following changes have occurred:

- In the 2001-02 Budget the Government announced that IPCs would be increased for all air cargo and postal imports to fund the inspection of 100% of all high volume, low value air cargo and mail entering Australia³.
- In the 2003-04 Budget the Government agreed to introduce container examination facilities (CEFs) at major Australian ports to enhance Australian security⁴. The CEF allowed shipping containers to be examined using x-ray technology. As this became a standard part of the DIBP clearance process, there was an increase to the IPC for sea cargo to recover two-thirds of the total logistics costs of this facility.
- In 2005 the Australian Government agreed to raise the threshold at which an entry charge and FID applied from \$250 to \$1,000. As a result, importers of consignments with a value equal to or less than \$1,000 were no longer required to lodge a FID, but lodged a self-assessed clearance instead. This was adjusted in the *Customs Act 1901*⁵.
- As part of the 2013-14 Budget the Government announced it would be introducing full cost recovery of all import related cargo and trade functions, including community protection activities. The changes broadened the cost base of the import processing charge, resulting in increased fees so that all costs of trade and cargo related activities including cargo screening, targeting and risk assessment, compliance, investigations and prosecution costs were recovered.

³ http://www.budget.gov.au/2001-02/papers/bp2/html/3_revenue.htm#P4_0

⁴ <http://www.budget.gov.au/2003-04/bp2/html/revenue.htm>

⁵ <http://www.comlaw.gov.au/Details/F2005L03042/Explanatory%20Statement/Text>

2.2.2 Licensing

Since the Government's announcement in the 1996-97 Budget, cost recovery charges relating to licensing have remained fairly constant apart from the following:

- Warehouse licences: charges for warehouse licences were increased only once, with effect on 1 July 1998⁶ to align the charges to recover the cost of administering licenses and DIBP's greater emphasis on self-assessment and risk-assessment when dealing with clients.
- Depot licences: a depot licence variation fee was introduced with effect from July 2001⁷.
- Customs broker licences: charges for customs broker licences were increased with effect from 1 January 2001⁸ to reflect an increase in the duration of customs broker licences from one year to three years.

2.3 Statutory authority to charge

The legislation which imposes cost recovery charges for cargo and trade related activities is detailed below. The *Import Processing Charges Act 2001* and the *Customs Depots, Warehouse and Customs Brokers Licensing Charges Act 1997* are the separate taxation Acts that provide the statutory basis for charging a cost recovery levy in relation to import processing and licensing activities.

*Customs Act 1901*⁹

- Sections 71B and 71DI state that when an import or warehouse declaration is communicated to DIBP, the owner of the goods becomes liable to pay the processing charge in respect of the declaration.
- Section 71BA states that an owner of warehoused goods who makes an import declaration in respect of the goods is liable to pay a fee for the processing of the declaration.
- Section 71BA(2) states the amount of the warehoused goods declaration fee dependent on the method of lodgement.
- Sections 77H, 80 and 183CA(1) state that a charge applies to the application for a depot, warehouse or customs broker licence.
- Sections 77U, 85 and 183CJA state that a charge applies to the grant or renewal of a depot, warehouse or customs broker licence.
- Sections 77LA and 81B state that a charge applies to an application for the variation of a depot or warehouse licence

*Customs Regulations 2015*¹⁰

- Sections 35 and 115 state the charges payable in relation to a warehouse and customs broker licence.

*Customs Depots, Warehouses and Customs Brokers Licensing Charges Act 1997*¹¹

- Section 5 states the charge payable for the applicant for a depot licence.

⁶ <http://www.border.gov.au/Busi/Cust/Aust/Australian-Customs-Notice-1998-49>

⁷ <https://www.comlaw.gov.au/Details/C2004A00858/Html/Text>

⁸ <http://www.border.gov.au/Busi/Cust/Aust/Australian-Customs-Notice-2000-66>

⁹ <https://www.comlaw.gov.au/Details/C2015C00153>

¹⁰ <https://www.comlaw.gov.au/Details/F2015L00375>

¹¹ <https://www.comlaw.gov.au/Details/C2015C00416>

- Section 6 states the charge payable for the granting or renewal of a depot licence.
- Section 6A states the charge payable by the applicant for a variation of a depot licence.
- Section 6C states the charge payable for the applicant for a warehouse licence.
- Section 6D states the charge payable for the granting or renewal of a warehouse licence.
- Section 6F states the charge payable by the applicant for a variation of a warehouse licence.
- Section 6H states the charge payable by the applicant for a customs broker licence.
- Section 6J states the charge payable for the granting or renewal of a customs broker licence.

