



Excise and Deferred Customs Duties — Response

Report

234

Joint Committee of
Public Accounts

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE OF PUBLIC ACCOUNTS

234TH REPORT

EXCISE AND DEFERRED CUSTOMS DUTIES - RESPONSE

(DEPARTMENT OF FINANCE MINUTE ON THE COMMITTEE'S 224TH REPORT)

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JOINT COMMITTEE OF PUBLIC ACCOUNTS

FIFTEENTH COMMITTEE

c Commonwealth of Australia 1985

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DUTIES OF THE COMMITTEE

Section 8.(1) of the Public Accounts Committee Act 1951 reads as follows:

Subject to sub-section (2), the duties of the Committee are:

- (a) to examine the accounts of the receipts and expenditure of the Commonwealth including the financial statements transmitted to the Auditor-General under sub-section (4) of section 50 of the Audit Act 1901;
- (aa) to examine the financial affairs of authorities of the Commonwealth to which this Act applies and of intergovernmental bodies to which this Act applies;
- (ab) to examine all reports of the Auditor-General (including reports of the results of efficiency audits) copies of which have been laid before the Houses of the Parliament;
- (b) to report to both Houses of the Parliament, with such comment as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Parliament should be directed;
- (c) to report to both Houses of the Parliament any alteration which the Committee thinks desirable in the form of the public accounts or in the method of keeping them, or in the mode of receipt, control, issue or payment of public moneys; and
- (d) to inquire into any question in connexion with the public accounts which is referred to it by either House of the Parliament, and to report to that House upon that question,

and include such other duties as are assigned to the Committee by Joint Standing Orders approved by both Houses of the Parliament.

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PREFACE

Arrangements to ensure that appropriate action is taken in response to comments contained in the Committee's Reports have been in operation since 1952 although they have been reviewed periodically. These were known as Treasury Minute arrangements.

Following the creation of the Department of Finance on 7 December 1976 it was agreed that the arrangements should continue as before but should be known as the Department of Finance Minute.

As they now stand the procedures are:

1. The Report of the Committee is tabled by the Chairman in the Senate and by a Member of the Committee in the House of Representatives. Motions are moved in both Houses of the Parliament that the Report be printed as a Parliamentary Paper.
2. The Chairman of the Committee thereafter forwards a copy of the Report to the responsible Minister and to the Minister for Finance with a request that he give the Report his consideration and inform the Chairman of the action taken to deal with the Committee's conclusions.
3. The reply received, in the form of a Department of Finance Minute, is then examined by the Committee and, together with the conclusions of the Report to which it relates, is submitted as soon as possible as a Report to the Parliament.
4. Should the Committee find during its examination of a Department of Finance Minute that certain recommendations are not fully dealt with or are subject to a further Minute, it holds an exploratory discussion with officers of the Department of Finance prior to the submission of the Minute to the Parliament.
5. In reporting a Minute to the Parliament, the Committee, except in special cases does not usually make any comment other than to note recommendations not fully dealt with or subject to a further Minute.

6. When the Committee next examines the Department concerned the Department of Finance Minute is considered by the Committee if applicable.
7. The Department of Finance furnishes the Committee with a half-yearly report on outstanding Minutes, indicating the progress made in dealing with the Committee's comments.

In accordance with the procedures outlined above, this report documents the Department of Finance Minute which was submitted in response to the Committee's 224th Report.

For and on behalf of the Committee,



Senator G. Georges
Chairman



M.J. Talberg
Secretary
Joint Committee of Public Accounts
Parliament House
Canberra ACT
9 September 1985

(x)

CHAPTER 1

INTRODUCTION AND COMMITTEE COMMENT

Background

1.1 The Committee's Report 224 on its inquiry into the Auditor-General's Report on an Efficiency Audit - The Collection of Excise and Deferred Customs Duties considered the rationale for commodity taxation and paid particular attention to the procedures employed in the collection of excise and deferred customs duties. More specifically, the Committee examined the collection procedures for excise on beer, tobacco and tobacco products, potable spirits, petroleum products and diesel fuel and the operation of the bonded warehouse system which is used for deferring customs duties. In addition, the Committee also examined the Petroleum Products Freight Subsidy Scheme.

1.2 Much of the Committee's inquiry concentrated on matters which are primarily the responsibility of the Australian Customs Service (ACS) which was at that time part of the Department of Industry and Commerce. ACS is now an independent statutory body reporting to the Minister for Industry, Technology and Commerce. The Committee is pleased to note the Government's acceptance that the ACS, in managing a significant proportion of the Commonwealth's revenue, should have a greater degree of autonomy.

1.3 The Committee's inquiry was commenced in 1982, interrupted and then resumed in 1983 and the report was tabled in October 1984. The Department of Finance Minute presented in response to the Committee's report was supplied in June 1985. However, the Committee is not satisfied with this response in several respects.

1.4 Despite its dissatisfaction, the Committee resolved to present the Finance Minute with the Committee's accompanying comments to meet its obligations to keep the Parliament informed of the status of its inquiry, including progress achieved. The Committee is concurrently seeking further advice from the Minister for Industry, Technology and Commerce on those matters on which the Committee remains dissatisfied with actions taken and on advice received to date.

1.5 This advice, together with any other matters or information that the Committee may seek as a result if its recommendations not being adequately addressed in the Finance Minute may be the subject of an additional report to the Parliament.

Responsibility for Reply

1.6 While the Committee realises that the main burden of comment in Report 224 rested on the ACS, it expects that where suggestions or recommendations are identified, those same agencies provide a direct and clearly attributable written response in the Finance Minute.

1.7 With some supplementary information already supplied the Finance Minute incorporated only the response of the ACS. No response was provided by other agencies (IAC, Treasury) identified in the Committee's conclusions and recommendations. No response was provided to the Committee's request on page 19 of Report 224 that possible alternative methods of excise collection should be given careful consideration by the Department of Industry and Commerce and other appropriate departments in consultation with industry. No response was made to that part of Recommendation 25 which indicated that the bonded warehouse system should be referred to the Industries Assistance Commission for inquiry. The Committee is seeking information from the Minister for Industry, Technology and Commerce to redress these shortcomings.

Overview of Government Response

1.8 Although 15 of the Committee's 29 recommendations were 'accepted', no further action was taken on one recommendation concerning the Diesel Rebate Scheme pending the Committee's consideration of material presented in the context of an Auditor-General's report, two recommendations were partially accepted, four recommendations were canvassed but not implemented, and seven were rejected outright.

1.9 The Committee notes the strengthening of ACS's general management strategy which is to occur in response to the Committee's recommendations. In particular:

- a detailed plan translating overall objectives into specific operational processes has been formulated by ACS (Recommendation 1);
- staffing requirements and training programs will be reviewed (Recommendations 5&6); and
- the need for improved controls and a more effective and intensive investigation programme of end users in the distilled spirits area was acknowledged and ACS undertakes to address this matter (Recommendation 11)

Bonded Warehouses

1.10 Of the seven Committee recommendations rejected by the Australian Customs Service, five related to bonded warehouses. Only one (of six) of the Committee's recommendations on this topic was accepted. Each of the rejected recommendations is discussed below.

1.11 Recommendation 17 of the Committee concerned inventory control for tobacco, specifically that a computer based inventory control system be introduced to monitor entries into bond and releases from bond as well as movements under bond. This recommendation was closely related to Recommendation 21 which advocated better use of ADP facilities to upgrade control systems for bonded warehouses generally and Recommendation 22 which pressed ACS to implement a computer system which reconciled entries and releases from bond to allow proper inventory control.

1.12 Despite ACS arguments the Committee is not persuaded that the existing inventory control system is capable of providing adequate protection. The Committee believes that in the absence of timely information about inventory holdings in particular bonds, the application of systems based investigatory techniques and advanced ADP audit packages will not be sufficient.

1.13 The Committee expects to be advised that controls in this area have been improved and security has been increased over the holdings and movements of bonded goods.

1.14 In Recommendation 25 the Committee suggested that the perceived need for the bonded warehouse system should be re-examined and the issue should be referred to the IAC for inquiry. The Committee has noted ACS and industry arguments in favour of the current system. However the Committee is not satisfied with the limited responses to its suggestions for improvements and economies.

1.15 There is no evidence to suggest that there has been any serious attempt to consider alternatives to the existing system and thereby focus on the fundamental costs and benefits of current procedures. The Committee considers that undue weight has been given to industry reaction and as a result the ACS will consider only the current system of bonds. The Committee considers that the complexities of the current system of bonds and the potential control problems which these may generate should be the impetus for review. The Committee feels that the Industries Assistance Commission (IAC) is the appropriate body for such a fundamental review and it will take the matter of a reference to the IAC up with the Minister for Industry, Technology and Commerce who is the responsible Minister.

1.16 The Australian Customs Service's response to Recommendation 20 regarding a formal entry into bond for domestically produced excisable goods is acceptable to the Committee in view of the agency's current commitment to the commodity control principle. The Committee appreciates that a formal 'entry' procedure in the case of imported goods is required because no comprehensive information exists as to the nature, quantity and disposition of dutiable goods until entry occurs. Comparable information for domestically produced excisable goods is available from the time of their production.

1.17 The Committee also accepts ACS's response to Recommendation 23 that high revenue and long dwell times in bond should guide control efforts. The Committee accepts that these characteristics are only indicators of potential risk and there are legitimate reasons why some goods move slowly. The Committee considers, however, that simple indicators should be developed whenever possible.

Petroleum Freight Subsidy Scheme

1.18 Recommendation 28 was 'partially accepted' by ACS. The Committee believed that tighter controls on the Petroleum Freight Subsidy Scheme were necessary and recommended increased penalties and resources including ADP resources to control this scheme. ACS responded that the level of penalties was to be increased but the availability of additional resources, including ADP resources, for investigation and control tasks would depend on the outcome of a comprehensive review of Inland Revenue staffing. A New Policy Proposal seeking funds for the acquisition of a mini computer to assist with the administration of the Petroleum Freight Subsidy Scheme was to have been submitted in the 1985 Budget as an interim measure.

1.19 The Committee accepts that ACS has competing priorities for resources. However, it notes that several recommendations which offered potential freeing of resources which could be redeployed to other areas of need, have not been accepted. The Committee emphasises the importance it places on adequate resources being provided for the administration of the scheme and expects to be informed of the status of the 1985 Budget proposal and of the general review of the organisation of Inland Revenue due in the second half of 1985.

Diesel Rebate Scheme

1.20 ACS reported no further action in the Finance Minute on Recommendation 27 of the Committee relating to review of the Diesel Rebate Scheme. Australian Customs Service advice was that a submission on the Diesel Rebate Scheme had been made to the Committee in the context of its analysis of the September 1984 Auditor-General's Report which alleged serious operational weaknesses in the Scheme. The Committee considered this submission and sought additional details on some aspects. The Committee requires assurances that control mechanisms in the Diesel Rebate Scheme are now adequate to insure that it will function effectively. The Committee's concern is made more pressing in view of the Government's 1985 Budget decision to allow eligible primary producers to receive a full rebate of the excise on diesel fuel. Diesel for farmers, fishermen and other primary producers will, from November 1985, be excise free. The Committee foresees the possibility of extensive abuse of the Scheme unless provisions and control measures are adequate and penalties imposed which act as real deterrents. The Committee expects to report on this issue later in 1985.

Alternative Collection Methods

1.21 The Committee is dissatisfied at the ACS's only 'partial acceptance' of Recommendation 3. The Committee recommended that alternative methods of excise collection should be considered, including that of moving the point of excise collection earlier in the production or distribution processes for beer, tobacco and petroleum products. The Committee recognised that such proposals would reduce the ability to hold goods in bond before duty is paid. To offset the extra costs imposed by removal of bonds which provide a means of deferring excise or customs duty payment, the Committee proposed a matching extension in the settlement period based on the average time the various commodities remained in bond.

1.22 In response the Australian Customs Service argued that the potential resource savings from such an innovation would be small and it foreshadowed administrative complexities in handling refunds on sales which should be duty free, such as diplomatic sales, and exports. ACS also rejected the notion of an 'average dwell time' by which to adjust the credit period, pointing to significant regional variations in average dwell times for commodities. ACS foreshadowed changes of an unspecified nature to the bases for determining liability for beer and alluded to a trial for tobacco which concerns the method for determining the declared weight for excise purposes.

1.23 The Committee recognises that its indicative suggestion for consideration of alternative methods of excise collection had some significant administrative drawbacks, such as handling refunds on exports and trying to develop an 'average' dwell time for credit adjustment purposes. However, ACS does not appear willing to address the basis of the recommendation and to undertake a fundamental review of excise collection processes. It is likely, for instance, that the possible changes foreshadowed for determining liability for beer and tobacco, will be very specific modifications within the existing commodity control system. A further point of dissatisfaction for the Committee is that although ACS indicates that the issue of credit arrangements is the responsibility of the Treasury, no input was included from that Department in the Finance Minute response.

1.24 The Committee considers that the response to its recommendation to investigate alternative excise collection approaches to have been inadequate, particularly given the quite supportive reaction to the proposal by ACS officials during the course of the inquiry. At the hearing of 19 July 1984, officials responded to comments on possible new work for them arising from the Committee's petroleum proposal, in the following terms:

From an overview we are obviously aware of the Committee's recommendation at this point in time but in principle I guess it would be safe to say that although there would be no major problems, perhaps there would be new work involved,

I think it would be true to say there would be fewer points of control, but there would be different administrative controls, if you like, on those areas that still would require some concessional type of treatment or some recognition of the fact that the product is exported duty free, or that for some other reason it would not attract duty. We would have to look again at administrative controls in that area.¹

In response to the proposition advanced for beer, an ACS officer submitted that:

...From a departmental point of view it would be fair to say that if the Committee is considering putting forward recommendations in terms of reducing the number of premises we control, obviously from a Customs point of view it must be an advantage to reduce the number of premises we have to control. To offset that with a duty payment facility of extending credit is something that we would not object to but it is very much a Treasury concern as to whether such a facility would be extended. In terms of the overall question of the cost of the administration, we have provided previous evidence to the Committee regarding the review of the actual licensing fees and charges that are charged for the warehouse licensing. Yesterday I received a first draft report from the consultants, Price Waterhouse, whom we engaged. It is looking at the question of a new scale of fees which is based on cost recovery. On the question of cost recovery that is the report that we have just now received as a first draft. There is a question mark on what the end result might be in terms of the brewing industry and so on.²

Independent Data

1.25 The four recommendations which ACS tried unsuccessfully to accommodate relate to the development of independent data to validate excisable commodity figures declared by producers. The basis for the Australian Customs Service's customs and excise collection system is the concept of commodity control whereby producers' own documentation is used to establish the amount of excisable products. This approach appears to be satisfactory if there is also adequate provision for independent checks on the accuracy of that documentation. The Committee recommended the development of independent sources of data to permit this type of validation. During the course of the inquiry, the Committee explored this issue and was not convinced that there was evidence from any detailed studies of independent data sources by the Australian Customs Service which would justify the conclusion that such data were unobtainable.

1. Minutes of Evidence Joint Committee of Public Accounts, Excise and Deferred Customs Duties - Volume 2, p. 628,629.
2. Minutes of Evidence Joint Committee of Public Accounts, Excise and Deferred Customs Duties - Volume 2, p. 673.

1.26 The relevant parts of the Finance Minute submit that ACS communicated extensively on the matter of independent data sources with industry, State authorities and other Commonwealth bodies. The search was apparently unsuccessful. The Australian Bureau of Statistics uses ACS derived data and it appears that that information is not sufficiently disaggregated to be of any value. It is also argued that process input/output data from individual firms is available to ACS but that the variability of the process renders such figures inappropriate for checking purposes.

1.27 The Committee recognises that there are difficulties in obtaining independently sourced data in a sufficiently detailed and reliable form to be of value in improving current controls. It is also now satisfied that the ACS is making reasonable efforts to establish other independent sources of information, including individual firm's process data. However, the Committee continues to be of the view that other control measures, including the implementation of a national risk assessment program and the development of systems based investigation techniques, should not diminish efforts to develop information sources which can provide the bases for the independent validation of declared excisable production figures.

1.28 In response to Recommendation 9, which concerned simplified loss control procedures for spirits, ACS argued that the administrative savings would not be significant and that it would be very difficult to establish standards which are equitable to all industry. The Committee recognises the practical difficulties in establishing and implementing an acceptable loss standard. However, ACS objections to such a loss control approach appear to be based on a very narrow interpretation of the Committee's suggestion. ACS's difficulties appear to reflect uncompromising commitments to the current commodity control system, as much as difficulties with alternative approaches of the type suggested.

1.29 The Committee believes a simplified approach based on some type of loss standard, not necessarily a nationally uniform one, is feasible, and this is implicit in the existing control systems which already embody the notion of acceptable (normal) losses. It is convinced that a simplified system perhaps along the lines of its indicative suggestion offers the most effective means of tightening loss control without major additional administrative and investigative resource commitments. The Committee will await the report of the Spirits Working Party with interest and expects to be informed of measures flowing from that study.

CHAPTER 2

SUMMARY OF THE COMMITTEE'S 224TH REPORT

2.1 Report 224 of the Committee considered the collection of excise and deferred customs duties by the Australian Customs Service (ACS) which was then within the Department of Industry and Commerce. The report was tabled on 10 October 1984 and included consideration of excise on beer, tobacco products, distilled spirits and petroleum products as well as the process of deferring customs duties. The report also considered the operations of the petroleum freight subsidy scheme.

2.2 The inquiry into the collection of excise and deferred customs duties reviewed the Auditor-General's Report on an Efficiency Audit - The Collection of Excise and Deferred Customs Duties, which examined the procedures used in the collection of excise and the operation of the bonded warehouse system, used for deferring customs duties on imported goods. The aim of the audit was to check that controls and procedures used by ACS were adequate to protect the Commonwealth Government's revenue, amounting to approximately \$7 300m for customs duties on imports and excise on 'traditional items' in 1984-85.

2.3 The system used by ACS for excise collections and verification is known as 'commodity control'. Under this system reliance is placed on manufacturers' declarations of the amount of excisable product produced to determine excise liability. The Auditor-General was satisfied that the principle of commodity control was sound so long as sufficient, rigorous, validating checks of the manufacturers' returns and accounts were made. It was in this area of validating checks that deficiencies were found. The Auditor-General was also concerned that ACS had no independent means of determining the amounts of excise revenue due to the Commonwealth.

2.4 The Committee agreed with the thrust of the efficiency audit and recommended that the Department take action to improve specific controls over the particular excisable commodities considered in the inquiry and to improve their general management strategy. To improve general management strategy, the Committee recommended that:

- the Department construct a detailed plan which translates overall objectives into specific operational processes to facilitate co-ordination, permit systematic review of options and assist in the formulation of timely and detailed strategies for the improvement of excise collection procedures.
- a detailed examination be made of alternative methods of excise collection aimed at streamlining arrangements and increasing security over dutiable product.

• computing and staff resources be made available to allow the immediate implementation of a national risk assessment program and that resource allocation decisions be made by Central Office on this basis.

• the numbers of officers who have undergone adequate training and the numbers still requiring training in specified skills be monitored by Central office.

2.5

For distilled spirits, the Committee recommended that:

• spirits bottling be only permitted on licensed premises which are subject to the control of the Department of Industry and Commerce, and that resources be applied to ensure proper control over users of pure alcohol sold excise-free for industrial, scientific and educational applications.

• urgent attention be given to increasing powers exercised by officers under the Excise Act to make them comparable to those exercised under the Customs Act, particularly regarding the powers of access to documents. The Committee recommended that care be taken to safeguard civil liberties and to prevent the possible abuse of powers.

• a national loss control strategy for spirits be developed and implemented as a matter of urgency.

• the Committee reiterated the recommendation of the National Loss Control Working Party that consideration be given to a simplified approach to loss control, involving an adjustment for losses being given in the duty levied.

2.6

For beer, the Committee recommended that:

• ACS readdress the Auditor-General's recommendations on the possible use of independent sources of data to develop a means of estimating potential revenue due.

• adequate resources be made available to the Inland Revenue and Dumping Division to enable prompt implementation of systems based reviews in the brewing industry.

2.7

After evaluation of the material presented to it on tobacco products the Committee recommended an evaluation of quota controls as a regulatory device when discretionary changes in excise rates were anticipated.

2.8

In addition the Committee recommended that:

- the Department devote greater effort to the identification and use of alternative sources of data to estimate the excise revenue due from tobacco products and petroleum products.
- adequate resources be made available to increase the rate of progress in the development of systems based investigation techniques in the tobacco industry and to allow regular review of companies' systems.
- a computerised inventory control system be introduced to enable proper inventory control of under-bond goods by ACS.

2.9

The Committee also recommended improvements to the operations of bonded warehouses and that the fundamental reasons for maintaining the facility be examined. Other recommendations were that:

- there be a formal "entry into bond" for domestically produced excisable goods with documentation and control comparable to that exercised over imported goods under bond.
- better use be made of ADP facilities in the bonded warehouse area. The Committee recommended that immediate attention be given to upgrading control systems for bonded warehouses.
- ACS promptly develop and implement a computer system which reconciles bond entries and releases to provide sufficient information to allow proper inventory control in bonded warehouses.
- the Committee endorses the Auditor-General's recommendations that Customs should analyse dwell times of goods under bond and direct investigative efforts to those goods with apparently lengthy dwell times. Similar comments apply to the Auditor-General's suggestion that efforts should be concentrated towards those warehouses which yield the greatest revenue.

2.10

The Committee recommended a review of the effectiveness of the administration of the Diesel Rebate Scheme and with regard to the Petroleum Products Freight Subsidy Scheme, that there be increased resources, including ADP resources, for this area and increased penalties for illegal practices. The Committee also recommended that there be a comprehensive review of the scheme to consider its costs and benefits and possible means of improvement.

CHAPTER 3

DEPARTMENT OF FINANCE MINUTE

3.1 This minute has been prepared on the basis of a response received from the Department of Industry, Technology and Commerce.

3.2 This response is in four parts:

Part 1 - Briefly summarises the ACS consideration of each of the PAC's Recommendations.

Part 2 - A detailed evaluation of each Recommendation, with extracts of industry submissions where received.

Part 3 - List of industry submissions and a copy of each of the submissions.

Part 4 - Commercial-in-Confidence submissions provided by private industry. Because of the commercially sensitive nature of the material, this part is made available to the Committee but is not available for public release.

PART 1

AUSTRALIAN CUSTOMS SERVICE (A.C.S.)

PRESENT POSITION

PAC Recommendation No 1

3.3 The ACS accepts the PAC Recommendation. A plan has now been formulated for the principal operational developments up until June 1986. Implementation and full achievement of the proposed timetable will depend on the availability of sufficient resources. In the 1985 Budget context the Inland Revenue and Dumping Division has sought an additional 45 staff nationally under New Policy Proposals for 1985/6 in order to maintain the momentum for both systems based investigations and the risk management program.

PAC Recommendation No 2

3.4 The ACS has undertaken a comprehensive examination of the possibilities of using independent data sources as requested by the PAC. The ACS has communicated extensively with Industry, Commerce, State Authorities and other Commonwealth Departments and Organisations but has had difficulty in identifying useful independent data sources which would assist in improving current

controls. However, the ACS, as part of its ongoing responsibilities, will continue to try to obtain sources of independent data which could be used to assist in the control of excisable commodities.

PAC Recommendation No 3

3.5 The ACS is currently in on-going consultations with the brewing industry on possible changes to the bases for determining duty liability on beer. It is expected that these consultations will result in a submission being made to the Government in the near future seeking changes to the existing provisions of the Excise Act. In addition, in the tobacco industry, a trial of revised procedures at each of the three cigarette manufacturers commenced on 4 March 1985. The trial concerns the method for determining the declared weight of cigarettes which is used to assess the liability for duty. The trial is to run over a period of three months and will be evaluated at the end of that time.

3.6 The current action being taken in the brewing and tobacco industries may well result in changes being made to the bases for determining duty liability of those products. No changes are proposed at this stage in the petroleum industry. However, the ACS as part of its ongoing responsibility will continue to monitor the various systems applied with a view to improving efficiency and effectiveness.

PAC Recommendation No 4

3.7 In the 1985 Budget context the Inland Revenue and Dumping Division has sought an additional 45 staff nationally under new Policy Proposals for 1985/86 in order to maintain the momentum for both Systems Based Investigations and the risk management program. A national risk assessment program has been introduced for warehouses and with the additional resources requested this program will be extended to all commodities and premises controlled by Inland Revenue.

PAC Recommendation No 5

3.8 The Recommendation is accepted and a system is currently being developed to monitor the training needs of Inland Revenue officers. The system is expected to be in operation in the first half of 1985/6.

PAC Recommendation No 6

3.9 The ACS has accepted the PAC Recommendation. The 1984 Collectors' Conference decided that a comprehensive review of Inland Revenue staffing and organisation should be undertaken in 1985. The review is scheduled to commence in the second half of 1985.

PAC Recommendation No 7

3.10 The ACS supports the Recommendation of the Committee to increase powers contained within the Excise Act particularly to provide access to documents relating to unlawful excise manufacture.

3.11 The ACS is seeking appropriate amendment to the Excise Act as soon as possible. In this regard however the ACS notes the concern of the Committee that care be exercised to ensure the safeguard of civil liberties in the drafting and exercise of the sought-after powers.

PAC Recommendation No 8

3.12 The ACS accepts the PAC Recommendation. The Spirits Working Party as part of its overall review is expected to make recommendations for the setting up of a national loss control strategy which should provide guidance and basic standards for the uniform application of that strategy. The Working Party, which had as its first priority the review of concessional spirit, is expected to report on a national loss control strategy by the end of June 1985.

PAC Recommendation No 9

3.13 The ACS does not consider it appropriate to implement this Recommendation. The suggestion would cause considerable disruption to implement and the benefits are not considered to be significant. With the implementation of a national loss control strategy later in 1985, following the report of the Spirits Working Party, the ACS considers that other alternatives will be introduced to overcome the problems which were of concern to the PAC

PAC Recommendation No 10

3.14 The PAC Recommendation is accepted. ACS is proceeding to implement and steps are now being taken to seek to amend relevant legislation as soon as possible.

PAC Recommendation No 11

3.15 The ACS accepts the PAC Recommendation and acknowledges that there is a need for improved controls and a more effective and intense investigation programme with end users. On receipt of the Working Party's final report, which is due by the end of May, decisions will be made with a view to improving controls and better utilisation of existing resources.

PAC Recommendation No 12

3.16 The ACS agrees with the Recommendation of the PAC in relation to a comprehensive review of Spirits operations. The review in covering all aspects of the Spirits Industry including:

Concessional Spirits - existing excise tariff items 2M,
2N, 2P, 2Q, 2J

Potable Spirits - . Brandy
. Whisky
. Rum
. Gin
. Liqueurs
. Spirituous Liquors
. Aerated Mixed Alcoholic Drinks

Other aspects to be examined:

Distillation - Production
Materials - Flavourings
Blending - Maturation Provisions
Bottling - Formulae
Licensing - Security, Securities

3.17 Legislation, including By-Laws, Out of Bond Bottling, Use of Intel., Illicit & Illegal Spirits, Distillation, Spirits and Excise Acts and Regulations, Customs Act and Regulations (Imported Spirits).

3.18 Because of the magnitude of the task the complete review of controls in the Spirits area will take some time to complete.

3.19 The Inland Services Branch has been re-organised to provide a specialist cell for Spirits administration to better undertake the work involved in this major review.

PAC Recommendation No 13 & 15

3.20 The ACS views on these Recommendations have been summarised in its consideration of Recommendation 2.

PAC Recommendation No 14 & 16

3.21 The two Recommendations were considered at a special conference of Assistant Collectors in October 1984 and at the subsequent 1984 Inland Services Conference, each State administration devised a formal work plan to facilitate the completion of systems based investigations into the various industries and premises subject to Inland Revenue Control.

3.22 The conference set the targets of 31 December 1985 for completion of investigation into the Brewing, Tobacco and Distillery industries and 30 June 1986 for the Oil industry. In December 1984 the ACS reassigned specialist duties to sixteen existing positions and officers with the necessary qualifications, background and experience were selected for the SBI program. Specialist intensive courses in the systems based technique, computing and accounting were delivered jointly by

outside consultants and senior SBI staff in February/March 1985 in Sydney and Melbourne with officers from all Collectories attending.

3.23 In addition the Inland Revenue and Dumping Division has sought in the 1985 Budget context an additional 45 staff nationally under New Policy Proposals for 1985/86 to ensure, in particular, that the momentum of the SBI program (together with the risk management program) is maintained.

3.24 The Recommendations are supported and implementation is proceeding.

PAC Recommendation No 17

3.25 The ACS is improving its control significantly by Systems Based Investigations, risk management techniques and enhanced ADP audit software packages. Because of alternative action now being taken to improve controls in this area and because of the views outlined in Part 2, the ACS does not consider it appropriate to proceed to implement this Recommendation.

PAC Recommendation No 18

3.26 The question of cost and other countries' practices have been examined and the detail is contained in the assessment of this Recommendation in Part 2.

3.27 The question of whether or not to apply Pre-Budget Quotas in the future is a matter for Ministerial decision.

3.28 The ACS will take into account in future the views of the PAC in making any submissions to the Minister on imposition or otherwise of Pre-Budget Quotas.

PAC Recommendation No 19

3.29 The ACS accepts the Recommendation. Should the Government at some future time decide to impose quota controls and should there be unusually high clearances of the excisable/customable products just prior to imposition, the ACS will immediately have the matter investigated and report to the Minister.

PAC Recommendation No 20

3.30 Whilst recognising that adoption of the Recommendation would align one element of the excise system of entries with the Customs entry system, the ACS does not believe it appropriate to implement the Recommendation because no real control benefits are envisaged. In addition there was strong industry reaction against adoption because of the significant additional paperwork required of industry for what was perceived to be little advantage.

PAC Recommendation No 21

3.31 The ACS has taken steps to improve control over bonded warehouses by the introduction of risk management and systems based investigation procedures as well as a national upgrading of Inland Revenue training. Utilisation of the ACS mainframe computer to maintain inventory control is not considered appropriate to pursue at this time. Because of the alternative action being taken the ACS does not believe it appropriate to proceed with implementation of this Recommendation.

PAC Recommendation No 22

3.32 The ACS considers that, because of current developments relating to control over the movement of underbond cargo as well as computer audit packages, and the views contained in the more detailed assessment of this Recommendation in Part 2 it would not be appropriate to implement the Recommendation at this time.

PAC Recommendation No 23

3.33 In view of the views expressed by industry and the introduction of risk management and systems based investigation techniques the ACS considers that these developments are more appropriate to the control of warehouses and therefore does not support implementation of the PAC Recommendation.

PAC Recommendation No 24

3.34 The ACS accepts the Recommendation and has included the results of E.M. exercises in the risk management strategy for Inland Revenue. The warehousing study will recommence during 1985 and the extension of E.M. will depend on the availability of resources.

PAC Recommendation No 25

3.35 The ACS believes that the warehousing system is a basic facility which is essential to provide to industry and commerce generally.

3.36 In addition the ACS is currently examining the concept of introducing a national cargo control strategy which has implications for the removal of goods underbond including to warehouses and approved places. In view of the strong industry reaction and because of the more detailed information contained in the assessment of this Recommendation in Part 2, the ACS does not consider it appropriate at this time to take any further action on this Recommendation. However the ACS does believe that when the implications of a national cargo strategy become clearer, it would be appropriate to engage Consultants to examine the current warehousing system, which has been in existence since 1901, with a view to making recommendations on what type of system is needed to better cope with the current and future needs of industry and commerce.

Supplementary Information

3.37 The ACS therefore does not consider that it would be appropriate at this time to recommend to the Minister for Industry, Technology and Commerce that a reference be made to the IAC on the question of the perceived need for the warehousing system.

3.38 One of the fundamental issues involved is the underbond removal system, which is currently under review, including trials of a new system in some Collectorates. In addition, the fee structure for warehouses has been revised and new fees, which increase the previous annual fee of \$1 900 by over 200%, are to apply from 1 July 1985. The new fees followed receipt of advice from Price Waterhouse on the matter and are based on the principle of recovery of administrative costs.

3.39 It is expected that a number of licensees will not renew their warehouse licences as a result of this change.

3.40 Because of these latest developments and also because of the other comments referred to above, Customs considers it would be premature to recommend to the Minister that the matter be referred to the IAC for inquiry.

PAC Recommendation No 26

3.41 The ACS supports this Recommendation but initial studies have failed to establish fully independent sources of data which would enable a check of revenue due against revenue collected. An examination of statistics of refinery crude oil inputs and refinery usage and sales to off-takers is being conducted and will be on-going, which is expected to provide a quasi-independent estimate of revenue liability with which to compare revenue collections.

PAC Recommendation No 27

3.42 In the context of its examination of the Auditor-General's Report of 1984, the PAC sought a submission from the ACS which would be used in deciding whether it would conduct a detailed enquiry into the Scheme. The ACS provided the PAC with a submission on 30 November 1984 and is awaiting further advice.

3.43 Accordingly, the ACS does not propose to take any action to review the administration of the Diesel Fuel rebate scheme at this time.

PAC Recommendation No 28

3.44 The ACS supports the Recommendation in part. Negotiations with State Governments to improve legislative control over the Scheme are proceeding and general agreement has been reached to increase penalties.

3.45 The PAC Recommendation to transfer more resources from other areas will be considered in the light of a proposed comprehensive review of Inland Revenue staffing. Refer to Recommendation No 6.

3.46 The PAC Recommendation for application of ADP resources to the Scheme is dependent upon the level of ADP resources which might be available to assist the Inland Revenue area and determination of priorities for use of those resources.

PAC Recommendation No 29

3.47 The ACS agrees with the Recommendation to proceed with a further review of the Petroleum Products Freight Subsidy Scheme following implementation of Recommendation No 28.

PART 2

DETAILED EVALUATION OF THE RECOMMENDATIONS

PAC Recommendation No 1

The Department begin work immediately on a detailed plan which translates overall objectives into specific operational processes. The plan should facilitate co-ordination, permit systematic review of options and assist in the formulation of timely and detailed strategies for the improvement of excise collection procedures. The results of these routine investigations should feed back into current operations and the plan itself. Within this framework, attention should be paid to the role and influence of State Collectors (p 16).

Response

Background

Efficiency Audit Recommendation

3.48 Central Office should create and monitor a consistent and comprehensive risk management system for use by Collectortates.

Departmental Position Conveyed to PAC

3.49 As soon as warehouse risk management programs were continuously running in each State, it was proposed to progressively extend programs into other areas of Inland Revenue operations namely breweries, tobacco factories, distilleries, petroleum installations during 1985/6.

Current Considerations

Examination of PAC Recommendation

3.50 An Inland Services Conference attended by senior officers from Central Office and all Collectortates in November 1984 determined that Risk Management is to be introduced into all Inland Revenue programs by the end of June 1986. The revised timetable has had taken into consideration the current availability of resources and additional resources sought in the 1985 Budget context.

3.51 The practical application of a nationally co-ordinated risk management program which includes all commodities under the control of Inland Revenue is dependent upon the availability of appropriate human and financial resources. The plan that follows assumes the availability of those resources and is of necessity a statement of ideals and intended action.

Inland Revenue Risk Management

Action So Far

3.52 This has been two-fold. One has been to implement nationally-uniform risk management programs in warehouses. The second has involved introducing systems-based investigation procedures, allied with computer audit software.

3.53 The current warehouse risk-management programs have the following features:

1. specified objectives for the program period
2. uniform risk rating procedure for each licensed premise
3. specified resources to implement the program
4. reports on each visit, enabling results to be measured
5. periodic reports on how staff were actually utilised
6. storage of the data from every program on a micro computer
7. uniform evaluation and written reports upon the completion of each program, to assist in risk rating and resource allocation for the next program period.

3.54 In short, this procedure enables a manager to set out the work that can be done with the available staff and also identifies that work which can't be done. It provides information by which a manager can systematically review his mix of resources plus risks, and vary this in response to changing priorities.

3.55 In addition to implementation in warehouses, a national investigation scheme has been introduced for the Diesel Fuel Scheme. It incorporates the features outlined above but is tailored to meet the particular needs of the Rebate Scheme.

Future Plans

3.56 'Customs warehouses' and 'diesel fuel' are two of 14 programs under the title of 'Inland Revenue Risk Management Program' and the task is now to introduce the same principles into the remaining 12. These are:

EXCISE

- beer
- coal
- crude oil
- petroleum products
- spirits
- tobacco products

CLAIMS

- petroleum products freight subsidy
- LPG subsidy

OTHER

- by-law for export
- coal export
- drawbacks
- fuel ethanol experimenter

This will mean -

- establishing a uniform method for rating the risks within each program and between all programs to enable optimum allocation of resources
- planning resource allocation by comparing
 - notionally needed time against intended actual control time available
- setting objectives based on allocating control time to the highest risk areas or premises
- documenting a program that incorporates the above and also identifies the work not being done, for resource reasons
- completing periodic reports about actual staff utilisation
- making assessments of results achieved and the cost effectiveness of these, at the end of each program period.

3.57 Concurrently with the above will be completion of systems based investigations in tobacco companies and breweries by December 1985 and oil refineries by June 1986. These will establish risk areas within each company and a program of checks to cover these.

3.58 A management information system will incorporate the foregoing and allow national co-ordination of the risk management programs.

3.59 Central to the operation of the above will be flow of information to Central Office for storage and analysis on a micro-computer. This will produce management information for both Central Office and State administrations. It will allow review of results being achieved, how staff are being used and options for further risk management programs.

Central Office Role

3.60 As outlined above, the ACS now has established a risk management system that monitors performance, allows risk factors to be reviewed and measures the cost-effectiveness of investigation activity. This implements Management Recommendation 2 of the Efficiency Audit Report.

3.61 Based on the experience to date with the warehouse program, national control programs will be implemented. Central Office is now in the process of overseeing the common development and usage of these programs in State offices, so as to be able to plan and co-ordinate central control strategies.

3.62 With the data thus being generated, Central Office will be able to determine national priorities and objectives, relative to resource needs and constraints. These priorities will be implemented in conjunction with State offices.

Collectorates Role

3.63 Subject to national priorities, State Offices will continue to be responsible for establishing the programs for their control areas, rating risks, allocating resources and monitoring implementation. The data flow to Central Office will be recorded on the micro-computer and provide management reports whenever required, to assist in assessment and review of options.

Sub-Collectorates Role

3.64 Consistent with the development of national risk-management and priorities, the Inland Revenue programs carried out by Sub-Collectors will be included in this strategic development. The procedures will be nationally uniform and the results will be part of the national evaluation.

3.65 Due allowance will need to be made for the mixture of barrier and inland services activities.

Australian Customs Service Position

3.66 The ACS accepts the PAC recommendation. A plan has now been formulated for the principal operational developments up until June 1986. Implementation and full achievement of the proposed timetable will depend on the availability of sufficient resources.

3.67 In the 1985 Budget context the Inland Revenue and Dumping Division has sought an additional 45 staff nationally under New Policy Proposals for 1985/6 in order to maintain the momentum for both systems based investigations and the risk management program.

PAC Recommendation No 2

Customs undertake and document in detail a comprehensive examination of the possibilities for using independent data sources in the validation of declared production quantities of excisable commodities.

Response

Background

Efficiency Audit Recommendation

3.68 For each of the relevant commodities the Australian Customs Service (ACS) Central Office should collate and analyse data in relation to the technical production and distribution systems of producers and maintain details of quantities of dutiable product involved, the possible risk to revenue and summary results of inspections and examinations carried out.

3.69 Estimates should be made of gross production based on independent sources of data such as ABS collections and these should be used to check total duty payments.

Australian Customs Service Position Conveyed to PAC

3.70 It was contended that available statistics from ABS and other sources were not truly independent in that they were mainly compiled from Customs sources and were not helpful in reconciling duty collected with duty liability on a commodity basis in the beer, spirits and tobacco industries.

Current Considerations

Industry Attitudes

The Australian Associated Brewers

3.71 'In practice, brewery data relating to inputs and outputs has always been available to Customs officers for use as a control on the usual data relating to production, stock, deliveries, and duty payments; and, consistent with the selective testing philosophy of the commodity control system, Customs Officers are known to have used such data for that purpose.

3.72 If the PAC's reference to independent sources of data is meant as sources entirely independent of a brewing company rather than as independent of the company's final production (packaging), storage and distribution elements, then identification of useful sources is obviously much more difficult. However, you might consider the usefulness of aggregates derived from producers and suppliers of raw material such as hops, malt, barley, sugar, glass and canning materials as indicators. You might also wish to explore the usefulness of data collected by State liquor licensing, taxing and franchising authorities.' (Refer Part 3 Attachment 1.1-3)

Australian Wine and Brandy Producers Association

3.73 'The Association can understand and appreciate the Committee's interest in the development of independent data sources for the validation of declared production quantities of excisable commodities. However, for the brandy and grape spirit distilling industry, the Association believes it is impossible to match inputs with outputs because of differences in the material being processed. In terms of spirit production and clearances of such spirit from bond, independent sources of data might only be sought at the retail or wholesale level. Australian Bureau of Statistics' collections of retail data are neither detailed enough, nor timely enough to provide the required amount of precision which would be required.' (Refer Part 3 Attachment 1.1-9)

W D and H O Wills

3.74 'Wills does calculate a tobacco yield at the end of April and October each year. This information is used to indicate expected tobacco usages based on a forecast of sales and hence is taken into account in determining tobacco purchases. It is also used to indicate any trends that may be taking place as a result of process changes or changes in leaf grades used. It is not accurate enough to use as a control.' (Refer Part 3 Attachment 10.1-13)

ABS

3.75 Changes in its confidentiality provisions cause the compression of figures, making them unsuitable for detailed analysis. ABS bulletins can/are released up to three months after the month covered by the data received. There will usually be a discrepancy between our statistics and the ABS's, but not necessarily an error.

3.76 Both ABS and the Australian Tobacco Board use the ACS as the source of their published statistics.

3.77 See Attachment A for a listing of Bulletins which have data on Excise commodities but have no practical application for Customs Control purposes.

Bureau of Industry Economics

3.78 Obtain much of its data from ABS by request from industry. The Bureau does not have any information in relation to commodities that are excisable.

