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CC:
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Freight & Trade Alliance (FTA)
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COVID-19 support measure - Deferment of Duty, GST and IPC

Dear Susan,

Thank you for facilitating an initial meeting with the Freight & Trade Alliance (FTA) and key ATO, ABF representatives yesterday, 2 April 2020 and for explaining the need for the two-stage approach to developing relief measures

We trust that this document supports your understanding of the **“Nature of the problem”**, in parallel, we look forward to commencing discussions on **“What can be done”**.

RECOMMENDATION

While the significant Federal Government support measures (including the *JobKeeper payment*, the *Cash Boost for Employers*, and the *SME Guarantee Scheme*) is welcomed by our members, it is unlikely that this will provide adequate relief to support the import supply chain.

The sector is not looking for another government “hand out”, simply a mechanism to allow importers to pay Duty, Goods and Services Tax (GST) and the Import Processing Charge (IPC) direct government on a significantly deferred basis. It is recommended that any such relief be extended with deferred payments direct by the importer for a minimum of 6 months to support industry during the current COVID-19 health and economic crisis.

FTA has no preconceived view how to best achieve this outcome. Options could include a deferment arrangement encompassing all payments or perhaps adopting different strategies for each component (perhaps including consideration for reducing or waiving the IPC for an agreed period).

IMPORT PAYMENTS

Licensed customs brokers play an essential service role within the international supply chain completing Full Import Declarations (FIDs) to comply with import border, community protection and biosecurity statutory provisions. Importantly, customs brokers also facilitate the following payments to government:

DUTY is generally paid prior to release of the goods into home consumption - the exception being importers that are accredited as Australian Trusted Traders that can defer Duty payment to the 21st day of the next calendar month after the goods were entered into home consumption.

GST on imported goods is due on a transactional basis prior to release of the goods into home consumption, but may be deferred until the next BAS for approved reporters under the

GST Deferral Scheme. The criteria for approval under this Scheme includes the lodgement of monthly Business Activity Statements.

IPC for both border and biosecurity purposes in all instances must be paid on a transactional basis prior to goods being released into home consumption.

While an option does exist for importers to make direct EFT payments, in a highly competitive market, many customs brokers have contractual arrangements with importers whereby they make Duty, GST and IPC payments to ensure release of cargo from our ports, airports and depots. These payments are subsequently recovered by the customs broker on a disbursement basis.

Currently, many large customs brokerages provide 60 day terms to their import clients, although it is rare for small and medium brokerages to be able to offer this facility. Increasingly, customs brokerages are being asked by importers to either provide 90 - 120 day terms for these payments or set up payment terms. This process is not sustainable for our industry as payment of Duty, GST and IPC is required prior to delivery of the goods. Customs brokerages do not hold these cash reserves and are unable to meet this need.

The magnitude of these payments is demonstrated in **Attachment A**.

The scale of the Duty and ABF component of the IPC across industry is outlined below (source: <https://www.homeaffairs.gov.au/reports-and-publications/reports/annual-reports>)

Year	18/19	17/18	16/17	15/16	14/15	13/14	12/13
Duty \$m	15,943	15,689	14,195.2	14,044.7	10,882.3	9,279	8,171.1
IPC \$m	426.2	417.2	394.9	373.8	353.4	242.4	149.8

THE RISK OF DOING NOTHING

In this unprecedented economic environment, the reality is that many importers are failing to make timely disbursement payments to customs brokers. This in turn is affecting cash flow for customs brokers and their ability to complete payments down the supply chain to transport operators and to other key logistics services. This also jeopardises the ability for customs brokers to make timely Duty, GST and IPC payments required for release of cargo at the border. Furthermore, many customs brokers face the genuine risk of being unable to maintain business continuity.

While state government and port corporations are currently contingency planning and examining staging sites as required to store containers in the event of supply chain failures, this will be a futile exercise if goods cannot be cleared from customs control into home consumption.

Australian container terminals are likely to become quickly congested affecting both export and import processing with obvious impacts including:

- Congestion at the ports, leading to increasing delays to all containers that are “block stacked” at terminals, jeopardising the timely release of essential goods;
- While limited storage may be available off port, the goods must be held under customs control until they are paid and released and therefore that storage cannot be availed of.