*Import Processing Charges Act 2001*¹²

- Section 5 states the amounts payable for import and warehouse declaration processing. Charges are dependent on the value of the consignment and the method of lodgement (either electronic or manual).

In addition to Australian legislation, DIBP has obligations under the General Agreement on Tariffs and Trade (GATT) which is a multilateral agreement that regulates international trade. Article VIII (a) of the GATT limits fees and charges imposed on importation or exportation to the approximate cost of services rendered. By aligning the revenue and expenses for cargo and trade related activities, Australia complies with its international obligations under the GATT.

The current schedule of fees and charges is contained in section 3.3 of this CRIS.

3. COST RECOVERY MODEL

3.1 Outputs and business processes of the activity

There are a number of cargo and trade events that trigger the application of cost recovery charges. These are detailed in section 3.3 and include:

- *Import processing*: the communication of an import declaration, a warehouse declaration , or warehoused goods declaration; and
- *Licensing*:
 - Application for a licence;
 - Granting of an application for a licence;
 - Renewal of an existing licence; and
 - A variation request for an existing licence.

The revenue recovered from these charges contributes to the following programmes outlined in DIBPs Portfolio Budget Statement for 2015-16:

- 1.1 Border Enforcement - Manage border risks through intelligence-led interventions that enable targeted inspection and examination of goods at the border; develop highly sophisticated and effective intelligence and targeting capabilities; and partner with law enforcement agencies to address risks and vulnerabilities ahead of and at the border.
- 1.2 Border Management - Develop and coordinate border management policies; and streamline trade experience by identifying and enhancing new business systems to

¹² <https://www.comlaw.gov.au/Details/C2014C00024>

maximise service delivery and maintain the security of our borders.

- 3.1 Border-Revenue Collection - Provide assurance that the customs duty, indirect taxes and charges payable on imported goods are correctly assessed, reported and, paid; undertake an effective risk-based compliance programme; and mature the portfolios understanding of trade crime and other economic risks.
- 3.2. Trade Facilitation and Industry Engagement - Co-designing services, strategy, legislation and policy with strategic partners and industry, that facilitates and supports industry, trade and the movement of goods across the border while maintaining regulatory objectives and integrity.

3.1.1 Import Processing

IPCs are associated with the communication of an import, warehouse, or warehoused goods declaration and recover a portion of the costs of a broad set of DIBP functions (including the cost of managing SACs where the consignment value is less than \$1,000):

- Cargo operations – Cargo processing, examinations and inspections;
- Intelligence and compliance – Cargo and passenger intelligence collection, dissemination, analysis and support, and cargo and passenger compliance, detained goods management, referrals, penalties, investigations and prosecutions;
- Business support – design and implement domestic and international cargo and passenger policy and legislation, and cargo and passenger industry engagement, external relations, revenue management and support of legitimate trade; and
- Registrations and permits – Cargo and trade related registrations and permits.

3.1.2 Licensing

Application for Depot Licence

Once an application is lodged, it is checked for completeness and additional information is requested as required. Following this, fit and proper checks are conducted, including checks of all management personnel. A site visit is then conducted to check the security and compliance of the proposed premises. Once the site activities are completed, a compliance recommendation is made to the licensing business area within DIBP for decision.

Variation request for a Depot Licence

A variation involves a change of location of the premises or a change in the licensed area at the (existing) premises. Once a request is received, it is checked for completeness and additional information is requested as required. Fit and proper checks may be required and assessments are conducted on an as required basis. Once these activities are completed, a compliance recommendation is made to the licensing business area within DIBP for decision.

Grant or Renewal of Depot Licence

The charges applied to the grant or yearly renewal of a licence recovers the costs of a number of ongoing activities related to the depot licensing program. These activities include:

- Processing and issuing of licence grants and renewals, and continuing permissions;
- Conducting ongoing compliance checks and site visits based upon risk profiles;
- Providing advice, support and statistical data to regional staff and clients, and other parties;
- Preparing ad hoc briefs and policy advice; and

- Suspending and cancelling licences of non-compliant businesses.

Application for a Warehouse Licence

Once an application is lodged, it is checked for completeness and additional information is requested as required. Following this, fit and proper checks are conducted, including checks of all management personnel. Site visits are then conducted to check the security and compliance of the proposed premises. Once the site activities are completed, a compliance recommendation is made to the licensing business area within DIBP for decision. The licence is either granted or refused.

