

SUBMISSION

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SUBMISSION TO :

Parliament External Territories Committee.



REFERENCE:

Specific Regional Services on Christmas and Cocos (Keeling) Islands.

Inquiry reference:

Transport

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SUMMARY:

An overview, information and discussion paper relating specifically to air cargo and related matters, including Customs procedures for the import to Australia of air cargo originating from Christmas and Cocos Islands. (The Islands) Quarantine issues are not addressed.

Input from air cargo clients indicates major resistance to the cost of full formal Customs entries for items, which have originated in Australia and are being returned to mainland Australia on either a permanent or temporary basis.

Included in this category are:

- Tradespersons tools ex Australia that have been used for repair and maintenance work on the Islands.
- Technical equipment being returned to the mainland for calibration or other purposes.
- Mechanical equipment being sent to the mainland for repair and return to the Islands.

Other inbound air cargo includes:

- Pathology and other materials for testing.
- Personal effects.
- Australia Post mail (not affected by current procedures)

Other statistics relevant to air cargo movements are provided as appendicis for the committee's benefit.

- 1 Customs import procedures. (To Australia)**
- 2 Import and Customs Brokers charges.**
- 3 External Territory Status.**
- 4 Statistics.**
- 5 Air services discussion.**
- 6 Appendicis.**
- 7 Disclaimer.**

1 Customs Import procedures.

Procedures for imports to Australia ex the Islands are identical to those applied to air cargo from any International origin, despite their " Australian Territories " status.

- All goods must be declared on arrival in Australia and delivered to a bonded warehouse pending Customs advice.
- All details are electronically lodged with Australian Customs for a status allocation. Goods falling under \$250.00 value are classified as "screen free" and not subject to formal entry, but may require Quarantine inspection. Where the goods value is in excess of A\$250.00 Customs may require a formal entry.
- (**Note.** The \$250.00 imported goods value is inclusive of air cargo costs for GST purposes. Freight rates are \$6.45 per kilo and an Airway Bill cost is \$45.00. So for a 10-kilo parcel, the freight component alone is \$109.50 of the \$250.00 total value allowed.)
- This formal entry procedure requires licensed Customs Brokers to provide detailed advice electronically to enable assessment of the cargo for Import Duty. It is this formal entry requirement that incurs significantly higher import costs for the client.
- In some instances, the formal procedures can cause delays for time sensitive cargo.
- The overwhelming number of imports to Australia ex the Islands, are goods that have originated in Australia, been sent to the islands as sea or air cargo, and are returning to Australia. Tools of trade and equipment for repair represent the major proportion.
- (See Appendices)

2 Import and Customs Brokers charges. (International)

Following are the standard import charges, exclusive of air transport costs.

- Screen Clearance. For electronically obtaining a Customs status on the goods. Customs Broker charge levied against all air cargo imports. \$25.00
- Air cargo automation fee. For electronic data input \$7.50
- Air terminal fee. For all consignments in excess of 45 kilos the fee is \$25.00 or 20 cents per kilo, whichever is the greater.
- ITF fee. For positioning the cargo into a Customs Terminal Operator and transfer to the Freight Forwarder, client or other Bonded Warehouse for collection after clearance. \$25.00

Where a formal customs entry is required, the following additional charges are raised.

- Processing fee. A Customs charge levied against all formal entries \$34.52 (This is a cost to the Customs Brokers)
- Customs Clearance Levied by Customs Brokers to complete the formal entry. (This does not include any GST, duties or tariffs that may apply in Australia) \$85.00 (Varies between Customs Brokers. Some are over \$120.00)

For the purpose of this submission, Quarantine charges have not been listed as it is expected that Quarantine conditions will continue to apply irrespective of Customs procedures and considerations.

As a matter of record, quarantine entry costs can be between \$50.00 and \$120.00 plus the cost of any specific treatment required.

3 External Territories Status.

- The Territories of Christmas and Cocos Islands are currently exempt of the import tariffs and GST that apply on the mainland of Australia. This status demands the continuation of a procedure that clearly isolates these points of origin from the mainland. The residents of both islands are very protective of this position and could be expected to be aggressive in their defence of it.
- With Norfolk Island classified as a self-governing External Territory, Christmas and Cocos Islands are unique in that they include a population of citizens who live and conduct business at a level equivalent to mainland Australia. The Federal Government of Australia under specific acts of Parliament provides governance.
- Consideration of possible amendments to import procedures from the Islands is therefore regionally specific.
- Records maintained by Freightshop over their eleven-year continuous services to the Islands indicate very little (if any) air cargo consigned to Australia from the Islands, originally arrived on the Islands from another International source
- With the cost of airfreight, it would be uneconomic to avoid tariffs into Australia by shipping International air cargo through the Islands if they were to become "free entry" points of origin. GST currently applies to the value of goods imported to Australia from this region and would be expected to continue to do so.