3.79 The ACS has examined a wide range of trade magazines and other sources of industry information in an effort to find meaningful independent data. Details of these publications and other sources of information are at Attachment B.

Australian Customs Service Position

3.80 The ACS has undertaken a comprehensive examination of the possibilities of using independent data sources as requested by the PAC.

3.81 The ACS has communicated extensively with Industry, Commerce, State Authorities and other Commonwealth Departments and Organisations but has had difficulty in identifying useful independent data sources which would assist in improving current controls. However the ACS, as part of its ongoing responsibilities, will continue to try to obtain sources of independent data which could be used to assist in the control of excisable commodities.

ATTACHMENT A

The following Australian Bureau of Statistics (ABS) Bulletins were also consulted:-

1. 5219.0 Quarterly Index of Manufactured Products
 - information too widespread, not defined enough for our use
2. 6414.0 Import Price Index
 - nothing of value to be found
3. 7310.0 Viticulture - Australia 1982-83
 - leaves out QLD, TAS and Territories, specifies information in hectares only
4. 8301.0 Production Statistics of Australia - Preliminary
 - information useful but source is Department of Industry, Technology and Commerce
5. 8303.0 Manufactured Commodities
 - nothing of value
6. 8369.0 Production Bulletin No 3 Food, Drink, Tobacco
 - bulk beer includes beer used for further processing of non-excisable brewed beverages and mixed beverages. Figures don't match with excise paid beer statistics
7. 8364.0 Production Bulletin No 8 Misc. Production in Australia
 - nothing in relation to excisable products defined accurately for our needs
8. 9214.0 Interstate Road Freight Movement Australia
 - nothing of value
9. 9212.0 Interstate Freight Movement Annual
 - nothing of value
10. 8504.0 Sales and Stocks of Australian Wine and Brandy by Winemakers
 - figures on Brandy are the same as in Bulletin 5425.0 used in the forecasting area of Planning.

ATTACHMENT B

'The Australian Grapegrowers Winemaker'

3.82 Source of data - ABS sales figures. No production figures available.

'AHA Review' (monthly issue)

3.83 Not statistically orientated.

'Thomsons Liquor Guide'

3.84 Recommended distributor and T.L.G. selling prices only.
'Footwear and Liquor Week'

3.85 Not statistically orientated - too interested in new products, company takeovers, new managers/directors etc.

'Hotel and Catering (AHA)' (monthly issue) Not statistically orientated.

'Australian Retail Tobacconist'

3.86 Recommended prices only, nothing to represent sales/production figures.

3.87 None of these sources provide statistically related information on the production/sales of excisable commodities.

Australian Tobacco Board

3.88 Information related to raw leaf sold at sales based on tender/quota arrangements, doesn't allow for imported/exported quantities of raw leaf.

Department of Industry, Technology and Commerce Library

3.89 A search of the shelves revealed no new publications, Annual Reports, Pamphlets, Weekly Publications, Journals, Weekly Bulletins.

'Beverage Review'

3.90 The Australian Wine Research Institute of S.A. advertised in the September 1984 issue for data (including statistics) to be placed in their computer data base so that subscribers can have access to more detailed data on the industry. We have contacted the person concerned and have been placed on their subscribers mailing list which is due to commence in April 1985.

3.91 Their statistics will come from ABS, Australian Wine and Brandy Corporation and possibly independent wine makers who are interested in giving statistics. The contact address is as follows:

Garry Baldwin - 08 796817
Technical Information Officer
Australian Wine Research Institute Private Mail Bag
GLEN OSMOND SA 5064

Petroleum

Australian Institute of Petroleum

3.92 Publishes a Gazette quarterly and obtains its statistical data from the Department of Resources and Energy.

Department of Resources and Energy

3.93 This Department was asked to advise us of the source of the material used to produce the data in question; also if possible, supply production and usage figures broken down to State and producing company level. Their reply is as follows:-

'The data on refinery production and petroleum sales referred to in your memorandum is published monthly in 'Major Energy Statistics' and are compiled from monthly questionnaires completed by industry sources. In a sense, this data might not be regarded as being from an independent source.'

ABS

3.94 Asked the same questions as Department of Resources and Energy. Their reply is as follows:

'Statistics relating to refined petroleum products entering home consumption are compiled by the ABS from information supplied by the Australian Customs Service. Consequently, the ABS statistics cannot be considered as an independent data source'.

PAC Recommendation No 3

The excise collection system proposed in chapters 5, 6 and 8 serves as an example of the options to be considered in a detailed examination of alternative methods of excise collection aimed at streamlining arrangements and increasing security over dutiable product.

Response

Background

Efficiency Audit Recommendation

Beer:

(i) point of excise liability for beer could be moved from packaging stage to the Bright Beer Stage
(pages 12 & 45)

Tobacco:

3.95 Greater attention be given to reconciliation of raw material data with production data.

Spirits:

3.96 In view of the difficulties associated with control over excise revenue, the relative advantages of an extension of sales tax vis-a-vis the current excise duty should be considered for review by the appropriate authority.

3.97 (Note: this does not form part of the Committee's Recommendation, as it was specifically rejected in paragraph 4.92 of the Committee's Report).

Petroleum Products:

None.

Australian Customs Service Position Conveyed to PAC

3.98 Essentially the PAC has suggested that duty on beer, tobacco and petroleum products be levied at an earlier stage with an offsetting increase in the credit term arrangements. The ACS expressed reservations about changing the point of duty liability for such products from the existing point where goods are delivered into home consumption.

Industry Attitudes

Beer: the Australian Associated Brewers is opposed
(submission of 19 July 1984 and Part 3, Attachment 1.1-3)
because of

- (1) severe disruption to industry concerning production runs and distribution interstate
- (2) introduction of extended duty payment would create financial inequities between members of industry
- (3) impact on consumers in remote locations

Tobacco: Philip Morris Ltd supports the proposal. Wills and Rothmans oppose it (paragraph 6.28 of Committee's Report and Part 3 Attachments 8-9)

Petroleum : the Australian Institute of Petroleum is opposed to any variation (see submission of 19 July 1984); as well as individual companies, because:

- (1) increase price to consumers because of increase in working capital (see ESSO submission Part 3 Attachment 5.1)
- (2) reduce available working capital for cost reduction investments (see SHELL submission Part 3 Attachment 7.6)
- (3) marginal preference for imported products
- (4) reduce stock holdings at terminals
- (5) petroleum companies are of the view that existing excise collection systems are adequate and that movement of the point of collection is of no advantage to industry (see AMPOL submission Part 3 Attachment 2.1)
- (6) the petroleum industry is against movement of the duty collection point but accepts that conceptually, such action is possible. Inherent in any acceptance of the proposal, however, is a requirement for a guarantee that such a move would not in any way be detrimental to any member of the industry
- (7) on this basis, companies seek varying but significantly extended credit arrangements of up to 66 days and compensation for losses on an individual refinery basis and having regard to product range (see CALTEX submission Part 3 Attachments 4.2; 4.9) (see AMPOL submission Part 3 Attachment 2.7).

(For further details see individual Company submissions in Part 3, Attachments 2-7).

Points in Favour of Adoption

- would nominally mean fewer premises to visit and fewer chances for diverting non duty-paid product.

Points Against

- (1) The resources currently allocated nationally to excise administration are relatively small compared to the revenue collected and potential savings are minimal. For example in 1983/84 approximately 4 person years were spent in premises receiving underbond beer and 2 1/2 person years in those receiving underbond tobacco products. Not all of this might be unilaterally saved because all the places no longer

receiving these underbond products would not necessarily close down. Some could continue to receive other products not the subject of the Recommendation (e.g. excisable spirits, other customisable goods)

- (2) There is no current legal basis to require only some imported goods to be duty-paid after the first bonding.
- (3) The manufacturer (importer) is not always the entity selling for final duty free sales. Such sales include the entire duty free shop industry, diplomatic sales and exports. The commercial realities of this distribution chain could be expected to create complexities in entitlements to initial duty free purchasers or subsequent refunds.
- (4) Industry-wide allowances for losses are not favoured, as the Department prefers to deal with company-by-company loss factors. This is more precise for duty collection purposes and takes into account the varying operating efficiencies of each firm.

Revenue Implications

3.99 The Committee has considered extension of the period for duty payment based on 'average dwell time of products under bond'. In its submission of 12 June 1984, the ACS gave such times, which vary State by State. For convenience these follow:

	BEER	TOBACCO PRODUCTS
QLD	4 weeks	2-4 weeks
N.S.W.	2-5 weeks	4-12 weeks
VIC	3-4 weeks	4 weeks
TAS	3 weeks	6 weeks
S.A.	4 weeks	3-4 weeks
W.A.	N/A	3 weeks
N.T.	Bulk - N/A packaged - 5 weeks	N/A

3.100 The concept of 'average' thus has no national application. In the same submission the ACS indicated that the value of excise tied up for underbond cigarettes and beer was about \$200 million. In a similar submission of 29 May 1984 on petroleum products, duty involved was about \$221 million.

3.101 With indexation increases, including some similar Customs duties components, it would be reasonable to suggest about \$450 million being paid later than the present weekly settlement. The question of a 'once only' revenue loss in the financial year of introduction and the overall implications of extending the current credit arrangements for paying excise duties (and Customs duties on like goods) is a policy matter which falls within the responsibility of Treasury.

Staffing Implications

3.102 Small staff resource is currently involved in controlling these industries.

Australian Customs Service Position

3.103 The ACS is currently in on-going consultations with the brewing industry on possible changes to the bases for determining duty liability on beer. It is expected that these consultations will result in a submission being made to the Government in the near future seeking changes to the existing provisions of the Excise Act. In addition, in the tobacco industry a trial of revised procedures at each of the three cigarette manufacturers commenced on 4 March 1985. The trial concerns the method for determining the declared weight of cigarettes which is used to assess the liability for duty. The trial is to run over a period of three months and will be evaluated at the end of that time.

3.104 The current action being taken in the brewing and tobacco industries may well result in changes being made to the bases for determining duty liability of those products. No changes are proposed at this stage in the petroleum industry. However, the ACS as part of its ongoing responsibility will continue to monitor the various systems applied with a view to improving efficiency and effectiveness.

PAC Recommendation No 4

Computing and staff resources be made available to allow the immediate implementation of a national risk assessment program and that resource allocation decisions be made by Central Office on this basis (p 20).

Response

Current Considerations

Industry Attitude

The Australian Wine and Brandy Producers Association stated:

3.105 'Although it is obvious that a national risk assessment programme should be overseen by Central Office, because of the remoteness of Central Office, it is important that State Officers also are heavily involved because of their understanding of operations in the field.' (refer Part 3 Attachment 11.1-9).

Australian Customs Service Position

3.106 In the 1985 Budget context the Inland Revenue and Dumping Division has sought an additional 45 staff nationally under New Policy Proposals for 1985/86 in order to maintain the momentum for both systems based investigations and the risk management program. A national risk assessment program has been introduced for warehouses and with the additional resources requested this program will be extended to all commodities controlled by Inland Revenue.

PAC Recommendation No 5

The numbers of officers who have undergone adequate training and the numbers still requiring training in specified skills be monitored by Central Office.

Response

Background

ACS Position Conveyed to PAC

3.107 Two specialist courses (petroleum and alcohol) and a generalist course (Inland Revenue) have been developed and are now part of the ACS's training program. State training managers ensure co-ordinated content and national training effort.

Australian Customs Services Position

3.108 The Recommendation is accepted and a system is currently being developed to monitor the training needs of Inland Revenue officers. The system is expected to be in operation in the first half of 1985/6.

PAC Recommendation No 6

The Department undertake, as a matter of urgency, a comprehensive review of staffing requirements in Central Office and the States. The key issue which should be considered in this review is the level of staffing required in the various Customs offices to protect adequately the revenue collected through those offices.

Response

Background

Efficiency Audit Recommendation

None.

Australian Customs Service Position

3.109 The ACS has accepted the PAC Recommendation. The 1984 Collectors' Conference decided that a comprehensive review of Inland Revenue staffing and organisation should be undertaken in 1985. The review is scheduled to commence in the second half of 1985.

PAC Recommendation No. 7

Urgent attention be given to increasing powers exercised by officers under the Excise Act to make them comparable to those exercised under the Customs Act, particularly regarding the powers of access to documents. The Committee recommends that care be taken to safeguard civil liberties and to prevent the possible abuse of powers (p 47).

Response

Australian Customs Service (ACS) Position Conveyed to PAC

3.110 Provisions of the Customs Act contain powers of access to books and documents relating to the unlawful import, export or undervaluation of goods. Similar powers are not contained within the Excise Act in relation to dealing with excisable goods unlawfully produced outside a licensed excise factory. Findings of the Auditor-General's Efficiency Audit and the Committee indicated concern regarding the implications of the unlawful diversion of spirit into the market place on the spirit industry and Government revenue.

Current Considerations

3.111 The ACS supports the Recommendation of the Committee to increase powers contained within the Excise Act particularly to provide access to documents relating to unlawful excise manufacture.

Industry Attitudes

3.112 The Distilled Spirits Industry Council of Australia (DSICA) 'would not actively support an increase in the powers of officers under the Customs or Excise Acts in relation to licensees under those Acts. However, DSICA would support an increase in the investigative powers of officers under the Excise Act in relation to persons not licensed under the legislation, and in relation to the premises, documents and goods of such persons.' (Refer to Part 3, Attachment 12.1-5).

3.113 The Australian Wine and Brandy Producers Association 'supports fully the increasing of powers to officers of the Australian Customs Service to assist them in detecting evasion of duty.' (Refer to Part 3, Attachment 11.1-9).

Australian Customs Service Position

3.114 The ACS is seeking appropriate amendment to the Excise Act as soon as possible. In this regard however the Department notes the concern of the Committee that care be exercised to ensure the safeguard of civil liberties in the drafting and exercise of the sought-after powers.

PAC Recommendation No. 8

A national loss control strategy for spirits be developed and implemented as a matter of urgency.

Response

Background

Efficiency Audit Recommendation

3.115 Audit supports Inland Services' initiatives to upgrade controls to effectively monitor spirit losses.

- Establish data by premises on factors affecting losses.
- Audit considers that national loss standards should be developed on the basis of analysis and data and promulgated as a guide to control officers.
- ACS would need to continuously review the standard with an eye to reducing allowable losses in line with improving processing techniques, and the standards should be used only as guides taking account of each firm's particular performance capability.
- Consideration be given to requiring licensees to submit data on bottled and excisable bulk stocks for the ACS ADP system. Consideration be given to accounting for underbond removals.

Previous ACS Attitudes, Including Reviews

3.116 A Spirit Loss Working Party was formed in 1983 whose charter stemmed from the 1982 Inland Services Conference and the Auditor-General's Efficiency Audit Report.

Areas to be covered were:

- use of ADP resources for recording and monitoring losses;
- proposal to convert spirit volumes to the volume at standard temperature of 20°C;
- liquid fills of containers; and
- a national loss approach.

3.117 A Spirit Transit Loss computer system was introduced in South Australia on a trial basis to monitor underbond removals prior to being implemented nationally. It was found that the system could not justify the time to consolidate input data and was subsequently cancelled at the end of October 1983.

3.118 The 20°C proposal eliminates losses/gains solely through temperature fluctuation and was introduced nationally on 1 July 1984 following trials in New South Wales and South Australia. The proposal is working satisfactorily and was supported by the industry.

Current Considerations

Examination of PAC Report

The PAC considers the ACS needs:

- A rigorous system of effectiveness reporting to each State.
- A consistent approach to the treatment of losses across States and across different producers (enormously varying standards for acceptable losses in different States).
- Clarification of progress made on loss control in the spirits area.
- A need to have a 'cross state' comparison operation where States can exchange ideas relating to experiences and methods used concerning losses.
- More progress towards deciding on the practicality of industry standards.

Responses from Industry

Australian Wine and Brandy Producers Association (AWBPA)

3.119 'The Association strongly opposes the contention expressed in paragraph 4.99 that producers' own commercial interest does not necessarily ensure adequate control of the products for excise purposes. The producer only has the product whereas the revenue from this product is only a small part of total Government revenue. Therefore although the value to the producer may be less than the value to the Government, the value of such product is considerably more significant to the producer than to the Government.'

3.120 In paragraph 4.103 the Committee expresses its concern that the Department still seems to have difficulty achieving a consistent approach to the treatment of losses across States and across different producers. The Association also is concerned about the different approach between the States but believes that the different operational methods of producers require differential treatment between individual producers for reasons expressed in the Association's 30 September 1983 submission to the Public Accounts Committee, quoted above.

3.121 As stated above there are many variables which affect the degree of loss in distillery operations. It is important that losses be seen in perspective as noted in paragraph 3.35. It is understood that a national loss control strategy will be discussed by a Working Party of the Australian Customs Service with a Working Party of this Association in late January or February 1985.' (Refer Part 3 Attachment 11.1-9)

Distilled Spirits Industry Council of Australia (DSICA)

In relation to loss control, DSICA supports -

- 'maintenance of the principle embodied in Customs and Excise legislation that duty is payable on underbond goods which have been placed in the charge of a licensee, which cannot subsequently be accounted for to the satisfaction of a Collector of Customs (eg. as a bona fide loss or production waste), and which are therefore presumed to have entered home consumption;
- equitable, commonsense application of this principle; and
- reasonable consistency in application of the principle as between Collectorate.'

3.122 DSICA is opposed to losses and wastes being conformed to a set standard established by a 'front runner' in the industry.

3.123 Similarly DSICA is also opposed to the adoption of set loss allowances based on industry averages.

3.124 In brief what DSICA considers is necessary 'is for a professional, audit approach to the comprehensive body of data on losses and wastes that is available within individual companies and in relation to the spirits industry as a whole. This admits of efficient control, and has the support of the industry'. (Refer Recommendation No. 9 and Part 3 Attachment 12.1-5)

Points in Favour of Adoption

- Industry should be treated equally.
- More practical for Central Office to overview policy and associated legislation.

Points Against

- Lacks flexibility and would be difficult to implement as no uniform procedures exist within the industry through producers having different storage/maturation processes, handling techniques, equipment etc.

- The South Australian trial computer program was not implemented nationally and finally abandoned partly through problems experienced in attempting to match records of establishments with varying operational procedures.

There appear to be two alternatives:

- (a) have no national loss control program; or
- (b) a set percentage formula.

Both these options are not considered feasible for the following reasons:

No National Loss Control Program

3.125 Individual controls in each State can lead to a variety of procedural standards which when operational are not as efficient or strict as others.

3.126 On this basis some companies, particularly multi branch companies, could be in a position to question certain action undertaken in one State when it is known that similar action would not apply elsewhere.

3.127 In addition Central Office control over policy would be limited and some difficulties may be experienced in answering queries raised by Audit or other Government bodies.

A Set Percentage Formula

3.128 Would be difficult to establish a set percentage as companies vary in procedures and type of equipment. To use historical loss data to arrive at an 'across the board' formula would leave some companies at a disadvantage over their rivals.

3.129 This may also lead to companies purposely designing their operations to allow for such losses irrespective as to whether they existed or not.

3.130 Similarly the recording system would be complicated and unwieldy. To attempt to maintain records with a built in loss factor would be virtually impossible particularly when accounting for normal operations ie. blending, storage, bottling etc.

Australian Customs Service Position

3.131 The ACS accepts the PAC Recommendation.

3.132 The Spirit Working Party as part of its overall review is expected to make recommendations for the setting up of a national loss control strategy which should provide guidance and basic standards for the uniform application of that strategy. The Working Party, which had as its first priority the review of concessional spirit, is due to report on a national loss control strategy by the end of June 1985.

PAC Recommendation No. 9

The Committee reiterates the Recommendation of the National Loss Control Working Party that consideration be given to a simplified approach to loss control, involving an adjustment for losses being given in the duty levied.

Response

Background

Efficiency Audit Recommendation Refer Recommendation No. 8

Previous ACS Attitudes, Including Reviews

3.133 In addition to the 1983 Spirit Working Party's charter (refer Recommendation No. 8) the following was established by a 1982 Working Party.

- Consideration be given in formulating a system where duty would be paid on all losses but a duty remission would be incorporated in the duty rates.
- A national loss standard should not be used as a bench mark for mandatory duty call up but as a guide for explanation by companies or appropriate Departmental investigations.

Current Considerations

Examination of PAC Report

3.134 The PAC's argument in favour of a simplified approach to loss control, involving an adjustment for losses being given in the duty levied would have the following implications:-

- There would be savings in administrative and investigative resources currently used to monitor and check losses;
- Incentive for the producer to minimise losses would be increased if the duty (with the appropriate adjustment) had been incurred as soon as the spirit was received into the spirits receiver and no further allowances could be made; and
- It would be in each Company's commercial interest to control the spirit more securely because its value to the company would include the quite considerable excise component.

Industry Attitudes

Australian Wine and Brandy Producers Association (AWBPA)

3.135 'The Association cannot agree with the rationale behind the arguments expressed in paragraph 4.106 which reflects on the integrity of producers and fails to appreciate the significance of the value of products to producers as compared with the value to the Government.' (Refer Part 3 Attachment 11.1-9).

Distilled Spirits Industry Council of Australia (DSICA)

'In relation to loss control, DSICA supports:-

- maintenance of the principle embodied in Customs and Excise legislation that duty is payable on underbond goods which have been placed in the charge of a licensee, which cannot subsequently be accounted for to the satisfaction of a Collector of Customs (eg, as a bona fide loss or production waste) and which are therefore presumed to have entered home consumption;
- equitable, commonsense application of this principle; and
- reasonable consistency in application of the principle as between Collectorates.

3.136 DSICA notes that the quality and efficiency of production and storage facilities varies significantly within the spirits industry. Resulting from this, propensity to loss and production waste varies significantly from product to product, process to process, and establishment to establishment.

3.137 Decisions to upgrade or replace existing facilities are decisions that are based on commercial considerations and judgements. DSICA is of the view that these decisions should be allowed to continue to be made on these bases, and should not be driven by government administrative requirements that losses and wastes conform to some set standard identified with facilities of a particular level of sophistication - such as that set by a 'front runner' in the industry that sustains minimum losses and wastes.

For similar reasons, DSICA is also opposed to:-

- (a) adoption of set loss allowances based on industry averages; and
- (b) notions of allowing for no losses or wastes, with a countervailing reduction in duty rates.

3.138 It matters not whether losses and wastes of underbond product are minimal or total: duty is payable on the losses and wastes unless they can be accounted for to the satisfaction of a Collector of Customs, and the onus to satisfactorily account rests with the person responsible for the underbond product.

3.139 As we understand it, risk management and selective testing of the approved commercial practices and recording systems of licensees are elemental to the commodity control approach to Customs and Excise administration.

3.140 Incident reports and operations' records maintained by licensees should provide adequate bases for the accounts of losses and wastes required by Collectors, and for the testing thereof.

3.141 In line with this, it would seem to DSICA that what is necessary is a professional, audit approach to the comprehensive body of data on losses and wastes that is available within individual companies and in relation to the spirits industry as a whole. This admits of efficient control, and has the support of the industry.

3.142 It would seem to DSICA that the proper concern of the PAC should have been the matter of establishing and sustaining this approach to loss control - and to controls generally - rather than the promotion of alternatives that are considered simplistic by the industry.' (Refer Part 3 Attachment 12.1-5).

Points in Favour of Adoption

- A simplified approach to investigations.
- No need for complex loss data.
- Reduce loss control staff resources.
- A reduction of suspicion, recrimination and the need for litigation.
- Would add value to the product encouraging producers to exercise tighter controls.

Points Against

- Extreme difficulty in establishing appropriate duty adjustments equitable to all industry.
- Loss control exercises when conducted to establish duty liability do not represent the problems that this Recommendation would appear to suggest.
- Adoption of the Recommendation would not alleviate the work load in relation to such exercises conducted to establish production.
- Would bring the accountability and payment of duty point back to commencement of bottling operation - a decision not favoured by the PAC itself elsewhere in the Report.

Australian Customs Service Position

3.143 The ACS does not consider it appropriate to implement this recommendation. The suggestion would cause considerable disruption in industry, be difficult to implement and the benefits would not be significant. With the implementation of a national loss control strategy later in 1985, following the report of the Spirits Working Party the ACS considers that other alternatives will be introduced to overcome the problems which were of concern to the PAC.

PAC Recommendation No. 10

The Committee agrees with the views of the Distilled Spirits Industry Council and recommends that spirits bottling only be permitted on licensed premises which are subject to control by the Department. This would eliminate one category of operator, and should reduce the risk of illegal extension of duty-paid spirit with duty-free spirit.

Response

Efficiency Audit Recommendation

3.144 'In the Audit's view, a major risk in this commodity area is the use of what need only be a small proportion of duty free production to extend or make up potable liquor of various kinds. This risk is particularly high for bottling operations conducted outside of bonded premises. These bottlers cannot be subject to licensing and the only controls available to the Department over the extension of duty paid alcohol with duty free are the general record keeping systems required for duty free production and distribution.'

3.145 The Audit was also of the view that an additional control over extension could be chemical detection of extender by State Authorities.

3.146 As noted by the Auditor-General, the spirit used to extend duty paid spirit may originate from a number of sources, including:

- (a) Produce of illicit stills
- (b) Misdescribed imported bulk spirit
- (c) Diverted duty free potable spirit (2M, 2J, 2P, 2Q)
- (d) Diverted potable spirit, duty not paid (resulting from underbond thefts, misclassifications under Customs Tariff or excess production underbond)
- (e) Diverted duty free non-potable spirit (2N)

Previous Industry Attitudes

3.147 The Distilled Spirits Industry Council of Australia had earlier recommended that spirits bottling be permitted only in licenced premises and the PAC commented that it agreed with that recommendation.

3.148 The Australian Wine and Brandy Producers Association made a similar recommendation in its submission of 30 September 1983 to an earlier PAC enquiry, and this view was again referred to in its report of 31/1/85 to the current PAC enquiry.

Australian Customs Service Prior Action

3.149 A detailed review of the out of bond bottling operation throughout Australia was commenced by the ACS in July 1984 during which all known out of bond bottlers were identified and their commercial standing examined.

3.150 This operation was limited primarily to the States of NSW, VIC, and SA, and the total volume of production was approximately 200,000 LALS p.a. representing approximately \$4M in duty.

3.151 There are 29 known out of bond bottling enterprises of which only about 5 bottlers bottle more than 10,000 LALS p.a. There appears only to be two operators who are using imported bulk spirit, amounting to a total of 80,000 LALS p.a.

3.152 A variety of possible reasons was advanced for the existence of out of bond bottling. These mainly concerned interference by Customs, small quantities of alcohol involved, differences in credit terms and adulteration.

Current Considerations

3.153 The extent to which irregularities have been detected in recent times gives cause for concern but it is not possible to assess from such information just how widespread any evasion of duty may be.

3.154 The 1984 Inland Services Conference decided that the PAC Recommendation be accepted, subject to consultation with the current users of the system and if no major obstacles were identified, the required legislation should be introduced as soon as possible.

Industry Attitude

3.155 All known out of bond bottlers who have or have had an interest in bottling of spirits were invited to comment on this particular PAC Recommendation.

3.156 One reply was received from Gilberton Beverages Pty Ltd whose comments include 'Any alteration to Gilberton Beverages Pty Ltd system would cause hardship with the monopoly wholesale opposition getting a larger percentage of the market'. (Refer Part 3 Attachment 13.1-4)

3.157 However industry associations did make the following assessments.

3.158 The Distilled Spirits Industry Council of Australia (DSICA) commented that:

'The Committee agrees with the views of the Distilled Spirits Industry Council and recommends that spirits bottling only be permitted on licensed premises which are subject to control by the Department. This would eliminate one category of operator, and should reduce the risk of illegal extension of duty-paid spirit with duty-free spirit. (PAC Report, p 50).

DSICA notes with satisfaction the PAC's adoption of the DSICA Recommendation that bottling out-of-bond be eliminated, and urges early implementation of the recommendation.'

(Refer Part 3 Attachment 12.1-5)

3.159 The Australian Wine and Brandy Producers Association stated:

'The Association recommended that all bottling of spirits should be in bond and the Association is pleased to see that this recommendation has been taken up by the Committee.' (Refer Part 3 Attachment 11.1-9)

Conclusion

3.160 The main concerns expressed by the Auditor-General and the PAC are that whilst out of bond bottlers are beyond Customs control, it is not possible to adequately monitor the inputs of these out of bond establishments. The ACS is not in a position to know just how serious the problem of duty evasion may or may not be.

3.161 Therefore, on the basis of the likely origins of spirit which could be used to extend duty paid spirit with consequent duty evasion - as per para 3(a) to (e) above - the PAC Recommendation No. 10 has been accepted for implementation and the Legal Services Branch has been asked to take the necessary further action.

Australian Customs Service Position

3.162 PAC Recommendation is accepted. ACS is proceeding to implement and steps are now being taken to seek to amend relevant legislation as soon as possible.

PAC Recommendation No. 11

Departmental resources be applied to ensure proper surveillance and investigation of end-users of pure alcohol sold excise free for industrial, scientific and educational purposes.

Response

The classes of alcohol referred to are classified in the Excise Tariff Items:

- 2M . Spirit for industrial or scientific purposes - subject to regulations
- 2N . Methylated spirit - subject to regulations
- 2P . Spirits for scientific or educational purposes - subject to regulations
- 2Q . Spirit for use in public hospitals, or for use in the manufacture of medicinal preparations for use in public hospitals and universities - subject to regulations.

3.163 The ACS has an adequate legal basis for the control of end-users of concessional spirit, however there is a lack of uniformity with the application of existing procedures, and a consequent variation in the results being achieved State by State. Similarly, the investigation programmes are in many instances considerably delayed.

Current Considerations - Examination of PAC Recommendation

3.164 An ACS working party has been formed to up-date and improve the overall policy and procedures for this function. (See also comment on Recommendation 12)

3.165 Included in this review will be a series of recommendations for an improved and more concise format for the Excise Regulations.

3.166 Other changes proposed include:

- (a) the introduction of an Australia-wide format for user application forms, renewable every three years;
- (b) an examination of the financial status of each applicant at the time of application;
- (c) an examination of applicant's premises where any doubt exists as to suitability for approval;
- (d) the introduction of a risk rating programme for all end-users;
- (e) a programme of investigation visits of end-user records, based on risk rating findings and quantities involved;

- (f) a proposal that records of investigations be incorporated into a computer based programme for further analysis;
- (g) a review of end-use security provisions.

3.167 With the introduction of these changes the ACS will be in a much stronger position to ensure proper control and investigation of end-users of concessional spirit as recommended by the PAC.

3.168 The proposed new procedures provide for a selective analysis of all end-users, designed to identify the applicants of highest risk and for the concentration of resources accordingly. Systems based investigations will also be conducted.

Industry Considerations

Industry Attitudes

Australian Wine and Brandy Producers Association

3.169 'It is believed that the control of end users of pure alcohol sold excise-free for industrial, scientific and educational purposes might be improved by bringing in a recording system similar to that now required for wine fortifiers.' (Refer Part 3 Attachment 11.1-9)

Australian Customs Service Position

3.170 The ACS accepts the PAC Recommendation and acknowledges that there is a need for improved controls and a more effective and intense investigation programme with end-users. On receipt of the Working Party's final report which is due by the end of May 1985, decisions will be made with a view to improving controls and better utilisation of existing resources.

PAC Recommendation No. 12

The Committee supports the Department's announcement that a review of their spirits operations is currently being undertaken. The Committee recommends that this review be comprehensive and that sufficient Departmental resources be allocated to allow it to be completed urgently. The review should pay particular attention to the control of fortifying spirit as well as excise-free spirit used in other applications.

Response

Efficiency Audit Comments

3.171 Throughout the Efficiency Audit Report into Spirits the Auditor General expressed some concern in most areas of controls exercised by Inland Services, eg.

'The commodity control of dutiable spirit is clearly a difficult control problem'.

'No formalised Central Office or Collectorate review of systems exists to ensure consistency within and between Collectorates'.

Current Considerations

Examination of PAC Recommendation

3.172 A review of the current procedures and controls over all concessional spirit has been initiated as a matter of urgency as part of an overall review of spirits. (See also comment on Recommendation 11)

Industry Attitudes

Australian Wine and Brandy Producers Association

3.173 'The Association does not agree with the Committee in their statement in paragraph 4.110 where they contend that the major change on 2J spirit was the introduction of the grape spirit excise in the 1983 Budget. The Association believes that the major change with fortifying spirit occurred with the introduction of the fortifiers' licence and the necessity for wine fortifiers to provide details of their use of fortifying spirit to the Australian Customs Service.

3.174 The brandy distilling industry supports the Australian Customs Service in the fulfilment of its task and believes that industry members are ideally placed to provide useful meaningful input into the Department's review of their spirits operations and looks forward to the opportunity to so contribute.' (Refer Part 3 Attachment 11.1-9)

Australian Customs Service Position

3.175 The ACS agrees with the Recommendation of the PAC in relation to a comprehensive review of Spirits Operations.

The review is covering all aspects of the Spirits Industry including:

Concessional Spirits	-	existing excise tariff items 2M, 2N, 2P, 2Q, 2J
Potable Spirits	.	Brandy
	.	Whisky
	.	Rum
	.	Gin
	.	Liqueurs
	.	Spirituous Liquors
Drinks	.	Aerated Mixed Alcoholic

Other aspects to be examined:

Distillation - Production
Materials - Flavourings
Blending - Maturation Provisions
Bottling - Formulae
Licensing - Security, Securities
Legislation, including By-Laws, Out of Bond Bottling, Use of Intel., Illicit & Illegal Spirits, Distillation, Spirits and Excise Acts and Regulations, Customs Act and Regulations (Imported Spirits).

3.176 Because of the magnitude of the task the complete review of controls in the Spirits area will take some time to complete.

3.177 The Inland Services Branch has been re-organised to provide a specialised cell for Spirits administration to better undertake the work involved in this major review.

PAC Recommendation No. 13

Customs readdress the Auditor-General's recommendations on the possible use of independent sources of data to develop a means of estimating potential revenue due.

Response

Background

Auditor-General's Efficiency Audit Recommendation

3.178 Additional independent checks of production quantities should be undertaken to provide assurance of adequate accountability for product. This should be achieved by use of devices for measuring product volumes where increased assurance is deemed warranted.

Australian Customs Service Attitude

3.179 The ACS contends that the available statistics from ABS and other sources are not truly independent in that they are compiled mainly from Customs sources. (See Recommendation 2).

3.180 Breweries have always maintained a record of production which is available to the ACS. The record shows quantities of raw materials used to make particular brews.

Industry Attitudes

The Australian Associated Brewers

3.181 'In practice, brewery data relating to inputs and outputs has always been available to Customs officers for use as a control on the usual data relating to production, stock, deliveries, and duty payments; and, consistent with the selective testing philosophy of the commodity control system, Customs officers are known to have used such data for that purpose.

3.182 If the PAC's reference to independent sources of data is meant as sources entirely independent of a brewing company rather than as independent of the company's final production (packaging), storage and distribution elements, then identification of useful sources is obviously much more difficult. However, you might consider the usefulness of aggregates derived from producers and suppliers of raw material such as hops, malt, barley, sugar, glass and canning materials as indicators. You might also wish to explore the usefulness of data collected by State liquor licensing, taxing and franchising authorities.' (Refer Part 3 Attachment 1.1-3)

Australian Customs Service Position

3.183 The ACS views on this recommendation have been summarised in its consideration of Recommendation 2. The ACS will continue to try to obtain meaningful sources of independent data which could be used to assist in the control of breweries. Verification of production from raw material data will be undertaken in conjunction with the planning of investigation and control checks by the Systems Based Investigation method.

PAC Recommendations Nos 14 & 16

Adequate resources be made available to enable prompt implementation of systems based reviews in the brewing industry (p 8).

Adequate resources be made available to increase the rate of progress in the development of SBI techniques in the tobacco industry and to allow regular review of companies' systems (p 8).

Response

Background

Efficiency Audit Recommendation:

3.184 'Check programs should be designed to validate the adequacy of the producers accounting and recording systems rather than to detect clerical errors. Effectiveness monitoring should be re-directed to evaluating the reliability and accuracy of control systems and revenue protection away from the current emphasis on clerical checking of documentation' (p 12).

3.185 'More attention should be given to assessing material balances and to the use of systems-based checks' (p 12).

Australian Customs Service Position Conveyed to PAC

3.186 The ACS has accepted the Efficiency Audit Recommendations and has an implementation program in progress.

Current Considerations

Examination of PAC Recommendation

3.187 The PAC endorsed the Auditor-General's conclusion that Commodity Control is 'a satisfactory approach' and increased attention and effort should be devoted to this area (p IX).

3.188 Since Systems Based Investigation (SBI) is to be the primary control strategy to support the Commodity Control philosophy, increased resources for SBI is implied.

3.189 The PAC also agreed 'with Audit's view' that Customs should put more effort into SBI specifically (p 21).

3.190 The PAC commented however that notwithstanding the importance of SBI, too much reliance had been placed on this single investigative tool to the detriment of other areas and methods which also require attention (p 22).

Industry Attitudes

W D and H O Wills made the following comments.

3.191 'It has been understood by Wills' management ever since commodity control was introduced that supervision of the system for excise revenue collection would be through regular review of the company's system. Should the department wish to amend its checking procedures it is assured of full co-operation from company management.' (Refer Part 3 Attachment 10.1-13).

Australian Associated Brewers also stated

3.192 'The AAB supports the PAC's recommendation of prompt implementation of systems based reviews in the brewing industry (Recommendation 14). The AAB and individual Members would be pleased to assist in this.' (Refer Part 3 Attachment 1.1-3).

Staffing Implications

3.193 The recommendations can be executed over the longer term within existing resources. However, increased staff numbers will ensure a more timely implementation of the recommendations.

Australian Customs Service Position

3.194 The two Recommendations were considered at a special conference of Assistant Collectors in October 1984 and at the subsequent 1984 Inland Services Conference, each State administration devised a formal work plan to facilitate the completion of systems based investigations into the various industries and premises subject to Inland Revenue control.

3.195 The Conference set the targets of 31 December 1985 for completion of investigations into the Brewing, Tobacco and Distilling industries and 30 June 1986 for the Oil industry.

3.196 In December 1984 the ACS reassigned specialist duties to sixteen existing positions and officers with the necessary qualifications, background and experience were selected for the SBI program. Specialist intensive courses in the systems based technique, computing and accounting were delivered jointly by outside consultants and senior SBI staff in February/March 1985 in Sydney and Melbourne with officers from all Collectorates attending.

3.197 In addition the Inland Revenue and Dumping Division has sought in the 1985 Budget context, an additional 45 staff nationally under New Policy Proposals for 1985/6 to ensure, in particular, that the momentum of the SBI program (together with the risk management program) is maintained.

3.198 The recommendations are supported and implementation is proceeding.

PAC Recommendation No. 15

The Department devote greater effort to the identification and use of alternative sources of data on production volumes in order to estimate the excise revenue due from tobacco products.

Response

Background

Efficiency Audit Recommendation

3.199 Audit recommends that greater attention should be given to the reconciliation of raw material data with production data for the various producers. Inland Services should examine alternative sources of data on production volume and in particular compare production data with ABS retail data to provide useful checks on total revenue.

Previous ACS Attitudes

3.200 It was contended that available statistics from ABS Customs sources and were not helpful in reconciling duty collected with duty liability (see Recommendation No 2).

3.201 Raw material figures are readily available from tobacco companies which can and are used by Customs to check against production data.

Examination of PAC Recommendation

3.202 The ACS views on this recommendation have been summarised in its consideration of Recommendation 2.

Industry Attitudes

W D and H O Wills

3.203 Wills state that while the yield from raw tobacco materials consumed can be used to provide production estimates, the figures are suspect through the variation in moisture content, and a loss of volatiles in heating and drying processes.

3.204 However, tobacco yield data is used to anticipate tobacco usages based on sales forecast and any production trends taking place within the industry.

3.205 Physical count of products in sealed shipping cartons is considered the most reliable method of obtaining production figures. (Refer Part 3 Attachment 10.1-13)

Australian Customs Service Position

3.206 The ACS views on this Recommendation have been summarised in its consideration of Recommendation 2.

3.207 The ACS will continue to try to obtain meaningful sources of independent data which could be used to assist in the control of tobacco products.

3.208 Reconciliation by the ACS of raw material and production data held by tobacco companies will be continued, with updating as necessary through the Systems Based Investigation programme.

PAC Recommendation No 17

The Committee recommends the introduction of a computerised inventory control system, such as TABS, to enable proper inventory control of underbond goods by Customs. In the case of tobacco products, effective implementation of this system would require declaration to Customs of the quantities of excisable manufactured products and imported products moved into licensed warehouses. Such a system could also monitor all product movements underbond.

Response

Efficiency Audit Recommendation

3.209 Although not specifically referring to tobacco products, the Auditor-General suggested that details of entries and releases, maintained separately on the computer (imported goods) could be merged to provide details of inventory on hand (Efficiency Audit Report No 4, p 70)

Australian Customs Service Position Conveyed to the PAC

- (i) Upon the introduction of commodity control the maintenance by Customs of records of inventory of excise manufacturers was abolished
- (ii) Duplication of records retained by manufacturers did not warrant expenditure of the resources required
- (iii) Excisable goods were permitted to move freely underbond vide permissions issued under the Excise Act S. 61A
- (iv) The Customs Service attempted to minimise regulation of excise manufacturers whilst still maintaining control over excisable goods.
- (v) Control is exercised primarily through licensing a pre-condition of which requires the proposed licensee to keep satisfactory records of Operations.

Current Considerations

Examination of PAC Recommendation

- (i) TABS computer system was concerned with the control of cargo generally and its extension to excisable goods was not considered feasible (refer para 13.9 of TABS FEASIBILITY STUDY)
- (ii) Comprehensive redesign of computer programmes could not be undertaken by Customs for some time due to the present Departmental computer priorities

- (iii) The proposal is completely contrary to the whole principle of commodity control
 - normal accounting records of licensees are utilised by Customs
- (iv) Provision of data to be input into the System could involve some cost to industry.