Grant or Renewal of a Warehouse Licence

Activities that DIBP conducts in relation to the granting or renewal of a warehouse licence are as per those described above for the renewal of a depot licence.

Variation request for a Warehouse Licence

Activities that DIBP conducts in relation to a variation of a warehouse licence are as per those described above for the variation of a depot licence.

Application for a (Corporate, Sole Trader or Nominee) Broker Licence

DIBP conducts a number of activities prior to granting a corporate, sole trader or nominee broker licence. Once an application is lodged, it is checked for completeness and additional information is requested as required. Following this, fit and proper checks are conducted. Completed applications are referred to the National Customs Broker Licensing Advisory Committee (NCBLAC) for consideration. NCBLAC comprises an independent chair, a representative from DIBP, and a representative from industry (nominated by the customs broker industry). NCBLAC conducts a review of the application, an interview of the applicant(s) where deemed necessary and provides a recommendation to DIBP on whether a licence should be granted or not. DIBP will advise the applicant of decision to grant or not grant a licence.

Grant or Renewal of a Customs Broker Licence

The charges applied to the grant or renewal (once every three years) of a broker licence recovers the costs of a number of ongoing activities related to the customs broker licensing program. These activities include:

- Processing and issuing of a licence or renewal, and amending broker details;
- Providing advice, support and statistical data to regional staff and clients, and other parties;
- Preparing ad hoc briefs, policy advice and industry notices;
- Conducting ongoing compliance checks;
- Administering NCBLAC investigations;
- Monitoring the Continuing Professional Development (CPD) program for brokers; and
- Suspending and cancelling licences of non-compliant brokers.

Warehouse licensing for EEGs

The activities undertaken by the ATO in relation to the granting and administration of warehouse licences for EEGs is in line with the activities undertaken by DIBP for warehouse licensing.

3.2 Costs of the activity

DIBP uses an internal cost allocation model to assign both direct and indirect costs to cargo and trade related activities. Direct costs (including employee and supplier costs) represent the cost of areas within DIBP that have been identified as delivering cargo and trade related activities and are

allocated based on management estimates of the resources required to deliver each function. Indirect costs include corporate functions, infrastructure operational costs and property operating expenses and are allocated to activities using designated cost drivers (e.g. FTE).

Following the integration of the Department of Immigration and Border Protection and the Australian Customs and Border Protection Service (as from 1 July 2015), there is a possibility that the expense base for cargo and trade related activities will change requiring a further review of the charges associated with these activities.

3.2.1 Import Processing

IPCs are collected through a cost recovery levy associated with the communication of an import, warehouse, or warehoused goods declaration. As cost recovery levies they recover a portion of the costs of a broad set of DIBP functions that include the delivery of import processing (See section 1.2.1 – *Import Processing* for an outline of these functions).

An overview of the functions and the portion of DIBPs costs recovered through IPCs (based on management estimates) are outlined in Table 1a.

Table 1a: Current DIBP Functions recovered through IPCs in 2015-16

Function	Description	Total Cost	% of function recovered through IPC	IPC Costs (Per Year)
Cargo Operations	<ul style="list-style-type: none"> Cargo processing, examinations and inspections 	\$167.0m	90%	\$149.9m
Intelligence and Compliance	<ul style="list-style-type: none"> Cargo and passenger intelligence collection, dissemination, analysis and support Cargo and passenger compliance, detained goods management, referrals, penalties, investigations and prosecutions 	\$224.4m	62%	\$140.2m
Business Support	<ul style="list-style-type: none"> Design and implement cargo and passenger domestic and international policy and legislation Cargo and passenger industry engagement, external relations, revenue management and supporting legitimate trade 	\$101.2m	43%	\$43.4m
Registrations and Permits	<ul style="list-style-type: none"> Issuing restricted goods permits, digital certificate registration, EFT registration, licensing of firearms, and TPR permit process. 	\$2.3m	95%	\$2.2m
Total				\$335.6m

The balance of the above costs not attributable to IPCs includes passenger processing and clearance, maritime response, border security operations, border surveillance, and administration activities related to the collection of GST on behalf of the Australian Taxation Office which are funded through appropriations from Government.

In addition to the costs outlined above in Table 1a, a further \$66.5m will be recovered in 2015-16 to fund the cost of investing in cargo and trade related reform activities, as announced in the 2015-16 Budget. An overview of the reform initiatives and the amount being recovered via IPCs in 2015-16 is outlined in Table 1b.