4 Statistics: (Based on the 6 months 1st January to June 30th 2002)

NOTE: We understand that the current procedure of using the Australian Customs Exit system for reporting outbound cargo, and Customs entries for inbound cargo, may be used in compiling statistical information including total imports and exports.

If this data in turn becomes used in the calculation of the Balance of Trade figures as has been suggested by Customs officials, then a minor imbalance may manifest itself in those BoT figures, since the goods are arguably Australian.

Australia Post airmail is included in the total cargo figures.

- Average weekly air cargo to Christmas Island ex Australia 3,530 kilos (Includes both direct and via Jakarta.)
- Average weekly air cargo to Cocos Islands ex Australia is 1,160 kilos.
- Average weekly air cargo to Australia from Christmas Island 410 kilos. (Including Australia Post)
- Average weekly air cargo to Australia from Cocos Islands is 315 kilos. (Including Australia Post)
- Average weekly number of consignments from Christmas Island to Australia is 9
- Number of formal Customs entries from Christmas Island per week is 3
- Average weekly number of consignments Cocos Islands to Australia is 8
- Number of formal Customs entries from Cocos Island per week is 4

5 Air services discussion:

Frequency and capacity.

The provision of air services to the Territories is provided by agreement between National Jet Systems and the Department of Transport and Regional Development.

From a single weekly underwritten service that commenced in 1996 following the cessation of Ansett Airlines flights to Christmas and Cocos Islands, National Jet Systems (NJS) now operate twice weekly rotational services to both Islands. From June 2002, an additional Christmas Island only flight is made every Monday.

The current NJS weekly capacity to both destinations combined is 165 seats and 1,500 kilos of cargo. Records indicate that approximately 120 seats are utilised weekly and as a result, cargo capacity is increased to around 2,200 kilos.

During school holidays, rather than twice weekly flights, the rotation is three flights one week and one flight the week following. Three flights are scheduled again at the end of the holiday period with only one flight the week following. This is to facilitate school children and staff movements at the beginning and end of each school break.

The two weeks in this process consisting of a single service are always heavily booked and cargo offloads are common. It is usually resolved completely by the following week.

In addition to the NJS services, there has, since 1996, been a service from Jakarta to Christmas Island on a minimum of a weekly basis. At the time of preparation, a chartered Indonesian 737-300 series passenger aircraft, provides this service.

The capacity available allows an additional 2,500 kilos of cargo to be delivered to Christmas Island each week via Jakarta. Freightshop is also the cargo consolidator in Perth for this service. As a consequence of a single service provider, load management is possible that dedicates Friday and Sunday NJS services to Cocos Islands and Christmas Island cargo to the Monday NJS service and the Jakarta flight. (Which arrives on Christmas Island every Saturday)

Medical supplies, Australia Post airmail to Cocos Islands and bank documents are prioritized to the first available flight. Australia Post mail to Christmas Island is sent via Jakarta, as is a high proportion of perishables and general cargo.

As can be seen by this scheduling, Christmas Island has daily air services Friday to Monday inclusive. Cocos Islands have Friday and Sunday services, which are adequate for the lower population of residents.

It should be recognised that the current system is working well. The aircraft types and frequencies are suited to the requirements. Air transport specialists provide services to both NJS and commercial charter operators in Perth and on Christmas Island. On Cocos Islands, the local Cocos Island Cooperative provides air services support. All procedures are consistent with IATA regulations.

Inhibitors.

Commercial activity is permitted on this route, however, the cost of DOT compliance and CASA regulations regarding operations of aircraft over water make it unlikely that any operator will consider a fully independent challenge to the established Government underwritten system. To attempt to do so would require a magnitude of losses that would inevitably cause future increases in airfares and cargo costs.

Runway and support facilities, particularly on Cocos Islands, limit the aircraft types that are small enough for the infrastructure available, yet capable of meeting DOT requirements in respect of operations over water.

Foreign operated aircraft are not permitted to carry passengers between Australian airports, meaning that a through service from Singapore to Christmas Island to Cocos Island to Perth cannot carry passengers from Christmas Island to Cocos Islands or from either origin to Perth. The same inhibition applies ex Perth on return. If an Australian aircraft operator is flying this route, this restriction does not apply.