Industry Attitudes

W D and H O Wills

3.210 'Control of stock movement is an essential feature of the company's control system. Production is counted in the factory and documentation accompanies its receipt into adjacent storage. Sales to customers give rise to entries for home consumption and an invoice for the sale. The movement of goods under bond to other company premises is covered by transfer documentation. A similar control system applies in interstate under bond warehouses for receipt of goods transferred and their subsequent sale.' (Refer Part 3 Attachment 10.1-13)

Points in Favour of Adoption

- (i) It would provide a base for audit of recording systems employed by industry
- (ii) The duty liability of each individual licensee would be available at any time
- (iii) 'Tracer' action would no longer be required.

Points Against

- (i) The recommendation is contrary to the whole philosophy and practice of the commodity control system, which is dependent upon licencees/manufacturers maintaining satisfactory documentary and physical control over excisable goods. The ACS believes that controls would not be made more effective if such a proposal were adopted.
- (ii) As all Customs Control Points do not have direct access to the Customs computer network (Refer Appendices 1/2 of Response to Recommendation No. 22) the data being input/extracted would not be current.
- (iii) It would need to take account of change of identity of some goods
 - eg. tobacco products supplied free of excise duty to commissioned Navy vessels vide Excise Tariff Item 18
- (iv) Details of deteriorated/stolen tobacco products would need to be input

- (v) The larger companies receiving tobacco products operate their own computerised inventory control systems which are utilised by Customs. Computer audit software packages are currently being evaluated.
- (vi) A computerised inventory control system would not prevent unauthorised deferral of payments of duty -
 - goods could be removed from warehouse and data input at a later date.
- (vii) Is entirely dependent upon the reliability and accuracy of the data supplied by the industry. This would have to be checked and verified at source by the Customs, exactly the case now.
- (viii) Inventory control is being exercised using commodity control principles.
- (ix) Adoption of Systems Based Investigation as the primary investigation strategy for Inland Revenue will ensure that licensee systems including computerised inventory and sales systems will be subject to a disciplined and exacting examination.

Staffing Implications

- (i) Additional data processing operators would be required to input data.
- (ii) Development of the programme would involve considerable resources of Systems Division.
- (iii) Work commitments of Systems Division would preclude development of such a system for quite some time.

Australian Customs Service Position

3.211 The ACS is improving its controls significantly by Systems Based Investigations, risk management techniques and enhanced ADP audit software packages. Because of alternative action now being undertaken to improve controls in this area, and also because of the views outlined above, the ACS does not consider it appropriate to proceed to implement this recommendation.

PAC Recommendation No. 18

The Department assess:

- the cost in time of imposing the controls; and
- overseas experience of, and possible alternative systems for, prevention of this type of speculation.

Response

3.212 This recommendation concerns the problem of speculation prior to the imposition of Pre-Budget quota controls.

Background

3.213 The ACS has faced difficulties in attempting to prevent excessive speculation in excisable and like customizable products prior to the introduction of new rates of duty. The updating of the relevant ADP suites for the imposition of Pre-Budget Quotas by Inland Services staff has been a time consuming part of the overall exercise. However once on-line it has been an efficient system.

3.214 Previous ACS initiatives have included a call for States to supply figures on costs of quota control operations including salaries, overtime and travel; as well as a Central Office evaluation of these.

Current Considerations

Reports have been received from:

- States on the above costs; and
- Customs representatives overseas on procedures adopted by overseas administrations relating to the prevention of speculation.

States' figures on administrative expenses incurred during the imposition of the 1983 Pre-Budget Quota Controls were:-

Overtime	\$27204
Meal Allowance	1652
Travel	5732
Cars	2938
Telephone/Telex	6710
Printing	1170
Postage	1000
ADP Machine Costs	2882
	\$42295

3.215 The above summary does not take into account the diversion of Inland Services staff in Central Office and the States from their normal duties for the control period.

Overseas Reports

Responses have been received from representatives in New York, London, Auckland, Brussels concerning the following enquiries:

- (a) Do the local Customs/Excise authorities have a procedure for controlling revenue speculation prior to a Budget?
- (b) If so, on what commodities and are they applicable to both Excise and Customs?
- (c) In the absence of the same procedure as Australia uses, is there an alternative system that prevents speculation?

The replies are summarised as follows:

United States

3.216 Excise duties and associated Customs duties are changed infrequently. In any event person having title to subject goods on day of rate change is liable for payment at new rate. No pre-budget quota control procedures are applied by Customs.

Canada

3.217 Duties adjusted each September (based on CPI change). Sale and distribution of spirits is controlled by Provincial Government agencies, including retail level. Beer and tobacco is controlled by an industry association in each province which is also responsible for excise collection. No pre-budget quota control procedures are applied by Customs.

New Zealand

3.218 No procedure for controlling revenue speculation prior to Budget. No alternative system being devised.

United Kingdom

3.219 Essentially there are no controls over either alcohol or tobacco products Pre-Budget. For alcoholic drinks the only restriction is that there are to be no deliveries ex-warehouse after 4 pm on Budget day. For tobacco products there are no restrictions whatever up to Budget day. However, because of the way duty is charged there is a 2 to 3 days delay in the rate changing. There is an agreement between Customs and the companies (not subject to legislation) that they will not clear more than twice their normal rate over this 2 to 3 days period until the new rate comes into effect.

3.220 UK Customs do have a general provision in their Act to allow restriction on clearances ex bond for up to 6 months.

West Germany

3.221 (Subject to interpretation and subject to specific arrangements within the European Common Market). Liability for Excise duty is legally set at the last point in the distribution chain ie. at sale to the consumer. If product is Excise paid ex warehouse and the duty rate increases before sale to the consumer, there is a retroactive liability for the additional duty. It seems liability is calculated and paid at the time of payment of VAT (collection of which Customs is responsible).

Australian Customs Service Position

3.222 The question of whether or not to apply Pre-Budget Quotas in the future is a matter for Ministerial decision.

3.223 The ACS will take into account in future the views of the PAC in making any submissions to the Minister on imposition or otherwise of Pre-Budget Quotas.

PAC Recommendation No. 19

Where unusually high clearances of excisable products occur immediately prior to the imposition of quota controls, a detailed investigation of the circumstances be undertaken and the results be reported to the Minister.

Response

Background

3.224 There were abnormal clearances from bonds of tobacco products and spirits in the two days leading up to the announcement of pre-budget quotas on 22 June 1983.

3.225 The ACS did not investigate whether or not a possible leak had occurred at the time because of the large number of officers who necessarily needed to know of the decision; no revenue had been evaded by those clearing abnormal quantities from bond; the clearances were considered to be speculative rather than made in the knowledge of specific excise changes.

3.226 Since that decision not to investigate was taken, circumstances changed in that it appeared that someone (unidentified to the ACS) may have been privy to knowledge as to who was responsible for a deliberate leak.

3.227 The matter of possible prior knowledge of the decision to impose pre-budget quotas had been raised in the PAC and the Senate.

3.228 These changed circumstances warranted a formal investigation which was conducted by the Australian Federal Police at the request of the Minister.

3.229 A reply from the Special Minister of State on the outcome of the inquiries conducted by the AFP informed the Minister for Industry and Commerce that the AFP found no evidence to implicate any officers of the Department, or of other Departments. The AFP was unable to find any source of information on the identification of the person(s) responsible for the alleged unlawful disclosure.

3.230 Further to this the Special Minister of State advised the Minister for Industry and Commerce that a continuation of this investigation would provide no guarantee of a result being achieved and that the expenditure of resources, both financial and human, could not be justified.

3.231 The PAC did not accept the Department's reasons for not investigating the causes of the unusually high clearances. It acknowledged the AFP investigation and pointed out that Customs should have conducted a full scale investigation at the time, which would have emphasised the maintenance of confidentiality.

Australian Customs Service Position

The ACS accepts the Recommendation.

3.232 Should the Government at some future time decide to impose quota controls and should there be unusually high clearances of the excisable and customable products just prior to imposition, the ACS will immediately have the matter investigated and report to the Minister.

PAC Recommendation No. 20

.... there be a formal "entry into bond" for domestically produced excisable goods with documentation and control comparable to that exercised over imported goods under bond.

Response

Background

Efficiency Audit Recommendation - Nil

Departmental Position Conveyed to PAC - None

Current Considerations

Examination of Recommendation

- (i) As excise duties are calculated at a fixed rate per quantity of product, calculation of duty liability can easily be made
 - imported goods generally are dutiable at an ad valorem rate requiring a different calculation process
- (ii) A somewhat different emphasis in control needs to be maintained over imported goods before clearances due to the community protection aspect
 - eg prohibited imports including narcotics, and quarantinable goods
- (iii) An authority from Customs is required to be delivered to an independent body, eg. a shipping company, before movement of goods to warehouse may occur
 - no such authority is needed for excisable goods
- (iv) Documentation supporting Nature 20 Warehousing entries is required in order to ensure that the goods appearing on the entry are properly valued and the correct level of protection is afforded Australian industry.

Industry Attitudes

Distilled Spirits Industry Council of Australia

3.233 'DSICA rejects this recommendation. DSICA contends that the recommendation is based on a false analogy.

3.234 In the case of excisable goods, the risk management and audit processes of the commodity control system can be applied directly to producers' own records of goods without the prior need to convert a package account to a goods account as is the case with imports.' (Refer Part 3 Attachment 12.1-5)

Australian Wine and Brandy Producers Association

3.235 'Formal "entry into bond" for domestically produced excisable goods with documentation and control comparable to that exercised over imported goods under bond would cause additional paper work should it be introduced in the factory situation. The value of such a system for product having left its place of manufacture would need to be considered carefully.' (Refer Part 3 Attachment 11.1-9)

W D and H O Wills

3.236 'Why the Committee would suggest a "formal entry" for each item delivered is puzzling as it would result in mountainous paperwork and produce no useful additional information.' (Refer Part 3 Attachment 10.1-13)

Caltex Oil (Aust) Pty Ltd

3.237 'This company favours retention of the current bonded warehouse system as it applies to the petroleum industry under which excisable products are moved under continuing permission. We consider that the procedures related to "continuing permission" which provide Customs with access to internal records and documentation together with statistical reports furnished to Government departments, adequately protect the Government's revenue base.' (Refer Part 3 Attachment 4.1-19)

Australian Associated Brewers

3.238 'The AAB is unable to support the PAC's recommendation of formal entries into bond for excisable goods. Excisable goods are documented from the time of their production, in the sense that complete data are maintained for Customs and commercial purposes in relation to their nature, description, quantum and disposition. By contrast, comparable data in relation to imported goods that are warehoused is available only after formal entry for warehousing.' (Refer Part 3 Attachment 1.1-3)

Points in Favour of Adoption

3.239 None apparent other than the introduction of one element of a system comparable to that for imported goods.

Points Against

- (i) Goods entered into bond under one Excise Tariff Item could be cleared from bond under another item
 - eg Spirit received under Item 2(0) could be used to make liqueurs which would be cleared under Item (5A).
- (ii) Additional paperwork for Customs and Industry.

- (iii) As the data would be supplied by the manufacturers, Customs would still need to verify against manufacturers' records.
- (iv) Unavailability of computer facilities due to other priorities.

Revenue Implications - Nil

Staff Implications

3.240 Possible increase in entry processing staff may be needed, depending on extent to which the entries would require detailed processing.

Australian Customs Service Position

3.241 Whilst recognising that adoption of the Recommendation would align one element of the excise system of entries with the Customs entry system, the ACS does not believe it appropriate to implement the Recommendation because no real control benefits are envisaged. In addition there was strong industry reaction against adoption because of the significant additional paperwork required of industry for what was perceived to be little advantage.

PAC Recommendation No. 21

The Committee considers that the Department's control procedures for bonded warehouses lack sophistication and that better use could be made of ADP facilities in this area. The Committee recommends that immediate attention be given to upgrading control systems for bonded warehouses.

Response

Background

Efficiency Audit Recommendation

3.242 'Audit recommends that a risk management approach in this area should include more systematic use of sampling, should concentrate on goods with particularly high risk or particularly significant value and should consider the introduction of systems to identify unusually long dwell times as an indicator of potential revenue risk'. (p 73)

Australian Customs Service Position Conveyed to PAC

- All goods are taken into a warehouse on commercial documentation
- The process of licensing of the Warehouse includes the examination and establishment of satisfactory types and standards of documentation or management controls

- Commodity control system is a proven efficient method of controlling licensed Customs warehouses.

Current Considerations

Examination of Recommendation

3.243 Most of the discussion in the text of the report is addressed to other, more specific, recommendations - eg. 20, entry into bond, or 22, Nature 20/30 reconciliation.

3.244 The Committee expressed concern at the Australian Customs Service's inability to establish, at any given moment, what goods ought to be in a particular bond.

The three main points, however, are -

- lack of 'sophistication'
- better use of ADP facilities
- upgrading control systems.

(i) control procedures lack sophistication

- procedures are at this stage largely manual
- risk assessment and risk management programmes for licensed premises have been developed over some considerable time to allow concentration of resources where greatest risk is perceived

(ii) better use could be made of ADP facilities

- comprehensive inventory control existed in the past by means of the locker and the warehouse register card system; a re-introduction of that system on the ACS mainframe is not contemplated and is against commodity control principles.
- the warehouse proprietor must have an inventory control system, so the ACS need not duplicate his records, but audit them.
- where a warehouse proprietor uses a computer for his own systems, then the ACS needs to be in a position to access and audit that system. A survey has been conducted to establish the extent of computerisation by licensees and to determine relevant details of equipment and software in use. Computer audit programmes can then be developed to enable the efficient investigation of each licensees' records.

(iii) upgrading of control systems

- risk assessment programme current risk management programme current
- systems based investigation and have Inland Revenue training courses current
- computer audit packages being developed for Inland Revenue.

Industry Attitudes

New South Wales Road Transport Association

3.245 'A computer system which reconciles bond entries and clearances so as to provide sufficient information to allow proper inventory control would definitely be a step in the right direction.

3.246 Physical checks could be made by the Department and may prevent unnecessary investigation into the whereabouts of goods. However, bond proprietors would be obliged to keep records on computer and naturally this would entail further added expense to bond proprietors.' (Refer Part 3, Attachment 35.1-6).

Caton Machinery, Queensland

3.247 'It would seem to me that the Department should have access to a more sophisticated computer system to allow detailed, up-to-date records to be maintained for instant recall. I believe that your current system is adequate, but unwieldy.' (Refer to Part 3, Attachment 21.1).

Downtown Duty Free Pty Ltd

3.248 'The Committee's recommendation 21 for immediate attention to upgrading control systems for bonded warehouses would appear to us to have been anticipated and answered by Customs initiatives for systems based investigation which have been taken in consultation with licensees, including Downtown Duty Free Pty Ltd. In our view these initiatives are entirely consistent with commodity control principles, whereas the arguments led by the Committee at paragraphs 7.44-7.46 of its Report are not. The Committee's heading in these paragraphs is towards abandoning the principle of relying on the commercial records of licensees in favour of the Customs computer maintaining a duplicate, check inventory of the contents of licensees premises.' (Refer to Part 3, Attachment 25.1-5).

Points in Favour of Recommendation

3.249 Due to rather general nature of recommendation, points already made above are relevant.

Present Position

- Risk management is part of the overall control strategy
- systems based investigation techniques and computer audit techniques and programmes are under active development
- full ACS inventory controls not economically practicable and is contrary to commodity control principles.

Australian Customs Service Position

3.250 The ACS has taken steps to improve control over bonded warehouses by the introduction of risk management and systems based investigation procedures as well as a national upgrading of Inland Revenue training. Utilisation of the ACS mainframe computer to maintain inventory control is not considered appropriate to pursue at this time. Because of the alternatives now being taken, the ACS does not believe it appropriate to proceed with implementation of this Recommendation.

PAC Recommendation No. 22

Customs promptly develop and implement a computer system which reconciles bond entries and releases to provide sufficient information to allow proper inventory control in bonded warehouses.

Response

Background

Efficiency Audit Recommendation

- (i) The Auditor-General recommends that an ADP system be developed to analyse dwell times of goods in warehouse (p 13)
- (ii) Auditor-General suggested that details of entries and releases, maintained separately on the computer, could be merged to provide details of inventory on hand and dwell times (p 70).

ACS Position Conveyed to PAC

3.251 The re-development proposal was examined by the ACS's ADP Steering Committee which decided that existing resources should be deployed on higher priorities up to 1985. Further action after that date would depend on resources available and the priorities at that time (August 1983). Staff are heavily committed for the foreseeable future in the redevelopment stage of changing from ICL to Univac.

Current Considerations

Examination of Recommendation

- (i) Considerable re-design of computer programmes is required.
- (ii) The proposal is contrary to the principles of commodity control in that licensees' normal commercial records utilised as the basis of Customs control.
- (iii) Would involve considerable additional cost to licensees who would have to provide the information to be input into the programme.

Industry Attitude

W D and H O Wills

3.252 'We repeat our earlier comment that the information necessary for the control of movement of under bond goods is available and is used by Wills for this purpose. Duplication of the system would certainly give Customs its own set of records but the only benefit we can see from this is in cases where the records are not kept adequately. It would seem that periodic returns would be a means of ensuring proper records bearing in mind that the recording system does not achieve real control unless it is verified by physical checks.'

3.253 In the case of tobacco companies these control systems apply to tobacco leaf as well as excisable goods and one cannot help but wonder what practical benefit it would be for Customs to duplicate our system of recording the movement of leaf tobacco.' (Refer Part 3 Attachment 10.1-13)

Australian Duty Free Operators Association Ltd

3.254 'This would involve a significant additional workload with regard to underbond transfers and our Monthly Export Return Clearances. Presumably reconciliation would have to be of quantity and VPD'

3.255 The current practice of some warehouses of transferring underbond at inflated VPD (ie local selling price in lieu of FOB) would have to cease, if a reconciliation with original Warehousing Entry was to be achieved.

3.256 With respect we suggest that increased use of the "Tracer" System along with a 100% check of goods to the warehouse originating the form 20 (Warehousing Entry) could produce a satisfactory solution.' (Refer Part 3 Attachment 16.1-7)

Downtown Duty Free Pty Ltd

3.257 'We consider that the Committee's proposition is founded on misunderstanding of the Customs concepts of documented cargo as distinct from undocumented cargo, and of import stations as distinct from Part V warehouses and S.5A places. In our view the proposition is inappropriate and unnecessary in relation to under bond movements of documented imports and excisable goods.' (Refer Part 3 Attachment 25.1-5)

Points in Favour of Adoption

- (i) It would provide a base for audit of internal recording systems.

Points Against

- (i) The recommendation is wholly contrary to the concept of commodity control and represents a return to the maintenance of ACS recording systems duplicating company systems.
- (ii) As all Customs Control Points do not have direct access to the Customs computer network the information being input, or extracted, would not be current.
- (iii) It would need to take account of the loss of identity of goods subjected to the following processes:-
 - (a) Repacks - where goods are removed from the original import package and repacked into other packages for subsequent duty payment
 - (b) Manufacture - where imported goods are incorporated into other goods prior to release
 - (c) Blending/ - Bottling where imported bulk spirit is mixed with other spirit, water is added to reduce the alcohol content, and the product is placed in bottles.Legitimate losses of spirit may also occur.
- (iv) Other activities would also need to be taken into account:-
 - (a) Export - not presently input into the Customs computer.

- (b) Goods received into warehouse by virtue of a permission granted under the Customs/Excise Acts -not presently input.
- (c) Breakages - where goods may be entered into a warehouse and subsequently, lost, broken, stolen, deteriorated or destroyed.
- (v) The huge volume of underbond goods stored in the many warehouses in Australia (1048) would require a massive increase in data storage capacity and data processing staff to input the information.
- (vi) The current Customs computer system SEARCH has a facility to match clearances of goods to original bonding entries for goods that do not lose their identity whilst in a warehouse.
- (vii) The larger Warehouse proprietors have their own computerised inventory control systems which can be utilized by Customs officers. Computer audit software packages are currently being evaluated which will enhance the capacity of Customs to determine the accuracy of data contained within this electronic recording medium.
- (viii) The lack of data available on unentered ('time-up') cargo could preclude it from inclusion in a computerised inventory system.
- (ix) A computerised system would not prevent unauthorised deferral of payment of duty -
 - goods could be removed from warehouse and data input at a later date.

Staffing Implications

3.258 Additional data processing operators would be required to input data of underbond removals between premises.

3.259 However, should the PAC's suggestion be adopted that underbond removals be restricted to allow a once only movement from import station to warehouse (p 76 of PAC Report), the staff increase may be minimal.

Other Considerations

- (i) The Customs computer programme SEARCH has a limited capacity to match clearances to bonding entries (Refer Appendix 4).

- (ii) A computer programme relating to the underbond removal of imported cargo (Permission Profile System) was trialled for some months in selected Collectorates but was not found to be cost effective.
- (iii) Development of nationwide computer programmes using the SPERRY computer cannot be contemplated for some time due to the work commitments of Systems Division on redevelopment.
- (iv) Computer audit software packages are being evaluated and a submission for purchase of hardware for Sydney and Melbourne was included in the New Policy Proposals for 1985/86. Installation of this equipment will provide more efficient auditing of electronic data produced by client bodies.

Australian Customs Service Position

3.260 The ACS considers that, because of current developments relating to control over the movement of underbond cargo as well above it would not be appropriate to implement the recommendation at this time.

PAC Recommendation No. 23

The Committee endorses the Auditor-General's recommendations that Customs should analyse dwell times of goods underbond and direct investigative efforts to those goods with apparently lengthy dwell times. Similar comments apply to Audit's suggestion that efforts should be concentrated towards those warehouses which yield the greatest revenue (p 92).

Response

Background

Efficiency Audit Recommendation

3.261 Audit recommends that a risk management approach in this area should include more systematic use of sampling, should concentrate on goods with particularly high risk or of particularly significant value and should consider the introduction of systems to identify unusually long dwell times as an indicator of potential revenue risk (p 73).

Departmental Position Conveyed to PAC

3.262 The Audit Recommendation was accepted in a submission of 12 August 1983.

Current Considerations

Examination of PAC Recommendation

3.263 The ACS has re-considered its position on this matter. Basically, it does not consider that high revenue necessarily equals high risk, nor that long dwell times are an indicator of potential revenue risk.

3.264 The ACS has accepted and implemented national risk management strategies for warehouses and also accepts the Committee's concern that investigative effort should be concentrated on high risk areas. The ACS considers that 'risk' needs to be defined more broadly than the above narrow indicators.

Industry Attitudes

W D and H O Wills

3.265 'We certainly support the notion that any system should detect goods of long dwell time but suggest again that companies keep adequate records. The goods concerned should be identifiable and believe this to be so for our excisable product.'

Philips Industries Holdings Ltd

3.266 It would seem that undue emphasis has been placed on the dwell time issue. The use of bonded stores by industry is often dictated by external demands placed on the industry or imminent decisions, by Government, which create high levels of uncertainty.

NSW Road Transport Association

3.267 Recognition should also be given to the special needs of some classes of goods; for example, maturing spirits and some heavy equipment and components for projects having extended construction times. Any extended time limits for re-warehousing should be provided for at the time of entry into bond.

Australian Retailers Association

3.268 'Dwell Times' in bond vary significantly across product lines. It is not unusual for retailers who import merchandise to have goods in bond for longer than three months and up to a year or even longer. There are a number of reasons for this:

- (1) Quota entitlements
- (2) Seasonal supply
- (3) Goods in dispute

Downtown Duty Free

3.269 Many classes of goods reside in bond for long periods for good and sufficient reason. Examples include goods attracting high duties and sales taxes that have low turnover factors, goods requiring maturation, goods awaiting availability of quota coverage, and goods that are simply owned by persons short on cashflow.

AFA Meadows Freight

3.270 This system would restrict importers with goods that have dwell times over three months, ie. importers who bring large volumes to reduce freight costs but only ex-warehouse a part of the shipment after the previous part has been sold, each prior ex-warehouse funding the duty payment of the next. This we believe is a wide spread practice.

Tuart Hill

3.271 This company would have no complaints about customs officers inspecting goods that had been underbond for a period greater than say six months on a regular basis. This company does not believe that breaches of the Customs Act are occurring with any where near the frequency assumed by the Committee in its report.

Points in Favour of Adoption

3.272 The ACS's revised approach still has as its basic objective that investigative effort should be directed at those goods which have the greatest revenue risk. The ACS considers that the criteria to determine risk are not solely related to dwell times.

Points Against

3.273 With respect to dwell times, the ACS considers that Section 96(1) of the Customs Act serves to inhibit importers from protracted storage of goods in bond. If bond storage charges are unpaid for six months the goods can be sold at Collectors' Sales.

3.274 It is considered that the Committee's concern about dwell times in bond may be founded on the premise that there is a higher risk to revenue if goods remain in bond for long periods. In this regard it should be noted that the provisions of Section 35A of the Customs Act and 60 of the Excise Act ensure that the duty liability on all goods in a warehouse is satisfied.

3.275 The foregoing assessment was based on experience gained since the first introduction of practical risk-management in Brisbane warehouses since October 1983. Subsequently, these principles were introduced into other State warehouse programs during 1984, as set out in the Department's submission of 7 May 1984.

3.276 The Public Service Board examined the principles in Brisbane warehouses in its diagnostic study for its Financial Management Improvement Program. Later, Consultants Price Waterhouse Associates also reviewed this management program in its report on licensing fees for warehouses and cargo depots. Both of these reports endorsed the Customs management strategy described above.

Revenue Implications

3.277 More duty or sales tax payable does equal higher ratings but not to the narrow extent of the Recommendation. The ACS re-emphasises the broader headings to be taken into account in assessing the risk of an individual premise, so as to rank it relative to all other premises in the program.

Australian Customs Service Position

3.278 In view of the views expressed by industry and the introduction of risk management and systems based investigation techniques, the ACS considers that these developments are more appropriate to the control of warehouses and therefore does not support implementation of the PAC recommendation.

PAC Recommendation No. 24

Customs examine the benefits to be gained from effectiveness surveys, correct the methodological problems experienced with the warehousing survey and proceed with further surveys as soon as possible so the results can be used as management aids.

Response

Efficiency Audit Recommendation

3.279 The effectiveness measurement procedures under development by the ACS provide a basis for development as the control segment of a risk management system. Programs should be designed to assess the effectiveness of firms' control systems when supported by Inland Revenue checks, not the checks alone (p 33).

3.280 Central Office would be expected to be able to justify the level of resources used in each Collectorate through a control process relating program objectives and performance effectiveness measures to resource needs (p 37).

Australian Customs Service Position Conveyed to PAC

3.281 The ACS has previously advised the PAC that the concept of effectiveness-measurement (EM) is one of the elements of the risk management strategy under development. Another element of that strategy is the results of the investigation technique known as Systems Based Investigations (SBI) which is currently being introduced throughout Inland Revenue. It is through SBI that the ACS will assess the effectiveness of individual firms' control systems.

3.282 The EM exercise on warehouses completed in April 1982 was intended as a pilot study aimed at refining the techniques of measuring warehousing operations on a national level. There were reservations about the results of this survey because of deficiencies noted in the methodology applied.

3.283 The expertise for developing EM exercises rests with the Effectiveness Planning Section of the Systems Division. A revised warehouse study has not been possible because of higher priorities and lack of resources in that section. It is anticipated that resources will be available during 1985 to recommence the warehouse study.

Industry Attitudes

Tuart Hill Truck (Sales) Pty Ltd commented:

3.284 'We believe the Department should try and estimate from the data it already has on hand what errors if any are occurring in the system, and then from this information make a commercial decision as to what further investigation is warranted.' (Refer Part 3 Attachment 41.1-11)

Australian Electrical and Electronic Manufacturers Association Ltd stated:

3.285 'Whilst it is always possible to improve any business system, our suggestion is that it is timely that such a review between the Customs Service, manufacturers and importers should be jointly developed, particularly having regard to the wider application of computers by all parties.' (Refer Part 3 Attachment 17.1-3)

Australian Customs Service Position

3.286 The ACS accepts the Recommendation and has included the results of EM exercises in the risk management strategy for Inland Revenue. The warehousing study will recommence during 1985 and the extension of EM will depend on the availability of resources.

PAC Recommendation No. 25

The Committee also recommends that the perceived need for the bonded warehouse system should be re-examined, including the implications of abolishing or modifying the system. The Committee considers that this issue should be referred to the Industries Assistance Commission (IAC) for inquiry.

Response

Background

Efficiency Audit Recommendation

....

ACS Position Conveyed to PAC

3.287 At the express request of the Committee, the ACS drew up an options paper on possible alterations to the warehouse system; refer pages 135-151. The ACS stressed that it was not contemplating any change to the warehousing system.

Current Considerations

Examination of Recommendation

3.288 The PAC recommendation has two elements:

- examination of the perceived need for the system, including the implications of abolishing or modifying the system
- IAC inquiry.

3.289 The PAC attitude appears to have been based on the understanding that the sole function of the warehouse system is to defer payment of duty on goods that will go into home consumption.

3.290 There are a number of other functions of warehouses which must be considered in any review -

- manufacture
- duty free shops (export warehouses)
- securing of undocumented goods
- holding of underbond customable and excisable goods pending export as cargo
- extends legal access by Customs to imported goods, allowing more time for examination for community protection and other Customs control purposes.

Industry Attitudes

3.291 A wide cross-section of industry organisations and companies have made submissions on this PAC recommendation. A complete list is contained in Part 3 Attachments 14-45.

3.292 All oppose the concept of abolition, abolition of private warehouses alone, or the substitution of some form of duty credit scheme in lieu of warehousing.

3.293 All point out the substantial financial penalties involved in abolition and their impact on the economy. In 1983/84 goods worth \$1.4 billion were cleared through Customs warehouses. This is an increase of 48% since 1978/79.

3.294 Some indicate that industry, commerce and trade have over the last century or more structured their entire businesses around the warehousing system in its more or less international and traditional form, and the consequences of abolition would be both unpredictable and dramatic.

3.295 Some believe that the appropriate body for any review is the Customs itself, and others that the IAC is a wholly inappropriate body for such a review, while another view is that the IAC is an appropriate body for the review.

3.296 At least one submission makes the point that, regardless of results, IAC enquiries are very costly to witnesses and taxpayer alike.

Points in Favour of Adoption

- None apparent.

Points Against

- Time and cost.

Revenue Implications

3.297 Given the above value of \$1.4 billion, duty on goods in warehouses would be about \$350 million. Abolition of warehousing coupled with extensions of time to pay duty would result in a 'one-off' increase in revenue in the year of introduction but would be balanced by any potential extension of time to pay which is a policy matter for Treasury consideration.

Staffing Implications

- Dependent entirely upon the outcome of any inquiry. However, it is quite possible that there would have to be a staff increase at barrier level to handle the increased clearances and examinations wharfside which might entirely offset reductions in the Inland Revenue area.

Australian Customs Service Position

3.298 The ACS believes that the warehousing system is a basic facility which is essential to provide to industry and commerce generally.

3.299 In addition the ACS is currently examining the concept of introducing a national cargo control strategy which has implications for the removal of goods underbond including to warehouses and approved places. In view of the strong industry reaction and because of the views outlined above, the ACS does not consider it appropriate at this time to take any further action on this Recommendation. However the ACS does believe that when the implications of a national cargo strategy become clearer, it would be appropriate to engage Consultants to examine the current warehousing system, which has been in existence since 1901, with a view to making recommendations on what type of system is needed to better cope with the current and future needs of industry and commerce.

Supplementary Information

3.300 The ACS therefore does not consider that it would be appropriate at this time to recommend to the Minister for Industry, Technology and Commerce that a reference be made to the IAC on the question of the perceived need for the warehousing system.

3.301 One of the fundamental issues involved is the underbond removal system, which is currently under review, including trials of a new system in some Collectorates. In addition, the fee structure for warehouses has been revised and new fees, which increase the previous annual fee of \$1 900 by over 200%, are to apply from 1 July 1985. The new fees followed receipt of advice from Price Waterhouse on the matter and are based on the principle of recovery of administrative costs.

3.302 It is expected that a number of licensees will not renew their warehouse licences as a result of this change.

3.303 Because of these latest developments and also because of the other comments referred to above, Customs considers it would be premature to recommend to the Minister that the matter be referred to the IAC for inquiry.

PAC Recommendation No. 26

Customs seek sources of independent data to allow checks of revenue due against revenue collected. Estimates should be made against crude oil input figures and any available sales or usage figures. (See also Recommendation No. 2).

Response

Background

Efficiency Audit Recommendation

- Audit recommended that detailed consideration be given to introducing measurement of total production immediately the product assumes the characteristics of petroleum; and
- the burden for proof for losses in refineries should lie with producers, but Inland Services should develop and use technical skills to validate loss claims.

Previous ACS Attitudes

(i) While only occasional random checks of refinery production figures were carried out, product quantities transferred to licensed installations are verified on receipt into those installations and are used as a basis for product controls at individual premises.

Figures used are provided by receiving installations and verified against refinery delivery figures as supplied.

(ii) Losses examined by Customs were allowed or rejected on the historical basis of previous performance of the individual installation under consideration; acceptance or rejection also takes account of circumstances relating to particular losses. Where losses cannot be satisfactorily explained duty is called up by the Collector under the provisions of Section 60 of the Excise Act.

Current Considerations

3.304 This Recommendation should be considered in the light of comments in Recommendation No. 2. Efforts have been made to ascertain sources of information outside of ACS and oil company operations, but without success. Published data on the oil industry is based on either Customs or company sources.

3.305 Other Departments including Resources and Energy and the Bureau of Statistics advise that they were unable to suggest any sources of data outside Customs or the industry.

3.306 In an attempt to find alternate means of ascertaining duty liability, the ACS has taken steps to compare total Australian throughput (that is deliveries of product into home consumption) against duty payment from entries.

3.307 A reconciliation is possible through the refinery and installation accounting structure, that is, from the receipt of crude oil through to delivery for home consumption. This exercise will be conducted on an ongoing basis and will provide a quasi-independent source to estimate revenue liability to enable comparison with revenue receipts.

Points Against Adoption

- None.

Revenue Implications

- None.

Staffing Implications

3.308 No overall increase in staffing is foreseen, however, there may need to be some re-location of resources to the refinery to verify data.

Industry Attitude

B P Australia Ltd

3.309 'We believe our measurement of refined product ex refineries is generally very accurate. Although problems with individual parcels and temperature do occur these do not have a significant influence on the overall level of accuracy.' (Refer Part 3 Attachment 3.1-5)

Mobil Oil Australia Ltd

3.310 'The methods which Mobil uses in determining quantities delivered from its refineries are detailed in Attachment 1. Conceptually, we believe that any method which is commercially acceptable should also be acceptable for Customs purposes.' (Refer Part 3 Attachment 6.1-32)

Australian Customs Service Position

3.311 The ACS supports this Recommendation but initial studies have failed to establish fully independent sources of data which would enable a check of revenue due against revenue collected. An examination of statistics of refinery crude oil inputs and refinery usage and sales to off-takers is being conducted and will be on-going, which is expected to provide a quasi-independent estimate of revenue liability with which to compare revenue collections.

PAC Recommendation No. 27

The Department review the effectiveness of the administration of the diesel fuel rebate scheme.

Response

Background

3.312 The PAC decided not to examine the Diesel Fuel Rebate Scheme in detail because:

- collection of excise on diesel fuel was similar to other excise collections and therefore covered in other areas of the Report;
- the payment of rebates was not, strictly speaking, excise collection;
- the scheme had only been in operation a short time; and
- the scheme had been the subject of a report, in September 1984, by the Auditor-General.

3.313 The Committee added that it intended to scrutinise the matter in the context of its consideration of the Auditor-General's Report, which was published in September 1984.

Current Considerations

3.314 The PAC in examining the Auditor-General's Report of 1984, then sought a submission from the ACS which would be used in deciding whether it would conduct a detailed inquiry into the Scheme.

3.315 The ACS provided the PAC with a submission on 30 November 1984 and is awaiting further advice.

Australian Customs Service Position

3.316 In the context of its examination of the Auditor-General's Report of 1984, the PAC sought a submission from the ACS which would be used in deciding whether it would conduct a detailed enquiry into the Scheme. The ACS provided the PAC with a Submission on 30 November 1984 and is awaiting further advice.

3.317 Accordingly, the ACS does not propose to take any action to review the administration of the Diesel Fuel rebate scheme at this time.

PAC Recommendation No. 28

The Committee concludes that abuses of the Petroleum Products Freight Subsidy Scheme are not under control and the deterrents are inadequate. The Committee recommends:

- immediate substantial increases in penalties
- the freeing of more resources from other areas for transfer to investigation work in this area; and
- the application of ADP resources to the administration, control and monitoring of the freight subsidy scheme.

Response

Background

3.318 The Committee decided to extend its terms of reference to include, in its inquiry, consideration of the petroleum products freight subsidy scheme which is also administered by the Australian Customs Service. The Committee's consideration of this area concentrated on Queensland and Northern New South Wales.

Previous ACS Attitude

3.319 As indicated in evidence given to the PAC, the ACS has been aware of certain deficiencies in its range of measures for control of the scheme.

Current Considerations

3.320 Steps have been taken at ACS level to implement changes as recommended by the Committee in relation to increases in penalties.

3.321 Each State and the Northern Territory Government have agreed to increase the level of penalties in their Subsidy Acts and the amending legislation is in the process of being drafted.

3.322 The provision of more resources for investigation work will be considered along with the resource implications of many other Recommendations of the PAC Report and be a major element of the implementation strategy in a general review of the organisation for Inland Revenue and the allocation of resources scheduled for the second half of 1985.

3.323 The question of the ability of the ACS to devote more resources to investigation work will depend upon priorities of the area and be contingent upon any policy issues for which responsibility has been transferred to the Department of Territories and Local Government.

3.324 A feasibility study into the computerisation of the administration of the Scheme was undertaken and it recommended that the proposed system should be developed and implemented on the ACS Sperry equipment and associated network. It was estimated that the five year cost of the system would be \$636,000 and four man years effort would be required for development.

3.325 The ADP Policy Committee of the ACS considered this Recommendation at its meeting on 4 September 1984 and decided that because of other priorities no resources were available for development of new systems and action was to be deferred on the proposed system.

3.326 This decision was reconsidered by the Committee at its meeting of 7 February 1985 and the Committee has deferred the development of a mainframe system on current equipment because of:

- current Systems Division staffing limitations;
- uncertainty surrounding the capacity of the current machine configuration; and
- PAC Recommendations to review the objectives and policy of the PPSS.

3.327 However, the Systems Division was instructed to prepare a new Policy Proposal based on the earlier Feasibility Study to detail all ADP development, support staff and extra equipment requirements to effect system development in the longer term.

3.328 In the interim, the Committee agreed to priority for a study to determine the viability of providing interim assistance in the administration of the PPSS. As a result a New Policy Proposal has gone forward seeking funds for the acquisition of mini computers to assist in the administration of the Scheme in the context of the 1985 Budget.

3.329 The ability of the ACS to apply ADP resources to the administration, control and monitoring of the scheme will depend upon the level of ADP resources available and determination of priorities for their use.

Industry Attitude

3.330 As a general comment both oil companies and the independent distributor organisation are supportive of changes to the scheme which prevent abuse.

Points in Favour of Adoption

3.331 It is considered that the increasing of penalties will act as a greater deterrent to persons who may otherwise contemplate committing a breach of the legislation.

Points Against

- None.

Revenue Implications

3.332 The introduction of computer facilities should result in more false claims being identified with a corresponding reduction in expenditure. It is not possible to quantify what these savings will be.

Australian Customs Service Position

3.333 The ACS supports the Recommendation in part. Negotiations with State Governments to improve legislative control over the Scheme are proceeding and general agreement has been reached to increase penalties.

3.334 The PAC Recommendation to transfer more resources from other areas will be considered in the light of a proposed comprehensive review of Inland Revenue staffing. Refer to Recommendation No 6.

3.335 The PAC Recommendation for application of ADP resources to the Scheme is dependent upon the level of ADP resources which might be available to assist the Inland Revenue area and determination of priorities for use of those resources.

PAC Recommendation No. 29

A comprehensive review of the Petroleum Products Freight Subsidy Scheme be undertaken within a year of the introduction of the other Recommendations. The review should include consideration of:

- the extent of abuses and their revenue implications;
- the costs of administering the scheme as well as the costs of increasing surveillance and investigation to plug the apparent gaps;
- means of streamlining procedures and requirements to minimise opportunities for abuse;
- the implications, cost and benefits of abolishing the scheme; and
- alternate ways of achieving the intended outcome.

Response

Background

See Recommendation 28.

Present ACS Position

3.336 The ACS will work towards the implementation of Recommendation 28 and at the same time be continually mindful of the Committee's Recommendation 29.

Australian Customs Service Position

3.337 The ACS agrees with the Recommendation to proceed with a further review of the Petroleum Products Freight Subsidy Scheme following implementation of Recommendation No. 28.