Table 1b: Reform initiatives recovered through IPCs in 2015-16

Function	Description	Cost recovered
Integrity and workforce	<ul style="list-style-type: none"> • New screening and assessment capabilities for ABF • Workforce design and a new ABF training college 	\$1.9m
Intelligence and Systems	<ul style="list-style-type: none"> • Enhanced profiling and advanced analytics to improve risk assessment and targeting • New capability to share information among partners • Enhanced security to provide protection from emerging technology threats 	\$29.6m
Trade and Goods	<ul style="list-style-type: none"> • Trial and full implementation of tailored cargo border clearance to low risk traders (trusted trader) • Deployment of fully digital client interaction environment • Enhanced compliance programme to improve applicable border cargo and trade revenue collection 	\$13.7m
Enforcement	<ul style="list-style-type: none"> • Enterprise case management capability to standardise enforcement and compliance processes • Deployment of mobile technology to better support field operations • Deployment of enhanced digital CCTV capabilities 	\$16.9m
Enabling	<ul style="list-style-type: none"> • New technology operating and governance model • New enabling technology and infrastructure requirements • Enhanced IT security 	\$4.4m
Total		\$66.5m

3.2.2 Licensing

DIBP (and ATO for warehouse licences for EEGs) licences customs brokers, depots and warehouses, including duty free operators, so they can carry out their import and export roles. Costs recovered represent the total cost base for delivering activities associated with the licensing function as outlined below in Table 2a.

Table 2a: Current DIBP Functions recovered through licensing

Function	Description	DIBP Cost	ATO Cost	Total Cost
Broker Application Processing	<ul style="list-style-type: none"> • Completeness checks and additional information requests • Integrity, suitability and background checks • National Customs Broker Licensing Advisory Committee (NCBLAC) reviews, interviews and recommendations • DIBP decision and notification 	\$0.44m	-	\$0.44m
Broker Compliance and Ongoing Support	<ul style="list-style-type: none"> • Processing and issuing of renewals and amending broker details • Providing advice, support and statistical data to regional staff and clients and other parties • Preparing ad hoc briefs, policy advice and industry notices • Conducting ongoing compliance checks (company financials, suitability assessments, etc.) • Administering NCBLAC investigations • Monitoring the continuing professional development programme for brokers • Suspending and cancelling licenses of non-compliant brokers 	\$0.45m	-	\$0.45m
Depot and Warehouse Application Processing	<ul style="list-style-type: none"> • Completeness checks and additional information requests • Integrity and suitability checks (across all management personnel) • Site visits to check for security and compliance (multiple) • Site compliance recommendations • DIBP decisions and notifications 	\$0.56m	\$0.15m	\$0.71m
Depot and Warehouse Variation Processing	<ul style="list-style-type: none"> • As above, however site visits and additional suitability checks are completed as required. 	\$0.16m	\$0.07m	\$0.23m
Depot and Warehouse Compliance and Ongoing Support	<ul style="list-style-type: none"> • Processing and issuing of licence grants and renewals and continuing permissions • Providing advice, support and statistical data to regional staff and clients and other parties • Preparing ad hoc briefs and policy advice • Conducting ongoing compliance checks and site visits based upon risk profiles • Suspending and cancelling licences of non-compliance businesses 	\$2.97m	\$0.87m	\$3.84m
Total		\$4.58m	\$1.09m	\$5.67m

3.3 Design of cost recovery charges

DIBPs cost recovery charges for cargo and trade related activities include a combination of cost recovery fees and levies based on the different services being provided.

IPCs are set to recover the costs of delivering cargo and trade related activities to importers as a whole over a four year period. They are recovered as a cost recovery levy with charges linked to the value of the consignment and the method of importation. Individual charges have been set to reflect the similarities in risk and volumes across the pathways, to better reflect the additional work required for manual lodgements, and to improve the consistency of cost sharing associated with processing imports.

The costs associated with IPCs are calculated using an activity based costing methodology, whereby each cost centre owner is required to allocate their costs to a set of predefined functions. These allocations are reviewed and scrutinised annually by DIBP's finance division, and budgets are forecast four years out. Import declaration volumes are forecast by the DIBP statistics area using accurate regression analysis of recent historical volumes. To determine IPC prices, the four year costs are divided by the four year volumes; this ensures that revenue approximately equals costs over the period.

Licensing charges include a cost recovery fee for applications and variations as these activities are provided at the request of an identifiable recipient who is the sole beneficiary of the service provided. Individual costs are aligned with the resources required to undertake these activities and are calculated by reviewing the costs and effort required in each step in the application process.