- As the port congests, trade slows, equipment such as shipping containers, required for exports will not be available.
- increased costs across the supply chain, with precedent suggesting that stevedores and shipping lines would give little (if any) reprieve for associated storage or late empty container return penalties, this in turn compounds costs faced by importers (including increasing Infrastructure Surcharges administered by stevedores) and the cash flow of customs brokers; and
- delays in returning empty containers within required timeframes and then able to be used for exports.

FTA looks forward to progressing the policy discussions with you, the ATO and ABF to address solutions that will keep trade moving and assist in maintaining the commercial viability of trade in the Australian economy.

Please feel free to contact me direct on sdanks@FTAlliance.com.au or 0407 128378

Yours sincerely

A handwritten signature in black ink, appearing to read 'Susan Danks', is centered on a horizontal line. The signature is stylized and cursive.

Susan Danks

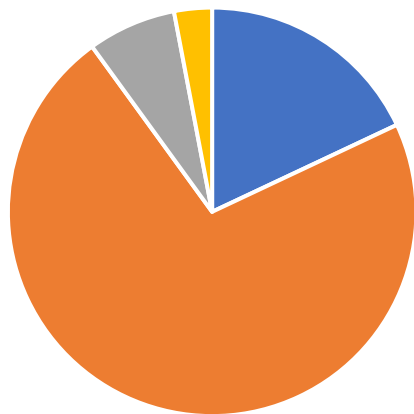
Head of Customs and Regulatory Compliance, Freight & Trade Alliance (FTA)

ATTACHMENT A

The following data highlights the cash flow needs of a small, medium and multi-national customs brokerage to making Duty, GST and IPC payments prior to cargo being release into home consumption.

Example 1

Customs brokerage typically completes 1000 sea freight FIDs per month for a large mix of importers (some of whom report GST quarterly).



■ Duty ■ GST ■ IPC ABF ■ IPC DAWE

The customs brokerage paid out on behalf of importers **\$1.77M** to clear goods into home consumption for March 2020

Duty 18%

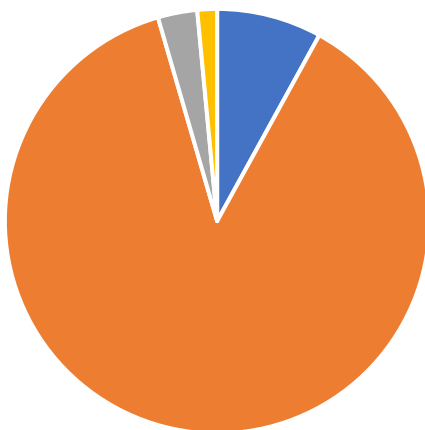
GST 72%

IPC (Australian Border Force) 7%

IPC (Dept. of Agriculture, Water and Environment) 3%

Example 2.

Customs brokerage typically completes 1200 sea freight FIDs per month, for a large mix of importers (some of whom report GST quarterly).



■ Duty ■ GST ■ IPC ABF ■ IPC DAWE

The customs brokerage paid out on behalf of importers **\$4.47M** to clear goods into home consumption for March 2020

Duty 8%

GST 87.5%

IPC (Australian Border Force) 3%

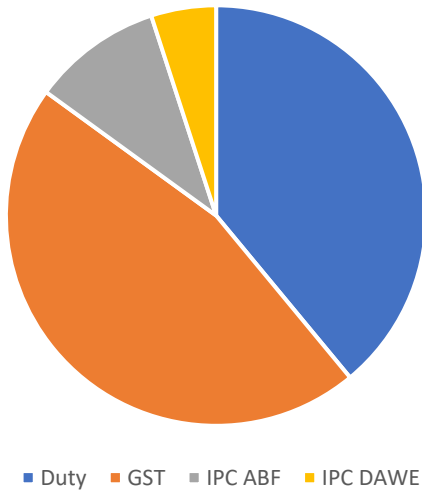
IPC (Dept. of Agriculture, Water and Environment) 1.5%

Example 3.

Large multi-national customs brokerage - unlike the previous two examples, the multinational has a large percentage of clients that defer GST

GST deferred during March 2020 = \$47,168,500

GST paid at time of entry into home consumption during March 2020 = \$3,235,775



The customs brokerage paid out on behalf of importers **\$7.1M** to clear goods into home consumption for March 2020

Duty 39%

GST 46%

IPC (Australian Border Force) 10%

IPC (Dept. of Agriculture, Water and Environment) 5%