I. CASTLES
Secretary
Department of Finance
23 May 1985

PART 3

RESPONSE BY INDUSTRY TO PAC REPORT NO. 224
ON THE INQUIRY INTO THE COLLECTION OF EXCISE
AND DEFERRED CUSTOMS DUTIES

SUBMISSION BY	ATTACHMENT NO	RECOMMENDATIONS ADDRESSED
BREWING INDUSTRY		
The Australian Associated Brewers	1.1-3	2,3,13,14,20,25
COMMERCIAL-IN-CONFIDENCE SUBMISSIONS		
Various private industry submissions	2-7 (See Part 4)	Various
TOBACCO INDUSTRY		
Philip Morris Limited	8.1-2	3,25
Rothmans of Pall Mall (Australia) Limited	9.1-2	3,25
W D and H O Wills (Australia) Limited	10.1-13	15,16,17,20-23,25
SPIRITS INDUSTRY		
Australian Wine and Brandy Producers' Association	11.1-9	1-12,20,25
Distilled Spirits Industry Council of Australia	12.1-5	3,7-10,20,25
Gilbertson Beverages Pty Ltd	13.1-4	11

SUBMISSION BY	ATTACHMENT NO	RECOMMENDATIONS ADDRESSED
WAREHOUSING INDUSTRY		
Amalgamated Wholesalers	14.1	25
Amalgamated Wireless (Australia) Limited	15.1	25
The Australian Duty Free Operators Association Ltd	16.1-7	20-23,25
Australian Electrical and Electronic Manufacturers Association Limited	17.1-3	24,25
Australian International Movers Association	18.1-3	25
Australian Retailers Association	19.1-2	23,25
Danzas Wills Pty Limited	20.1-2	25
Caton Machinery	21.1	21,25
Centre Industries (Spastic Centre of NSW)	22.1	25
Consumer Electronics Supplier Association	23.1-5	25
G J Coles and Company Limited	24.1	25
Downtown Duty Free Pty Limited	25.1-5	20,21,22,23,25
L M Ericsson Pty Ltd	26.1	25
Federal Chamber of Automotive Industries	27.1-5	25
M K Feil and Associates Pty Ltd	28.1-3	25
G W A Limited	29.1-8	23,25
Lindeman (Holdings) Limited	30.1-7	25
Mantons Pty Ltd	31.1-2	25

THE AUSTRALIAN ASSOCIATED BREWERS

SUBMISSION BY	ATTACHMENT NO	RECOMMENDATIONS ADDRESSED
Mazda Motors Pty Limited	32.1-7	23,25
AFA Meadowsfreight Pty Ltd	33.1-3	20,21,23,25
Millquin Sugar Company Pty Limited	34.1	25
New South Wales Road Transport Association	35.1-6	21,22,23,25
Philips Industries Holdings Limited	36.1-6	25
Queensland Electricity Commission	37.1	20,25
Ronson Pty Ltd	38.1	25
Standard Telephone and Cables Pty Ltd	39.1-2	25
Stuart Alexander and Co. Pty Ltd	40.1-5	25
Tuart Hill Truck (Sales) Pty Ltd	41.1-22	20,21,22,23,24,25
John W Tunbridge and Associates	42.1-2	25
Victorian Road Transport Association	43.1	23,25
West Australian Road Transport Association	44.1-2	25
J Wright and Sons (Aust) Pty Ltd	45.1-2	25
K A T Australia Pty Ltd	46.1-2	25
Mercedes-Benz (Australia) Pty Ltd	47.1-2	25

The Secretariat
1 Bourke Street
Carlton, Victoria 3053

Box 8431, G.P.O.
Melbourne, Vic. 3001
Telephone: (03) 342 5660
(03) 342 5556

21 January, 1985

Mr. P. Sergeant,
Acting Assistant Secretary,
Inland Services,
Australian Customs Service,
Department of Industry,
Commerce & Technology,
CANBERRA, A.C.T., 2600

Dear Phil,

P.A.C. REPORT

The Australian Associated Brewers has now had the opportunity of examining the Report of the Joint Committee of Public Accounts (P.A.C.) on Excise and Deferred Customs Duties, and of considering its position in the light of the report.

You might be interested in our conclusions.

Firstly, we note the P.A.C.'s interest in the fact that the brewing industry carries out reconciliation exercises between inputs and outputs, and that consequently there is a recommendation that Customs address the Auditor-General's recommendations on the possible use of independent sources of data to develop a means of estimating potential revenue due (Recommendations 13 and 2).

In practice, brewery data relating to inputs and outputs has always been available to Customs officers for use as a control on the usual data relating to production, stock, deliveries, and duty payments; and, consistent with the selective testing philosophy of the commodity control system, Customs officers are known to have used such data for that purpose. That point does not appear to have been fully grasped by the P.A.C.'s researchers. If you think that it would be useful for Inland Services people in each state to retrace and reflect upon the body of data that is available in each brewery for reconciliation and test, The A.A.B. and its members would be pleased to assist. However, I would expect that this process would be a part of the systems based review approach that Customs have already adopted without any prompting from the P.A.C.

If the P.A.C.'s reference to independent sources of data is meant as sources entirely independent of a brewing company rather than as independent of the company's final production (packaging), storage and distribution elements, then identification of useful sources is obviously much more difficult. However, you might consider the usefulness of aggregates derived from producers and suppliers of raw material such as hops, malt, barley, sugar, glass and canning materials as indicators. You might also wish to explore the usefulness of data collected by State liquor licensing, taxing and franchising authorities.

The A.A.B. notes that the P.A.C. recommends that an excise collection system proposed in chapters 5, 6 and 8 of the report serve as an example of the options to be considered in a detailed examination of alternative methods of excise collection (Recommendation 3).

A.A.B. representatives expressed firm opposition to the system proposed by the P.A.C. at the Public Hearing in Sydney on 19 July, 1984 (P.A.C. Transcript of Evidence, pp. 634 - 670). The A.A.B. reaffirms its opposition to it.

In this context, The A.A.B. stands by its offer to explore with Customs the prospect of assisting the management of the commodity control system by harnessing the computer and data base resources of Customs and individual brewers with a facility along the lines of COMPILE (ibid, p. 645). However, on reflection, and following consideration of the P.A.C.'s report, it seems to us that such an initiative would compromise the commodity control philosophy. In our view, the commodity control philosophy is a sensible and efficient one, and should be allowed - or be made - to stand on its merits. In our view, the appropriate remedy to any perceived shortcomings in the Customs control of excise and warehousing functions is to ensure that the commodity control system operates as it was designed to operate and with the benefit of the levels of manpower and training envisaged by its architects.

In similar vein, The A.A.B. is unable to support the P.A.C.'s recommendation of formal entries into bond for excisable goods. Perhaps the P.A.C.'s recommendation in this matter derives from a misunderstanding of the concept of imported goods being either documented or undocumented, and of undocumented imports achieving documented status upon entry for warehousing. Excisable goods are documented from the time of their production, in the sense that complete data are maintained for Customs and commercial purposes in relation to their nature, description, quantum and disposition. By contrast, comparable data in relation to imported goods that are warehoused is available only after formal entry for warehousing.

The commodity control system is designed to provide for the tracing and accounting of the history of excisable goods from the time of their production until the time of their delivery to home consumption. To seek to capture data relating to excisable goods through formal entries similar to those that apply to warehoused imports is to seek reintroduction of the Customs-maintained bond register and bond movement register system that the commodity control system was intended to obviate. It is akin to the Taxation Commissioners seeking to capture details of each taxable transaction in progressive formal entries.

Given that the inquiries of the Auditor-General and the P.A.C. between them spanned some four years, The A.A.B. is very surprised at the P.A.C.'s recommendations that the perceived need for the bonded warehousing system should be re-examined through a reference to the I.A.C. (Recommendation 25). The A.A.B. is unable to support that recommendation. The bonded warehousing system fulfills a very valuable function for commerce by conveniently enabling protective and revenue duties of Customs and Excise to be deferred until they are properly due - i.e. until the relevant goods are delivered from controlled storage into home consumption. The value of the facility should be evident from the multifarious nature of warehouse licensees and users. In the circumstances, The A.A.B. could understand a short-fall in departmental cost recovery with respect to the warehousing system - but that is a matter that we understand is currently being addressed by the department itself.

In all the circumstances, the recommendation for an I.A.C. inquiry would appear to The A.A.B. to be unnecessary, and to be founded on misty assumptions about dwell times and the population of uses and users of the warehousing system.

The A.A.B. supports the P.A.C.'s recommendation of prompt implementation of systems based reviews in the brewing industry (Recommendation 14). The A.A.B. and individual members would be pleased to assist in this.

These are our thoughts on the P.A.C. report so far. We hope that they are of value. We would be pleased to discuss them further with you.

With kind regards,

Yours sincerely,

M.H. Halford (Dr.)
Scientific & Technical Manager



PHILIP MORRIS

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INCORPORATED IN VICTORIA

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February 14, 1985

Mr. B.L. Cody,
Assistant Secretary,
Inland Services,
Australian Customs Service,
Edmund Barton Building,
CANBERRA A.C.T. 2600

Dear Sir,

RE: JOINT PARLIAMENTARY COMMITTEE OF
PUBLIC ACCOUNTS: REPORT 224

Thank you for providing us with the opportunity to comment upon the recommendations contained in the above Report of the Inquiry into the Collection of Excise and Deferred Customs Duties. The Managing Director has asked me to respond to your letter of December 3, 1984 on his behalf.

Our comments are confined to the recommendations and observations contained within chapters 6 and 7 relating to tobacco products and bonded warehouses respectively.

We were very interested to read the comments and recommendations which canvassed the idea of shifting the point of excise collection to the point of cigarette packing and thus eliminate the need for bonded warehouses. Provided this was accompanied by compensating financial arrangements regarding payment of excise, and by safeguards to ensure that importers were neither advantaged or disadvantaged vis a vis domestic producers, we favour this proposal being explored further. Such a proposal would both reduce clerical overheads and improve our control over payment of our largest single disbursement.

We believe the best means of compensating for moving the point of excise collection would be some form of extended excise deferment which takes account of the present average under bond 'dwell period'. The alternative approach, suggested at par 7.39, of reducing the excise rate, would reflect financing costs (interest rates) at the time of the change only. In addition, manufacturers would be faced with a massively increased need for working capital.

- 2 -

The issue of imported products could probably be most easily addressed by providing importers with a duty deferment scheme which reflects average 'dwell times' between importation and sale. A problem arises however when anticipated shipping problems lead importers to build their inventories. Flexibility in adjusting the deferment period would therefore be necessary.

Finally, we wish to briefly respond to a few other points in the Report.

- The reference at 6.23 to an 11% moisture standard as "current practice" at Philip Morris is incorrect. The moisture standard was a proposal (now about to be trialled) to achieve uniformity among manufacturers, whether they dried cigarettes or not.
- The suggestion at 6.41 that "the declared weight of cigarettes be calculated where duty is payable" is no longer our view as regards a workable measurement procedure.
- We make the observation that, in relation to 7.2, that the 'prescribed conditions' for storage of duty paid goods in bonded warehouses vary markedly from state to state.

In summary, we believe that the Committee has put forward a valuable proposal for simplifying excise payment and control which we would like to see pursued.

Yours faithfully,
PHILIP MORRIS LIMITED


J.H. FEENEY
FINANCIAL SERVICES DIRECTOR

c.c. Mr. W. Green

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ROTHMANS AA20364*
INDYCOM AA62654

ROTHMANS AA20364/TLX0122 21/1/85 10.00 A.M.

ROTHMANS OF PALL MALL

11471 1115 AM '85

ATTENTION MR. B.L. CODY
ASSISTANT SECRETARY
INLAND SERVICES
AUSTRALIAN CUSTOMS SERVICES

IN REPLY TO YOUR LETTER OF 3RD DECEMBER, 1984 TO OUR MANAGING DIRECTOR, WE REITERATE OUR COMMENTS WHICH WE MADE TO THE SECRETARY OF THE JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS IN THE FOLLOWING CABLE:-

ATTENTION MR. M.J. TALBERG - SECRETARY

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS ENQUIRY INTO THE COLLECTION OF EXCISE AND DEFERRED CUSTOMS DUTIES.

IN REPLY TO YOUR TELEX DATED 25TH OF MAY, 1984 WITH REGARD TO A PROPOSED CHANGE IN THE POINT OF COLLECTION OF EXCISE, WE MAKE THE FOLLOWING COMMENTS.

1. YOUR PROPOSAL WOULD REQUIRE AN ADDITIONAL PERMANENT INVESTMENT FOR OUR COMPANY OF APPROXIMATELY \$42 MILLION ON OUR AVERAGE STOCK HOLDING UNDER BOND OF 1.3 MILLION KILOGRAMS OF CIGARETTES, WHICH WOULD BE A PROHIBITIVE SUM FOR ROTHMANS TO RAISE, AND WHICH WOULD ATTRACT AN INTEREST COST FOR OUR COMPANY OF APPROXIMATELY \$6 MILLION PER ANNUM AT CURRENT BANK OVERDRAFT RATES. THIS INCREASE IN THE COST OF OUR OPERATIONS WOULD BE PASSED ON TO CONSUMERS BY PRICE INCREASES WHICH IN TURN WOULD HAVE AN IMPACT ON THE CONSUMER PRICE INDEX, FURTHER EXACERBATING INFLATION.

2. EVEN IF EXTENDED TERMS OF PAYMENT OF EXCISE WERE PROVIDED BY THE GOVERNMENT, THIS WOULD NOT PREVENT A MASSIVE INCREASE IN ROTHMANS' CURRENT LIABILITIES WHICH WOULD HAVE A GREATLY DESILITIGATING EFFECT ON OUR BALANCE SHEET, SEVERELY LIMITING OUR ABILITY TO BORROW MONEY FOR OTHER PURPOSES.

3. UNDER THE CURRENT SYSTEM, ALL BOND STOCKS ARE ACCOUNTABLE TO THE CUSTOMS DEPARTMENT AND HENCE PROPRIETORS ARE RESPONSIBLE FOR THE PAYMENT OF DUTY IRRESPECTIVE OF THE FATE OF THE STOCK, WHETHER LOST BY THEFT, DESTROYED BY FIRE, DAMAGED BY NATURAL PHENOMENA OR WITHDRAWN FROM THE BOND FOR DECLARATION OF DUTY UNDER NORMAL OPERATING CIRCUMSTANCES.

4. THE PROPOSAL WOULD CREATE AN ADDITIONAL FINANCIAL PENALTY ON MANUFACTURERS WHO ARE REQUIRED TO BUILD UP STOCKS TO UP TO DOUBLE THE NORMAL LEVEL IN ORDER TO MEET THE DEMANDS OF THE MARKET DURING ANNUAL HOLIDAY PERIODS, FACTORY SHUT-DOWNS FOR MAINTENANCE PURPOSES ETC.

5. THE PROPOSAL WOULD DISCRIMINATE AGAINST MANUFACTURERS WHO AT SIGNIFICANT COST HAVE ESTABLISHED BONDS IN THE MAJOR CAPITAL CITIES IN AUSTRALIA TO STORE THE REQUIRED STOCK OF CIGARETTES TO MEET LOCAL MARKET DEMANDS IN COMPARISON TO THOSE MANUFACTURERS WHO HAVE LARGE STORAGE FACILITIES WITHIN THEIR FACTORY COMPLEXES AND HENCE HAVE NO REQUIREMENT TO STORE LARGE QUANTITIES OF CIGARETTES UNDER BOND AT VARIOUS LOCATIONS AROUND AUSTRALIA.

6. THE PROPOSAL WOULD IMPOSE SIGNIFICANT FINANCIAL PENALTIES ON BRANDS WHICH HAVE A RELATIVELY SMALL MARKET DEMAND AND WHICH FOR REASONS OF PRODUCTION EFFICIENCY ARE MANUFACTURED AT THE ONE TIME IN QUANTITIES SUFFICIENT TO SUPPLY THE MARKET FOR 6 TO 12 MONTHS PLACING AN OBLIGATION ON THE MANUFACTURERS TO PAY EXCISE ON SUCH CIGARETTES SEVERAL MONTHS IN ADVANCE OF THE INVESTMENT BEING RECOUPED BY SALE TO THE WHOLESALE DISTRIBUTION SYSTEM. SUCH A FINANCIAL PENALTY WOULD ALSO BE APPLIED TO OBSOLETE STOCK WHICH CAN REMAIN UNDER BOND FOR UP TO 12 MONTHS BEFORE DESTRUCTION.

7. THE PROPOSAL WOULD IMPOSE A SIGNIFICANT INHIBITION ON MANUFACTURERS TO PRODUCE NEW BRANDS IN LARGER QUANTITIES AND HENCE MORE EFFICIENT RUNS, DUE TO THE UNCERTAINTY AS TO THE SALES POTENTIAL SUCH NEW BRANDS MAY HAVE IN THE MARKET PLACE THUS REDUCING THE COST EFFICIENCY OF MANUFACTURING.

8. THE PROPOSAL WOULD NECESSITATE A DRAMATIC INCREASE IN THE NUMBER OF APPLICATIONS FOR REFUNDS AND DRAWBACKS FOR STOCK CURRENTLY SUPPLIED FREE OF EXCISE DUTY TO DUTY FREE STORES, DIPLOMATIC CORPS, DEFENCES SERVICES, SHIPS STORES, EXPORTS TO OVERSEAS TERRITORIES ETC, WHICH WOULD CREATE ADDITIONAL DEMANDS ON THE CLERICAL RESOURCES OF BOTH MANUFACTURERS AND THE CUSTOMS DEPARTMENT. IT IS ALSO OUR UNDERSTANDING THAT THERE IS NO CURRENT LEGISLATION WHICH PROVIDES FOR REFUNDS OF EXCISE FOR THESE PURPOSES.

9. THE PROPOSAL APPEARS TO CONFINE ITS APPLICATION TO EXCISABLE GOODS AND NOT CUSTOMABLE GOODS, SUCH AS IMPORTED CIGARETTES, CIGARS AND TOBACCO. IF OUR INTERPRETATION OF THIS IS CORRECT, IT IS OUR VIEW THAT SUCH IMPORTED GOODS WOULD ENJOY AN ADVANTAGE OVER TOBACCO PRODUCTS MANUFACTURED WITHIN AUSTRALIA WHICH UNDER THE PROPOSAL WOULD BECOME LIABLE FOR EXCISE AT THE POINT OF MANUFACTURE.

10. IN OUR VIEW THE CURRENT SYSTEM OPERATES SATISFACTORILY AND EFFICIENTLY FOR BOTH MANUFACTURERS AND THE CUSTOMS DEPARTMENT. IT IS OUR VIEW THAT THE CURRENT RECORDING SYSTEM ACCOUNTS FOR EVERY CIGARETTE FROM THE TIME OF PACKING, THROUGH THE BOND STORES TO THE POINT OF DECLARATION FOR EXCISE PAYMENT. IN THE 29 YEARS OF OUR COMPANY'S OPERATION, ALL CIGARETTES RECORDED AT PACKING HAVE BEEN SATISFACTORILY DECLARED AND ACCOUNTED FOR TO THE DEPARTMENT OF CUSTOMS.

11. IT IS OUR CONCLUSION THAT THE PROPOSED CHANGE TO THE CURRENT SYSTEM WOULD INCUR SIGNIFICANT FINANCIAL AND OPERATIONAL DISADVANTAGES FOR OUR COMPANY AND WOULD INCREASE THE COSTS OF EXCISE COLLECTION FOR THE CUSTOMS DEPARTMENT.

12. OUR COMPANY WOULD WELCOME THE OPPORTUNITY TO DISCUSS WITH YOU IN GREATER DETAIL THE SERIOUS CONCERN WE HAVE WITH REGARD TO YOUR PROPOSAL TO CHANGE THE POINT OF COLLECTION OF EXCISE ON TOBACCO PRODUCTS..

W.P. RYAN,
GENERAL MANAGER - TOBACCO PRODUCTS
ROTHMANS OF PALL MALL (AUSTRALIA) LIMITED.

CUT TKS

+
INDYCOM AA62654

W.D. & H.O. Wills (Australia) Limited
71 Macquarie Street, Sydney 2000

ND/Q405 PHD/BP

February 28, 1985

Mr. B.L. Cody,
Assistant Secretary,
Inland Services,
Australian Customs Service,
Edmund Barton Building,
Canberra. ACT. 2600

Dear Mr. Cody,

It proved necessary to make several minor alterations to the Submission I handed you on Friday and since this involved new page numbers, I would be pleased if you would substitute the attached paper dated February 25, 1985, for the one dated February 22, 1985.

Yours sincerely,



P.M. DENTON

Encl.

INQUIRY INTO THE COLLECTION OF EXCISE & DEFERRED CUSTOMS DUTIES

This submission has been prepared by W.D. & H.O. Wills as a response to the recommendations and other comments contained in Report No. 224 issued by the Joint Committee of Public Accounts and tabled in the Parliament on 10th October, 1984.

Since W.D. & H.O. Wills manufactures and also imports tobacco goods for distribution and sale the responses are directed in particular to the contents of Chapters 6 and 7.

Chapter Six deals with controls over the collection of excise on tobacco goods and contains recommendations numbered 15, 16, 17, 18 and 19. Chapter seven deals with bonded warehouses and contains recommendations numbered 20, 21, 22, 23, 24 and 25. We believe our comments under these headings also cover the various comments relating to tobacco goods in Chapter 2 and 3.

Chapter Six Recommendation No. 15

The committee is concerned that use is not made of alternative sources of data to estimate tobacco excise receivable.

Cigarettes (and smoking tobaccos) are produced from raw tobacco and other components. Whilst the expected yield from the raw materials consumed can be used to provide an estimate of the quantity of production, the figures incorporate the total variability of processing and do not produce consistent and accurate results.

The most reliable production figure is the physical count of products in sealed shipping cartons.

Counters on making and packing machinery might also be considered a source of data but they do not take account of the rejects that can and do occur for a variety of reasons up to the point where finished goods in packaged bundles are loaded into the sealed final package. The difference is frequently as much as 5% overall.

Production data corrected for returns from the trade can also of course be deduced from sales figures by weight adjusted for changes in finished goods stocks. At Wills factory warehouses a reconciliation is carried out daily between stocks, receipts from the factory and deliveries to wholesalers (sales) or transfers to other company storages. In order to reconcile production with excise the calculation involves sales Australia-wide (less duty free sales) plus change in Australia-wide under bond stocks on a weekly basis. Figures need to be by weight (or number for each brand for cigarettes).

Wills does calculate a tobacco yield at the end of April and October each year. This information is used to indicate expected tobacco usages based on a forecast of sales and hence is taken into account in determining tobacco purchases. It is also used to indicate any trends that may be taking place as a result of process changes or changes in leaf grades used. It is not accurate enough to use as a control.

There are a number of sources of variance in yield data that affect its accuracy. Firstly there is a variation in moisture content. Although moisture samples are regularly taken the cost and effort required to take a sufficient number of samples to obtain a reliable figure is not justified and we are satisfied internally with an accuracy of say + 0.5% M.C. Thus the bone dry weight of material could be inaccurate to 1 kg for each case of leaf tobacco.

By arrangement with the Customs Service we no longer reweigh tobacco and rely on case weights. These consistently gain slightly in weight for imported tobacco and lose slightly in weight for Australian tobacco. Thus the weight of tobacco is subject to a further variance.

The major factor affecting a mass balance is the loss of volatiles in heating and drying processes. It is well known that a loss of volatiles (in addition to water) occurs when tobacco is heated and at 100°C this can be as high as 5% of the bone dry weight. In normal production uncased products will lose 2 to 3% but for products containing casing additives (particularly smoking tobaccos) a loss of more than 5% is not untoward.

Then there are wastes of various kinds. Most of the waste is collected and weighed. A correction is made for its moisture content but this is a standard correction depending on the source of the waste, and some minor inaccuracy is inevitable. Not all dust is captured in dust collectors and some escapes to atmosphere. This is illustrated by the very fine dust that is trapped in air conditioning filters and settles on pipes and ducting etc. For these reasons it is not possible to obtain an accurate mass balance between leaf into operation and cigarettes produced.

On the other hand measurement of cigarette weight in the finished product is quite accurate. The sampling scheme under discussion for determination of excise liability is designed to give results accurate to within 0.1 grams/100 cigarettes so that a count of finished production converted to weight by the results of the sampling scheme are the only reliable figures available.

Chapter 6 Recommendation No. 16 Development of System Based Checks

It has been understood by Wills' management ever since commodity control was introduced that supervision of the system for excise revenue collection would be through regular review of the company's system. Departmental officers do visit our premises to conduct checks on the documentation and system used. Should the department wish to amend its checking procedures it is assured of full co-operation from company management.

We would comment at this point on the reference by the Committee in Para. 6.41 to the Philip Morris suggestion that excise be assessed on the average declared weight for all brands. We understand this was a weighted average of production (so no loss in revenue would be involved) but it seems to arise as a result of the Department's ruling that no tolerance would be permitted above the declared weight of any single brand for the average of sample weights during the months production. Whilst a workable compromise has since been proposed to comply with the Excise Act we suggest that an Act that does not recognise an acceptable margin is unrealistic. The procedure referred to in para 6.6 of test-weighing sample batches of cigarettes to ensure they fall within an acceptable margin of the standard weight is current practice but is unacceptable to the department who interpret the Act to mean that excise must be paid on the actual weight with only a margin below it.

The current proposal requires manufacturers either to operate with an unwieldy and impractical system if they wish to pay excise in accordance with the strict interpretation of the Excise Act or to inevitably overpay excise if they operate under a declared weight system. These problems would disappear in normal operations if there was an acceptable margin of variance of actual weight allowed from Declared Weight for each monthly production period. We request that consideration be given by change of Regulation or by changing the Excise Act, if necessary, to allow the Controller of Customs to set a statistically based margin within which the actual weight may fall without manufacturers incurring a penalty by way of additional excise when the weight is above Declared Weight, but within the margin or by way of overpayment when the weight is below Declared Weight.

Chapter 6 Recommendation No. 17

Control of stock movement is an essential feature of the company's control system. Production is counted in the factory and documentation accompanies its receipt into adjacent storage. Sales to customers give rise to entries for home consumption and an invoice for the sale. The movement of goods under bond to other company premises is covered by transfer documentation. A similar control system applies in interstate under bond warehouses for receipt of goods transferred and their subsequent sale.

Physical stocktakes are carried out daily at factory warehouses and weekly at interstate under bond warehouses. Documentation covers the reconciliation of physical stocks with stock movement in and out and this documentation is used by departmental officers to audit company systems and activities when they visit company premises. The information in these documents should be identical to any independent records kept by the Department.

Comment on Paragraph 6.43

In paragraph 6.43 and elsewhere in Chapters 6 & 7 the Committee raises the issue of the point of payment of excise and suggests that liability for excise could be incurred at the packaging stage but excise payment deferred by an appropriate dwell time.

In the first place Wills does not consider the product to be in a marketable state at the packing machine and there is still significant opportunity to rework or reject product through packaging faults - either in pack assembly or printing which is unobserved until the packet is formed. Moreover damage does occur in subsequent machine operations where faulty operation is also a continuous source of rework. It is the view of Wills that the product is not in the form of finished goods until it is sealed in its final package ready for distribution, which in Wills' case is after the product has passed through its final process in the freezing chamber and even then we prefer stocks to have a maturation period of at least 2 weeks before they are in a proper condition to distribute.

The fact that weights are checked at the packing machine is in our view not an argument for paying excise at that point. They could, for example, as an alternative, be checked at the making machine. The positive benefit of paying excise on exit from the production area is in the reduction of supervision of underbond transfers but we raise several issues that would create difficulties if this proposal was adopted. We would point out also that the company is liable for excise in the event of diversion of the product so that in practice the movement of underbond tobacco goods does not disadvantage the department and the real issue is the question of supervision of numerous warehouses.

Our main concern with a deferral of excise levied at the packing stage or exit from the production area is the restriction through cost disadvantage that this would place on changes in the level of stockholding. The dominant feature in this issue is the need to build stocks throughout the year so that there are adequate stocks to maintain customer service during the four weeks factory closedown at Xmas time. More specifically Wills aims at a stock level of six weeks by the time the factory returns so that the normal target is 10 weeks when the closedown occurs. This year some industrial difficulties were predicted as a result of plant closure so the target was lifted to 12 weeks. Industrial problems in fact caused a loss of 3 weeks production so we ended with less than 10 weeks and have found it necessary to work a limited number of machines through the closedown. Industrially the timing and duration of the Xmas closedown has been established by long precedent and we anticipate major industrial relations disruption if any significant change is made to the arrangements.

Irrespective of this specific example there is a more general situation that occurs in times of industrial dispute when a good many machines may be under 'black bans' and the only way to avoid standing down crews or of using production machinery may be to manufacture brands where stockholding is already in excess of the deferred excise allowance. We could not support any system that exposed us to even greater restrictions on production than there are now.

Alternatively, serious problems can occur in periods of sales downturn which are judged to be temporary and our practice is to safeguard continuity of employment of our workforce by maintaining production during such periods, thus temporarily increasing stock levels. Obviously the cost of maintaining our policy to safeguard continuity of employment would increase should such additional stock become excise paid or in excess of duration for the deferral of excise. The necessity to lay off workers in such situations would obviously depend upon the economic equation but such situations are not uncommon.

We make these comments to indicate the need for flexibility in stockholding for whatever reason it may occur and the attendant problem of estimating a satisfactory dwelltime which we raise again below.

The basis of setting a six weeks minimum cigarette stock is that in normal circumstances industrial and production problems in the last month or two of the year have invariably resulted in shortages of specific brands which tend to reduce those brands to a workable level of 4 weeks minimum. Because of the relative inflexibility of machinery and the range of size specifications involved it is not possible usually to recoup a loss of production of any magnitude in the space of a month or two. Hence we target for two weeks extra stock to offset these problems.

The problem of small volume brands has been mentioned previously and it would seem desirable not to discourage more efficient runs of small brands which as a result will have much longer lasting periods. The same type of comment applies to packaging changes which are often confined to one state for distribution and it would be inhibiting to have to limit production to an average dwell time for that particular packaging.

Similar problems occur for locally manufactured smoking tobacco. The problems arising with locally produced cigars are quite different in that

heavy sales occur in the few months prior to Xmas so that dwell times are measured in months rather than weeks.

We have also previously advised that insurance on goods in store, and in transit, would increase due to the increase of the value of the goods being excise paid instead of under bond.

Moving the point of excise liability to the exit from the production area does not remove our objection as establishment of a satisfactory dwell time for deferral of excise is fraught with practical production difficulties. Even a dwell time on an average of 8 weeks would impose severe restrictions on the freedom of production programming in order to avoid interest penalties on excise due. The only basis we can see of devising an acceptable dwell time under this proposal would be if the excise was deferred by a period equal to the duration of our stockholding, and this of course implies supervision of stocks.

For the above reasons Wills is opposed to excise being levied at the packing stage.

The committee considered the 'factory gate' as a point of excise liability but had reservations about the way this might disadvantage some producers.

This proposal would encourage goods to be held on the factory site and, as previously indicated in our telex of 1st June, 1984, we have based our practice in establishing storage facilities on the current system and considerable change to that system would be dictated by the opportunity to store under bond at the factory site, rather than in interstate bonded warehouses as at present. A simple review of the economics indicates that unless some other compromise were devised it would be in our interests to maintain as much storage as possible at the factory, involving the construction of new storage buildings, whereas the facilities we have built up over the years in other states would become less attractive for storage, leading to an almost complete re-arrangement of our distribution system.

We reiterate that in order to implement such a plan it would be necessary to acquire additional land, if available, off site from the new factory complex and we would request that a storage building erected on a nearby site be considered an integral part of the new factory site. As indicated previously, we estimate the capital cost of such a building at \$3M approx. with an estimated lead time of about 2 years.

We have already advised also that under this proposal unless additional factory storage was established we would be severely disadvantaged competitively relative to one local manufacturer who we believe currently has the ability to hold virtually all stocks on site. The burden of increased excise costs would impair our competitiveness considerably without this facility for onsite storage in these circumstances, thereby necessitating the capital expenditure referred to above.

An important factor resulting from the re-arrangement of storage facilities would be the adverse consequences in employment at the warehouses in all other states. When compared to the potential savings in Customs supervisory costs we could not support a scheme that resulted in redundancies with no apparent benefit.

The various alternatives impact also on the payment of duty on imported finished goods. It would clearly disadvantage local manufacturers to pay excise at the packaging stage if imports could be held in bond.

It would conversely disadvantage imports if duty became payable on landing goods. We assume therefore that any system of duty deferral would apply to both situations. As importers ourselves we suggest that dwell times for imports are affected by the long lead time required for manufacture and shipping so that a change in market conditions will create wider fluctuations in lasting periods. The potential to hold in bond at a single port of entry would appear to parallel the 'factory gate' as a means of correcting for variation in stock holding before liability for deferred excise was incurred.

In summary, the notion that excise be incurred at the packing stage, even with deferral of payment, does disregard the realities of practical operating requirements in that -

1. The commercial ability to maintain supply dictates a range of stock levels throughout the year.
2. Labour relations factors have an unfortunate ability to interfere with planned production rates.

3. The realities of manufacturing demand some flexibility of operation (and stock levels) to cope with the vagaries of production and to permit a response to changes in commercial requirements.
4. All these factors pose a significant potential cost burden if manufacturers are constrained to comply with contrived stock limits in order to achieve a reduction in the cost of supervising stocks.

The 'factory gate' proposal, as it is described, introduces additional problems that require considerable change with its attendant disadvantages, compared to a notional saving in supervision, and no evidence, in either case, of any potential improvement in revenue collection.

We would not presume to comment on Recommendations 18 & 19 but as a related issue we advise that the company does not see itself as being able to withhold deliveries where it observes what appear to be larger than normal orders in the weeks prior to the budget. The linking of excise to the CPI should ease speculation.

Chapter 7 Recommendation No. 20

The Committee recommend a 'formal entry' into bond for locally produced excisable goods. Current practice is to record the quantity of each brand delivered daily from the factory into the warehouse on a single form. This information is summarised weekly and the weight of each product delivered during the week then calculated. This information is readily available and is considered to be quite adequate for reconciliation with stockholdings or production from the factory and is used for these purposes by the Company.

Why the Committee would suggest a 'formal entry' for each item delivered is puzzling as it would result in mountainous paperwork and produce no useful additional information. The pertinent information is readily available and we consider the Committee's suggestion would create considerable additional workload without providing any identifiable benefit.

Chapter 7 Recommendations No. 21/22

We repeat our earlier comment that the information necessary for the control of the movement of under bond goods is available and is used by Wills for this purpose. Duplication of the system would certainly give Customs its own set of records but the only benefit we can see from this is in cases where the records are not kept adequately. It would seem that periodic returns would be a means of ensuring proper records bearing in mind that the recording system does not achieve real control unless it is verified by physical checks.

In the case of tobacco companies these control systems apply to tobacco leaf as well as excisable goods and one cannot help but wonder what practical benefit it would be for Customs to duplicate our system of recording the movement of leaf tobacco.

Chapter 7 Recommendation No. 23

We certainly support the notion that any system should detect goods of long dwell time but suggest again that companies keep adequate records. The goods concerned should be identifiable and believe this to be so for our own excisable product.

Dwell times for tobacco leaf in bond frequently exceed 18 months unless it is a company's policy to finance storage overseas, which may become attractive if duty were levied on arrival. However, dwell times are affected by change in market share and individual brand performance so that some companies will be disadvantaged at least relatively by a fixed credit system. Special purpose leaf purchases for an unsuccessful product would also attract a penalty for longer dwell times and although such expense might be considered a commercial risk it is additional to the risk already existing.

The long dwell times for tobacco leaf are brought about by several factors. Firstly tobacco is a seasonal crop so that a 12 months requirement must normally be purchased from each source during the selling season.

Secondly, there are differences between tobacco crops from the same source from one year to another. In order to avoid a sudden crop change blenders argue strongly that new crops should be phased in over a period which

extends durations beyond a year. As a further point it is claimed that flavour grades of leaf require maturation of at least one, and preferably two years (some claim even longer). Depending on the policy they adopt therefore each company could have a spread of dwell times for their leaf ranging from months to years. Limiting dwell times is potentially, therefore, a restriction into leaf blending and therefore product quality, on one hand, and a potential source of penalty on the other should durations become greater than planned for some unexpected reason.

Chapter 7 Recommendation 25

The tobacco industry uses private bonded warehouses for the storage under bond of imported leaf tobacco and imported finished tobacco products and the storage of locally produced excisable tobacco products.

We suggest that our comments above concerning the factors that contribute to the variability of stock holding of excisable goods, make it very difficult to determine any 'average' dwell time, even more difficult to ensure that any dwell time chosen continues to be realistic, and extremely difficult to correct any adverse effects that emerge if an inappropriate dwell time is selected. For these reasons we believe it a practical necessity to maintain a bonded system which will cater for the variations in stockholding that will consistently occur for a variety of unpredictable reasons. Elimination of the warehouse system has the potential, even with deferred duty or excise, to inflict unequal financial burdens on manufacturers and importers that could easily exceed the savings available on warehouse supervision, or require stand down of employees to avoid these penalties which could be more costly in industrial disruption.

The Committee questioned the need for private warehouses but if it is acknowledged that under bond storage of excisable products will be continued, it hardly seems appropriate to incur handling and storage of these goods in public warehouses. In our opinion it would create much greater costs to industry than it would save the department.

As far as imported tobacco leaf is concerned we have indicated reasons above to retain an under bond storage facility. In addition to supporting the bonded storage system we would be opposed to the abolition of private warehouses. Although tobacco leaf must be considered a low risk commodity

to customs as the value for duty is 10 orders of magnitude below the value of excise for the same weight of tobacco, storage and handling charges are significant because of the long duration and we want to minimise these by being in control of the storage areas.

Wills' position with respect to Recommendation No. 25 is that we are opposed to the abolition of the bonded warehouse system and none of the modifications examined is acceptable. We support his view as well as the retention of private warehouses on the grounds that -

1. Elimination of bonded storage would impose untenable cost burdens on local manufacturers as well as importers.
2. Even reduced duties of customs or excise to compensate for dwell time is unsatisfactory. Stock levels must be varied for a host of reasons and dwell times differ depending on the goods concerned. An attempt to set minimum dwell times must inevitably result in additional cost to manufacturers and importers.
3. Deferred payments attract the same problems of cost penalty due to the difficulty of establishing suitable dwell times as a result of the influence of varying stock levels.
4. The practical requirements of operating finished goods storage for tobacco products is incompatible with the use of public warehouses. Stock handling and assembly of orders involves specialised handling systems and documentation, and in consideration of the volume involved, is well suited to private warehousing on the grounds of efficiency. The cost of double handling though a public warehouse would be many times the saving in supervision, not to mention loss of control, and opportunities for product diversion which would be created.
5. Whilst imported leaf storage is not as demanding as finished goods storage, the cost of storage is significant let alone the loss of control associated with involving a third party. It is difficult to find a valid reason to support the principle that imported leaf should be stored in public rather than private bonds.

February 25, 1985



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AUSTRALIAN WINE AND BRANDY
PRODUCERS' ASSOCIATION
INCORPORATED

SUBMISSION TO THE

AUSTRALIAN CUSTOMS SERVICE

OF THE

DEPARTMENT OF INDUSTRY AND COMMERCE

ON

PUBLIC ACCOUNTS COMMITTEE REPORT NO. 224

31 January 1985

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IDENTIFICATION

The Australian Wine and Brandy Producers' Association Incorporated is the voluntary national industry organisation representing wine and brandy producers from all regions in Australia. The membership of the Association accounts for over 90% of the total annual Australian grape crush and is responsible for over 95% of all brandy production within Australia.'

The Association's interest in the Public Accounts Committee report on 'Excise and Deferred Customs Duties' (Report No.224) and the earlier report by the Auditor General has been demonstrated by its submissions to the Public Accounts Committee on 26 May 1982 and 30 September 1983, its attendance at public hearings of the Committee in Melbourne and Canberra and its assistance with inspections of distilleries in the Barossa Valley on 30 September 1983.

INTRODUCTION

The Australian Wine and Brandy Producers' Association Incorporated has examined in detail the Public Accounts Committee Report No.224 and is of the opinion that this report, like the earlier report of the Auditor General indicates a lack of in-depth knowledge of the realities of the brandy and grape spirit distilling industry.

This submission examines the report and relevant recommendations of the Public Accounts Committee and comments accordingly. The Association believes that the inquiry process of the Public Accounts Committee has been extremely resource-consuming for both the Department and the Industry.

RECOMMENDATION 1

The Department begin work immediately on a detailed plan which translates overall objectives into specific operational processes. The plan should facilitate co-ordination, permit systematic review of options and assist in the formulation of timely and detailed strategies for the improvement of excise collection procedures. The results of these routine investigations should feed back into current operations and the plan itself. Within this framework, attention should be paid to the role and influence of State Collectortates.

ASSOCIATION RESPONSE

The Association believes that the use of uniformity of procedure by the Department within the States is extremely important. However by the same token, it is natural that where a particular industry, like the Australian brandy and grape spirit distilling industry, is mainly concentrated in one State, officers of the Department in that State do develop a better knowledge of the industry and should be deeply involved in the departmental decision-making process on matters affecting that industry.

RECOMMENDATION 2

Customs undertake and document in detail a comprehensive examination of the possibilities for using independent data sources in the validation of declared production quantities of excisable commodities.

ASSOCIATION RESPONSE

The Association can understand and appreciate the Committee's interest in the development of independent data sources for the validation of declared production quantities of excisable commodities. However, for the brandy and grape spirit distilling industry, the Association believes it is impossible to match inputs with outputs because of differences in the material being processed. In terms of spirit production and clearances of such spirit from bond, independent sources of data might only be sought at the retail or wholesale level. Australian Bureau of Statistics' collections of retail data are neither detailed enough, nor timely enough to provide the required amount of precision which would be required. The lack of timeliness would also apply to information collected under State Licensing Acts. In some States, quantity information is not collected and therefore this source also would not be appropriate.

RECOMMENDATION 3

The excise collection system proposed in Chapters 5, 6 and 8 serves as an example of the options to be considered in a detailed examination of alternative methods of excise collection aimed at streamlining arrangements and increasing security over dutiable product.

ASSOCIATION RESPONSE

The Association believes that there may be difficulties with alternative methods of excise collection aimed at streamlining arrangements and increasing security over dutiable products. An earlier point of collection of duty might well work for some dutiable products but would not be appropriate for brandy and other spirits where a compulsory two year maturation period exists. The Association agrees with the Committee that -

"Too much effort is directed to the documentation and validation of product losses both by the customs and by excise paying firms" (Paragraph 3.34)

and that

"Since losses constitute a relatively small proportion of total excise liability care needs to be taken to ensure that a disproportionate amount of time and effort is not put into this area. An alternative approach should be devised which yields the same amount of revenue but eliminates the need for extensive validation and surveillance." (Paragraph 3.35)

However it believes that an automatic fixed percentage adjustment to the assessed quantity of excisable product in the calculation of excise liability is impractical. In the Association submission to the Public Accounts Committee dated 30 September 1983 beginning on page 4, the Association detailed the differing reasons for varying gains and losses, as below -

"Firstly, it is important to understand that within the distilling industry, different companies operate in different fashions; one or two are distillers only, some are mainly distillers with a minor wine interest, some are mainly wineries with minor interests in distillation of brandy and grape spirit and some are wineries who receive and bottle brandy. From the confidential information received from distiller members, it is clearly evident that there is no uniform procedure because of different equipment, different distillation procedures, different storage/maturation processes and different handling techniques. Most distillers have not been replacing existing distillation plant and equipment in recent years because of the declining markets, the increasing excise burden and the high cost of replacement. However, some specialist distillers continue to upgrade and maintain plant and equipment within their resource allocation.