Activities associated with the granting and renewal of a license are primarily related to ongoing program management and compliance type activities which are provided to industry participants as a whole. These costs are calculated using an activity based costing methodology, whereby each cost centre owner associated with the licensing program allocates their costs to a set of predefined functions. The costs of these activities are recovered via a series of cost recovery levies.

All licensing budgets are forecast four years out. License volumes have been shown to be relatively stable over the past four years; as such it has been assumed they will continue to stay stable over the next four years.

Fees and charges related to cargo and trade related activities for the full year are detailed in two separate tables below to align with the change in fees as from 1 January 2016. Table 3a shows the charges and estimated activity levels for the first half of the year (i.e. for the period 1 July 2015 to 31 December 2015), while Table 3b shows the new charges and estimated activity levels for the second half of the year (i.e. for the period 1 January 2016 to 30 June 2016). Further information on fees and charges related to cargo and trade related activities are available on DIBPs website¹³.

¹³ <http://www.border.gov.au/about/reports-publications/reviews-inquiries/joint-review-of-border-fees-charges-and-taxes>

Table 3a: Current IPC and Licensing Charges (1 July 2015 to 31 December 2015)

Item	Lodgement Type	Consignment Value	Cargo Channel	Charge	Fee or Levy	Estimated Volume	Estimated Revenue (\$)	Estimated Cost (\$)
Communication of Import Declaration (N10) Warehouse Declaration (N20)	Electronic	< \$1,000	Sea / Air	Nil	N/A	N/A	-	
		> \$1,000 - < \$10,000	Air / Post	\$40.20	Levy	649,901	26,126,020	
			Sea	\$50.00	Levy	173,626	8,681,300	
		≥ \$10,000	Air / Post	\$122.10	Levy	297,148	36,281,771	
	Sea		\$152.60	Levy	744,202	113,565,225		
	Documentary	> \$1,000 - < \$10,000	Air / Post	\$48.85	Levy	6,475	316,304	
			Sea	\$65.75	Levy	359	23,604	
		≥ \$10,000	Air / Post	\$122.10	Levy	137	16,728	
Sea			\$152.60	Levy	248	37,845		
Warehoused Goods (N30)	Electronic	All	N/A	\$23.20	Levy	23,687	549,538	
	Documentary	All	N/A	\$60.00	Levy	633	37,980	
TOTAL Import Processing Charges							\$185.6M	\$209.3M

Depot and Warehouse Licences		Charge	Fee or Levy	Estimated Volume	Estimated Revenue (\$)	Estimated Cost (\$)
	Depot licence application	\$3,000	Fee	18	54,000	
	Warehouse license application	Nil	N/A	19	-	354,373
	Dual Licensed Warehouse Application	\$1,000	Fee	7	7,000	
	Depot licence variation	\$300	Fee	32	9,600	115,509
	Warehouse licence variation	Nil	N/A	38	-	
	Annual depot licence renewal (large)	\$4,000	Levy	176	704,000	
	Annual depot licence renewal (small)	\$1,500	Levy	39	58,500	1,924,464
	Warehouse licence grant	\$7,000	Levy	6	42,000	
	Warehouse licence renewal	\$4,000	Levy	361	1,444,000	
TOTAL Depot and Warehouse Licenses					\$2.32M	\$2.39M

Broker Licences		Charge	Fee or Levy	Estimated Volume	Estimated Revenue (\$)	Estimated Cost (\$)
	'Nominee' broker's licence application	Nil	N/A	42	-	153,005
	'Nominee' broker licence grant or renewal (every three years)	\$120	Levy	328	39,320	119,211
	'Sole Trader' or 'Corporate' broker's licence application	Nil	N/A	13	-	67,753
	'Sole trader' or 'Corporate' broker licence grant or renewal (every three years)	\$1,200	Levy	80	96,000	105,971
TOTAL Broker Licenses					\$0.14M	\$0.45M

Table 3b: Current IPC and Licensing Charges (1 January 2016 to 30 June 2016)