The use of Jakarta as the northern access is at best, the least preferred option. It is however, the only northern origin that can be used with any commercial potential.

Both Singapore and Denpasar airports are uneconomic at current utilization levels.

Ex Jakarta, a charter operator is faced with outgoings of up to \$35,000 per service.

The cost of an equivalent aircraft ex Denpasar or Singapore would exceed \$70,000. A smaller aircraft of less than 60 seats total is the only potentially viable option until developments proposed for Christmas Island create a greater passenger demand.

Comparative rates.

Air cargo rates both Australian and international, are comprehensive and varied. A valid comparison is difficult to provide, since high frequency international routes have cargo capacity available through aircraft that operate primarily for passenger services. The sales pressure for this cargo capacity is intense.

The most valid comparison is for Australian "next available flight" cargo, since an urgent parcel for the Islands can have no higher service option, even though that option may be up to 3 days away.

On capital city routes within Australia, these rates are broadly between A\$12.00 and A\$25 per kilogram. They can be higher. Regular high volume users will pay lower rates. An administration charge of up to A\$20 is charged per consignment.

National Jet Systems.

The standard rate of A\$6.45 per kilo is applied to all general cargo carried to the Islands by NJS. A priority rate of A\$9.75 per kilo is virtually unutilised, since the cargo is normally moved within 2 scheduled flights. This priority rate does not place general cargo loading ahead of medical, mail or perishables for resale.

Perishables for resale are carried at A\$4.60 per kilo. Private perishables are carried at A\$6.45 per kilo. In all cases an Airway Bill charge of \$48.00 is levied. This charge was raised from \$45.00 in August 2002, after five years of being \$45.00.

Due to the load priority instructions applied to NJS by the Department of Transport and Regional Services, Medical supplies, Australia Post mail, Bank documents and perishables for resale are loaded ahead of any general cargo.

Via Jakarta

Air cargo carried via Jakarta (to Christmas Island only), is charged to clients at A\$5.95 per kilo for general cargo and A\$4.25 for perishable cargo. Australia Post uses this service for all Christmas Island airmail. On occasions, SAL mail is also carried by this service. The cargo rates paid by Australia Post are not available, but it is believed they are higher than general cargo on both NJS and Jakarta services.

In a broad summary, air cargo to the Islands is cheaper than mainland rates for "next available flight" cargo, but far more expensive than "next day" or "economy" rates as provided by Australian Air Express, TNT, Qantas or Virgin Blue, all of whom carry domestic cargo around Australia.

By international comparison, Madagascar and Mauritius both have similar cargo rates as apply to the Islands, but all major Asian destinations are considerably cheaper.

Singapore, Jakarta, Kuala Lumpur, Bangkok and Hong Kong all have cargo rates significantly lower. Most are between A\$1.50 and A\$3.00 per kilo. However, there are minimum charges per consignment on these routes that mean a charge of A\$100 is normal for even a 2 kilo consignment. The same cargo would cost less than A\$65.00 to the Islands, inclusive of all charges.

We submit that current cargo rates represent a fair charge for the services provided.

6 Appendices.

- 1 The average weekly number of inbound consignments of
 - Repair & Return goods or
 - Tools of the Trade being returned returning to Australia.

3

- 2 The number of formal Customs entries carried out in the last 12 months.

260

- 3 The total air cargo weights delivered to the Islands weekly over the last 12 months.

4610 kilos

7 **Disclaimer.**

Freightshop has provided this information as a service to the parliamentary committee. It is to the best of our records, an accurate and broad view of the air cargo needs and services provided to the Indian Ocean Territories.

While every care has been taken in the compiling of the information provided, Freightshop and its directors accept no liability for any errors or omissions that may have inadvertently occurred. It should be viewed as an information package only.

Freightshop

Our history of involvement in air cargo this area is now in its eleventh year. As such, we are the longest continuing connection with air operations to the Islands.

In that time we have worked successfully with Ansett Airlines, Sempati Airlines, Mandala Airlines, Bouraq Airlines, Merpati Airlines, National Jet Systems, Christmas Island Aviation Services, Island Bound Holidays and a number of smaller operators on an approved charter basis.

We have provided cargo receipt, handling and loading services to the Department of Immigration, Multicultural and Indigenous Affairs for charters operated by them.

Whilst our individual client records are confidential, Freightshop will consider any request for additional non-client specific information relating to air cargo.



Page 11