Consequently there is considerable variation in the efficiencies of various companies' processes and gains/losses between companies for various processes differ appreciably. In early 1982, this Association conducted a survey of its distiller members to collect company historical data on gains/losses and the confidential information received, which could be viewed by the Committee, shows a wide scope of variations. The Audit considered (Page 50) that detailed analysis of data would enable the setting of national loss standards but this Association believes that apparent losses occurring through single transactions or stages in the process can be misleading and therefore is opposed to this concept.

The total process of distillation, by its very nature, involves some degree of loss. Distillers are just as concerned at these losses through the system as is the Auditor-General as the product is also important to the producer of it as it is, in fact, his livelihood. In early 1983, at the request of the Australian Customs Service, distiller members participated in a voluntary trial to measure spirit volumes throughout their operations at a constant temperature.

Detailed reports have been given to the Australian Customs Service in which it was shown that negligible value was seen in such a scheme for internal controls because of related confusion and increased labour costs with no significant improvement in explanation of spirit variations noted. Therefore it is recommended that this scheme not be implemented for operation within a licensed premise.

Gains/losses occur for a variety of logical and legitimate reasons. Some of the real losses occur where the liquid starts in one place but does not arrive at the next check point because of equipment wetting, filter absorption, evaporation from storage vessels, absorption into dry timber, inherent inaccuracy of alcohol determination, variation in volume because of temperature change and even international differences of opinion as to what exactly is pure ethanol.

Brandy and grape spirit are highly volatile liquids and are, of themselves, difficult to measure. At some stages in the production process, the material being measured is not of uniform density throughout the tanks and this can affect significantly the accuracy of the measurement of the alcohol content. Measurements of alcohol concentration may also vary significantly with temperature and humidity and adjustments need to be made. As many Australian distillers operate in warmer areas, these changes can be quite significant and an apparent loss of 1,000 litres in a 100,000 litre steel tank has been recorded when the temperature dropped by 20°C. In some areas there is also evaporation loss in steel tanks. Further, the difficulty in the degree of accuracy that can be achieved in the gauging of tanks, vats, tankers etc. may also increase the apparent variations and there are many other factors which may also affect the accuracy of the measurement including size of tanks, weather and the level of loading area (for tankers). The sum of evidence of the trials conducted by distillers showed that no useful purpose could be served by measuring spirits at a constant temperature of 20°C except for goods received and despatched from the distillery.

Losses occur in filtering due to entrainment in filtering pads and the percentage loss would be proportional to filter size and filtration run. As an example, brandy retained in filtration pads (40 pads per pack 40 cm square) has been measured as 18 liquid litres being retained in the pads. Losses may also occur in bottling and these would be mainly due to overfill/underfill of bottles to comply with State Weights and Measures Regulations, tolerances in strengths and dips, and breakages."

The Association does not believe that automatic fixed assessment adjustment over the whole industry would work. It may be possible however that a system whereby the operations of specific distilleries over a period of time are examined, for the Department to establish specific adjustments for specific distilleries in specific areas.

At present spirit is dutiable per se but the largest proportion of that spirit is released under exemption sub items. It is submitted that many imagined loss areas would be eliminated without loss of revenue if spirit was free for any purpose except for specific purposes, e.g. human consumption. Under this concept product control could be concentrated at the gate through which spirits for consumption must pass to reach the market thereby allowing more precise appraisal and surveillance of the product which is dutiable and would eliminate time and effort pursuing blind avenues and imagined losses.

RECOMMENDATION 4

Computing and staff resources be made available to allow the immediate implementation of a national risk assessment program and that resource allocation decisions be made by Central Office on this basis.

ASSOCIATION RESPONSE

Although it is obvious that a national risk assessment programme should be overseen by Central Office, because of the remoteness of Central Office, it is important that State Officers also are heavily involved because of their understanding of operations in the field.

RECOMMENDATION 5

The numbers of officers who have undergone adequate training and the numbers still requiring training in specified skills be monitored by Central Office.

RECOMMENDATION 6

The Department undertake, as a matter of urgency, a comprehensive review of staffing requirements in Central Office and the States. The key issue which should be considered in this review is the level of staffing required in the various Customs offices to protect adequately the revenue collected through those offices.

ASSOCIATION RESPONSE

Because of the complexity of operations within the brandy and grape spirit distilling industry it is important that Australian Customs Service officers have sufficient relevant field training. Before 1969 and the introduction of commodity control, officers obtained this training by being on site. With the passing of the years this core of trained personnel has moved through the system and there is concern that Australian Customs Service officers should have sufficient understanding of distillery operations. Areas of particular concern include mensuration of spirit volumes and commonality of approach by Australian Customs Service officers in their application of the laws and regulations which affect distillery operations. With regard to training of Australian Customs Service officers, the industry is willing to assist and co-operate in training courses of Australian Customs Service personnel.

Chapter 4, General Comments

The Association agrees with the finding of the Working Party on National Loss Control Policy that there are insurmountable difficulties in fixing a standard loss tolerance for vat storage. As noted above, the Association's 30 September 1983 submission to the Public Accounts Committee referred to a voluntary trial by distiller members to measure spirit volumes throughout their operations at a constant temperature. These trials showed that negligible value was seen by distillers in such a scheme for internal controls because of related confusion and increased labour costs with no significant improvement in explanation of spirit variations noted.

In paragraph 4.30 reference is made to a review by the Department of their spirits operations. The Association is pleased to be involved in consultation with the Department on this matter on which discussions are expected to take place shortly.

The underlying theme of chapter 4 appears to be belief by the Committee that significant evasion of duty on potable spirits occurs, either by extension of duty paid spirit with duty-free or fortifying spirit or by sales of spirit on

which duty has not been paid. The Association believes too much attention has been paid to this area and that such concern has been brought about by isolated incidents occurring over a considerable period of time. The Association supports fully the activities of the Australian Customs Service in detecting duty evasion because such evasion places the legitimate licenced distiller at a considerable disadvantage in the market place. The Association reiterates its full support to Australian Customs Service officers in their actions against illicit extension/distillation of spirits.

RECOMMENDATION 7

Urgent attention be given to increasing powers exercised by officers under the Excise Act to make them comparable to those exercised under the Customs Act, particularly regarding the powers of access to documents. The Committee recommends that care be taken to safeguard civil liberties and to prevent the possible abuse of powers.

ASSOCIATION RESPONSE

The Association supports fully the increasing of powers to officers of the Australian Customs Service to assist them in detecting evasion of duty.

RECOMMENDATION 8

A national loss control strategy for spirits be developed and implemented as a matter of urgency.

RECOMMENDATION 9

The Committee reiterates the recommendation of the National Loss Control Working Party that consideration be given to a simplified approach to loss control, involving an adjustment for losses being given in the duty levied.

ASSOCIATION RESPONSE

The Association strongly opposes the contention expressed in paragraph 4.99 that producers' own commercial interest does not necessarily ensure adequate control of the products for excise purposes. The producer only has the product whereas the revenue from this product is only a small part of total Government revenue. Therefore although the value to the producer may be less than the value to the Government, the value of such product is considerably more significant to the producer than to the Government.

In paragraph 4.103 the Committee expresses its concern that the Department still seems to have difficulty achieving a consistent approach to the treatment of losses across States and across different producers. The Association also is concerned about the different approach between the States but believes that the different operational methods of producers require differential treatment between individual producers for reasons expressed in the Association's 30 September 1983 submission to the Public Accounts Committee, quoted above.

As stated above there are many variables which affect the degree of loss in distillery operations. It is important that losses be seen in perspective as noted in paragraph 3.35. It is understood that a national loss control strategy will be discussed by a Working Party of the Australian Customs Service with a Working Party of this Association in late January or February 1985.

The Association cannot agree with the rationale behind the arguments expressed in paragraph 4.106 which reflects on the integrity of producers and fails to appreciate the significance of the value of products to producers as compared with the value to the Government.

RECOMMENDATION 10

The Committee agrees with the views of the Distilled Spirits Industry Council and recommends that spirits bottling only be permitted on licensed premises which are subject to control by the Department. This would eliminate one category of operator, and should reduce the risk of illegal extension of duty-paid spirit with duty-free spirit.

ASSOCIATION RESPONSE

In the Association's submission to the Public Accounts Committee dated 30 September 1983, the Association recommended that all bottling of spirits should be in bond and the Association is pleased to see that this recommendation has been taken up by the Committee. Some out of bond bottlers might be content to bottle in bond if there was no need to pay a separate large customs bond as well as an excise bond.

RECOMMENDATION 11

Departmental resources be applied to ensure proper surveillance and investigation of end users of pure alcohol sold excise-free for industrial, scientific and educational applications.

ASSOCIATION RESPONSE

It is believed that the control of end users of pure alcohol sold excise-free for industrial, scientific and educational purposes might be improved by bringing in a recording system similar to that now required for wine fortifiers.

RECOMMENDATION 12

The Committee supports the Department's announcement that a review of their spirits operations is currently being undertaken. The Committee recommends that this review be comprehensive and that sufficient Departmental resources be allocated to allow it to be completed urgently. The review should pay particular attention to the control of fortifying spirit as well as excise-free spirit used in other applications.

ASSOCIATION RESPONSE

The Association does not agree with the Committee in their statement in paragraph 4.110 where they contend that the major change on 23 spirit was the introduction of the grape spirit excise in the 1983 Budget. The Association believes that the major change with fortifying spirit occurred with the introduction of the fortifiers' licence and the necessity for wine fortifiers to provide details of their use of fortifying spirit to the Australian Customs Service.

The brandy distilling industry supports the Australian Customs Service in the fulfilment of its task and believes that industry members are ideally placed to provide useful meaningful input into the Department's review of their spirits operations and looks forward to the opportunity to so contribute.

RECOMMENDATION 20

There be a formal 'entry into bond' for domestically produced excisable goods with documentation and control comparable to that exercised over imported goods under bond.

ASSOCIATION RESPONSE

Formal 'entry into bond' for domestically produced excisable goods with documentation and control comparable to that exercised over imported goods under bond would cause additional paper work should it be introduced in the factory situation. The value of such a system for product having left its place of manufacture would need to be considered carefully.

RECOMMENDATION 25

The perceived need for the bonded warehouse system should be re-examined, including the implications of abolishing or modifying the system. The Committee considers that this issue should be referred to the Industries Assistance Commission (IAC) for inquiry.

ASSOCIATION RESPONSE

The Association cannot support the option suggested in paragraph 7.39 that the bonded warehousing system be abolished. Such abolition would severely disadvantage the Australian brandy industry. As the producing and bottling establishments are often far removed from the sale location, there are considerable transport times to service distribution networks, particularly to the more distant States. To ensure continuity of supply of products to the markets and to cover for transport difficulties, strikes or unexpected demand from customers, it is important to carry several weeks' supplies at distribution warehouses. To pay duty on despatch from the bottling establishment would result in large financial outlay for product in warehouses and being transported. An alternative is to allow companies to operate bonded warehouses for packaged products in each State. This would enable the delay of payment of duty to a time nearer the date of sale. However an extension of the settlement period for payment of duty would still be required to cover delays in distribution via merchants and to country areas. With regard to extended duty payment times, a monthly basis compatible with commercial practice would indicate payment by the 21st of the month following the month of removal.

The Association does not support a referral of the need for the bonded warehousing system to the IAC for inquiry. Such inquiry would not be productive.

* * * *

DISTILLED SPIRITS INDUSTRY COUNCIL

6th March, 1985

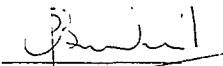
Mr. W. Gallagher,
Chief Inspector - Excise,
Inland Services Branch,
Operations Division,
GPO Box 4020,
A.C.T. 2600.

Dear Bill,

Further to my letter of 6th February, 1985, please find enclosed this Council's response to the Public Accounts Committee recommendations.

Best regards,

Yours sincerely,



G.J. Broderick

Executive Director

Enc.

120

COMMENT ON SELECTED RECOMMENDATIONS OF THE REPORT
OF THE PUBLIC ACCOUNTS COMMITTEE ON EXCISE
AND DEFERRED CUSTOMS DUTIES

Paragraph 3.29

"Under present arrangements, excise is payable upon entry of goods into home consumption. For a large proportion of excisable goods, this takes place only after the goods have been transported or stored for some time under bond. When goods are released from bond, they are entered into home consumption and excise duty is paid. Bonding essentially provides a means of deferring excise payment until shortly before the point when the excise paid can be recouped through sale of the product. The same outcome could be achieved by means of an earlier point at which duty is collected, combined with more generous credit arrangements for payment."

Comment

To illustrate the consequences of a trade-off between collection of duty at an earlier point and more generous credit arrangements for payment, one member company has provided the following information:-

"Our normal stock to cover distribution of domestic product and imported product for associated companies would be 200,000 cases of finished product and the equivalent of 175,000 cases held as bulk, a total of 375,000 equivalent cases. Allow duty at \$65 per case paid on receipt of spirit, and it can be seen that our bridging payment of duty would be \$24,375,000 and thus the capital value of inventory would increase permanently by this amount. At the current cost of money taken at 13%, this would increase our operating costs by \$3,168,750 per annum. If this is to be offset by more generous credit arrangements for payment, then the credit would need to be afforded for a period of time equating with our mean stock turnover period, or the duty would need to be reduced by 13% (i.e. the cost of money). This second alternative being on the basis that the selling price to the consumer would remain constant."

Recommendation 7

Urgent attention be given to increasing powers exercised by officers under the Excise Act to make them comparable to those exercised under the Customs Act, particularly regarding the powers of access to documents. The Committee recommends that care be taken to safeguard civil liberties and to prevent the possible abuse of powers. (PAC Report, p. 47).

Comment

DSICA would not actively support an increase in the powers of officers under the Customs or Excise Acts in relation to licensees under those Acts. However, DSICA would support an increase in the investigative powers of officers under the Excise Act in relation to persons not licensed under the legislation, and in relation to the premises, documents and goods of such persons.

DSICA notes that the penalties provided under Customs and Excise legislation for either illicit use or distribution do not appear commensurate with the potential profits available to dishonest operators. By comparison, the Trade Practices legislation provides for much higher company and personal penalties. Some consideration might be given to prosecution of Customs and

Excise related matters under Trade Practices legislation where product mis-representation is involved.

Recommendations 8 and 9

A national loss control strategy for spirits be developed and implemented as a matter of urgency (PAC Report, p. 49).

The Committee reiterates the recommendation of the National Loss Control Working Party that consideration be given to a simplified approach to loss control, involving an adjustment for losses being given in the duty levied. (PAC Report, p. 49).

Comment

In relation to loss control, DSICA supports:-

- maintenance of the principle embodied in Customs and Excise Legislation that duty is payable on under bond goods which have been placed in the charge of a licensee, which cannot subsequently be accounted for to the satisfaction of a Collector of Customs (e.g. as a bona fide loss or production waste) and which are therefore presumed to have entered home consumption;
- equitable, commonsense application of this principle; and
- reasonable consistency in application of the principle as between Collectorate.

DSICA notes that the quality and efficiency of production and storage facilities varies significantly within the spirits industry. Resulting from this, propensity to loss and production waste varies significantly from product to product, process to process, and establishment to establishment.

Decisions to upgrade or replace existing facilities are decisions that are based on commercial considerations and judgements. DSICA is of the view that these decisions should be allowed to continue to be made on these bases, and should not be driven by government administrative requirements that losses and wastes conform to some set standard identified with facilities of a particular level of sophistication - such as that set by a "front runner" in the industry that sustains minimum losses and wastes.

For similar reasons, DSICA is also opposed to:-

- (a) adoption of set loss allowances based on industry averages; and
- (b) notions of allowing for no losses or wastes, with a countervailing reduction in duty rates.

It matters not whether losses and wastes of under bond product are minimal or total: duty is payable on the losses and wastes unless they can be accounted for to the satisfaction of a Collector of Customs, and the onus to satisfactorily account rests with the person responsible for the under bond product.

As we understand it, risk management and selective testing of the approved commercial practices and recording systems of licensees are elemental to the commodity control approach to Customs and Excise administration.

Incident reports and operations' records maintained by licensees should provide adequate bases for the accounts of losses and wastes required by Collectors, and for the testing thereof.

In line with this, it would seem to DSICA that what is necessary is a professional, audit approach to the comprehensive body of data on losses and wastes that is available within individual companies and in relation to the spirits industry as a whole. This admits of efficient control, and has the support of the industry.

It would seem to DISCA that the proper concern of the PAC should have been the matter of establishing and sustaining this approach to loss control - and to controls generally - rather than the promotion of alternatives that are considered simplistic by the industry.

Recommendation 10

The Committee agrees with the views of the Distilled Spirits Industry Council and recommends that spirits bottling only be permitted on licensed premises which are subject to control by the Department. This would eliminate one category of operator, and should reduce the risk of illegal extension of duty-paid spirit with duty-free spirit. (PAC Report, p. 50).

Comment

DSICA notes with satisfaction the PAC's adoption of the DSICA recommendation that bottling out of bond be eliminated, and urges early implementation of the recommendation.

Recommendation 20

There be a formal "entry into bond" for domestically produced excisable goods with documentation and control comparable to that exercised over imported goods under bond. (PAC Report, p. 91).

Comment

DSICA rejects this recommendation. DISCA contends that the recommendation is based on a false analogy.

Our understanding of the purpose of an "entry into bond" or Nature 20 Entry for Warehousing is that it is to provide Customs with a highly particularised goods account of imports that are to be deposited in bond. Prior to or in the absence of such an entry the imports are, for Customs accounting purposes, the subject of a manifest or bill only. The manifest or bill provides only a simple package account that is highly generalised. The entry into bond has the effect of converting a package account to a goods account that provides Customs with detailed testable information about imports that are to be duty-deferred and so have yet to be finally acquitted with Customs. The data contained in this goods account or "entry into bond" provides the base liability against which subsequent removal under bond, delivery to home consumption, export or loss is acquitted.

By contrast, where domestically produced excisable goods are involved, a complete and particularised goods account exists in the Customs-approved production records of the licensed excise producer. There is no cause to convert a package account to a goods account: the goods account exists from the time of production and it provides the necessary base liability against which all subsequent transactions can be acquitted.

Thus, in the case of excisable goods, the risk management and audit processes of the commodity control system can be applied directly to producers' own records of goods without the prior need to convert a package account to a goods account as is the case with imports.

Recommendation 25

The perceived need for the bonded warehouse system should be re-examined, including the implications of abolishing or modifying the system. The Committee considers that this issue should be referred to the Industries Assistance Commission (IAC) for inquiry. (PAC Report, p.93).

Comment

DSICA is unable to agree with this recommendation. The need for the bonded warehousing system is well established. The examinations of the Public Accounts Committee and of the Auditor General before it, over their four years' duration, should have discovered this. An IAC inquiry is not warranted.

GILBERTON BEVERAGES PTY. LTD.

WINE AND SPIRIT MANUFACTURERS AND MERCHANTS

GB

19 GILBERT STREET
GILBERTON
South Australia 5081
Telephone : 446 337

De BAROSSA WINES • VESUVIO WINES • GILBERT BRANDY • GRAND DUKE LIQUEURS • GRAND DUKE BRANDY AND SPIRITS

Your Reference - C85/370

13th February, 1985.

Comptroller - General,
Australian Customs Service,
Edmund Barton Building,
CANBERRA, A.C.T. 2600

Dear Sir,

Re: Spirits Bottling

Further to the telephone conversation between the writer and an officer of your Department, Mr. W.F. Gallagher with regard to the cost of establishment of a bond room for the storage and bottling of spirits and wine for sale by Gilberton Beverages Pty. Ltd. I, Dominic Battiste, major shareholder and managing director of Gilberton Beverages Pty. Ltd. wish to submit my Company's views on the recommendations which have implications for the distilled spirits industry.

For over two decades the writer has been associated with the importing of spirits, bottling same and endeavouring always to keep prices below competitors prices which is becoming increasingly difficult.

With the establishment of a warehouse or bond room which would necessitate employing personnel, plant, electricity, insurance safety measures and various other overheads, would mean that the abovementioned costs would have to be added to the sale price of the bottled spirits and wines.

Present arrangements for the housing and bottling of spirits and wine enable Gilberton Beverages Pty. Ltd. to offer prices competitively with other sellers.

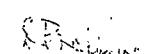
Gilberton Beverages Pty. Ltd. employs the writer, one other person full time and another person on part time basis to handle payment of accounts owing and collection of moneys due to the Company. A firm of Chartered Accountants maintain the Company's general ledger and preparation of the financial accounts each year.

Spirits bottled by Gilberton Beverages Pty. Ltd. would represent approximately 4% of the sales made, as would the wine bottled represent approximately 80% of sales made by Gilberton Beverages Pty. Ltd. Any alteration to Gilberton Beverages Pty. Ltd. system would cause hardship with the monopoly wholesale opposition getting a larger percentage of the market.

Enclosed is a copy of letter showing how opposition can combine efforts and absorb higher costs more adequately than can a smaller business entity like Gilberton Beverages Pty. Ltd.

The writer would emphasise that his Company endeavours at all times to keep prices equal or less if possible than its competitors; enclosed also, is a copy of an advertisement placed in "The News" apologising for measures taken in an effort to keep such prices below competitors.

Yours faithfully,


D. Battiste
Managing Director

AUSTRAL WINE & SPIRIT CO.

A DIVISION OF FOODLAND STORES PTY LTD.

INCORPORATED IN VICTORIA

61-67 SPRINGVALE ROAD GLEN WAVERLEY 499 PO BOX 99 MELBOURNE

TCS:KC

8th February 1985

Dear Customer,

We wish to advise that effective March 4th, 1985, a Joint Venture Company, to be known as Consolidated Liquor Pty Ltd, will commence operations. The Company will comprise the general wholesale wine and spirit interests of Elders IXL and Davids Holdings.

The new Company will operate in Victoria, New South Wales, Queensland and the Northern Territory. Elders and Davids will each have a 50 percent share in the new Company.

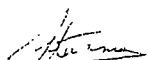
In Victoria, the new Company will encompass the general liquor wholesaling and distribution activities of Max Cohn and Co. Pty Ltd and Austral Wine and Spirit Company.

It is the ultimate intention to merge the warehousing operations of both entities to facilitate more efficient customer service. However, in the interim, you will continue to be serviced from the Austral Warehouse in Springvale Road, Glen Waverley.

Mr. Trevor Stannus has been appointed Managing Director of the new Company, with Mr. Stuart McGregor appointed as General Manager, Victoria.

We believe the combined expertise of Davids and Elders will bring long term benefits to all customers of the New NATIONAL Company.

Yours sincerely,


T.C. STANNUS

TELEX

11 FEB REC'D

AMALGAMATED WHOLESALERSCUSTOM AA73909E
AUSWHO AA22981

8.2.85 REF:AJM:FRP

ATTN MR. ALLEN, ASSISTANT COLLECTOR INLAND SERVICES

HAVE JUST BECOME AWARE OF REPORT ON EXCISE AND DEFERRED
CUSTOM DUTIES BY JOINT COMMITTEE OF PUBLIC ACCOUNTS.MY COMPANY ALARMED AT PROPOSED ELIMINATION OF PRIVATE
BONDING AND IS SEEKING TO INITIATE A SUBMISSION THROUGH
AUSTRALIAN RETAILERS ASSOCIATION.FOR THIS PURPOSE WE REQUEST AN EXTENSION ON THE DEADLINE
FOR RECEIPT OF SUBMISSIONS UNTIL END FEBRUARY.

PLEASE ADVISE

A J MCKENZIE

AUSWHO AA22981*
CUSTOM AA73909

= -D=01:38-R:79A-H:12P21

GILBERTON GROG SHOP**APOLOGY****RENNIE & HUGGINS****11.40****VISCOUNT****11.40****ASSOCIATION****11.40****STRONG****11.75****ADONIS****11.75****PETER JACKSON****11.75****CAVEN****11.75****ORLANDO****11.75****STANLEY ALTBRECHT****11.75****RENAULD****11.75****BERNARD****11.75****ALICE****11.75****PORT****12.25****SHERRY****12.25****CREAM SHERRY****12.25****DRY SHERRY****12.25****MARSALA****12.25****DRY VERMOUTH****12.25****KOSSO SWEET****12.25****TRY BEATING
THESE PRICES!!!****SPRITS****(Direct Import)****BOTTLED IN SCOTLAND****SOHO****11.35****12 BOTTLES****31.70****15 BOTTLES****31.70****20 BOTTLES****31.70****MELBOURNE****31.70****EDINBURGH****31.70****12 DOZ.****31.70****MELBOURNE****31.70****EDINBURGH****31.70****12 DOZ.****31.70****QUEENSLAND****31.70****12 DOZ.****31.70****QUEENSLAND****31.70**



AWA Building
47 YORK STREET SYDNEY NSW AUSTRALIA

AMALGAMATED WIRELESS (AUSTRALASIA) LIMITED

INCORPORATED IN NEW SOUTH WALES

GPO BOX 2516 SYDNEY 2001
TELEGRAMS "EXPANSE" SYDNEY
TELEPHONE 20233
TELEX 1751

IS/100

31st January 1985

Department of Industry and Commerce,
Australian Customs Service,
G.P.O Box 8
SYDNEY NSW 2001

Attention Mr. B.E. Allen

Your File N84/14307

Dear Sir,

Thank you for your letter of 21st December 1984 concerning the report by the Joint Committee of Public Accounts on "Excise and Deferred Customs Duties". The recommendations for the Bonded Warehouse Industry are of particular interest.

My company has Warehouses, at North Ryde (1008A) and Ashfield (1007B). Both stores are used extensively for manufacture of equipments for Commonwealth Government Departments such as Telecom and Department of Defence. Components are warehoused on arrival from overseas and cleared duty free prior to the complete equipment being handed over to the Government Department. Our warehouse at North Ryde is also used to manufacture equipments for exportations Under Bond to other Countries.

The closure of these Warehouses, without any viable alternative, would prove a great hardship to my company.

We trust these facts will be taken into consideration in your report to Parliament.

Yours faithfully,
AMALGAMATED WIRELESS (AUSTRALASIA) LIMITED

J. CHUCK
IMPORT MANAGER



A.D.F.O.A.

AUSTRALIAN DUTY FREE OPERATORS ASSOCIATION LTD.

113-115 OXFORD STREET, DARLINGHURST, SYDNEY
P.O. BOX 531, DARLINGHURST, N.S.W. 2010
TELEX AA 24646 - FREE - PHONE *33-3251

13th February, 1985

Assistant Collector,
Inland Services,
Australian Customs Service,
G.P.O. Box 8,
SYDNEY. 2001

Dear Sir,

Re: Your N84/14307 dated 21/12/84 and 2/1/85

Your invitation to present a submission on the matters raised in Chapter 7 of P.A.C. report No. 224 is appreciated.

We have observed that both the P.A.C. and Audit appear to have based their conclusion, in the report, on that "goods being warehoused are ultimately entered for home consumption and that the deferred duty is subsequently paid". Further, one may conceive the notion from this, that bonded warehouses were created for the purpose of deferring payment of duty, unless he clearly knew that this was not so.

We submit that, the purpose of bonded warehouses is:

- a) deferment of duty (as in the case of goods entering the country), there remaining temporarily in a "limbo" state whilst Customs process documents for their entry into home consumption.
- b) for the holding of goods in a "limbo" state for the purpose of re-export.
- c) for the purpose of removal of goods between bonded warehouses.
- d) for the purpose of straight trans-shipment of goods.

..2..

Bonded warehouses for duty free stores are relatively new to the system. Duty free bonded warehouses became more proliferated after the introduction of off-airport duty free, following the lengthy litigation between Sterling Nicholas Duty Free Pty. Ltd. and the Commonwealth in 1969/70/71. Moreover, we submit, that "duty free" bonded warehouses would have no equal when it comes to checking the re-export of the goods contained therein. Whereas in some cases there may be a lengthy dwell-time, it must be born in mind that the goods in the "duty free" bonded warehouse are never intended for home consumption. They are only for re-export and the question of dwell-time becomes irrelevant.

The duty free warehouse was architected for the specific purpose of exporting goods. That is to say, that the goods therein may be exported by a passenger taking those goods with him to "a point beyond the sea's". And, at the same time, it may attend upon the personal requirements of the Governor General, Diplomats and others from time to time so privileged by government arrangement. Outside of this, it has no function. Duty free bonded warehouses, we submit, should not be considered in the same light as any other form of bond, other than to say that the common fact is that the goods therein are in Customs control and are wholly accountable.

Current amendments to the Customs Act deleted the Removal Entry and Transhipment Entry provisions (presumably because Section 40AA caters for these categories), but left undisturbed the export of goods from warehouses.

Additionally, not all goods entered for home consumption result in duty payments. Consideration must therefore be given to:

- a) Goods
 - i) ex DUTY FREE WAREHOUSES
 - ii) ex OTHER WAREHOUSES

It almost appears that both P.A.C. and Audit are aiming at a return to the old Locker System of duplicate records.

..3..

Our understanding is that the Commodity Control concept involved the "calculated risk" based on proper evaluation of individual warehouses.

In an attachment hereto we have suggested six recommendations in some detail and would be pleased to discuss these matters with you or any other relevant body, at a convenient time.

Yours faithfully,

P. Spies
P. SPIES.
President.

DETAIL CONSIDERATION OF RECOMMENDATIONS

1. Formal "entry into bond" for excisable with documentation and control comparable to that exercised over imported goods under bond.
2. Immediate attention be given to upgrading control systems for bonded warehouses.
3. Customs promptly develop and implement a computer system which reconciles bond entries and releases to allow proper inventory control in bonded warehouses.
4. Dwell time (D/T) and Revenue Yield (R/Y) analysis of goods in warehouses.
5. Customs examine the benefits to be gained from effectiveness surveys.
6. Perceived need for the bonded warehouse system should be re-examined, including implications of abolishing or modifying the system. Reference also to P.A.C. for enquiry.

...1...

1. FORMAL ENTRY FOR EXCISABLE GOODS

Excisable goods generally come to duty free warehouses under continuing permission. Presumably this would be replaced by formal entry with consequent delay in obtaining speedy clearance of goods.

2. IMMEDIATE ATTENTION TO UPGRADING CONTROL SYSTEMS

This appears to relate exclusively to modus operandi of department e.g. statistical sampling and qualitative analysis of warehouses.

3. DEVELOP AND IMPLEMENT COMPUTER SYSTEM OF RECONCILIATION

This would involve a significant additional workload with regard to underbond transfers and our Monthly Export Return Clearances. Presumably reconciliation would have to be of quantity and V.F.D.

The current practice of some warehouses of transferring underbond at inflated V.F.D. (i.e. local selling price in lieu of FOB) would have to cease, if a reconciliation with original Warehousing Entry was to be achieved.

With respect we suggest that increased use of the "Tracer" System along with a 100% check of goods to the warehouse originating the form 20 (warehousing Entry) could produce a satisfactory solution.

4. DWELL TIME AND REVENUE YIELD ANALYSIS

Audit philosophy is that investigative effort should be related to D/T and high R/Y.

In our case "deferment of duty" is irrelevant as we are "export warehouse". We therefore have no "incentive to gain further deferrment of duty payment" (7.44 page 91)

..2..

Additionally virtually 100% of our export clearances are verified in the "docket plucking system" (as airport verification has come to be known" at an industry cost of some \$500,000.

We therefore believe that duty free warehouses, generally need not be subject to as frequent checks as long D/T and high R/Y warehouses, and that departmental costs should take this into account.

6. PERCEIVED NEED FOR BONDED WAREHOUSE SYSTEM

P.A.C. has framed its options with ultimate duty payment the end result. The following comments are however offered:

A) CREDIT SYSTEM

Presumably the only difference between this and the current duty payment (excluding weekly settlement clearances) is that a dollar value line of credit rather than a specific goods line of credit would be established.

Our understanding (see Pl41 of Report) is that this system runs with the bonded warehouse.

B) REDUCTION IN NUMBER OF WAREHOUSES BY ABOLITION OF PRIVATE WAREHOUSES (ALL STORAGE TO BE IN PUBLIC WAREHOUSES)

This proposal could only be described as horrific, and would, I believe, be violently opposed not only by our industry but by ALL the holders of private warehouse licences.

The whole reason for the proliferation of private warehouses over public warehouses in the last 20 years has been dissatisfaction with the latter, the particular reasons being that a private warehouse meant:

..3..

- i) Reduction in freight handling and storage costs.
- ii) Speedier access to goods (essential in our case due to the transient nature of our clients).
- iii) Greater security and control over goods.
- iv) Greater all round efficiency.

How would our industry continue to function?

- a) BY LAW FOR EXPORT
- b). DRAW BACK OF DUTY

Both of these possible alternatives would be cumbersome and would result in the elimination of embassy/consular business.

Additionally drawbacks would result in increased cost (due to servicing of duty payment) to an industry which is already facing high costs and low returns.

C) IMMEDIATE ENTRY OF GOODS INTO HOME CONSUMPTION

We concur with the submission (page 8) by Department of Industry and Commerce (C83/432 of 16/2/84)

D) PAYMENT AT SALE OF GOODS BY WHOLESALE OR SALES TAX

Comments as per 6(C)

25th February 1985

Mr. B.L. Cody
Assistant Secretary,
Inland Services Section,
Inland Revenue and Dumping Division,
Dept of Industry, Technology and Commerce,
CANBERRA ACT 2600

Dear Mr. Cody,

We have just reviewed report No. 224 of the Joint Committee of Public Accounts, reviewing Excise and Deferred Customs duties. The report, whilst covering a wide range of issues in the collections of customs revenue, does raise some matters of concern for AEEMA and its members and the working relationship with Customs administration.

BONDED WAREHOUSES

Of particular concern to members of AEEMA is Chapter 7 relating to bonded warehouses and the recommendation arising therefrom that the bonded warehouse system could be modified or abolished or be subject to an inquiry by the Industries Assistance Commission. We trust our comments may be of use to Customs in developing any replies to the Department of Finance or elsewhere.

The operation of bonded warehouses is an important part of inventory control in manufacturing operations. In manufacturing of the type that our members participate in, their concern relates to the bonding of imported products, components and materials of a non-excisable type. That is, we see a distinct practical difference between the administration of bonding for excisable goods and imported goods of the types required for manufacturing.

In the operation of bonded warehouses for materials and goods used in manufacturing, we must point out that Management attention to the level of goods held in bonded warehouses has changed dramatically over recent years.

This has been due to the increasing costs associated with carrying bonded inventory, the financing of stock, the costs of inventory control systems, rental and handling cost all have escalated to a point where critical scrutiny and management is required. In recent years these cost elements have far outweighed the effects of duties saved due to the effects of recent progressive reduction in tariffs on nearly every item imported. As a result, the principles of tight inventory management are applied to a bonded warehouse just as much in other materials or work-in-process warehouses. That is, holding the lowest value of goods possible consistent with maintaining business operations and holding stock the shortest possible time or maximising inventory turns.

2.

AEEMA member companies cannot afford to have any stock held either in bond or in free store for any longer period than is absolutely necessary since their markets and customers are not prepared to accept loosely controlled costs of long time stockholding.

The use of bonded stores by manufacturing industry is in the main determined by external demands, or, the effects of imminent decision by Government relating to duties or quota which can create uncertainties in buying needs with subsequent protective or anticipatory action.

Additionally, many of our members hold stocks of products for specific sale to Government Departments and other bodies who are not required to pay duty. Much the same way input components used and supplied to manufacturing companies producing for public utilities such as Telecom and Electricity Supply industries and Defence Department are held in bond. Our view is that the present administration and control of the bonded warehouse system in manufacturing is largely self-regulating and auditing.

When a manufacturer makes application to operate a bonded store, approval is only granted after a substantial investigation by the Australian Customs Service into the business systems and controls a company will follow or will use in recording stock entry, consumption, operating level and balance. Existence of these business systems which are examined before licence is granted must reduce and simplify the need for any continuous supervisory and audit controls by Customs.

Another principal concern of our members in operating a licenced bonded warehouse in their own plant is that their reputation to operate these facilities is sustained, that they avoid penalties and they subject the operation to the close control of their own business systems and also to audit by their normal independent financial processes.

We consider there is far too much at stake for any of our members to have a discontinuity in the operation of their bonded warehouses. We have been advised by some member companies that their present computer-aided inventory control system is so integrated into the manufacturing management controls that it is not possible for any item that has been bonded to be moved into free store and then requisitioned out until all appropriate customs clearance steps have been processed.

It would be of deep concern to our members if there was a move away from in-plant bonded warehouse facilities to a higher usage of general warehouses. Such a move would dis-establish the proximity of valuable and industry-specific inventory from the place of major use in manufacturing and thereby would introduce both the need for additional controls with additional administration who are not concerned with the efficient and individual companies operations being involved in judging needs as well as the effects of multiplying transportation costs to and from the plant of consumption. One could readily predict that manufacturing stoppages could occur more frequently.



Should it be considered that a much wider investigation be carried out of the bonded warehouse system, we believe that the most practical way to achieve this would be to have a consultative review between the principal operators of the system, namely, the Australian Customs Service who has the depth of professional experience and expertise and representatives of manufacturing who are affected by the system. In developing improvements, there is no reason why representatives of Finance Department should not be participative in view of objectives being made in maximising customs collections.

AEEMA cannot support any notion of this subject being reviewed by the IAC as it is really not a fundamental assistance measure but rather a practical matter encompassing the operations of Customs and industry. It would be our view that the best result will come from those who have the most experience in this area of work.

AEEMA would like to compliment the Australian Customs Service on its previous effective work controlling the private bonded warehouse system. Whilst it is always possible to improve any business system, our suggestion is that it is timely that such a review between the Customs Service, manufacturers and importers should be jointly developed, particularly having regard to the wider application of computers by all parties.

In conclusion, if there is one point we wish to emphasise, it is that business is more fearful of the consequences of being non-competitive through loose cost control and inventory management should the bonded warehouses system be abolished.

Very truly yours,

R.E. Brett
R.E. Brett
Executive Director

AUSTRALIAN INTERNATIONAL MOVERS ASSOCIATION

PO Box 127
ROSEVILLE NSW 2069

4 February 1985

Mr B.E. Allen,
Assistant Collector of Customs,
Inland Services,
Australian Customs Service,
GPO Box 8,
SIDNEY NSW 2001

Dear Mr Allen,

I am responding to letters directed by you to a number of our members on 21 December, 1984 under your file reference 84/1430A..BL308. A list of our member companies is appended for your easy reference.

Your letter requests input from parties which may be affected by possible changes to the present system of bonded warehousing and/or premises nominated as "approved places".

The membership of A.I.M.A. engages in the importation, clearance and delivery of personal and/or household effects. Each of our members operates "approved places" for the purpose of Customs and Quarantine examinations and several of our members operate "approved places" in all capital cities throughout Australia.

We have examined the report prepared by the Joint Parliamentary Committee of Public Accounts and we have taken particular note of the recommendations and potential changes which may be considered in the areas of bonded warehousing and/or a reduction in the number of "approved places" currently existant throughout Australia.

The report gives emphasis to the Committee's concerns relative to Excise Duties - deferred payment of Import Duties on commercial cargoes being warehoused in Bond - the level of control over goods subject to duties and the present capability of the Australian Customs Service to adequately protect revenues and effectively monitor the large range of Customs approved premises which currently exist.



/2
 Mr B.E. Allen
 4 February 1985

Our membership is engaged primarily in the handling of commodities which are entered duty free and thus have little impact on Government revenues. In our opinion the control system - devised between Industry and the Australian Customs Service - for the movement and clearance of household effects commodities through "approved places" operated by our membership should remain unchanged. The system provides all necessary governmental controls whilst fulfilling the service needs of our customers in the private, business and government sectors of the community. The present system for clearance of household effects commodities evolved after lengthy dialogue between several of our members and the Australian Customs Service.

This Association would strongly oppose any amendments to the present system or any elimination to "approved premises" operated by our membership.

Sincerely,
 for: AUSTRALIAN INTERNATIONAL
MOVERS ASSOCIATION

R.J. Nuss,
 Chairman.

CURRENT MEMBERS OF AUSTRALIAN INTERNATIONAL MOVERS ASSOCIATION

AMOS REMOVALS & STORAGE	- SYDNEY
ANSETT WRIDGEWAYS	- MELBOURNE
GREENS REMOVALS & STORAGE	- MELBOURNE
K.L. KENT INTERNATIONAL	- MELBOURNE
NUSS REMOVALS PTY. LTD.	- SYDNEY
OVERSEAS PACKERS & SHIPPERS	- BRISBANE
J. WILSON REMOVALS	- QUEANBEYAN
GRACE BROS. INTERNATIONAL	- SYDNEY
INTERNATIONAL TRANSPORT SERVICES	- ADELAIDE



INDYCOM AA62654
AUSRET AA74334

AUSTRALIAN RETAILERS' ASSOCIATION

22.2.85

FEB 22 4 35 PM '85

URGENT

MR. H. BATES,
FIRST ASSISTANT SECRETARY,
INLAND REVENUE AND DUMPING,
DEPARTMENT OF INDUSTRY, TECHNOLOGY AND COMMERCE,
BARTON, A.C.T. 2600.

RE: SUBMISSION IN SUPPORT OF THE BONDED WAREHOUSE SYSTEM

THE ASSOCIATION UNDERSTANDS THAT IN ITS INQUIRY INTO THE COLLECTION OF EXCISE AND DEFERRED CUSTOMS DUTIES, THE JOINT COMMITTEE OF PUBLIC ACCOUNTS QUESTIONED THE NEED FOR THE BONDED WAREHOUSE SYSTEM AND SUGGESTED THE POSSIBILITY OF ITS ABOLITION OR MODIFICATION.

THE AUSTRALIAN RETAILERS' ASSOCIATION IS CONCERNED AT THE TENOR OF THE COMMITTEE'S SUGGESTIONS AND SUBMITS THE FOLLOWING IN SUPPORT OF THE RETENTION OF THE BONDED WAREHOUSE SYSTEM, INCLUDING THE PRIVATE WAREHOUSING OF GOODS WHICH ARE THE PROPERTY OF THE LICENSEE.