Item	Lodgement Type	Consignment Value	Cargo Channel	Charge	Fee or Levy	Estimated Volume	Estimated Revenue (\$)	Estimated Cost (\$)
Communication of Import Declaration (N10) Warehouse Declaration (N20)	Electronic	< \$1,000	Sea / Air	Nil	Levy	N/A	-	
		> \$1,000 - < \$10,000	Air / Post	\$50.00	Levy	598,691	29,934,550	
			Sea		Levy	159,945	7,997,250	
		≥ \$10,000	Air / Post	\$152.00	Levy	273,734	41,607,568	
	Sea		Levy		685,561	104,205,272		
	Documentary	> \$1,000 - < \$10,000	Air / Post	\$90.00	Levy	5,965	536,850	
			Sea		Levy	331	29,790	
		≥ \$10,000	Air / Post	\$192.00	Levy	127	24,384	
Sea			Levy		228	43,776		
Warehoused Goods (N30)	Electronic	All	N/A	\$23.00	Levy	21,820	501,860	
	Documentary	All	N/A	\$63.00	Levy	583	36,729	
TOTAL Import Processing Charges							\$184.9M	\$192.8M

Depot and Warehouse Licences		Charge	Fee or Levy	Estimated Volume	Estimated Revenue (\$)	Estimated Cost (\$)
	Depot licence application	\$3,000	Fee	18	54,000	354,373
	Warehouse licence application	\$3,000	Fee	19	57,000	
	Dual Licensed Warehouse Application	\$1,000	Fee	7	7,000	
	Depot licence variation	\$300	Fee	32	9,600	115,509
	Warehouse licence variation	\$300	Fee	38	11,400	
	Annual depot licence renewal (large)	\$4,000	Levy	176	704,000	1,924,464
	Annual depot licence renewal (small)	\$1,500	Levy	39	58,500	
	Warehouse licence grant	\$4,000	Levy	6	24,000	
	Warehouse licence renewal	\$4,000	Levy	361	1,444,000	
TOTAL Depot and Warehouse Licences					\$2.37M	\$2.39M

Broker Licences		Fee	Fee or Levy	Estimated Volume	Estimated Revenue (\$)	Estimated Cost (\$)
	'Nominee' broker's licence application	\$130	Fee	42	5,460	153,005
	'Nominee' broker licence grant or renewal (every three years)	\$240	Levy	328	78,640	119,211
	'Sole Trader' or 'Corporate' broker's licence application	\$1,300	Levy	13	16,900	67,753
	'Sole trader' or 'Corporate' broker licence grant or renewal (every three years)	\$2,400	Fee	80	192,000	105,971
TOTAL Broker Licences					\$0.29M	\$0.45M

4. RISK ASSESSMENT

The factors that influence cost recovery are complexity, materiality and sensitivity and are discussed in more detail below. The risks associated with these factors for cargo and trade related cost recovered activities have been assessed as high.

Complexity

The complexity of a cost recovered activity relates to the structures, processes and implementation of the specific activity. The risks identified that relate to the complexity of cargo and trade related activities are detailed in Table 4.

Table 4: Complexity Risks for IPCs and Licensing

Risk	Cause	Management Strategy
Charges may under or over recover the costs associated with administering and delivering required services.	The cost base and volume of cargo and trade activities may not be accurately forecast.	Undertake an annual review, using a standard cost allocation methodology and establish a repeatable process for reviewing costs.
The appropriate charge is not collected by DIBP.	The complexity associated with the number of factors used to determine when charges are payable.	Establish controls for collection of revenue through ICS and review volumes with business areas to ensure accuracy of collected revenue.
Complex charge structure is difficult for licence applicants and holders to understand.	Different charges (application, grant, renewal and variation charges) associated with licensing activities.	Clearly document charges, and make these publically available. Hold adequate consultation with stakeholders to ensure charge structure is understood.
The importer is inappropriately burdened with additional costs.	Customs brokers act as agents for importers, often paying charges on behalf of them. This creates a gap between DIBP and the eventual payer of IPCs.	Make publically available the complete charge and price list so importers are aware of Government costs. Use compliance program to review brokers as appropriate.
Stakeholders are not aware of the difference between a cost recovery charge and taxes/ duties applied at the border.	Taxes, duties and cost recovery charges are often applied at the same time, adding to confusion.	Ensure transparency of import processing cost recovery program through the CRIS process.
The cost base of IPCs and licensing activities is not well understood or accepted by stakeholders.	Multitude of activities and functions that make up trade and cargo costs.	Hold transparent discussions with stakeholders to ensure relevant activities and costs are understood.
Consultation does not reach all stakeholders.	There are a large number of stakeholders involved in cargo and trade related activities.	Ensure that all relevant industry peak bodies are involved and contacted throughout stakeholder engagement which is to be undertaken as part of the CRIS process.