ADVANTAGES OF THE BONDED WAREHOUSE SYSTEM

THE DEPARTMENT IS WELL AWARE OF THE COMMERCIAL ADVANTAGES TO IMPORTERS OF THE BONDED WAREHOUSE SYSTEM. MOREOVER, IT IS ESTIMATED THAT A HIGH PERCENTAGE OF GENERAL CUSTOMS WAREHOUSES ARE PRIVATE BONDS INDICATING THAT THE FACILITY FOR PRIVATE WAREHOUSING PROVIDES A FURTHER MEASURE OF COMMERCIAL AID.

ABOLITION OF THE BONDED WAREHOUSE SYSTEM WOULD INVOLVE ENORMOUS ADDITIONAL COSTS TO RETAILERS AND WHOLESALERS INVOLVED IN IMPORTING MERCHANDISE. FOR MANY SMALLER RETAILERS, IMPORTATION OF GOODS WOULD NO LONGER BE POSSIBLE. EVEN FOR LARGER BUSINESSES, THE ADDITIONAL COSTS INVOLVED WOULD CREATE COMMERCIAL DIFFICULTIES AND NECESSITATE INCREASES IN PRICES WITH CONSEQUENT NEGATIVE IMPACTS ON SALES.

THE NEED FOR BONDED WAREHOUSES

WHILE A DUTY CREDIT SYSTEM WOULD BE WELCOMED IF IT IS TO OPERATE IN CONJUNCTION WITH BONDED WAREHOUSING, THE ASSOCIATION SUBMITS THAT BY ITSELF SUCH A SYSTEM WOULD NOT RELEASE IMPORTERS FROM THE NEED TO OBTAIN ADDITIONAL FINANCE TO COVER INTEREST PAYMENTS ON LOANS FROM PAYMENT OF DUTIES.

"DWELL TIMES" IN BOND VARY SIGNIFICANTLY ACROSS PRODUCT LINES. IT IS NOT UNUSUAL FOR RETAILERS WHO IMPORT MERCHANDISE TO HAVE GOODS IN BOND FOR LONGER THAN THREE MONTHS AND UP TO A YEAR OR EVEN LONGER. THERE ARE A NUMBER OF REASONS FOR THIS:

TELEX MESSAGE

1) QUOTA ENTITLEMENTS

IN MANY CASES OVERSEAS ORDERS MUST BE PLACED BEFORE FULL QUOTA ENTITLEMENTS ARE KNOWN. FAILURE TO OBTAIN ANTICIPATED QUOTA REQUIREMENTS OR FAILURE TO TENDER SUCCESSFULLY (AN INCREASING OCCURRENCE GIVEN THE UNPREDICTABILITY OF PREMIUM RATES AND THE GROWING NUMBER OF TENDERS) OFTEN MEANS IMPORTERS ARE WITHOUT QUOTA FOR GOODS ORDERED. UNFORESEEN EXCHANGE RATE FLUCTUATIONS ALSO INTERFERE WITH IMPORTERS' ABILITY TO MATCH GOODS ORDERED WITH QUOTA ENTITLEMENTS. MORE GENERALLY, THE STRICT VALIDITY DATES FOR USAGE OF QUOTA ALLOCATED DO NOT ALLOW FOR COMMERCIAL IMPORTING REALITIES.

2) SEASONAL SUPPLY

FOR VARIOUS REASONS, SUPPLY OF SOME IMPORTED MERCHANDISE CAN ONLY BE OBTAINED AT CERTAIN TIMES OF THE YEAR WHICH DO NOT MESH WITH AUSTRALIAN BUYING PATTERNS.

3) GOODS IN DISPUTE

MUCH IMPORTED MERCHANDISE IS FAULTY AND SUBJECT TO DISPUTE BETWEEN IMPORTER AND SUPPLIER.

THE ASSOCIATION NOTES THAT THE DEPARTMENT ITSELF ESTIMATES THAT ONLY TWO-THIRDS OF GOODS ARE CLEARED FROM BOND IN LESS THAN TWO TO THREE MONTHS. ABOLITION OF THE BONDED WAREHOUSING SYSTEM THEN, EVEN IF REPLACED BY A DUTY CREDIT SYSTEM, WOULD HAVE AN ENORMOUS NEGATIVE IMPACT ON RETAILERS IMPORTING GOODS.

THE ASSOCIATION SYMPATHISES WITH THE COMMITTEE OF PUBLIC ACCOUNTS' DESIRE TO REDUCE THE COSTS OF CUSTOMS ADMINISTRATION AND TO IMPROVE CONTROL OVER UNDER-BOND STORAGE AND UNDER-BOND MOVEMENT OF EXCISABLE PRODUCT. HOWEVER, IN THE ABSENCE OF COMPELLING REASONS TO CHANGE THAT WHICH HAS SERVED INDUSTRY'S NEEDS WELL FOR SO MANY YEARS, AND IN THE CERTAINTY OF INCREASED COST BURDENS SHOULD IT BE ABOLISHED, THE ASSOCIATION CAN ONLY SUPPORT THE RETENTION OF THE BONDED WAREHOUSE SYSTEM.

SHOULD YOU REQUIRE ANY FURTHER INFORMATION ON THIS MATTER, PLEASE CONTACT THE ASSOCIATION ON (02) 29 6126/29 4987 AT YOUR CONVENIENCE.

NELSON MEERS,
NATIONAL EXECUTIVE DIRECTOR,
AUSTRALIAN RETAILERS' ASSOCIATION,
1ST FLOOR, 89 YORK STREET,
SYDNEY, N.S.W. 23XX 2000.

INDYCOM AA62654
AUSRET AA74334
-0=12:18.....-H:04P20.....



14 Philimore Street, Fremantle,
P.O. Box 146, Fremantle,
W.A. 6100, Australia.

Telephone: (09) 335 8888
Telex: A92519
Cable: WILLSINTER

23rd January 1985

Assistant Collector,
Inland Services,
Australian Customs Service,
P.O. Box 396,
FREMANTLE WA 6160

Dear Sir,

We refer to your letter of the 28th December 1984 concerning the report of the joint Parliamentary Committee of Public Accounts on Excise and Deferred Customs Duties (No.224) dated 10th October 1984.

We have only recently been able to obtain a copy of the Report so can now only provide our opinions which we would like to offer herewith independently.

We would make the following points:

1. We naturally wish to emphasise the need for public general bonds such as ours at Fremantle and Belmont, operated by private enterprise. The reasons for this are:
 - a. We act to give the Shipping Company economy of choice for time-up cargo.
 - b. Because we operate a general bond we obviously centralise the paperwork and inspection processes for your Department.
 - c. Moreover as we also operate 17b premises within our licenced warehouses, there is a further degree of centralisation and efficiency.
2. Although licenced warehouses provide a situation where duty is deferred, one should also take into account there is little that could be done in regard to time-up (unentered or undocumented cargo). Moreover some products are only readily available in Australia because duty does not have to be paid until the goods are entered for consumption. We would expect the variety of say Scotch or mining bits would not be available or alternatively the consumer would have to pay much more if duty had to be paid on importation. There would also be an increase of smaller LCL shipments which no doubt would cause more work and costs for the Department in other directions.

- 2 -

3. Having our 17b locations together with our general bonds, allows us to compete with the otherwise monopolisation treatment of Airlines and Port Services.

There is little profit for us as a bond proprietor but the advantage for us is in the associated free store work and cartage we also handle. We believe the licence fees to be already too high in our instance, but feel they obviously appear cheap to Duty Free Stores or bonds handling their own valuable products.

We trust the above few points will support the situation for our type of public bond and suggest that the costs for the Department are associated primarily with dedicated single purpose bonds or duty free stores. Moreover there would seem to be some advantage for the Department and proprietors if in some instances at least, item 79 goods and 17b goods be treated and supervised as one.

Yours faithfully,
DANZAS WILLS PTY. LIMITED

J.T. Porter
J.T. PORTER
STATE MANAGER



CATON MACHINERY

ALLIS CHALMERS FARM EQUIPMENT SPECIALISTS

Sales - Service - Parts

P.O. Box 871
Cnr Taylor and McDougall Sts.
Oakley Road, Toowoomba, Qld. 4350

16th January, 1985.

The Collector of Customs,
Australia Customs Service,
G.P.O. Box 1464,
BRISBANE Q 4001

Dear Sir,

I have recently received a copy of your circular letter of 10th January, Q85/0079, regarding Report 224 on, "Excise and Deferred Customs Duties".

Following the suggestions in the letter, I have obtained and read a copy of this report.

I wish to raise only the following brief points:-

1. The bonded warehouse system is extremely useful to this business, as an importer of farm machinery away from a sea-port. It allows us to import for an unpredictable market to have stocks of equipment in position to meet a sudden demand, and allows this without the high overhead costs which would be necessary if import duty had to be paid at the time of import. In a cost-conscious industry such as today's Australian agriculture is, savings such as this, which are passed to our clients, are most important to give our grain farmers any chance of competing on the export market.

2. I believe that over the last few years, our bonded warehouse has been run to the satisfaction of your Department. From my side, I have no serious complaints about the system used, except that it is time-consuming when your inspectors come here to do a spot-check. It would seem to me that the Department should have access to a more sophisticated computer system to allow detailed, up-to-date records to be maintained for instant recall. I believe that your current system is adequate, but unwieldy. I therefore suggest point 21 on page 91 of the report.

3. My main concern is that, from my point of view, I see no support for point 25 on page 93 of the report, recommending an I.A.C. review of the bonded warehouse system. As you know, such reviews are extremely expensive and time-consuming.

It would seem to me that the vast experience of your Department and the attitudes of bond licencees such as this Company ought to be able to be tapped to resolve any problems that exist or to suggest any necessary changes.

Yours Sincerely,

Owen Duncan,
DIRECTOR.

PHONE NO. 07 34 3444
After Hours -
Managing Director
LEN K. CATON . . . 07 35 2979
OWEN DUNCAN . . . 07 34 2027

*
CUSTOM AA73909
CENTRIN AA22671

15 FEB REC'D
CENTRE INDUSTRIES

TO: ASSISTANT COLLECTOR,
INLAND SERVICES,
AUSTRALIAN CUSTOMS SERVICE
FROM: CENTRE INDUSTRIES - J.M.P. ALLEN
DATE: 14/2/85
REF: 33177

DEAR SIR:

RE: YOUR LETTER OF 21 DECEMBER, 1984
YOUR REFERENCE: N84/14307
B1308

ON BEHALF OF THE SPASTIC CENTRE OF NEW SOUTH WALES, WHOSE TRADING COMPANY - CENTRE INDUSTRIES - OPERATES A MANUFACTURING BOND, WE ARE REPLYING TO YOUR LETTER N84/14307 CONCERNING THE JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS REPORT NO. 224.

THE SPASTIC CENTRE APPRECIATES THE GENERAL CONCERN THAT STEMMED FROM THE AUDITOR-GENERAL'S EFFICIENCY AUDIT REPORT COVERING THE COLLECTION OF EXCISE DUTIES AND DEFERRED CUSTOMS DUTIES.

AS A COMPANY INVOLVED IN THE ELECTRONICS MANUFACTURING INDUSTRY, OUR EXPERIENCE IN OPERATING A MANUFACTURING TYPE BOND HAS SHOWN THE CUSTOMS DEPARTMENT PERSONNEL TO BE BOTH CO-OPERATIVE AND EFFICIENT IN THEIR BUSINESS DEALINGS OVER THE YEARS.

THE PRESENT MANUFACTURING BOND SYSTEM ALLOWS OUR TYPE OF INDUSTRY TO IMPORT PARTS IN VOLUMES AND AT PRICES THAT PERMIT OPTIMUM MANUFACTURING FLEXIBILITY. THIS LEADS TO TIMELY DELIVERY TO OUR MAJOR CUSTOMER, TELECOM AUSTRALIA, THEIR EQUIPMENTS CONTAINING A HIGH CONTENT OF DUTY CLEARED COMPONENTRY.

IN REVIEWING THE REPORT NO. 224, IT WOULD APPEAR THAT LITTLE RECOGNITION HAS BEEN GIVEN TO THE MANUFACTURING TYPE BOND - THE MAJOR ADDRESS HAS BEEN TOWARDS THE STORAGE AND MOVEMENT OF EXCISABLE GOODS WITH ACCENT ON LIQUOR, PETROLEUM AND GOODS HELD IN LICENSED WAREHOUSES.

AS SUCH, IT IS RECOGNISED THAT CHANGES TO THE SYSTEM ARE DESIRABLE AND THAT IMPROVEMENTS YIELDING HIGHER EFFICIENCIES WITH ASSOCIATED REDUCED COSTS WOULD BE MOST ACCEPTABLE; HOWEVER, IN THE ABSENCE OF CLEAR-CUT GUIDELINES RELATING TO ALL ASPECTS OF MANUFACTURING INDUSTRIES, INCLUDING THE ELECTRONICS INDUSTRY, IT IS WITH GREAT CONCERN THAT WE REGARD THE PROPOSAL TO ABOLISH THE PRESENT SYSTEM.

WE THEREFORE RECOMMEND THAT THE SYSTEM REMAINS UNCHANGED UNTIL A THOROUGH INVESTIGATION IS CARRIED OUT WITH ALL ASPECTS BEING EXAMINED.

YOURS FAITHFULLY,
FOR CENTRE INDUSTRIES.

J.M.P. ALLEN,
GENERAL MANAGER.

*
CUSTOM AA73909
CENTRIN AA22671M

CESA

CONSUMER ELECTRONICS SUPPLIERS ASSOCIATION

AB:mw
0581M

11 February 1985

Mr P Sergeant
Assistant Secretary
Inland Services
Australian Customs Service
Department of Industry & Commerce
CANBERRA ACT 2600

Dear Sir

The Consumer Electronics Suppliers Association ("CESA") represents the major suppliers of consumer electronics products in Australia. CESA members comprise both Australian manufacturers and importers who distribute products such as audio/video equipment, microwave ovens, air conditioners as well as a significant portion of other whitegoods and home appliances (members names are listed on the attachment).

One of the most important activities of the CESA is to provide a forum for the discussion of issues affecting members, communicate positions on these issues to the public and provide input to Government decision-making. Within the context of these aims and commitments, the CESA members wish to convey their position in respect of Report No 224 prepared by the Sectional Committee of the Joint Committee of Public Accounts ("PAC") into the collection of excise and deferred customs duties. We understand that this report was tabled in Parliament on 10 October 1984 and that the Australian Customs Service ("Customs") is required to respond to the Department of Finance on the recommendations made by the PAC.

We offer the following comments to assist in the preparation of your report and request that our position is ultimately relayed to Parliament.

PRIVATE IMPORT WAREHOUSES - ABOLISHED

CESA's Position

The CESA does not agree with recommendation number 25 in the PAC's report: "the perceived need for the bonded warehouse system should be re-examined, including the implication of abolishing or modifying the system".

2

There are many benefits for our members as a result of the current private import warehouses. These do not all arise from duty deferral but include other advantages like:

- the proximity of our stock relative to its availability if we were required to warehouse in general warehouses;
- the physical control advantages arising from private import warehouses contrasts starkly against the lack of direct control over stock which is stored in general warehouses;
- the important link between our physical controls and our internal documentary controls is maintained under the private import warehouse system.

DUTY AVOIDANCE

The theme of the Minutes of Evidence of the PAC in its hearings dated 21 September 1983, 29 March, 7 May and 19 July, 1984 reflects the concern by the PAC of potential excise evasion. The emphasis throughout the minutes seems to be (with the exception of pages 4, 67 and 51) on excise and we feel that the continuing viability of private import warehouses has been jeopardised because of the Committee's perception that the excise controls and import controls should be viewed as the one system. This perception is exemplified in the questions asked by the PAC at pages 413, 415 and 468 where various references have been made concerning "losses". In our opinion this term has a number of meanings within the context of Inland Services terminology and its principal meaning in this context of course relates to excise losses.

Our members feel that the potential for excise duty avoidance/evasion by excise manufacturing establishments should not be viewed nor linked with private import warehouses. In our opinion there should be a clear delineation between the risk assessment affecting loss of revenue by excise establishments and those companies with private import warehouses.

Clearly, different revenue risk criteria must apply when administering controls over say, a brewery, which provides \$5 million per week in Government revenue through excise duty and the proprietor of a private import warehouse who may pay \$1,000 per week in import duty.

It seems obvious to us where the greatest risk to the revenue lies. An administrative body with limited resources must allocate those resources in the most effective manner. In the context of the protection of revenue, private import warehouses seem to provide limited risk relative to the excise establishments.

Penalties

The current system of administrative controls for private import warehouses incorporates control checks on a random basis in the policing of Section 33 of the Customs Act:

"Except as authorised by this Act, a person shall not move, alter or interfere with goods that are subject to the control of Customs" - penalty \$50,000.

The penalties in Sub-sections (1) and (2) of Section 33 of the Customs Act will increase from \$1,000 to \$50,000. This substantial penalty imposed on an absolute offence is in our opinion, sufficient deterrent to private import warehouse proprietors from breaching the Customs laws.

If consideration is given to the other penalties imposed under the Customs law which affect bonded goods, then in our opinion, there is little need for any supervision by Customs officers at all of our members premises:

- Section 229(1)(g) "The following goods shall be forfeited to the Crown: ... All goods subject to the control of Customs that are moved, altered or interfered with ..."
- Section 203(2) "An authorised person may seize any forfeited goods ..."
- Section 208A(1) "Where ... in respect of any goods seized under Section 203, the Collector ... may - (a) retain possession of the goods without taking any proceedings for the condemnation of the goods; and ..."
- Section 234 "A person shall not -
 - ... (a) evade payment of any duty which is payable." - Penalty - five times the amount of duty evaded or \$50,000.
 - ... (f), "mislead any officer in any particular likely to affect the discharge of his duty." Penalty - \$5,000.

Even without these penalties, the CESA members consider, based on their extensive practical experience in using their private import warehouses, daily, that the current control procedures by customs are adequate, because :

- the records required by customs to record bond transactions and movements is considerably more extensive than most CESA members records used to record normal free store transactions and movements, using generally accepted stock control procedures
- this is coupled with the customs officers random stocktakes
- the extensive information and undertakings (checked by customs), provided by licensees to obtain and maintain their licences ensures only the most reputable businesses are granted licences.

On the whole, the current system is very effectively self-policing.

INDUSTRIES ASSISTANCE COMMISSION

The post-Uhrig Industries Assistance Commission ("IAC") has a very much broader role than the traditional references of the past. Accordingly, the IAC has been handed references on matters as diverse as soil conservation on behalf of the Department of Primary Industry. We feel that, as a result of the increased workload on the IAC, it would be cost ineffective to refer this matter on warehousing for enquiry and report.

Any recommendations forthcoming from the IAC would be as a result of evidence provided by industry and the Customs is currently performing this task. We consider that a further reference would be duplication particularly as, in our opinion, this matter affecting private import warehouses has grown out of proportion because of the false perception apparently gained by the PAC concerning the risk factors applying to private warehouses.

In addition, the IAC is an inappropriate forum to consider this matter because the IAC is still primarily an economic body, staffed by economists (despite its recently expanded role) using largely theoretical longer term econometric techniques. The matter of bonded warehousing is a very practical matter involving basic managerial techniques requiring individual application and decision making on a day to day basis related to each particular warehouse in Australia, within the context of the overall intent of the bonded warehouse system.

We recommend therefore, that there be no reference on this issue to the IAC.

Should you require further information on any aspect of this submission please contact Mr. T. Thacker, CESA Chairman, on phone (02) 887-3322.

Yours faithfully,

G CANTELLO
for the
CONSUMER ELECTRONICS SUPPLIERS ASSOCIATION

ATTACHMENT

MEMBERS:

AKAI AUDIO/VIDEO AUST PTY LIMITED
GENERAL CORPORATION JAPAN (AUST) PTY LIMITED
HAGEMEYER (A'SIA) BV
NATIONAL PANASONIC (AUST) PTY LIMITED
NEC HOME ELECTRONICS (AUST) PTY LIMITED
PHILIPS INDUSTRIES HOLDINGS LIMITED
SANYO AUSTRALIA PTY LIMITED
SHARP CORPORATION OF AUSTRALIA PTY LIMITED
SONY (AUSTRALIA) PTY LIMITED
TOSHIBA (AUSTRALIA) PTY LIMITED



G. J. COLES & COY. LIMITED
(Incorporated in Victoria)

230 Bourke Street, Melbourne, Australia, 3000
Telephone: 667 4111, Telex: AA94000.
Telegraphic Address: Colesanco.
G.P.O. Box 1698P, Melbourne, 3001

27th December, 1984

Customs House,
World Trade Centre,
Cnr. Flinders & Spencer Streets,
MELBOURNE, VIC. 3005

ATTENTION: MR. I. JONES

Dear Sir,

REF: WAREHOUSES

I refer to your letter dated 17th December regarding the Joint Parliamentary Committee on excise and deferred customs duty.

Over many years industry protection has been implemented recognizing that inexpensive bonding facilities are available to importers. Consequently, quotas have been introduced with strict validity dates, which do not allow for commercial importing realities. It is therefore essential that private bonds are available to provide some flexibility and ensure that validity dates can be complied with. Only in this way can the Government's seven year program of assistance for T.C.F. Industries be successfully administered until 1988.

Private bonds are rarely used as a means of obtaining credit. However, if in some cases businesses do obtain some credit in this manner, it should be recognized that Australian Customs do not provide credit facilities worth mentioning for the many millions of dollars obtained on a weekly basis. Merchandise cannot be obtained from waterfront until Customs Duty has been paid. Bonding allows in a small way for the ledger to be balanced.

For the above mentioned reasons we support the retention of private bonds and request that our comments be passed onto Parliament.

Sincerely,

A handwritten signature in black ink, appearing to read "B. Weston".

B. WESTON,
CONTROLLER,
CUSTOMS & TARIFF IMPORT DEPARTMENT

BU:lw

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Downtown Duty Free Pty. Limited
A Division of FRANKLINS Limited Incorporated in NSW

HEAD OFFICE: 13th floor, Network House, 84 Pitt Street, Sydney, NSW 2000.
POSTAL ADDRESS: GPO Box 3621, Sydney, NSW 2001, Australia.
TELEPHONE: (02) 232 2566. TELEX: AA24783 - AFREE.

BRANCHES: • Sydney • Canberra • Melbourne • Brisbane
• Surfers Paradise • Adelaide • Perth • Fremantle

JG:BL

Please direct correspondence to:

Head Office

12th March, 1985.

Your Reference : N84/14307
B1308

Mr. B. E. Allen
Assistant Collector
Inland Services
Australian Customs Service
Department of Industry Technology & Commerce
G.P.O. Box 8
SYDNEY. 2001.

Dear Sir,

Public Accountants Committee Report On Excise & Deferred Customs Duties

Further to our letter in response to your circular dated 21st December 1984, where submissions were invited concerning the above matter, we now enclose our comments.

We apologise for the delayed response and trust our statement on the position will be of some small value.

Yours faithfully,
DOWNTOWN DUTY FREE PTY. LIMITED

R. E. G.
JEFFREY GROVER
GENERAL MANAGER

Encl.

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PUBLIC ACCOUNTS COMMITTEE REPORT ON EXCISE & DEFERRED CUSTOMS DUTIES :
COMMENTS BY DOWNTOWN DUTY FREE PTY. LIMITED

Recommendation 20

We question the sense of the Committee's recommendation that excisable goods be formally "entered into bond" with documentation and control comparable to that exercised over imported goods under bond.

In our view, the recommendation runs counter to one of the prime elements of the commodity control system - namely, that controls should be based on the selective Customs testing of the normal commercial records of licensees. Licensees become and remain licensees on the basis that, amongst other things, they have and maintain commercial records of account that are satisfactory to Customs in terms of system and auditability.

In considering the recommendation, it is instructive to look to evidence taken by the Public Accounts Committee in 1965 during its previous major Inquiry into excise control procedures. At that Inquiry Mr. H.A. Forbes, the Acting Comptroller General of the Department of Customs and Excise, told the Committee -

"There has always been the tradition that customs procedures tended to be quite separate and distinct from excise procedures. This is understandable because in the excise field you can control the ultimate excisable product right from the time that its manufacture has begun. However, in the customs field, you do not see the commodity until it arrives, and when it arrives the owner usually wants it immediately."

(Minutes of Evidence, 18 May 65.)

The position put by Mr. Forbes is as true today as it was twenty years ago.

In view of that position, and in view of the particular aptness of the commodity control system for the control of excisable commodities, there is simply no need for excisable goods to be "entered into bond" and to be treated in the same way as imported goods.

Recommendations 21, 22

The Committee's recommendation 21 for immediate attention to upgrading control systems for bonded warehouses would appear to us to have been anticipated and answered by Customs initiatives for systems based investigation which have been taken in consultation with licensees, including Downtown Duty Free Pty. Limited. In our view these initiatives are entirely consistent with commodity control principles, whereas the arguments led by the Committee at paragraphs 7.44-7.46 of its Report are not. The Committee's heading in these paragraphs is towards abandoning the principle of relying on the commercial records of licensees in favour of the Customs computer maintaining a duplicate, check inventory of the contents of licensees premises.

At page 92, following Recommendation 22, the Committee comments -

"This should lead to the computerisation of all under bond movements so that as goods are dispatched from one bond their intended destination is entered into the system which automatically checks whether their arrival at that destination is entered within an appropriate interval of time."

Because of the clear sensitivity of imports that for Customs purposes are undocumented, we consider that the Committee's proposition is valid in relation to under bond movement of undocumented imports. However, we note that these movements are permitted only between import stations. Undocumented imports are not permitted to move to Part V warehouses except as time-up cargo.

We consider that the Committee's proposition is founded on misunderstandings of the Customs concepts of documented cargo as distinct from undocumented cargo, and of import stations as distinct from Part V warehouses and S.5A places. In our view the proposition is inappropriate and unnecessary in relation to under bond movements of documented imports and excisable goods.

Recommendation 23

Whilst an analysis of dwell times might have some merit, it does not follow that Customs should direct investigation efforts to those goods with apparently lengthy dwell times. Many classes of goods reside in bond for long periods for good and sufficient reason. Examples include goods attracting high duties and sales taxes that have low turnover factors, goods requiring maturation, goods awaiting availability of quota coverage, and goods that are simply owned by persons short on cashflow. Nevertheless, undocumented "time up" import cargo left in public warehouses for long periods is one class of goods that probably does represent a sensible general area of investigation.

Recommendation 25

The IAC Inquiry contemplated by the Committee is not supported. The warehousing system is provided to enable duty payment to be deferred until goods that are held under bond enter home consumption. It is an historic provision in Customs and Excise legislation dating from Federation. It is widely used and valued.

The Committee's recommendation that the "perceived need" for the system should be re-examined appears to proceed from a view expressed at paragraph 7.33 of its Report:

"The storage of duty un-paid goods under bond can be seen simply as a credit facility."

That view is simply incorrect.

For customable and excisable goods a liability to account commences at the time of importation or production, as the case may be. However, liability to pay duty attaches not to importation or production but rather to entry into home consumption - or, resulting from failure to account, presumed entry into home consumption. As liability to pay duty commences at the time of entry into home consumption, no credit situation can be said to attach to goods antecedent to that time. No duty is payable on goods that are under bond, no liability to pay exists, and no credit exists.

It is fallacious for the existing facility for indefinite deferral of entry into home consumption to be equated with alternatives wherein the option not to enter goods for home consumption is lost in favour of a standardised post-entry period of credit on duty that is payable after goods enter home consumption (and, presumably, involves payment of interest on duty outstanding after a standard interest-free period of credit.)

For importers and excise producers desiring delivery of goods to home consumption but lacking the necessary funds for duty payment, quasi duty credit facilities have long been available through the lending institutions. The warehousing facilities provided by the Customs and Excise legislation serve a separate market in which the level of demand for those facilities is manifest from the size of the population of licensees and users.

Paragraph 7.14

We question the conclusion of the Committee in paragraph 7.14 of its Report.

We would have thought that Customs can (and do) establish independently what stocks should be in any given warehouse at any time by comparing bond records against stocktake, and against Customs data relating to -

- N.20 entries for the relevant warehouse, plus reverse tracer action on STP and Continuing Permission movements to the warehouse; and
- N.30 entries for the relevant warehouse, plus tracer action on STP and Continuing Permission movements from the warehouse.

L.M. ERICSSON PTY LTD

CUSTOMS AA61476

ERICMEL AA30555

ASSISTANT SECRETARY INLAND SERVICES BRANCH
AUSTRALIAN CUSTOMS SERVICE
EDMUND BARTON BUILDING
KINGS AVENUE
BARTON ACT 2600

ATTENTION: MR B.L. CODY

RE: PARLIAMENTARY REPORT NO. 224
EXCISE AND DEFERRED CUSTOMS DUTIES

CONFIRMING OUR TELEPHONE DISCUSSION OF THE 19TH MARCH, L.M. ERICSSON ARE HOLDERS OF A MANUFACTURING BOND, LICENCE NUMBER 2225B REGISTERED IN VICTORIA WHICH PROVIDES US WITH THE FACILITY TO MANUFACTURE TELECOMMUNICATIONS EQUIPMENT UNDER BOND.

THE REQUIREMENT FOR MANUFACTURE UNDER BOND IS NECESSITATED BY TELECOM AUSTRALIA WHO STATE IN ALL THEIR CONTRACTS THAT, AS PER THE TELECOMMUNICATIONS ACT, "CUSTOMS DUTY AND FREIGHT ON IMPORTED COMPONENTS IS NOT INCLUDED AND IS NOT TO BE PAID".

WE ARE THE LEADING MANUFACTURER OF TELECOMMUNICATIONS EQUIPMENT IN AUSTRALIA WITH ABOUT 70% OF OUR PRODUCTION BEING DESPATCHED TO TELECOM AND THE REMAINDER SOLD TO THE PRIVATE MARKET IN AUSTRALIA OR EXPORTED.

WE PURCHASE A LARGE RANGE OF ELECTRONIC AND OTHER COMPONENTS FROM OVERSEAS SOURCES WHICH ARE ENTERED TO OUR MANUFACTURING BOND AND SUBSEQUENTLY CLEARED, WHEN THE FINISHED PRODUCTS ARE DESPATCHED TO CUSTOMERS. DUTY ON THE IMPORTED CONTENT IS THEN PAID ONLY IF THE CUSTOMER IS NON-TELECOM OR NON-EXPORT.

AS THE OPERATION OF OUR MANUFACTURING BOND IS EXTREMELY COSTLY (WHICH FACT HAS BEEN POINTED OUT TO THE AUSTRALIAN CUSTOMS SERVICES ON PREVIOUS OCCASIONS) WE WOULD SUPPORT ABOLITION OF THE BONDED WAREHOUSE SYSTEM PROVIDED THAT THE PROBLEM WITH THE TELECOMMUNICATIONS ACT IS RESOLVED.

THE FACT THAT WE WOULD NO LONGER BE ABLE TO DEFER PAYMENT OF DUTY ON COMPONENTS INCLUDED IN EQUIPMENT BEING DELIVERED TO THE PRIVATE MARKET, WOULD BE REGARDED AS A NORMAL COMMERCIAL COST WHICH MAY OR MAY NOT BE PASSED ON TO THE CUSTOMER.

D.F. SEEBER
STORES AND TRANSPORT MANAGER
L.M. ERICSSON PTY LTD
19.3.85

1637 HRS

CUSTOMS AA61476
ERICMEL AA30555

**FEDERAL CHAMBER
OF AUTOMOTIVE INDUSTRIES**

Office of the Executive Director

8th Floor, Canberra House,
Marcus Clarke Street, Canberra City, A.C.T. 2601
Australia
Postal Address: G.P.O. Box 313, Canberra, A.C.T. 2601
Telephone: (062) 473811 Telex: 62464 Canberra

8 March 1985

Zam S
The Assistant Secretary
Inland Services Branch,
Department of Industry, Technology and Commerce,
Edmund Barton Building,
BARTON A.C.T. 2600

P.A.C. Report 224 "Excise and Deferred Customs Duties"

This submission is made by the Federal Chamber of Automotive Industries representing Manufacturers, Assemblers and Importers of motor vehicles. This submission, however, does not relate only to pure importers, noting that in accordance with the Federal Government motor vehicle plan, the five manufacturers also import some 35,000 C.B.U. motor cars.

The existing Bonded Warehouse Facilities operated by our member companies are an integral part of their total motor vehicle operations, and have specific features relating to the storage of motor vehicles.

Imported motor vehicles are unique in many ways, namely -

- each one can be positively identified, unlike individual items of clothing in a box
- many vehicles are required to be fitted with locally produced components to meet Australian Design Rules. An example is seat belts for some models.
- with annual quota allocations it is often necessary to keep vehicles in Bond longer than desirable, particularly when cognizance must be taken of overseas production schedules (to meet Australian Design Rules and new model releases).
- the value of motor vehicles, and the security requirements are such that many public warehouses would require significant modifications
- the space for storage of motor vehicles would necessitate the building of more public warehouses, a cost which is not warranted.



- 2 -

Comments on Proposals of the Joint Committee

PAC Report 224

Overview

The proposed systems as set out in the Joint Committee's report:

- do not provide for any additional revenue for the Government
- potentially create additional costs for the Government, by way of increased administration (particularly, the need for increased personnel in Customs) and by way of increased public warehousing.
- are a positive disincentive to industry, by reducing industry's flexibility in dealing with imported goods and removing the financial benefits of duty deferment.
- indeed some options that have been canvassed would lead to increased costs to industry which because of the potential inflationary impact should be rejected from the outset.
- potentially results in a reduction of the level of Customs Control over imported goods.

Whilst we have encouraged change and actively sought amendment to the Custom's legislation we see little benefit in altering an existing arrangement which is currently benefiting all participants unless a more cost effective and overall more beneficial system can be implemented.

The current bonded warehouse system:

- is a facility offered to industry in most countries of the world particularly major international trading countries
- is a procedure accepted by both Government and Industry
- provides incentive to industry by way of duty deferment
- ensures that the Revenue is at all times fully protected.
- the constant monitoring of the warehouses by Customs has been accepted by industry and has proved to be efficient and effective in the context of revenue protection.
- provides private warehouses which are specifically designed to accommodate and account for the type of goods being imported, with personnel involved being trained to deal with those goods.

1. Proposed Credit System

Perceived Advantages

- Duty deferment similar to Bonded warehousing
- Reduction in Customs inspection requirements which should result in the saving of Government monies.
- Further savings as a result of fixing the dwell times for collection of duty.
- Simplicity in its application

Disadvantages

- No consideration of the importation of goods subject to tariff quotas (such as passenger motor vehicles, textiles, clothing and footwear) where different duty rates can apply to the same goods. The proposed system would be unworkable for such goods, as there would be no knowledge of the duty rate applicable to those goods. Under the quota system for the importation of passenger motor vehicles duty can be 100% (penalty duty), 94.5% (tender quota), 57.5% (base quota) or free (utilization of export credits). Commercial experience is that imports are stored in bond, sometimes for extended periods, pending issue of base quota or the availability of tender sale quota.
- A fixed dwell time takes no account of the commercial requirements of manufacturers and importers. At present goods are released from bond depending on manufacturing schedules, production requirements, sales demands, and Government administration of tariff quotas.
- The inflexibility created by a fixed dwell time may flow through to consumers by way of increased prices.
- Perceived savings may not be achieved. The costs of the personnel required to implement and control the new system is likely to offset any benefit from the reduction in inspection requirements.
- Lack of Customs control. Under the suggested system, imported goods will go directly into home consumption. As such Customs will lose a major weapon in the collection of duty. No longer will goods be held in their control until duty is paid.

2. Proposed Abolition of Private Warehouses

Advantages

None perceived.

Disadvantages

- Increased costs which would eventually be passed onto consumer.

The abolition of private warehouses is not a viable alternative. The current number of public warehouses could not cope with the increased volume requirements imposed by abolishing private warehouses. The effect would be to impose an enormous strain on existing public warehouses to cope with the increased demand. Failure to meet the demand would require additional public warehouses to be established, thus increasing the cost to the Government.

If there is no change in the volume of imports there would be no substantial reduction in the total number of licensed warehouses. It follows then that there will be no reductions in customs surveillance costs. To physically reduce the number of warehouse establishments, serious consideration should be given to the establishment of Free (Foreign) Trade Zones.

Public warehouses are inconvenient and inadequate.

Special facilities are currently available in the bonded warehouses to accommodate passenger motor vehicles, light commercial vehicles, heavy commercial vehicles and mower components. These facilities are readily available, specially designed and equipped (including computer facilities) for the needs of company operations. The entire operation from the point of importation, holding of bond records, performing damage inspections and clearance ex bond is all controlled by inhouse computer systems.

Customs inspections of records have proven in all respects that Government revenue has been protected. Public warehouses could neither functionally nor economically provide the company with similar services.

3. Proposed Payment at Time of Sale

Advantages

- Deferral of duty for all imported goods and not just bonded goods.

Disadvantages

- Increased costs in administering the system.

In many respects, this alternative would be of considerable benefit to industry because the imposition of customs duty at the point of sale would apply to all imported goods and not just items which comprise the population of bonded warehouses.

Disadvantages (Cont.)

All imported goods will be accounted for twice, at the time of importation and again when customs duty becomes payable. It would apply on a non-selective basis and it is probable that the administrative burdens that would be imposed on importers and Government would be quite onerous and would offset any cost advantages that would otherwise accrue to consumers. Repetition does in fact happen at present for those importers, who, based on a business judgement, deem it economical to set up a bonded warehouse.

4. Proposed Abolition of the Warehousing System (Incorporating Discounted Duty Rates)

The abolition of the warehousing system coupled with a decrease in duty rates is seen as most undesirable.

Disadvantages

- Not consistent with Australia's tariff policy.

Such a proposal is in direct conflict with the tariff protection policy of Australia. A reduction in duty rates to compensate for the interest cost of funds required to pay duty immediately, will undermine the detailed protection policy afforded the Australian industry, which has only arisen as a result of detailed investigations by Government and industry.

- Eliminates the benefits of bonded warehouses.

The bonded warehousing system does not operate solely for purpose of duty deferral. Bonded warehouses hold goods pending issue of tariff quotas and to perform damage inspections in secure premises rather than on the wharf. This procedure allows for appropriate Customs entry procedures and minimises wharf costs and risk of further damage by reducing delays on the wharves.

Yours sincerely,

Ian Grigg
IAN GRIGG
Executive Director

M. K. Feil and Associates Pty. Ltd.

Consultants in Tariff, Customs and Related International Trade Matters

1767 Botany Road, Banksmeadow, N.S.W. 2019

Postal Address:
Private Bag No. 324, Botany, N.S.W. 2019
Telephone: (02) 666 4744
Telex: AA74322

Your Ref.: N84/14307

Our Ref.: MKF.SMH

19th February, 1985

The Collector of Customs,
Australian Customs Service,
G.P.O. Box 8,
SYDNEY. N.S.W. 2001

Attention Mr. B. E. Allan,
Assistant Collector,
Inland Services

Dear Sir,

Excise and Deferred Customs Duties : Report by Joint Parliamentary Committee of Public Accounts (Your N84/14307 refers)

Corinthian Industries Pty. Limited (Corinthian) wishes to submit its views regarding the abovementioned report. In particular we would like to comment on the "Alternatives to the Bonded Warehouse System" advanced by the Committee in Chapter Seven of the report.

Corinthian operates Bonded Warehouses in New South Wales (2), Victoria, Queensland, South Australia and Western Australia. The company is Australia's largest door manufacturer and imports substantial quantities of materials for further processing.

1. Need for the Bonded Warehouse System

As noted in the Report, bonded warehouses have been a feature of Customs systems in Australia since 1803 and internationally since 1723. The system serves the policy principle of deferring duty payments until goods enter Home Consumption. This principle serves the purpose of ensuring that protection afforded to Australian industry via the tariff is imposed in a timely manner but that industry is not disadvantaged by a substantial dwell time between landing material requirements and their entry for home consumption.

Attention Mr. B. E. Allan
Australian Customs Service

19th February, 1985

Accordingly, Corinthian considers that there is an overwhelming case for either the continuation of the Bonded Warehouse System, or alternatively, the establishment of a credit facility system which serves the same purpose. The Denmark model would seem to provide a valuable guide for a credit facility system.

2. Discontinuation of Private Bonds

Corinthian envisages a number of procedure difficulties and costs arising from implementation of this option. These include:

- (a) The necessity for separate stock control systems.
- (b) Additional transport and handling costs.
- (c) The inability to obtain stock urgently with consequential dislocation of manufacturing activities.
- (d) Additional storage costs arising from the captive nature of the market.

In essence, this proposal would effectively dislocate Australian industry and increase costs and production lags.

3. Manufacture in Bond

The present inquiry provides an opportunity for the Government to review its decision to terminate manufacturing in bond in the timber industry. This decision arose from the Industry Assistance Commission inquiry into Wood and Wood Products. The Commission concluded that, on resource allocation grounds, there was no justification for permitting the timber industry to manufacture in Bond when other industries were denied that facility. The fact that a number of other manufacturing in bond activities were allowed to continue was not considered.

Corinthian believes that manufacture in Bond fits squarely within the policy principle initially outlined as the justification for the Licensed Warehouse System. If goods (or a portion of them) do not enter home consumption then they should not be subject to protection designed to assist the local industry. To do otherwise is to encourage the importation of materials with high value added (ie essentially finished and with negligible waste) rather than materials which require high local value added with the corollaries of substantial employment, plant and investment.

4. Payment at Sale of Goods by a Wholesale Tax or Sales Tax

Corinthian agrees with the comments by the Department of Industry Technology and Commerce at page 143 of the Report. This system would require a cumbersome and comprehensive reconstruction of the Australian Tariff System of assistance to industry. It is not a viable option.

Attention Mr. B. E. Allan
Australian Customs Service

19th February, 1985

In conclusion, Corinthian does not consider that it is necessary to refer the question of the Licensed Warehouse System to the Industries Assistance Commission for inquiry and report. Such inquiries involve considerable private sector expense and should only be undertaken in circumstances where major policy shifts are seen as necessary or desirable. In the present case the Minister for Industry, Technology and Commerce has the legislative authority to amend the system to meet what is a long established and valuable policy goal - deferment of duty until goods enter home consumption. Unless that goal is questioned Corinthian contends that the system should be revised internally.

Yours faithfully,
M.K. FEIL & ASSOCIATES PTY. LTD

M.K. Feil
M. K. FEIL
Managing Director



13th February 1985

The Assistant Secretary,
Inland Services Branch,
Department of Industry,
Technology and Commerce,
Edmund Barton Building,
CANBERRA, A.C.T. 2600

Att: Mr. Errol Dixon,
Director of Operations

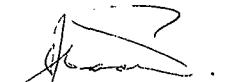
Dear Sir,

JOINT COMMITTEE OF PUBLIC ACCOUNTS : PAC REPORT NO 224
"EXCISE AND DEFERRED CUSTOMS DUTIES"

I enclose herewith a submission to the Joint Committee of Public Accounts on 'Excise and Deferred Customs Duties'. This paper is submitted on behalf of each of the Divisions in the GWA Group; each Division operating private licensed bonded warehouses.

I would be happy to provide further advice to the Committee should this be required.

Yours sincerely,


D.J. COATES
Director, Corporate
Planning & Development

SUBMISSION TO DEPARTMENT OF INDUSTRY TECHNOLOGY AND COMMERCE

IN RELATION TO THE JOINT COMMITTEE OF PUBLIC ACCOUNTS PAC NO. 224

"EXCISE AND DEFERRED CUSTOMS DUTIES"

Identification

This submission is made by GWA Ltd. which operates essentially through four autonomous divisions;

- Manufacturing, covering building products, furniture, household fittings and garden equipment. Includes brand name of Caroma, Sebel and Rover-Scott Bonnar.
- Light automotive, importation and distribution of Mazda and BMW motor vehicles.
- Heavy automotive, importation and wholesale distribution of Nissan commercial vehicles and trucks.
- Property division.

Details concerning the submission and related matters can be discussed with Mr. D.J. Coates, Director, who can be contacted on telephone number 07 228 6777.

Current Bonded Warehouse Facilities

The GWA Group presently operates a total of 9 private licensed bonded warehouses in the following locations:

Darwin
Townsville
Brisbane
Sydney
Adelaide
Perth

These facilities are specially designed and operate as an integral component of the manufacturing, light automotive and heavy automotive divisions. The bonded warehouse areas have been specially designed and equipped with automated computer systems to meet the needs of the particular operation. In the case of Mazda vehicles we have been informed that the facility used for storage and distribution in Brisbane (of which the bonded warehouse is a major component) is the best equipped and most efficient of its kind used to service Mazda in the world.

Customs Officers periodically check the operations, systems, general security and stock of the various company bonds. It is our understanding that the Department continues to accept that the operations of these bonds satisfy all requirements.

Comments on Proposals of Joint Committee

PAC Report 224

Overview

The proposed systems as set out in the Joint Committee's report:

- do not provide for any additional revenue for the Government.
- potentially create additional costs for the Government, by way of increased administration (particularly, the need for increased personnel in Customs) and by way of increased public warehousing.

- are a positive disincentive to industry, by reducing industry's flexibility in dealing with imported goods and removing the financial benefits of duty deferment.
- indeed some options that have been canvassed would lead to increased costs to industry which because of the potential inflationary impact should be rejected from the outset.
- potentially results in a reduction of the level of Customs Control over imported goods.

Whilst we as a company have encouraged change and actively sought amendment to the Custom's legislation we see little benefit in altering an existing arrangement which is currently benefiting all participants unless a more cost effective and overall more beneficial system can be implemented.

The current bonded warehouse system:

- is a facility offered to industry in most countries of the world particularly major international trading countries.
- is a procedure accepted by both Government and Industry.
- provides incentive to industry by way of duty deferment.
- ensures that the Revenue is at all times fully protected.
- the constant monitoring of the warehouses by Customs has been accepted by industry and has proved to be efficient and effective in the context of revenue protection.
- provides private warehouses which are specifically designed to accommodate and account for the type of goods being imported, with personnel involved being trained to deal with those goods.

1. Proposed Credit System

Perceived Advantages

- Duty deferment similar to Bonded warehousing.
- Reduction in Customs inspection requirements which should result in the saving of Government monies.
- Further savings as a result of fixing the dwell times for collection of duty.
- Simplicity in its application.

Disadvantages

- No consideration of the importation of goods subject to tariff quotas (such as passenger motor vehicles, textiles, clothing and footwear) where different duty rates can apply to the same goods. The proposed system would be unworkable for such goods, as there would be no knowledge of the duty rate applicable to those goods. Under the quota system for the importation of passenger motor vehicles duty can be 100% (penalty duty), 94.5% (tender quota), 57.5% (base quota) or free (utilization of export credits). Commercial experience is that imports are stored in bond, sometimes for extended periods, pending issue of base quota or the availability of tender sale quota.
- A fixed dwell time takes no account of the commercial requirements of manufacturers and importers. At present goods are released from bond depending on manufacturing schedules, production requirements, sales demands, and Government administration of tariff quotas.
- The inflexibility created by a fixed dwell time may flow through to consumers by way of increased prices.

• Perceived savings may not be achieved. The costs of the personnel required to implement and control the new system is likely to offset any benefit from the reduction in inspection requirements.

• Lack of Customs control. Under the suggested system, imported goods will go directly into home consumption. As such Customs will lose a major weapon in the collection of duty. No longer will goods be held in their control until duty is paid.

2. Proposed Abolition of Private Warehouses

Advantages

None perceived.

Disadvantages

- Increased costs which would eventually be passed onto consumer.

The abolition of private warehouses is not a viable alternative. The current number of public warehouses could not cope with the increased volume requirements imposed by abolishing private warehouses. The effect would be to impose an enormous strain on existing public warehouses to cope with the increased demand. Failure to meet the demand would require additional public warehouses to be established, thus increasing the cost to the Government.

If there is no change in the volume of imports there would be no substantial reduction in the total number of licensed warehouses. It follows then that there will be no reductions in customs surveillance costs. To physically reduce the number of warehouse establishments, serious consideration should be given to the establishment of Free (Foreign) Trade Zones.

- Public warehouses are inconvenient and inadequate.

For an entity such as GWA, special facilities are currently available in the bonded warehouses to accommodate passenger motor vehicles, light commercial vehicles, heavy commercial vehicles and mower components. These facilities are readily available, specially designed and equipped (including computer facilities) for the needs of our operations. The entire operation from the point of importation, holding of bond records, performing damage inspections and clearance ex bond is all controlled by inhouse computer systems.

Customs inspections of GWA records have proven in all respects that Government revenue has been protected. Public warehouses could neither functionally nor economically provide the company with similar services.

3. Proposed Payment at Time of Sale

Advantages

- Deferral of duty for all imported goods and not just bonded goods.

Disadvantages

- Increased costs in administering the system.

In many respects, this alternative would be of considerable benefit to industry because the imposition of customs duty at the point of sale would apply to all imported goods and not just items which comprise the population of bonded warehouses.

All imported goods will be accounted for twice, at the time of importation and again when customs duty becomes payable. It would apply on a non-selective basis and it is probable that the administrative burdens that would be imposed on importers

and Government would be quite onerous and would offset any cost advantages that would otherwise accrue to consumers. Repetition does in fact happen at present for those importers, who, based on a business judgement, deem it economical to set up a bonded warehouse.

4. Proposed Abolition of the Warehousing System (Incorporating Discounted Duty Rates)

The abolition of the warehousing system coupled with a decrease in duty rates is seen as most undesirable.

Disadvantages

- Not consistent with Australia's tariff policy

Such a proposal is in direct conflict with the tariff protection policy of Australia. A reduction in duty rates to compensate for the interest cost of funds required to pay duty immediately, will undermine the detailed protection policy afforded the Australian industry, which has only arisen as a result of detailed investigations by Government and industry.

- Eliminates the benefits of bonded warehouses.

The bonded warehousing system does not operate solely for purpose of duty deferment. GWA's uses bonded warehouses to hold goods pending issue of tariff quotas and to perform damage inspections in secure premises rather than on the wharf. This procedure allows for appropriate Customs entry procedures and minimises wharf costs and risk of further damage by reducing delays on the wharves.

LINDEMAN (HOLDINGS) LIMITED

NYRANG CELLARS
31 NYRANG STREET, LIDCOMBE, N.S.W., AUSTRALIA. 2141

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647 0885

P.O. BOX 10, LIDCOMBE, N.S.W., AUSTRALIA 2141

TELEGRAPHIC & CABLE ADDRESS:
LINDEMAN LIDCOMBE
TELEX. AA 22049

Mr. B. E. Allen
Assistant Collector Inland Services
Australian Customs Service
Dept. of Industry and Commerce
G.P.O. Box 8
SYDNEY 2001

February 4, 1985

Dear Mr. Allen

Thank you for seeking the comments of Lindeman (Holdings) Limited on the Joint Committee of Public Accounts report on Excise and Deferred Customs Duties.

The attached paper outlines the matters of concern to our company.

I would be happy to discuss these matters with you further.

Yours sincerely,
LINDEMAN (HOLDINGS) LIMITED


R.H. KIDD

Managing Director

Lindeman (Holdings) Limited
31 Nyrang Street
Lidcombe NSW

January, 1985

PLEASE ADDRESS ALL COMMUNICATIONS TO THE COMPANY

COMMENTS ON EXCISE AND DEFERRED CUSTOMS DUTY REPORT

224 JOINT COMMITTEE OF PUBLIC ACCOUNTS

LINDEMAN (HOLDINGS) LIMITED

- Lindeman (Holdings) Limited is a wholly owned subsidiary of Philip Morris (Aust.) a listed Australian public company.
- Lindeman (Holdings) Limited incorporates three separate Australian wine producers, each being Vignerons & Vintners. These are Lindemans Wines Pty. Ltd., Leo Buring Pty. Ltd., and Rouge Homme Wines Pty. Ltd. Lindeman (Holdings) Limited also imports wine spirits and liqueurs.
- Australia's leading wine company, Lindeman (Holdings) Ltd:-

- Employs directly over 562 staff in Australia. Nearly 200 of these staff are employed in regional Australia.
- Through the demand for raw materials creates hundreds of additional jobs in the grape growing, glass, transport and printing industries.
- Paid wages and salaries in excess of 12 million dollars per annum.
- Paid Federal and State Government taxes and charges, in excess of 3.6 million dollars in 1983-84.
- Operates wineries in NSW, Victoria and South Australia which attract over 200,000 tourists per annum, including significant numbers from overseas.
- Is Australia's largest exporter of wine, earning substantial foreign exchange.

COMMENTS ON EXCISE AND DEFERRED CUSTOMS DUTY REPORT

224 JOINT COMMITTEE OF PUBLIC ACCOUNTS

Implications for Industry

The Report of the Joint Committee of Public Accounts reviews the impact of the administration of excise and deferred customs duties on government revenue. While these concerns are important, they cannot be evaluated in isolation. Insufficient consideration has been given to the impact of the recommendations on the efficient and competitive operation of the private sector.

This lack of understanding of the impact of changes in government administration on the operations of industry and commerce is of concern to Lindeman (Holdings) Limited in the following areas:

Fortified Grape Spirit

The Committee has expressed concern that the disparity in treatment of fortifying spirit and other potable spirit creates a potential for illegal diversion of fortifying spirit (4.10).

The report notes that submissions were received from the Distilled Spirits Industry Council and Australian Wholesale Spirit Merchants Association requesting an equivalent excise on 2J grape spirit as that which applies to other potable spirits.

The Committee observes that this would reduce the incentive for substitution of dutiable material with 2J spirit.

The proposal by the spirits industry is clearly made to benefit the vested interests of that industry, not through concern about government revenue. The application of excise to fortified spirit would of course increase the price of fortified wines relative to spirits.

The disastrous impact on the fortified wine industry following the application of excise on grape spirit for fortified wine was clearly demonstrated in 1983/84 and prompted the Federal Government to lift the excise in June 1984.

In canvassing the introduction of excise on grape spirit the Committee is clearly running against current government policy on this issue.

It is understood investigations by the Customs Service have found that there is not widespread substitution of brandy and other potable spirit by illegal diversion of 2J grape spirit, but that there is a high incidence of illicit distillation.

Lindeman (Holdings) Limited submits that the allocation of resources within Customs to allow wider use of chemical analysis and the extension of ADP facilities would be a far more effective and less damaging method of controlling substitution than the re-introduction of excise grape spirit.

Bonded Warehouses

The Committee has recommended that the perceived need for bonded warehouses should be re-examined and the matter should be referred to the Industries Assistance Commission (Recommendation 25). The Australian Customs Service was asked to prepare a summary of the alternatives to the existing bond and warehouse system. This request and the brief evaluation of the alternatives by the Committee is inexplicable when the Committee has previously stated that:

- the potential savings to Customs would be insufficient to warrant substantial changes (7.35)
- this is a policy matter and outside the terms of reference of the Committee (7.32)

The sole justification for the proposed changes is the Committee's uncertainty about the effectiveness of the current system (7.32). It is noted that no evidence is presented to support this uncertainty.

In the preparation of these alternatives, Customs noted that the abolition of all bond arrangements would be at a potentially large cost to industry (page 142).

The preferred option of the Customs Service is to abolish private warehousing and to establish general public warehouses operated by private enterprise. This option may facilitate the administration of the Customs service but this would be at considerable cost to private industry and commerce.

The abolition of private warehouses would have adverse impact on the efficient and competitive operations of private industry and commerce because:

- confidentiality of documents would be at risk, eg. bills of lading, invoices etc.
- renting space in public bonded warehouses instead of using existing company owned warehouses would add substantially to costs.
- the resultant double handling of goods and associated delays made necessary by the movement of goods from public warehouses to company warehouses would add to costs

Lindeman (Holdings) Limited submits that:

The abolition of the existing bond arrangements or the adoption of public warehousing would add to the costs of industry and commerce. Further examination of the matter by the I.A.C. is therefore unwarranted.

CAJLES & TELEGRAMS
HEWCO - SYDNEY
TELEX: 21213

MANTONS PTY.
LTD.
184-190 DAY STREET, SYDNEY 2000

G.P.O. BOX 3216
SYDNEY 2001
TELEPHONE: 264-6681

RR/jd

January 18, 1985.

Mr B.E. Allen,
Assistant Collector Inland Services,
Australian Customs Service,
Department of Industry & Commerce,
G.P.O Box 8,
SYDNEY. N.S.W. 2001.

REF No. N84/14307

Dear Sir,

I confirm receipt of your letter of December 21, 1984 and wish to present our company's views in relation to recommendations detailed under Chapter 7, Report 224 'Inquiry into the collection of Excise and Deferred Customs Duties'.

1. It would appear that consideration has not been given to cater for the needs of companies involved in re-export of dutiable goods or those involved in supplying Duty Free Stores.

2. Mantons Pty Ltd is responsible to supply Jean Patou perfumes and Houbigant perfumes to the South West Pacific area. This market has been developed over a period of years and has entailed considerable expense to achieve a satisfactory volume. The merchandise is held in bond and supplied according to clients' needs. To use a public bond for this purpose would be impossible. The loss of trade would considerably affect our company. The trade does bring foreign currency to Australia and in turn offsets the original value of import. In order for the total operation to be viable we act as distributors to the area for a number of Australian companies. The business generated for these companies could not be 'picked up' due to the individual needs of the 'buyers' being too small for individual deliveries.

3. Duty Free Stores: A considerable percentage of our turnover is achieved in this area. Merchandise imported is held in bond and supplied according to clients' needs. In addition to tourist traffic, we supply ships providers who in general require prompt service. It would be impossible to handle this type of trade through the use of a public bond.

4. I would like to comment 7.33 page 88 'goods under bond can be seen simply as a credit facility'. As a general rule the only two ranges of merchandise which are held in bond are perfumes (as detailed above).

Two suppliers offer us extended credit to enable them to manufacture our Christmas requirements during their off peak period a saving to them, and in turn a saving to us, by being able to make one or two shipments. Elimination of bond facility would eliminate this cost saving. We would simply import in accordance with our requirements and pay duty at that time. With the exception of these two suppliers, all other merchandise is duty paid on arrival.

In conclusion may I state that the elimination of a private bond would adversely affect our company due to the loss of export and Duty Free trade.

I thank you for the opportunity to present our comments and would add that any requests in relation to volume or general facts and figures will be attended to promptly.

Yours faithfully,
MANTONS PTY. LTD.

R. Reuben.
Director

Mazda Motors Pty. Limited
37 Lorimer Street
South Melbourne
Victoria, 3205
Post Box 183
South Melbourne, 3205
Telephone (03) 698 5910
Telex AA31343



13th February 1985

The Assistant Secretary
Inland Services Branch
Department of Industry Technology & Commerce
Edmund Barton Building
CANBERRA ACT 2600

Attention: Mr Errol Dixon, Director Operations

Dear Sir,

Joint Committee of Public Accounts
PAC Report No. 224
"Excise and Deferred Customs Duties"

Mazda Motors Pty Ltd welcomes the opportunity to submit the enclosed response to the proposals mentioned in the above report as they impact on private bonded warehouses.

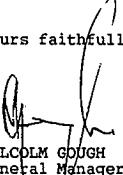
Mazda Motors Pty Ltd is an importer and distributor of Mazda passenger and light commercial vehicles and operates in Victoria and Tasmania.

The company has licensed warehouse facilities in Melbourne and Hobart. These facilities represent a substantial financial investment by the company. The warehouses with their physical improvements and computerised systems perform an integral role in the company's total commercial operations.

You will see that our submission concludes that the current bonded warehouse system is preferable to other options canvassed in the PAC Report No. 224. It is our view that the interests of Government, Industry, and the Economy are better served by the current arrangements.

We would be pleased to provide any further information or comments that may assist you in your consideration of this matter.

Yours faithfully


MALCOLM GOUGH
General Manager

SUBMISSION TO DEPARTMENT OF INDUSTRY TECHNOLOGY AND COMMERCE
IN RELATION TO THE JOINT COMMITTEE OF PUBLIC ACCOUNTS
PAC NO. 224 "EXCISE AND DEFERRED CUSTOMS DUTIES"

Identification

This submission is made by Mazda Motors Pty Ltd which is an importer and distributor of Mazda passenger and light commercial vehicles.

* The company operates in Victoria and Tasmania
Details concerning the submission and related matters can be discussed with Mr M Gough, General Manager, who can be contacted on telephone number (03) 698 5910.

Current Bonded Warehouse Facilities

The company has licensed private customs bonded warehouse facilities in South Melbourne and Hobart. The bonds are a totally integrated facility within our operations, providing control over our imported goods through sophisticated automated computer systems.

Comments on Proposals of Joint Committee

PAC Report 224

Overview

The proposed systems as set out in the Joint Committee's report:

- * do not provide for any additional revenue for the Government
- * potentially create additional costs for the Government, by way of increase administration (particularly, the need for increased personnel in Customs) and by way of increased public warehousing.

- * are a positive disincentive to industry, by reducing industry's flexibility in dealing with imported goods and removing the financial benefits of duty deferment.
- * indeed some options that have been canvassed would lead to increased costs to industry which because of the potential inflationary impact should be rejected from the outset.
- * potentially results in a reduction of the level of Customs Control over imported goods.

Whilst we as a company have encouraged change and actively sought amendment to the Custom's legislation we see little benefit in altering an existing arrangement which is currently benefiting all participants unless a more cost effective and overall more beneficial system can be implemented.

The current bonded warehouse system:

- * is a facility offered to industry in most countries of the world particularly major international trading countries.
- * is a procedure accepted by both Government and Industry.
- * provides incentive to industry by way of duty deferment.
- * ensures that the Revenue is at all times fully protected.
- * the constant monitoring of the warehouses by Customs has been accepted by industry and has proved to be efficient and effective in the context of revenue protection.
- * provides private warehouses which are specifically designed to accommodate and account for the type of goods being imported, with personnel involved being trained to deal with those goods.

1. Proposed Credit System

Perceived Advantages

- Duty deferment similar to bonded warehousing.
- Reduction in Customs inspection requirements which should result in the saving of Government monies.
- Additional cost reductions as a result of fixing the dwell times for collection of duty.
- Simplicity in its application.

Disadvantages

- No consideration of the importation of goods subject to tariff quotas (such as passenger motor vehicles, textiles, clothing and footwear) where different duty rates can apply to the same goods. The proposed system would be unworkable for such goods, as there would be no knowledge of the duty rate applicable to those goods. Under the quota system for the importation of passenger motor vehicles duty can be 100% (penalty duty), 94.5% (tender quota), 57.5% (base quota) or free (utilization of export credits). Commercial experience is that imports are stored in bond, sometimes for extended periods, pending issue of base quota or the availability of tender sale quota.
- A fixed dwell time takes no account of the commercial requirements of manufacturers and importers. At present goods are released from bond depending on manufacturing schedules, production requirements, sales demands, and Government administration of tariff quotes.
- The inflexibility created by a fixed dwell time may flow through to consumers by way of increased prices.
- Perceived savings may not be achieved. The costs of the personnel required to implement and control the new system is likely to offset any benefit from the reduction in inspection requirements.

- Lack of Customs control. Under the suggested system, imported goods will go directly into home consumption. As such Customs will lose a major weapon in the collection of duty. No longer will goods be held in their control until duty is paid.

2. Proposed Abolition of Private Warehouses

Advantages

- Non perceived.

Disadvantages

- Increased costs which would eventually be passed onto consumers.

The abolition of private warehouses is not a viable alternative. The current number of public warehouses could not cope with the increased volume requirements imposed by abolishing private warehouses. The effect would be to impose an enormous strain on existing public warehouses to cope with the increased demand. Failure to meet the demand would require additional public warehouses to be established, thus increasing the cost to the Government.

If there is no change in the volume of imports there would be no substantial reduction in the total number of licensed warehouses. It follows then that there will be no reductions in customs surveillance costs. To physically reduce the number of warehouse establishments, serious consideration should be given to the establishment of Free (Foreign) Trade Zones.

- Public warehouses are inconvenient and inadequate.

For an entity such as Mazda Motors Pty Ltd special facilities are currently available in the bonded warehouse to accommodate passenger motor vehicles and light commercial vehicles. These facilities are readily available, specially designed and equipped (including computer facilities) for the needs of our operations. The entire operation from the point of importation, holding of bond records, performing damage inspections and clearance ex bond is all controlled by inhouse computer systems. Customs inspections of Mazda Motors Pty Ltd records have proven in all respects that Government revenue has been protected. Public warehouses could neither functionally nor economically provide our company with similar services.

3. Proposed Payment at Time of Sale

Advantages

- Deferral of duty for all imported goods and not just bonded goods.

Disadvantages

- Increased costs in administering the system

In many respects, this alternative would be of considerable benefit to industry because the imposition of customs duty at the point of sale would apply to all imported goods and not just to items which comprise the population of bonded warehouses.

All imported goods will be accounted for twice, at the time of importation and again when customs duty becomes payable. It would apply on a non-selective basis and it is probable that the administrative burdens that would be imposed on importers and Government would be quite onerous and would offset any cost advantages that would otherwise accrue to consumers. Repetition does in fact happen at present for those importers, who, based on a business judgement, deem it economical to set up a bonded warehouse.

4. Proposed Abolition of the Warehousing System (Incorporating Discounted Duty Rates)

The abolition of the warehousing system coupled with a decrease in duty rates is seen as most undesirable.

Disadvantages

- Not consistent with Australia's tariff policy.

Such a proposal is in direct conflict with the tariff protection policy of Australia. A reduction in duty rates to compensate for the interest cost of funds required to pay duty immediately, will undermine the detailed protection policy afforded the Australian industry, which has only arisen as a result of detailed investigations by Government and industry.

- Eliminates the benefits of bonded warehouses.

The bonded warehousing system does not operate solely for purpose of duty deferment. Mazda Motors Pty Ltd uses bonded warehouses to hold goods pending issue of tariff quotas and to perform damage inspections in secure premises rather than on the wharf. This procedure allows for appropriate Customs entry procedures and minimises wharf costs and risk of further damage by delays on the wharves.



MILLAQUIN SUGAR COMPANY PTY. LIMITED

Incorporated in Queensland
(A Member of the Bundaberg Sugar Company Limited Group)
BUNDABERG, Queensland.

All communications to be addressed to the General Manager,
P.O. Box 536, Bundaberg, 4670

Telephone: 72 1333, Area Code 071. Telegrams: Millaquin, Bundaberg. Telex: AA49709.
Our Reference: DCK:JM Your Reference: 17th January, 1985
Q85/0079

Mr P Van Slobee
Assistant Collector
Inland Services
Australian Customs Service
GPO Box 1464
BRISBANE Q 4001

Dear Sir

RE: WAREHOUSE PROPRIETORS/DUTY FREE SHOPS

We acknowledge receipt of your letter of 10th January, 1985, on the above matter. A copy of your letter has been passed on to the following associations with which our company has membership or affiliation:

Mr Alan Cook
Manager
The Liquor Merchants' Association
of Queensland
GPO Box 419
FORTITUDE VALLEY Q 4006

Mr GJ Broderick
General Secretary
The Federated Wholesale Spirits
Merchants' Association of Australia
PO Box 176
SOUTH MELBOURNE VIC 3205

Mr GJ Broderick
Executive Director
Distilled Spirits Industry Council
of Australia
PO Box 176
SOUTH MELBOURNE VIC 3205

Our company is advising the above Associations in relation to the report, that:

- (a) as Bundaberg Sugar Company Limited (the holding company of this company) submitted to the Inquiry, the continuation of the bonded warehouse system is vital to firms' survival in the spirit industry (see Report point 7.42)
- (b) taking cognizance of points 7.38 and 7.39 in the Report, this company would not support any significant change without referral to a full inquiry, and would make submission to an IAC Inquiry should that eventuate as suggested in recommendation 25.

Yours faithfully
MILLAQUIN SUGAR COMPANY PTY LIMITED


DC KENT



New South Wales Road Transport Association

MEMBER OF
AUSTRALIAN ROAD
TRANSPORT FEDERATION

Address reply to— **CENTRAL OFFICE**

WAREHOUSEMEN'S ASSOCIATION OF NEW SOUTH WALES
(A Section of New South Wales Road Transport Association)

11 February, 1985

Mr. B.E. Allen,
Assistant Collector,
Inland Services,
Australian Customs Service,
G.P.O. Box 8,
SYDNEY. NSW. 2001.

Dear Sir,

Re: Joint Committee of Public Accounts
Report No. 224 - Excise and Deferred
Customs Duties

We refer to your letter of 28 December, 1984, your reference N84/14307 addressed to the Chairman of the Warehousemen's Association of New South Wales, and on behalf of the Association, wish to comment as follows:

Report No. 224 of the Joint Committee of Public Accounts - Excise and Deferred Customs Duties, identifies a number of aspects of the administration of bonded warehouses which could and should be improved. It appears to base some of its conclusions on premises which are questionable. These premises, as we see them, are discussed below -

1. Warehousing is simply a credit facility.

In our view since duty does not become payable until goods are delivered for home consumption, the question of "credit" does not arise until that time.

Warehousing simply permits the process of importation and duty payment to be separated until delivery for home consumption is required. This would also include export and manufactured items.

To abolish warehousing would be to heighten the trade barriers already confronting imports, composed of such elements as financing costs, freight, strikes, and other disruptions, and which would increase inflation considerably and see a decrease in our export market and holdings of foreign exchange.

CENTRAL OFFICE
215-217 CLARENCE ST., SYDNEY, N.S.W. 2000
TELEPHONE—(02) 29-6131
TELEGRAMS—“MASCARRAS” SYDNEY

NORTHERN DIVISION
33 BELFORD ST., BROADMEADOW, N.S.W. 2292
P.O. BOX 153, BROADMEADOW, N.S.W. 2292
TELEPHONE—(049) 69-3132

SOUTHERN DIVISION
215-217 CLARENCE ST., SYDNEY, N.S.W. 2000
TELEPHONE—(02) 29-6131
TELEGRAMS—“MASCARRAS” SYDNEY

2. The "simple alternative" of abolition of warehousing with adjustment of duty rates.

Paragraph 7.39, page 90 of the Report, recognises the question of the cost of credit but not the question of availability. Whatever the price of money may be, many firms, particularly small firms, do not have available to them the credit necessary to fund duty paid inventories.

The simplicity of this "solution" is much more apparent than real. Among the problems which do not seem to have been adequately recognised are:

- (1) credit availability problems;
- (2) variations in interest rates;
- (3) differential effects on small and large firms;
- (4) variations in the level of under bond stock levels necessary for different goods;
- (5) differential freight savings for different goods, afforded by the larger unit shipment sizes made possible by warehousing;
- (6) variations between goods in storage costs in relation to value;
- (7) differences in the additional costs of dislocation from strikes, etc. from more frequent, smaller shipments;
- (8) differences between the use of warehousing by different importers of the same goods;
- (9) higher insurance premiums because importer must insure the duty content as well as the cost of the merchandise;
- (10) overdraft position changes;
- (11) increase in inflationary trends;
- (12) duty free operations.

3. Full Recovery of Costs.

We have no quarrel with the notion of recovery of costs. What we would challenge is full recovery without a thorough examination of whether the cost level is too high for the results obtained. There appears to be room for considerable improvement in the Department's use of existing resources. If more sophisticated, discriminating, risk-related techniques were applied and check results were properly recorded and evaluated then the cost to be recovered could be considerably lower.

4. Credit Systems.

A credit system would appear likely to spill over to goods which would have been entered for home consumption on importation. It could cost more to administer than warehousing and could involve more, rather than less deferment of duty payment. It could also leave the system open to malpractice opportunists.

Abolition of private bonds would be inequitable and would give rise to unnecessary and costly movements now avoided. We dispute the fact that private bonds are simply using their bonds as a credit facility (refer to page 88, 7.33, second paragraph). Many private bonds use the bond as a means of supplying duty free and export shipments. They are also used for manufacturing or for machinery bonds. Bonds, such as A.W.A., manufacture many items to Government order and would find it very difficult if they were deprived of their warehousing facility. If the same level of control were maintained, wholesale taxes or sales tax types of duty payment of imports could be more costly to administer than bonded warehouses.

5. The "Pool of Funds" Notion.

The Report seems to suggest that there is some pool of funds waiting to be appropriated by a government in need of a fiscal boost. The reality is that goods having been warehoused under existing conditions, a long period of notice, one or two years at least, would be necessary before the duty on under bond goods could be "called-up". During that period, stocks would be run down by non-replacement and the "pool" would evaporate.

Additionally, the future fiscal income stream from duty collections would be smaller due to the higher cost of imports.

6. General Comment.

Receipt, storage, movement and clearance of warehoused goods is no different in principle to the receipt, storage, movement and clearance of sea and air cargo. In some respects it is simpler and it is generally better documented.

Warehousing is a simple, time-tested solution which can be economic, effective and efficient if managed properly.

The Joint Committee's Report has little to say about the effective and economical nature of warehousing as a means of maintaining control of imports until duty is payable. We submit that adequate emphasis should be given to the potential folly of replacing an effective and efficient technique with some problematical "quick solution" which may not be as effective as the present method.

7. Alternatives to the Present System.

Having stated our objection to changing the bonding system to a credit system, it is our considered opinion after detailed examination of PAC Report Number 224, that the system operating in the United States appears to better outline procedures required to update problems confronting both the bond store proprietors and the Customs Department in Australia. For reference please note pages 140, 147 and 148 of the Report.

On the question of control by the Department and bond proprietors, we would have to agree that the Committee should give attention to upgrading the control system for bonded warehouses. A computer system which reconciles bond entries and clearances so as to provide sufficient information to allow proper inventory control would definitely be a step in the right direction. This is indicated in the US Warehousing System. The Customs Department may be able to submit a checklist with the compile system on VDU and hard copy for correction and deletion on a regular basis and this would provide up-to-date information concerning stock, dwell times, and so on.

Physical checks could be made by the Department and may prevent unnecessary investigation into the whereabouts of goods. However, bond proprietors would be obliged to keep records on computer and naturally this would entail further added expense to bond proprietors. Therefore, we consider that a lowering of bond fees would be appropriate. (A reduction in fees to warehousemen is also indicated in the US Warehousing System Report).

We also suggest that the present system used for the collection of the \$7 transaction fee at the time of the passing of the Nature 30 entry could be dispensed with as far as collection by bond proprietors is concerned. We consider it is possible for this money to be collected as a part of the user's fee of the compile system. This would save the Department considerable expense in collecting fees from Warehousing companies.

8. Dwell Time.

As further input to the inquiry, we also consider one of the main problems confronting the Department and bond proprietors is in the area of dwell time. We would suggest that consideration be given to reverting in some way to the bond mark era where goods remaining in bond up to a period of three years were either duty paid, re-warehoused or sold at overtime sale.

In the case of goods that have not been cleared within twelve months after the date of receipt in the bond, the importer should then satisfy the Department that there is sufficient reason for the Department to grant a further deferment of six months. If the goods are not cleared by the end of that period, the cargo should then be subject to sale at the collectors' overtime sale.

Recognition should also be given to the special needs of some classes of goods; for example, maturing spirits and some heavy equipment and components for projects having extended construction times. Any extended time limits for re-warehousing should be provided for at the time of entry into bond.

It is understandable that dwell time problems should be solved as a benefit to all parties and we would envisage the following happening:

- (a) On the Department's behalf, we would see a better recording system with less manhours consumed in maintaining records as well as a more efficient dwell time procedure to protect the country's revenue.
- (b) On behalf of the importer, he would be aware of his obligations to both the Department and the warehouse keeper to keep his stock in a rotating order and to clear if within the desired time. This also applies to private bonds.
- (c) On behalf of the bond proprietor, dead cargo remaining in their stores would be cleared or sold within a sufficient time frame so as to eliminate loss of revenue and space on cargo.

In summing up we again emphasise certain points for your attention in our submission:

- (i) The Report mentions the development of a computer-based system for control and accounting purposes of bonded goods. (Sections 7.18, 7.22 to 7.55).
It is our suggestion that the authorities be encouraged to pursue this project especially as it would lead to more effective record and maintenance control.
- (ii) Dwell time should be thoroughly overhauled and updated particularly in line with (i) above.
- (iii) Bonded warehouses have played a significant role in shaping the nation's advancement since Governor Phillip first set foot on these shores and importers and exporters desire that service to continue.
Concerned clients of the Bonded Warehousing Industry have stated "The Government is not entitled to duty until their goods are entered for home consumption. Warehouses in Australia are in many respects an extension of our supplier's warehouse overseas (see page 137 of the Report), and provided you keep our stock and our records in the correct manner with regard to documentation and cargo care, we and the Department should be satisfied."
- (iv) On all matters relating to public and private warehouses, we have studied Document 224 in detail and feel that it is unnecessary for us to make further comment as we would be again re-hashing many subjects that you have covered in the Report. We consider that we are on common ground in many areas except on those points raised at the commencement of this correspondence.

For your further information, the National Warehousing Association of Australia has now been formed, the New South Wales and the Victorian Associations being initial founding members. However, since the preliminary submission had been made to the Joint Committee by the New South Wales Road Transport Association's Warehousemen's Section, it has been deemed advisable, for ease of reference, for further correspondence in relation to this particular matter to continue in that name. However, the comments contained in this letter are as a result of deliberations by both the State and National Bodies.

Finally, may we express our appreciation of your suggestion that we prepare a submission to you on the Joint Committee of Public Accounts Report. We would also appreciate the opportunity of elaborating upon this submission verbally, if required, to the Australian Customs Service or indeed to the Joint Committee itself.

We look forward to your further advice.

Yours faithfully,



D.G.R. Williams
CHAIRMAN,
WAREHOUSEMEN'S ASSOCIATION OF NEW SOUTH WALES
A SECTION OF NSW ROAD TRANSPORT ASSOCIATION

Philips Industries Holdings Limited

New South Wales,
Australia.



PHILIPS

The Philips Building,
Blue Street, North Sydney,
P.O. Box 1138, North Sydney, N.S.W. 2000
Telec: AA 20185 (Relined) Ausstyp +
Telephone 823 3333

The Collector of Customs,
Australian Customs Service
GPO Box 8,
SYDNEY N.S.W. 2001

your ref

our ref

Attention: Mr B.E. Allen
Assistant Collector
Inland Services

date 25th January, 1985

Dear Sir,

Having now had an opportunity to study the Joint Committee of Public Accounts report number 224 dealing with Excise and Deferred Custom and Duties and in particular, Chapter 7 - Bonded Warehouses to which your letter of 21st December, N84/14307 - B1308 refers, we would comment as follows:

In reading the report one might gain the impression that Customs supervision of Bond Warehouses is inadequate, lacking in sophistication and should be substantially strengthened.

We are of the opinion that the report can be misleading if read without an indepth understanding of the manner in which Bonded Warehouses are used, the responsibilities of those persons approved by Customs to operate bonds and the extent to which Customs supervise bond operations and afford assistance to industry in setting up supervisory control of bond movements. In this manner Customs are able to ensure that the operation of an approved bonded warehouse is not only conducted to meet all of the legal requirements to the satisfaction of the Collector but also such that commercial costs are kept to a practical minimum.

To a large extent the system is self-regulating and companies operating bonds accept and are duty bound to impose upon themselves controls over their bonded stocks which not only meet the requirements of Customs but also their own internal audit mechanisms.

Consequently, table 7.2 of Chapter 7 does not reflect the true nature of the extent to which manpower is deployed in controlling the movement of goods into and out of bonds. Neither does the report, generally, reflect the level of sophistication now in use to accurately report on bonded stocks.

In our formal submission to your Department for permission to operate a bonded store at Moorebank, N.S.W. we included a detailed explanation of the computerised control system to be employed in the store exercising control not only over bonded goods but also the entire stocks warehoused in that store. An identical system has been in use for four years at Clayton, Victoria.

Additionally, the Shipping and Customs Division, in making Nature 20, Nature 30 entries and STP/CTP documents exercises considerable control over the in-and-out traffic through the Company's warehouses and in so doing, balances the records of Stock movements.

We would contend, that in this manner, the Company plays a role of self-imposed policing compliance with relevant regulations that only requires Customs supervisory checking from time-to-time.

It must be appreciated that the degree of sophistication now in use to control the security of bonded goods and protect the revenue is a far cry from the "locker" concept of years gone by and is far more efficient.

We have attached to this letter a sample page of data print out which clearly demonstrates the degree of sophistication employed by this Company and immediately available to Customs.

For example, entries under bond mark b50020368 show the value for duty of each quantity and identity of the bonded goods plus the movement of those stocks and the balance of those goods remaining in bond. Each transaction is identified by the transaction number (allocated by us) which can either be called up on any terminal connected to our CMS data system throughout Australia or will furnish a reference to all of the original documents concerning that transaction.

It is practical that we could furnish any Customs officer with all of those documents within a matter of minutes of his request to sight them at the office of the Shipping and Customs Division. He would then be able to verify that those stocks are physically located in the bond under that mark.

We would also point out that in establishing such systems the work has entailed considerable liaison with Customs and that Customs has provided assistance of great benefit to the Company in establishing adequate control systems. The extent of this involvement by Customs would not be known to us but it must substantially change the impression left by Table 7.2 if that manpower were to be included in the table.

It would, also, seem that undue emphasis has been placed on the dwell time issue. The use of bonded stores by industry is often dictated by external demands placed on the industry or imminent decisions, by Government, which create high levels of uncertainty. In addition, companies are required to hold stocks of its products for sale to Government Departments or other Autonomous Bodies not required to pay duty on those goods. It follows that those stocks must be held in bond. Similarly, inputs to other manufacturing companies are often required to be supplied free of duty, for defence manufacture or, primarily, supply to Telecom.

These supplies must be transferred from bond to bond. Exactly the same controls are applied to such goods.

The report does not recognise that the cost of operating bonded warehouses is quite substantial and does not fully take into account the fact that as tariffs have been considerably reduced over the past decade or so and, at the same time, the costs of carrying and financing stocks have risen such that elongated dwell times for bonded goods are no longer acceptable within industry itself.

Many companies have developed sophisticated forms of Real Time Order Processing and these not only exercise stricter controls of a company's stocks but also highlight slow moving stocks, whether they be bonded or free goods.

We are concerned that the Committee should seriously consider referring the matter to the I.A.C. . Customs have considerable wealth of knowledge of the need for supervision and operation of bonded stores. Should it be recognised that there is any need to vary the level of control of bonded goods, we are of the opinion that Customs are fully competent to carry out, in conjunction with industry, any variation to the existing system without creating further unnecessary costs to industry and which we believe would be unwarranted.

Over a very long period of time the Australian Customs Service has developed a working relationship with industry which has led to the introduction of many cost effective innovations. We would wish to see that working relationship continue and, should any genuine need to vary the present controls over bonded goods be identified, then a solution be developed by the Australian Customs Service and industry in a spirit of co-operation and to the satisfaction of the responsible Minister.

This Company would be fully prepared to assist in any such approach to resolve identified existing problems.

Yours sincerely



A.J. Boettcher
DIVISIONAL DIRECTOR-
CORPORATE EXTERNAL RELATIONS.

Meadows

Telephone: (062) 605733
Telex: 20544 AUSFOR

AFA Meadow freight Pty Ltd
(Incorporated in NSW)
PO Box: 244
KINGSTON ACT 2604

23 January 1985

Australian Customs Service
GPO Box 8
SYDNEY NSW 2001

Our Ref: A/11933

Vr Ref: 104/14307

Dear Sir,

We would like to take this opportunity to comment on The Joint Parliamentary Committee of Public Accounts recommendations contained in their report on Excise & Deferred Customs Duties (No 224).

1. The Committee recommends that there be a formal "entry into stock" for domestically produced excisable goods. We concur with the committee's view and feel that this will give the Australian Customs Service greater control over excisable goods. Excise Duty Collections were \$6506 m in 82/83 and Customs Duty Collections were \$2064 m in 82/83 of which \$600 million was directly collected from the Warehouse System. Excise Duty Collected from approved places is 11.5 times more than duty collected from Customs Warehouses, yet there appears to be less documentary control in the higher risk area.

2. Given that greater monitoring should be given to higher risk areas and the Australian Customs Service's policy of recovering 100% the cost of surveillance by Inland Services Staff we would question the current fee structure. Where Excise Warehouses pay annual license fees of \$10 and Customs Warehouses pay \$1000 and \$7.5 transaction. Based on revenue risk we believe the following charges should apply.