Materiality

As the amount of revenue recovered through cargo and trade related activities is significant, careful controls must be in place for accounting and collection of revenue. Controls must also be adequate for tracking and budgeting costs. DIBP has thus put in place a dedicated team to manage cost recovery. Additionally, the volumes of imports and licences are challenging to forecast and can vary substantially from year to year. This can have an impact on budgets and cost forecasts. DIBP will undertake an annual review of expenses and revenue and treat any material differences appropriately to mitigate this risk.

Sensitivities

The sensitivity of cost recovered activities relates to the level of interest in the activity from government stakeholders, non-government stakeholders, the media and Parliament. Given the breadth of people impacted by any changes to IPCs and licensing charges, there is a risk that any increase to charges without appropriate consultation will raise concerns. DIBP has undertaken stakeholder engagement as detailed in section 5 to reduce the risk of misunderstandings from changes to charging arrangements.

5. STAKEHOLDER ENGAGEMENT

Previously, consultation with industry was facilitated through the Customs and Border Protection National Consultative Committee (CBPNCC). This provided a forum for the discussion of strategic DIBP related issues which affected the trading community, businesses and import/export specialists. The CBPNCC was not a decision making body and did not have executive powers or financial responsibility. The CBPNCC is slowly being phased out with the introduction of an updated National Consultative Committee on trade facilitation which is expected to become more prominent in the coming months. The charter of this committee will stipulate the terms of reference and will encompass all trade facilitation. In addition to this, the Australian Trusted Trader program has also been launched and is expected to grow in the next twelve months.

Through the Fees Review, industry consultation was undertaken which provided a valuable tool for engaging with stakeholders who would be affected by adjustments to charging arrangements. At the commencement of the engagement process, submissions were sought through an online process. Input was requested from those who are involved in trade across the border on how current charging regimes could be improved. More than 30% of all online submissions received related to IPCs and the licensing process.

Comments and feedback received through this process were considered and analysed and were used in the development of a number of charging options. These options were further explored with business groups and industry via face-to-face consultation sessions in both Sydney and Melbourne. These discussions on the activities and cost base being recovered through IPCs and licensing, the inclusion of costs within IPCs associated with reform initiatives (as announced by the government in the 2015-16 Budget), as well as the methodology for calculating the various trade and cargo related cost recovery charges. Industry representatives were also encouraged to provide feedback and comments to DIBP on the proposed charging options via a dedicated cost recovery mailbox.

Only limited feedback was received from industry during and following the consultation process with the most relevant relating to options being considered for licensing. Specifically, two options were felt to disadvantage certain industry sectors (nominees) with the cost of a licence not accurately reflecting the capability to generate revenue. This along with all other feedback has been considered in deciding on the most appropriate charging structure to be applied from 1 January 2016.

6. FINANCIAL ESTIMATES

DIBP under-recovered the costs of trade and cargo functions attributable to IPCs from 2010-11 to 2013-14. The change in structure and prices for IPCs in January 2014 was partly designed to recover some of this deficit over the next financial period, with 2014-15 representing the first year in which costs aligned with revenue. Table 5 details the current financial projections for import processing for the next four years.

Table 5: Financial Projections for Import Processing Activities

	2015-16 (\$m)	2016-17 (\$m)	2017-18 (\$m)	2018-19 (\$m)
Expenses (Including Reform)	402.1	398.9	400.3	397.0
Revenue	370.6	398.1	410.1	422.1
Balance	(31.5)	(0.8)	9.8	25.1
Cumulative Balance	(83.7)	(84.5)	(74.7)	(49.6)
Explain material variance	New charges announced in the 2015-16 Budget have been designed to recover the cost of import processing activities over the forward estimates period (including the costs of reform). While DIBP will have a deficit in 2015-16 this will be offset by additional revenue recovery in later years.			
Explain balance management strategy	The decision of the Government in the 2015-16 Budget to increase the charges related to import processing will address the under recovery of import processing activities moving forward. DIBP is also reviewing current work practices related to the delivery of cargo and trade related activities to identify potential efficiencies to reduce the cost of providing these activities.			

Table 6 details the current financial projections for the licensing program for the next four years.

Table 6: Financial Projections for Licensing Activities

	2015-16 (\$m)	2016-17 (\$m)	2017-18 (\$m)	2018-19 (\$m)
Expenses	5.7	5.7	5.7	5.7
Revenue	5.1	5.4	5.4	5.4
Balance	(0.6)	(0.3)	(0.3)	(0.3)
Cumulative Balance	(2.3)	(2.6)	(2.9)	(3.2)
Explain material variance	The cumulative balance remains negative due to the introduction of the new charges in 2015-16 not coming into effect until 1 January 2016 and agreement to continue with partial recovery of broker licence costs.			
Explain balance management strategy	DIBP is reviewing current work practices related to the delivery of cargo and trade related activities to identify potential efficiencies to reduce the cost of providing these activities.			

7. PERFORMANCE

7.1 Financial Performance

The financial performance for IPC revenue and Government agreed import processing expenses is found in Table 7

Table 7: Financial Performance for Import Processing

	2011-12 (\$m)	2012-13 (\$m)	2013-14 (\$m)	2014-15 (\$m)
Expenses	171.7	166.5	252.7	341.3
Revenue	147.5	148.8	241.5	352.5
Balance	(24.2)	(17.6)	(11.2)	11.2
Cumulative Balance	(34.5)	(52.1)	(63.3)	(52.2)
Explain material variance	Import processing activities have been under-recovered for a number of years as charges were not aligned with increases in the cost of delivering these activities. This has been addressed via the Fees Review and the increase in charges announced in the 2015-16 Budget.			

The financial performance for the licensing program is found in Table 8. (Note: Prior to 2013-14 expenses for the licensing program could not be calculated as the cost of these activities was not captured separately).

Table 8: Financial Performance for Licensing*

	2011-12 (\$m)	2012-13 (\$m)	2013-14 (\$m)	2014-15 (\$m)
Expenses	N/A	N/A	4.3	4.7
Revenue	2.9	3.7	3.6	3.7
Balance	(-)	(-)	(0.7)	(1.0)
Cumulative Balance	(-)	(-)	(0.7)	(1.7)
Explain material variance	New charges (effective from 1 January 2016) will assist in addressing the current under recovery of the cost of licensing activities. However, the Government's decision in the 2015-16 Budget to continue with partial recovery of broker licence costs means the under recovery of the cost of licensing activities is expected to continue over the forward estimates period.			

**Only financial performance information for licensing activities undertaken by DIBP is included within the table. Additional information related to the licensing of warehouses for EEGs is currently being sourced and will be included in future updates.*

7.2 Non-Financial Performance

The non-financial performance of cargo and trade activities is monitored through a number of different key performance indicators and statistics reported in the DIBP Annual Report (previously the ACBPS Annual Report). Examples of the performance measures and reported statistics for cargo and trade related activities are:

- Proportion of customs broker, depot and warehouse licence applications processed in accordance with client service standards.
- Number of customs broker, depot and warehouse licence applications received and issued and the associated revenue with these.
- Activities relating to compliance assurance activity such as the number of imported air cargo consignments reported, the number of customs import declarations finalised and the number of targeted import declarations assessed pre-clearance.
- Various volume targets for the inspection and examination of sea and air cargo and mail - achieved.

These measures are reviewed annually and seek to demonstrate the timeliness and efficiency of processing licence applications, that there is an appropriate number of imports being inspected and examined and that the correct border related revenue is collected from imports. Performance measures and reported statistics are designed to complement the objectives of cargo and trade related programs within parameters set by the Government and to promote legitimate trade across Australia's border.

Information on how DIBP has performed against these non-financial performance measures in 2014-15 can be found in the 2014-15 ACBPS Annual Report:

<http://www.border.gov.au/about/reports-publications/reports/annual/customs-2014-15>.

8. KEY FORWARD DATES AND EVENTS

The next key event in relation to this cost recovered activity will be the introduction of the revised charges on the 1st of January 2016.

The Immigration and Border Protection portfolio is scheduled to undertake a Portfolio Charging Review of its charging activities in 2018-19 and report the outcomes of this review back to the Government in the 2019-20 Budget.

9. CRIS APPROVAL AND CHANGE REGISTER

The CRIS requires that an approval and change register is maintained. It allows tracking of changes to the CRIS as a result of changes to the cost recovered activity. Table 9 maintains previous versions of the CRIS.

Table 9: CRIS Approval and Change Register

Date of CRIS change	CRIS change	Approver	Basis for change
07/08/2015	Certification of the CRIS	CFO	CRIS updated to meet the requirements of the AGCRGs.
12/08/2015	Agreement to CRIS	Minister for Immigration and Border Protection	CRIS updated to meet the requirements of the AGCRGs.
21/12/2015	Certification of the CRIS	CFO	Update CRIS to reflect new fee structure from 1 January 2016
24/12/2015	Agreement to CRIS	Minister for Immigration and Border Protection	Update CRIS to reflect new fee structure from 1 January 2016
27/01/2016	Agreement to CRIS	Minister for Finance	Update CRIS to reflect new fee structure from 1 January 2016