<u>COST OF ADMINISTERING SYSTEM</u>	<u>\$2.5 Million</u>
<u>TOTAL REVENUE</u>	<u>\$70.06 Million</u>
6 CUSTOMS WAREHOUSE	\$600 Million
6 EXCISE WAREHOUSE	\$6506 Million
<u>OVERHEADS TO INVOICE</u>	
CUSTOMS WAREHOUSE	\$0.23 MILLION
EXCISE WAREHOUSE	\$3.22 Million
1200 CUSTOMS WAREHOUSES	FEE EACH \$235
200 EXCISE WAREHOUSES	FEE EACH \$16,100

3. We submit that this is an ideal situation but believe that Customs Warehouses currently are bearing a disproportionate burden of the charges.

4. ... more equitable solution may in fact be to presume that the same amount of monitoring needs to be undertaken at each Warehouse regardless of duty revenue, the charges needed to recover the \$2.7 m actually collected in 82/83 would have been as follows:

Meadows

-2-

1400 WAREHOUSES

Revenue \$2.7 million less \$0.4 million in Transaction Fee's
Licence Fee \$1650 less adjustment for Transaction Fee's on Excise Transactions.

5. The Committee's recommendation that the Australian Customs Service Automatic Data Processing facilities be upgraded to monitor movements and clearances at warehouses is an excellent one as it will give the Australian Customs Service greater control over warehoused goods and a greater ability to detect revenue threats, without any major changes to the current operation system and any inconvenience to operators.

6. However we are at a loss to understand the committee's rationale in formulating this recommendation. We agree that goods could be removed from a warehouse and returned between Customs checks but fail to see what commercial advantage could be gained by this practice especially when the operators' license is at risk if the practice is detected, and suggest on behalf of private warehouse operators if indeed anyone would benefit from this practice.

7. The Committee's recommendation that the perceived need for the Commodity Warehouse System should be re-examined leads to a wide range of options that could be considered. We believe however the Customs Warehouse System as currently exists is the most convenient and cost effective to importers and presents the least risk to the revenue.

8. At present only approximately quarter of Customs Duty collected is collected through Warehouses, however should a Deferred Payment System be introduced we would feel 90% of regular importers would request inclusion in the system as they would still be able to sell their goods but would then be able to defer the duty.

9. Whilst the Deferred Payment System offers some assistance to importers given that they will need to have funds permanently tied up with the bank to enable a bank guarantee to be issued to the Australian Customs Service, we do not feel the system will create greater work loads for the Australian Customs Service in revenue collection nor ultimately increase costs to importers and consumers.

10. This system would restrict importers with goods that have until times over three months, ie importers who bring large volumes to reduce freight costs but only ex-warehouse a part of the shipment after the previous part has been sold, each prior ex-warehouse runing the duty payment of the next. This we believe is a wide spread practice.

11. The Committee's suggestion that a downward duty rate adjustment be applied to compensate for the cost of credit in paying duty earlier than nominal would be impossible to administer in that adjusting duty rates will have a adverse effect on the protection afforded local manufacturers. This would also discriminate between importers, Australian states and be in our opinion unconstitutional.

Meadows

-3-

12. Our preferred option would be the abolition of private warehouses and the continuation of the existing system with general warehouses only. Operators of private warehouses present a greater risk than operators of general warehouses as they have an interest in the goods being stored, general operators do not. The operations of private warehouses could be taken over by general warehouses in the normal course of business with no change to procedures. The advantage to the importer would be access to a very flexible system allowing him to determine dwell time to suit his requirements, part clearance of shipments and secure storage whilst giving the Australian Customs Service a minimal workload and the imported goods as security against payment of duty.

13. To our knowledge past punitive action by the department against warehouse proprietors has been limited in the main to private warehouse licence holders. In particular those persons who also have access to both their own goods and provide their own transport.

Thank you for this opportunity to comment. We hope our views are of some assistance in preparing the Department's response.

Yours Faithfully
PAUL MEADOWS FREIGHT PTY LTD



Paul Angel
Manager - ACT

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Queensland Electricity Commission



256 Adelaide Street, Brisbane
Postal Address.
G P O Box 10, Brisbane, Qld 4001, Australia
Telephone (07) 228 2111 Telex 42308

Enquiries Mr. R. Mitchell Telephone 228 2589 Reference C9/A/19

30 January 1985

Assistant Collector,
Inland Services,
Australian Custom Service,
GPO Box 1464,
BRISBANE Q. 4001

Dear Sir,

WAREHOUSE PROPRIETORS

Thank you for your letter of 10 January 1985.

I note that you have requested a submission by the end of January 1985.

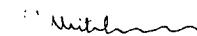
The Commission's interest is in respect of Chapter 7 of the report of the Joint Parliamentary Committee of Public Accounts on Excise and Deferred Customs Duties (No. 224), i.e. Bonded Warehouses.

It is noted that the Committee has made six recommendations. Five of those recommendations relate to the operation of the bonded warehouse system and result in suggested improvements or upgrading of procedures and controls to be instituted by the Customs Department and appear to affect the operations of the Department rather than the users of the bonded warehouse system.

The remaining recommendation by the Committee is that the bonded warehouse system should be re-examined and the Committee considers that this issue should be referred to the Industries Assistance Commission (IAC) for enquiry.

The Queensland Electricity Commission has availed itself of the bonded warehouse system in respect of overseas equipment for Tarong Power Station and although Report No. 224 does not appear to recommend at this stage any change in overall policy, the electricity industry would, of course, be interested in any further IAC enquiry.

Yours faithfully,


K.D. VierTEL
SECRETARY

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RONSON PTY LIMITED (INCORPORATED IN NSW)

SUBSIDIARY OF MOTIBHAI & CO. (AUSTRALIA) PTY LTD.

Head Office: ORION ROAD, LANE COVE, SYDNEY AUSTRALIA,
Postal Address: P.O. BOX 98, LANE COVE N.S.W. 2068 AUSTRALIA
Telex: RONSON AA24465 Cable: RONSON SYDNEY
February 26, 1985 Telephone: 427-0555

Mr B.E. Allen
Asst. Collector Inland Services
Australian Customs Service
G.P.O. Box 8
SYDNEY NSW 2001

Dear Sir,

Report 224 Excise and Deferred Customs Duties

We have scrutinised contents of Report 224 from the Joint Committee of Public Accounts and would like to submit that the recommendations made on Customs Bonding and Warehousing are very disturbing and a cause for serious concern.

Because of the nature of our business and in particular the fact that we service the entire South Pacific Basin we have invested considerable sums in upgrading our storage and warehousing facilities. Our bonded warehouse is used for storage of electrical appliances that are re-exported to various points outside Australia. We also stock considerable quantities of perfume as sole distributors for several reputable brand names for sale to duty free outlets throughout Australia and the surrounding islands.

It is necessary to hold stock far in excess of normal consumption because of the long delivery/shipping periods. As you well know, the consumer market here has peaks and troughs which are sometimes quite unpredictable and this also necessitates disproportionate stock holdings.

Disturbing the present systems, therefore, could only incur the introduction of time consuming procedures with severe economic repercussions that would ultimately result in our losing our distributorship and closing down at least some part of our operations. This would obviously mean loss of jobs and revenue as well.

We sincerely hope that due consideration will be given to this submission. We shall be happy to provide any further particulars if so desired.

Yours faithfully
RONSON PTY LIMITED

S. Fernandes

RONSON PTY LIMITED
570 LONSDALE STREET, MELBOURNE, VIC 3000 TEL 602 2398
36 BERWICK STREET, FORTITUDE VALLEY, QLD 4006 TEL 52 7183
28 ELMHURST STREET, ADELAIDE, SA 5000 TEL 211 7444

STC

OUR REF. 22/85/134 GO:JP
YOUR REF. N84/14307 B1308

**Standard Telephones and
Cables Pty. Limited**

(Incorporated in NSW)

An Australian Company of ITT

252-280 Botany Road,
Alexandria, N.S.W. Australia 2015
Telephone: (02) 6990944
Telex: AA20208

12th February, 1985.

Collector of Customs,
Department of Industry, Technology & Commerce,
Australian Customs Service,
G.P.O. Box 8,
SYDNEY, N.S.W. 2001.

Attention Mr. B. Allen,
Assistant Collector, Inland Services.

Dear Sir,

In connection with your letter of the 21st December, 1984, we wish to submit the following comments.

Whilst we appreciate the concern of the Committee with regard to the control and collection of duties on bonded items, our experience over the last twenty-six (26) years of operating Manufacturing Bonds, both at Alexandria and at our Liverpool Plant, has been one of efficiency and mutual co-operation with the Customs Department.

Naturally, we would have to agree that improvements are always possible, particularly with the advent of A.D.P. facilities and any suggestions that would benefit both the Customs Department and local manufacturers, such as ourselves, in the control and expediting of paperwork would be welcomed.

However, with regard to Recommendation 25, reference to even contemplating the abolishment of the Bond System as a means of obtaining more revenue causes us great concern when we consider the purpose of a Manufacturing Bond.

The Manufacturing Bond System allows the manufacturer to import the required parts in efficient quantities so as to minimise the dependence on the precise deliveries of overseas suppliers, which could otherwise cause production line stoppages and possibly stand-downs for lack of parts.

MR. B. ALLEN.

12TH FEBRUARY, 1985.

We would comment that no sensible manufacturer or importer would make or purchase goods in greater quantities or earlier than he needed to simply because of the so called "deferred duties".

We trust that the above will convey our feeling on this matter but we shall only be too glad to supply any further information that you may require.

Yours faithfully,
STANDARD TELEPHONES AND CABLES PTY. LIMITED,

Andy.

G. ORLANDO,
MANAGER, IMPORTS & SHIPPING.

STUART ALEXANDER & CO. PTY. LTD.

INCORPORATED IN NEW

MERCHANTS

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CABLES. TELEGRAMS. FROSSARD SYDNEY
PHONE: 6627077 (8 LINES)
TELEX: FROSS AA25600

WB/SC

30th January, 1985.

Mr. B.E. Allen,
Assistant Collector,
Australian Customs Service,
G.P.O. Box 8,
SYDNEY...2001.

Dear Mr. Allen,

I refer to your letter of 21st December, 1984 inviting submissions on the issues raised by the Joint Parliamentary Committee of Public Accounts in its report on Excise and Deferred Customs Duties (No. 224).

Stuart Alexander is a long established importer of cigars, cigarettes, tobacco and coffee and with customs duty payments totalling around \$24 million per annum are, naturally, vitally concerned with the range of the Committee's recommendations and concepts.

In Sydney our imports are bonded in our own private warehouse and in other parts of the country we are substantial users of public bonded warehouse facilities. We also make significant use of the facility to move goods under bond on both an individual transaction basis and pursuant to continuing permissions.

Across our product lines "dwell times" in bond vary significantly and range up to 2 years in the case of Cuban cigars. On manufactured tobacco which constitute a large proportion of our total business, dwell time averages around 3 to 5 months which is significantly greater than the overall average of 2 to 3 months identified in the Committee's report.

In the event that the bonded warehouse system was abolished and no compensating duty credit system was introduced, we would have to somehow obtain an extra \$8-10 million capital and we estimate that the additional cost to our business would be in excess of \$2 million per annum. A compensating credit scheme based on the indicated overall average dwell times would leave us disadvantaged to the extent of around \$1.25 million. If we were forced to pass these expenses on, our business would possibly suffer enormously.

In the circumstances our corporate self interest obviously dictates strong opposition to the Committee's proposals. We do not believe that it is sufficient, for example, to merely acknowledge as the Committee does, that there will be some "winners" and some "losers" in the introduction of any duty credit scheme based on overall average dwell times. Compelling reasons must be advanced to overturn a long established revenue payment system which has had a substantial influence on commercial trading practices and provided significant cost savings, not only to commercial participants, but to the Australian consumer.

We find no evidence of such compelling reasons in the Committee's report and, indeed, on the grounds of equity within the whole system of indirect taxation, we believe there are strong grounds for adhering to the present arrangements.

Our identified interest as an importer is in proposals relating to Customs duty and bonded warehouses. However, the general tenor of the Committee's report requires us to address the question of excise duties. The proposal in relation to tobacco excise that duty be collected at the point of packaging appears to be the stimulus for many of the proposals for change in the importing arena. If collection of tobacco excise was to be altered in the manner suggested, it is understandable that the tobacco manufacturers should seek compensating changes with a view to ensuring that they are not disadvantaged vis a vis importer of tobacco products. But we do oppose that tobacco excise duty should be collected at the point of packaging.

We do not propose to enter the abstruse debate on the legal, economic and other features which may distinguish excise taxes from other forms of indirect taxation. But the notions advanced in paragraph 4.65 of the Committee's report need to be flatly rejected. Whatever the origins of excises on such commodities as alcohol and tobacco, there are no grounds for asserting that the budget process identifies or treats them as sumptuary items. No government seeks to reduce consumption of such commodities through the tax device for the simple reason that they are firmly entrenched as revenue raising items. The further notion of externality suggests the hypothecation of excise revenue to address perceived related social costs. It can be observed that with one exception that approach has always been successfully resisted by the Treasury.

The reality is that excise taxes in Australia are essentially directed at revenue raising and collection criteria should provide equity of treatment with other forms of consumption taxes, particularly sales tax. The proposals of the committee in relation to excise collection would further enhance the already preferred position of goods subject to sales tax which, in many cases, is not paid until after consumption. This is, of course, equally true in relation to those elements of duties of customs which are designed to reflect equivalent excise rates on locally produced goods.

Customs duties also give rise to additional considerations. Although the Customs Tariff is a significant source of Government revenue its primary purpose is to provide a degree of protection to local industry. Assessment of required levels of assistance broadly assumes equitable comparison of cost structures relating to imported and locally produced goods and the warehousing system plays its part in ensuring such a comparison by facilitating imported product availability without the interest penalty attaching to prior payment of duty.

We appreciate that the original impetus to review the collection of excise and deferred customs duties arose out of administrative concerns raised by the Auditor-General. We fully support the notion that revenue collection systems must be capable of detecting, controlling and deterring unscrupulous operators. To the extent that proposals by the Auditor-General might achieve that objective we believe they should be implemented. In particular we consider the introduction of computerized inventory control systems to allow reconciliation of under-bond stocks and monitoring of product movement under bond would enhance significantly the present control mechanisms.

But we do note that there is little contemporary evidence of the present system failing to secure the correct amount of revenue for the Commonwealth. Similarly there is little comment on the general cost effectiveness of collection of excise and deferred customs duties.

Although we do not have any specific data available to us we believe, on general observation, that the cost of revenue collection in those areas would compare more than favourably with most other areas of taxation administration.

Cost effectiveness is most relevant to one particular concern we wish to express. The Department's submission of 16th February, 1984 to the Committee proposed the abolition of private warehouses and the Committee has suggested that this proposal should be further examined. The Department claimed that it would, *inter alia*, reduce administration costs. But the Department had previously stated in the same admission that policy is to aim for 100% cost recovery and that based on 1982/83 figures almost 80% of costs were recovered through warehouse licence fees and associated charges.

We support the user pays principle and agree with the 100% cost recovery objective. We can see no basis for the claim that private warehouses should be abolished as an economy measure.

The Department does acknowledge in its submission that the abolition of private warehouses would impose additional costs on industry but admits that it does not know the magnitude of those costs. We can confirm in the case of our private warehouse in Sydney that the costs of such a change to Stuart Alexander would be very substantial and we are prepared to do a detailed analysis if the Department requires it.

In conclusion, the general position of Stuart Alexander in relation to the range of proposals for change is that an insufficient rationale exists to overturn a system that has met the needs of industry for many years, has made a significant contribution to the containment of costs to both industry and the consumer and has been very cost effective compared with other areas of taxation administration. To the extent that there are administrative shortcomings which could impact on the sufficiency of surveillance and the security of Commonwealth revenue, we support any necessary improvements and modifications.

But there is no case stated to alter significantly the major features of the prevailing system.

Stuart Alexander appreciates the opportunity to make a submission on these critical issues and stands ready to provide any further information or assistance that you require.

Yours sincerely,

Wesley Browne
WESLEY BROWNE
MANAGING DIRECTOR

TUART HILL TRUCK (SALES) PTY. LTD.

* 140 ROYAL STREET, TUART HILL, W.A. 6060
PHONE 344 4844, 349 4041
SPARE PARTS 349 5520
AFTER HOURS 349 4246

Ref: JWH KW

24 January 1985

Mr P B Proud
Assistant Collector
Australian Customs Service
P O Box 396
FREMANTLE WA 6160

Dear Sir

Reference W84/735

Thank you for your letter of 28 December 1984 regarding the Joint Parliamentary Committee of Public Accounts report number 224.

We have prepared a report on the recommendations proposed in chapter seven of the report and enclosed is a copy of this for your consideration. Our report deals not only with the effect the Committees recommendations will have on our industry but also comments on the submission prepared by the Department of Industry and Commerce dated 16 February 1984, (included as Appendix four in the report) and general comments made by the Committee.

We trust the report will be of assistance to you in preparing your response to the Committee.

Yours faithfully

John Hart

J. H. HART
MANAGING DIRECTOR

REPORT ON RECOMMENDATIONS OF THE JOINT

PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS

INQUIRY INTO THE COLLECTION OF EXCISE

AND DEFERRED CUSTOMS DUTIES.

CHAPTER 7 OF REPORT 224

Prepared By

TUART HILL TRUCK (SALES) PTY LTD

January 1985

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2. BACKGROUND
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1. Conclusion

The Committee's recommendations to improve controls over underbond goods are generally acceptable and so long as they are implemented in a practicable manner, should not create an unworkable environment for this company to operate in. The Committee has however made a number of suggestions in its report relating to the overall need for the licenced bondstore system. The comments made are not only totally short sighted and uninformed but border on being naive and offensive.

The report prepared by the Department of Industry and Commerce on 16 February 1984 regarding possible alternatives to the existing bonding system (included as appendix four to the Committee's report) suggests some possible modifications to the current warehousing system which this company finds totally unacceptable and which is likely to cause a financial collapse in the agricultural equipment importation industry.

2. Background

It should be remembered when considering alterations to the current warehousing system, what role the warehouse plays in the overall import tariff system.

Tariffs in the form of duties and quotas were introduced to protect fledgeling Australian industry operating mainly in the manufacturing sector. The level of duty imposed is supposed to increase the cost of imported goods to a level which will enable the locally manufactured goods to compete.

Bondstores provide a place where importers may store goods which they import until such time as they are released to the public for consumption.

Without bondstores the payment of duty would presumably be due on importation of the goods rather than at time of release for consumption. The added cost of financing the early payment of duty would have the effect of increasing the prices of the imported goods above the price of the locally manufactured products. This would create an uneconomic level of protection which would severely damage the import industry.

It would be impossible to regulate the effect of the above by simply adjusting the level of duty applied to the imported goods as the dwell time that goods are underbond can extend from one week to in excess of three years, depending on the product type, seasonal demand, local product supply etc. Most of these factors are constantly fluctuating. To determine a corresponding level of reduction of duty would require constant recalculation of many unquantifiable factors.

While duties are imposed it seems impossible to have an equitable system without bondstores, that offers both protection to Australian industry but still allows the import industry to operate effectively. No other combination of factors would offer the same level of flexibility as the bonded warehouse system.

3. Recommendations of Joint Parliamentary Committee

a) Recommendation 20

This recommendation specifically relates to domestically produced excisable goods and therefore would have no effect on this company.

b) Recommendations 21 and 22

The Committee has suggested that the Customs Department improve its system of control over the underbond movement of goods to enable a theoretical bondstore stock to be determined at any time.

The recommendations seem quite plausible in theory but maybe quite difficult to implement on a national basis covering all types of industry.

In regard to controlling underbond movement of goods, we do not see a problem in advising the department of each movement of goods under the continuing permission arrangement. Providing the documentation used is practicable and there are no delays caused in the movement of goods (such as awaiting customs clearances).

The Committee's views on the likelihood of goods being removed from bond without formal release documentation, appears it be quite unrealistic. It is true that visits to warehouses by customs officers may not occur weekly, however the fines, criminal charges, liability for duty and the costs associated with losing a warehouse licence are such large deterrents against breaches of the customs act, that illegal activity of this kind must surely be minimal.

i) Recommendation 23

The use of electronic data processing equipment to determine dwell times for underbond equipment appears a practical control method.

This company would have no complaints about customs officers inspecting goods that had been underbond for a period greater than say six months on a regular basis. There is however a commercial decision that should be made by the Customs Department regarding the cost of implementing the above system compared to the benefit to be gained from the information generated. As stated previously this company does not believe that breaches of the customs act are occurring with any where near the frequency assumed by the Committee in its report.

The Australian importing industry should not have to pay the costs associated with implementing a large scale E P D system to generate information to overcome a non-existent problem in the warehousing system.

The allocation of manpower within the customs department is certainly a matter for the department to determine. It seems plausible for more time to be spent administering warehouses which produce a large proportion of the revenue, however the actual system used, controls implemented and the number of transactions entered by each warehouse, should surely also affect the allocation of man hours.

ii) Recommendation 24

The Committee suggests that further surveys be carried out to determine the effectiveness of the system and the types of errors occurring. This information should then be used as management aids by the department.

It seems unusual that the department is not already using this information as it is discovered, to correct any errors that may have occurred in the system. Surely the reason for having customs officers is to check that the system is operating correctly and to correct any anomalies or errors that are located.

The accumulating of data to provide a summary of likely errors that may occur in the system, could be a useful tool for customs officers in their daily work. However we would be surprised if a properly trained customs officer would not already be aware of this information.

The cost of accumulating data can sometimes outweigh the benefits of the information gained. We believe the department should try and estimate from the data it already has on hand what errors if any are occurring in the system, and then from this information make a commercial decision as to what further investigation is warranted.

d) Recommendation 25

This recommendation is of the greatest concern to this company. The Committee recommends that the IAC inquire into the need for the bonded warehouse system and the implications of abolishing or modifying the system.

As stated previously, while duties are imposed on imported goods it is necessary to have bonded warehouses for the import industry to survive. The catastrophic effect on cash flow that would occur upon the cancellation of bonded warehouses would result in financial ruin for this and many other import oriented companies.

The Committee's recommendation that the duty rates be amended to compensate for the finance costs associated with early payment of duty is extremely short sighted. The dwell time associated with agricultural equipment can be as short as seven days or as long as three years depending on seasonal conditions, world grain prices, supply of alternative equipment etc. It would be impossible to implement a system that would both compensate the importer for the finance costs associated with the payment of duty on entry and would also be acceptable and practical to the Government revenue departments.

The customs department's paper on possible alternatives to the existing bonded warehouse system suggests a possible streamlining of the system through the abolishment of private warehouses in favour of using only public warehouses.

This suggestion is totally unacceptable to this company. Our experience with using public warehouses is that they are inefficient, and there is no control over your goods, items are damaged and often stolen and the paperwork is always confused.

It would appear that the department has been influenced by large business to try and force all importers to put their goods through the few public warehouses available in Australia.

This would increase ten fold the amount of business for the public warehouse operators whose charges are extreme and whose facilities are not capable of handling all the goods imported into warehouses in Australia.

The abolishing of private warehouses would not increase the percentage of entries checked by customs officer as the quantity of goods imported would not be substantially reduced but simply transferred from private to public warehouses. Therefore control over bonded goods would not be improved by this system.

A further factor that should be considered before abolishing private warehouses, is the self supporting cost structure of the current system. If the 1200 private warehouses are abolished the loss of the \$2 million revenue received from licence fees will make the cost of operating the customs department a further drain on public funds.

We believe that the Australian public should have a choice in the products it purchases, and that only fair competition will make Australian industry efficient. The abolishing of private warehouses will make it inefficient and unpractical for imported products to be sold in Australia. This will be effectively offering greater protection to the Australian industry which is against the latest IAC recommendations.

The effect of the Committees and departments recommendations on employees in the industry should also be considered. The importing industry employs a large number of people in Australia. The actions proposed by the Committee and the department will create large scale unemployment at a time when all Australians should be trying to increase employment opportunities.

4. Submission by Department of Industry and Commerce on Possible Alternatives to the Existing Bonding System

This paper prepared on 16 February 1984 and included as Appendix four to the Committee's report includes some interesting information.

The summary of a number of overseas tariff systems clearly shows how restrictive our present Australian system is. Where other countries are allowing importers free access and use of most underbond items, the Australian system still limits the use of underbond goods in sales displays, manufacturing, assembly, predelivery servicing etc.

What is very concerning is that the other options suggested by the department impose further restrictions on the import industry. Under these options it will cost greater amounts to clear imported goods thereby making the industry less efficient and the products more expensive. This will have the effect of reducing the standard of living for all Australians.

We support the department's call for an investigation into the system of protection provided to Australian industry, but warn that the shortterm changes advocated by the department (abolishment of private warehouses) spells disaster to Australian Importing Industry.

5. Comments by Joint Parliamentary Committee

The Committee seems to be under a misapprehension regarding the conduct of industry towards the payment of duty and its obligations under the Customs Act. Comments by the Committee such as "The only deterrent appears to be the possibility of random line check on a particular item and the probability of this occurring may not appear to be very great to the operator", gives the impression that all warehouse operators are constantly trying to avoid the payment of duty by any means.

The Committee should consider that the majority of people in the industry operate in an equitable and honest manner and are not "sharks" as the Committee seems to think.

The fines, criminal charges and costs associated with losing a warehouse licence are great enough deterrents to stop reasonable warehouse operators from breaching the Customs Act.

6. Effects on the Industry

Most of the changes recommended by the Committee would not have any detrimental effects on the importing industry.

In fact we are sure that most companies would be more than willing to assist the department in implementing any new controls in the existing warehouse system that the department seemed necessary.

We are also certain that if the private warehouse system is abolished while duties are still charged on imported goods, the cash flow and credit problems caused will result in many companies ceasing to operate in the import industry. The effect of this on the community will be to reduce competition, increase prices and cause a greater unemployment problem.

JOHN H. TUNBRIDGE & ASSOCIATES
FASHION AGENTS AND IMPORTERS

5th Floor, Suite 2, 64 KIPPAX STREET, SURRY HILLS, N.S.W.2010
Telephone: 211-0108 Telegraphic Code: TUNNERS Sydney

29th January, 1985

The Assistant Collector
Inland Services
Australian Customs Service
GPO Box 8
SYDNEY NSW 2001

Dear Sir,

Reference: N84/14307 B1308

In response to your letter of 21st December, 1984, we wish to make a submission in regard to Chapter 7 of the report tabled by The Joint Parliamentary Committee of Public Accounts on Exercise and Deferred Customs Duties (no. 224).

1. Our Company Tunners Pty Ltd (trading as John H Tunbridge & Associates) have been Apparel Importers for the past twelve years. We are wholesalers and distribute to the retail trade.
2. In 1983 we applied for and were granted a Warehouse License known as Tunners Bond.
3. The reasons for our desire to obtain this Warehouse License were:
 - (a) To allow us to hold, in bond, seasonal fashion merchandise not required by our retail customers for periods up to three months.

Obviously this is of great financial assistance in not having to pay duty until the goods are required. It also allows to plan and operate our importing programme in a more efficient way.
 - (b) As all categories of merchandise we import are subject to quota restrictions, Warehousing allows greater flexibility in the use of quota. It means that quota quantities can be used up completely each calendar year.
4. None of the recommendations made in the Parliamentary report appear to us to be a satisfactory alternative to the Licensed Warehouse system and we would not like to see them adopted.
5. As a responsible Company, we are aware of the necessity of keeping accurate bond registers both as a direct instruction under the Licensed Warehouse regulations and also for maintaining records of our own stock movements.
6. It appears to us that the following submissions may help in keeping the Licensed Warehouse system viable:

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- (a) The development of computer system that reconciles warehouse entries and releases. This will allow for the stock control of goods in bonded areas.
- (b) An increase in both annual fees and entry charges to ensure that the current cost of customs surveillance operations is covered. Such charges also to be reviewed from time to time to keep them in line with general cost increases.

Yours faithfully,



JOHN H TUNBRIDGE
Managing Director

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Telegraphic Address
VICROADAS, MELBOURNE

Victorian Road Transport Association

APB:amc.c

20 February 1985

Senator The Hon. J.N. Button
Minister for Industry, Technology & Commerce
Parliament House
CANBERRA. A.C.T. 2600

Dear Minister,

re: Joint Committee of Public Accounts
Report No. 224 - Excise and Deferred
Customs Duties

On perusing the above report, we are quite perturbed at some of the conclusions reached by the Joint Committee and desire, along with representatives of the New South Wales Road Transport Association, to wait upon you in deputation.

It might be added that the interest of this Association is through our Bonded and Free Storekeepers' Section and in New South Wales on behalf of their Warehousemen's Association of New South Wales, which is a Section of the Road Transport Association.

The issues which we would like to bring to your attention will be under the following headings:-

- Abolition of Warehousing
- Full Recovery of Costs
- Credit Systems
- The "Pool of Funds" Notion
- Dwell Time
- Discussion on Public and Private Warehousing
- Suggested Improved Methods of Control of Import Bonded Cargo

Trusting you will agree to receive us and if so, I could arrange a suitable time on the telephone with your Secretary.

Kindest regards,
John Beamish

A. P. Beamish
Director



West Australian Road Transport Association

INCORPORATED

TELEPHONE 325 6077 TELEX WARTA 95203
EXECUTIVE DIRECTOR: A. J. LAYTON

1023 WELLINGTON STREET,
WEST PERTH, W.A. 6005
11 March, 1985

Mr. B.L. Cody,
Assistant Secretary
Inland Services,
Australian Customs Service,
Edmund Barton Building,
CANBERRA, ACT 2600

Dear Mr Cody,

Joint Committee of Public Accounts - Excise & Deferred
Customs Duties.

Thank you for your reply of 6 March 1985 suggesting that we advise our reaction to the recommendations made by the subject Committee.

As indicated in our letter to Senator Button, the Minister for Industry, Technology and Commerce, the view of our members is to retain the present system. This is consistent with the views already presented by the New South Wales Road Transport Association in support of the continuance of the present system.

Essentially, the present system provides an opportunity for our members to service clients involved in the import/export industry and it is a service which they wish to continue to make available.

If there are deficiencies in the system then we would be happy to provide comment on the best means of instituting the necessary improvements.

Yours faithfully,

A. J. Layton

A. J. Layton
EXECUTIVE DIRECTOR



J. WRIGHT & SONS (AUST.) PTY. LTD.

Registered Office: Established 1853
188-198 BLACKSHAWS RD, ALTONA NORTH, 3025 : TELEPHONE: 391-1444 (8 lines)
Telegraphic 'Carrownwright' Melbourne : Postal Address: Box 91, Altona North, 3025
Telex: AA33582

RJC:MN

18th February 1985

Assistant Collector,
Inland Services,
Australian Customs Service,
GPO Box 2809A,
MELBOURNE. 3000

Dear Sir,

Report on Excise and Deferred Customs Duties (No.224)

We have studied this report by the Joint Parliamentary Committee of Public Accounts referred to in your letter of 18th December, reference LJ/MYS. As a long standing private licensed warehouse proprietor, naturally we are most concerned at the recommendations mentioned in this report, especially where they suggest abolition of the private licence warehouse facility.

We are an importer of motor vehicles and sawn timber destined for re-manufacture and sale in Australia. The existing system enables us to import adequate working stocks of both commodities without having to outlay funds immediately for duty. Changing the present system to a duty credit system implies a time limitation on such a facility and would not cater for the effect of changing market demand. This especially applies with motor vehicles when a wide range of models, colours and type must be stocked to satisfy constant changes in buyer needs.

We further believe public bonded warehouses are also not a viable alternative to the present system. From experience with other public bond storages, they would significantly increase our costs and in turn that of the consumer. In brief, the present system meets our needs at minimum cost to both parties and facilitates our operations with a flow on to more job opportunities and lower prices to the consumer.

Page No. 2 of a letter from J. WRIGHT & SONS (AUST) PTY LTD Dated 18.2.85
A member Company of the J. Wright & Sons Pty. Ltd. Group

We also consider that our viability to tender for government orders of motor vehicles will be jeopardised when adequate stocks normally held in bond, are not available. The resulting delays and additional costs would be passed on to the government.

Finally, as a motor vehicle importer, the present system provides our company with the facility to store vehicles which are subject to quota restrictions pending allocation of quota. This is a significant facility and its removal would have the potential to cause considerable disruption to our operations with the additional costs ultimately passed on to the consumer.

Yours faithfully,
J. WRIGHT & SONS (AUST) PTY LTD

R.J. Groves
R.J. Groves,
Shipping Manager.



The Secretary,
Department of Industry, Technology and Commerce,
Blackall Street,
Barton,
A.C.T. 2600

22nd March, 1985

Dear Sirs,
RE: REPORT 224 JOINT COMMITTEE OF PUBLIC ACCOUNTS INQUIRY INTO THE COLLECTION OF EXCISE AND DEFERRED CUSTOMS DUTIES.

The above Report would appear to be recommending that the present facility of Bonded Warehouses for Imported goods be abandoned.

At one time we ordered smaller shipments of freezers which arrived I.C.L. We continually suffered damage to the freezers and concluded that the only way this damage could be avoided was to ship in F.C.L.'s only and to take the container to the suppliers factory for loading.

The present facility of being able to store goods until required without payment of duty until the stocks are drawn on is a fairly normal facility and also essential.

The report does not present actual cases and it is important that actual situations are examined.

In our case we import full container loads of Slush Freezers and Soft Serve freezers. The reasons a bonding facility is essential to us are as follows:-

1. Each container load now costs approximately A\$200,000. Not all the freezers can be sold at once and to outlay A\$50,000 immediately on arrival would be crippling.
2. The supplier has in the past been prepared to hold stocks in bond for us to draw out in lots of \$40,000 and pay the supplier and the duty at the same time. This is a very workable arrangement both for ourselves and our supplier.

3. Another method we have used is to actually pay the supplier for the goods using Confirming Finance, and then draw from bond and pay the duty as the stocks are needed.
4. The Report has contemplated shipment sizes and has suggested that importers could bring in smaller shipments in order to reduce the amount of duty payable.

This is impractical for many reasons:-

Shipments which do not travel as Full Container Loads suffer damage. This was one of the main reasons we changed to F.C.L.'s. The Container goes to the Supplier's factory and is filled. It is delivered in that condition.

One point that should be made at this stage is the absurd situation imposed by Unions, that the container should be unloaded at the wharf and the goods then taken to the bonded warehouse. This incurs extra costs as well as damage. L.C.L.'s apart from incurring damage incur:-

High freight costs
High handling costs
Extra entry costs
More transactions therefore greater office administration costs.

All of these matters are extremely important to importers and should be recognised by people reviewing the Bonded Warehouse system.

Bonded Warehouse facility is an essential adjunct to any Country involved in importing goods from other Countries.

We would be happy to provide further insight into industry if required.

Yours faithfully,
K.A.T. AUSTRALIA PTY LTD

.....
A. B. JEANES
Director.

MERCEDES-BENZ (AUSTRALIA) PTY. LTD.

Incorporated in Victoria

1226 DUNLOP ROAD, MULGRAVE, VICTORIA 3170

CABLES "MERCSTAR" MELBOURNE TELEK31735 TELEFAX 5617206 TELEPHONE 5659266 P.O. BOX 214, GLEN WAVERLEY 3150
LM/sa

28th March, 1985
Ref. A.36/01/b

Assistant Collector, Inland Services,
Department of Industry, Technology & Commerce,
Australian Customs Service,
G.P.O. Box 8,
SYDNEY. N.S.W. 2001

ATTN: MR. B.E. ALLAN

Dear Sir,

RE: JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS
REPORT NO. 224 -
EXCISE AND DEFERRED CUSTOMS DUTIES

We refer to your letter of 21st December 1984, your reference N84/14307 - B1308 addressed to Mercedes-Benz (I.S.W.) Pty. Ltd., regarding the inquiry into the collection of Excise and deferred customs duties.

Firstly we would like to apologise for the tardiness of our reply which was caused by our inability to obtain a copy of the report from the Government Publishing Service bookshop. A copy of the report was finally obtained on 4th March, 1985.

We have also obtained a copies of the submissions by the New South Wales Road Transport Association and the Federal Chamber of Automotive Industries and would like to go on record expressing our full support of the arguments contained therein.

We would, however, like to comment further on some of the points which are of particular relevance to Mercedes-Benz (Australia) Pty. Ltd.

Private Licensed bond stores are an essential part of the commercial enterprises and should be seen as an extension of overseas warehouses, not just as a means of deferring payment of duty or obtaining a "credit facility".

Because of the nature of our business, and due to the fact that all of our passenger vehicles are fully imported, our warehouses are required to enable a certain amount of stock to be carried. The abolition of private bonds would deprive licencees of direct control of their goods albeit under Customs supervision. The recommendation that all goods be warehoused in public bond stores would impose heavy additional costs upon importers and end users.

Public warehouses would possibly be the only beneficiary in such a move, however, they would be subjected to requirements beyond their current capacity. This is also quite unacceptable as control over the protection from damage of goods bonded in public warehouses is severely diminished and, in our case, due to the high individual cost factors, could prove to be an extremely expensive "simple alternative".

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Mercedes-Benz — Registered Trademarks of Daimler-Benz Aktiengesellschaft, Stuttgart, Federal Republic of Germany

MERCEDES-BENZ (AUSTRALIA) PTY. LTD.

2.

Under the current system, Licencees are required to keep detailed records of any movement of goods kept in their warehouses. These records are open to close scrutiny on a random check basis by Customs officers at regular intervals. Any anomalies not satisfactorily explained could result in the Licence being cancelled and privledges of the private bond withdrawn.

Because of the nature of penalties, it is in the interests of the proprietor to keep his records and movements within the bounds of the guidelines as set down in the Customs Acts and Regulations. Malpractice by proprietors would not appear to be a problem which is highlighted in paragraphs 7.44 and 7.45 of the report.

With regard to lengthy "dwell times", we feel that, in relation to our imports, this is not a justifiable consideration as the majority of our goods are entered for home consumption within 3 - 6 months, goods exceeding 6 months in warehouse being considered the exception rather than the norm.

In summary, we recommend that the current private warehouse system be retained as any of the recommended alternatives would merely add to the financial burdens of the importer without necessarily increasing Customs control.

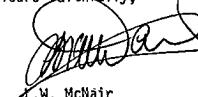
As duty is not payable until goods are entered for home consumption, private warehouses are the only viable means of achieving this result.

While we agree that, perhaps, there is an argument for stricter control by Customs over warehoused goods, cancellation of private Licences would not appear to be the means of obtaining the best results. Further investigations with regard to the computer alignment of warehousing and ex-warehousing would appear to be a step in the right direction without detrimental results on the importer and, perhaps, may be the "simple solution" to the problems raised in this report.

In conclusion we reiterate our support of the comments contained in the submissions of the New South Wales Road Transport Association and the F.C.A.I. and, together with the comments contained in this letter, trust that a satisfactory conclusion will be reached to the benefit of both parties.

We take this opportunity to express our appreciation of being able to comment on this report and request that any further correspondence or advice in relation to this matter be forwarded to the undersigned.

Yours faithfully,



L.W. McNair
Customs & Shipping Manager

THE SENATE

ROLL

12/11/85

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34. HAMER	72. WALSH
35. HARRADINE	73. WALTERS
36. HILL	74. WATSON
37. JESSOP	75. WITHERS
38. JONES	76. ZAKHAROV

THE SENATE

ROLL

12-11-65

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12-11-85

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24. DURACK	82. SHIEL
25. ELSSTOB	83. SHORT
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30. GILES	88. TOWNLEY
31. GRIMES	89. VALENTINE
32. GUILFOYLE, Dame Margaret	90. VASTONE
33. HAINES	91. VIGOR
34. HAMER	92. WALSH
35. HARRADINE	93. WALTERS
36. HILL	94. WATSON
37. JETSOP	95. WITHERS
38. JONES	96. ZAKHAROV

12/12 day of November

Question,	Petroleum (Subsidies) Lands (Last Friday) Business Bill 1985 (No. 2) That this Bill be now read a second time	Senate
		Committee

NOES

SENATORS—

1. ARCHER	39. KILGARIFF (Teller)
2. AULICH	40. KNOWLES
3. BAUME, Michael	41. LEWIS
4. BAUME, Peter	42. MCCLELLAND
5. BJELKE-PETERSEN	43. MACGIBBON
6. BLACK	44. MCINTOSH
7. BOLKUS	45. MCKIERNAN
8. BOSWELL	46. MACKLIN
9. BROWNHILL	47. MAGUIRE
10. BUTTON	48. MASON
11. CADDICK, Sir John	49. MESSNER
12. CHANEY	50. MIESSEN
13. CHILDS	51. MORRIS
14. CHIPP	52. PARER
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17. COLLARD	55. RAY, Robert
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22. CROWLEY	60. RYAN
23. DEVLIN	61. SANDERS
24. DURACK	62. SHELL
25. ELSTOB	63. SHORT
26. EVANS	64. SIBRAA
27. FOREMAN	65. SIDDONS
28. GEORGES	66. TATE
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31. GRIMES	69. VALENTINE
32. GUILFOYLE, Dame Margaret	70. VANSTONE
33. HAINES	71. VIGOR
34. HAMER	72. WALSH
35. HARRADINE	73. WALTERS
36. HILL	74. WATSON
37. JESSOP	75. WITHERS
38. JONES	76. ZAKHAROV

Ayes, 34

Nocs, 31

TELLER FOR THE NOES—SENATOR

OB 321

12 day of November

Question,

Petroleum (Submerged Lands)
 (Cash Bidding) Cenveal Bill 1988 Senate

20

Committee

AYES

SENATORS—

1. ARCHER	39. KILGARIFF
2. AULICH	40. KNOWLES
3. BAUME, Michael	41. LEWIS
4. BAUME, Peter	42. McCLELLAND
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25. ELSTON	63. SHORT
26. EVANS	64. SIDRA
27. FOREMAN	65. SIDDELL
28. GEORGES	66. TATE
29. GIETZELT	67. TEAGUE
30. GILES	68. TOWNLEY
31. GRIMES	69. VALENTINE
32. GUILFOYLE, Dame Margaret	70. VANSTONE
33. HAINES	71. VIGOR
34. HAMER	72. WALSH
35. HARRADINE	73. WALTERS
36. HILL	74. WATSON
37. JESSOP	75. WITHERS
38. JONES (Veller)	76. ZAKHAROV

Ayes,

34

Noes,

31

TELLER FOR THE AYES—SENATOR