Australian Government
Australian Customs and Border Protection Service

Regulation Impact Statement

Trusted Trader Programme

17 February 2015

CONTENTS

REGULATION IMPACT STATEMENT

TRUSTED TRADER PROGRAMME

EXECUTIVE SUMMARY

Implementation of a Trusted Trader Programme to foster legitimate trade and increase Australia's contribution to international supply chain security

Regulatory costs (from business as usual)	**- $24.3 annually (Option 2A)**
Have offsets been provided?	**Not required**

RIS preferred option

The strongly preferred option for the Trusted Trader Programme is Option 2(A). Option 2(A) is a robust, expansive Trusted Trader Programme with an extensive range of trade facilitation measures for industry participants that would result in a massive whole-of-economy impact[1], as follows:

- Growth in household consumption of $406.3 million;
- Reduction in Government consumption of $59.6 million;
- Growth in export and import volumes of $32.2 million and $248.3 million respectively; and
- Growth in real GDP by $278 million

Option 2(B) is the same Programme, but implemented over 7 years compared to Option 2(A)'s shorter four year implementation plan. As a result the whole-of-economy impact of Option 2(B) is reduced to the following:

- Growth in household consumption of $309.5 million;
- Reduction in Government consumption of $55.8 million;
- Growth in export and import volumes of $26.6 million and $181.6 million respectively; and
- Growth in real GDP by $208.3 million

The trade facilitation measures offered to industry participants in deregulatory benefits include duty deferral, and streamlined reporting arrangements for the clearance of cargo. In return for these benefits, participants will meet or exceed minimum supply chain security and trade compliance standards in line with the World Customs Organization (WCO) SAFE Framework.

Both Option 2(A) and Option 2(B) offer a great return on investment for industry and government, and meet the requirement to establish an 'Authorised Operator

[1] The calculation of the whole-of-economy impact in relation to all policy options does not include the 'cash flow impact' cost to Government associated with the availability of duty deferral. The availability of duty deferral to eligible Trusted Traders impacts on the underlying cash as one month of customs duty will be deferred into the following financial year.

Programme' in the World Trade Organization's (WTO) Agreement on Trade Facilitation. However, participation modelling indicates that Option 2(A) will attract the highest possible uptake by industry in the first five years and provide a strong position for negotiating Mutual Recognition Agreements (MRAs) with key trading partners.

In contrast, Option 1 (maintaining the status quo) and Option 3 (non-regulatory), continue to put Australian industry at a competitive disadvantage to participating in international commerce; do nothing to increase Australia's contribution to international supply chain security; nor sufficiently address Australia's rapidly increasing trade volume (discussed below).

Key points from the RIS

The globalisation of production has fundamentally changed the nature of international trade. Today, more than half of the world's manufactured imports are *inputs* – primary goods, parts, components, and semi-finished products.[2] More than 70 per cent of world services imports are intermediate services.[3] Trade in intermediate goods and services now represent more than two thirds of global trade.[4] This development has given rise to three main issues that the Trusted Trader Programme intends to address:

1) Rising trade volume - forecasts of future growth during the forward estimates period indicate Australia will see a 54 per cent increase in air freight and a 17 per cent increase in containerised sea cargo[5].

2) The integrity and security of the international supply chain - the globalisation of production has led to more complex supply chains and industry business models that further complicate and enhance risks in the border environment ranging from terrorism to tobacco smuggling.

3) Australia's trade performance and international competitiveness - without a Trusted Trader Programme, Australian industry is at a competitive disadvantage to participating in a trade environment defined by multiple border crossings in the production of goods and services – best encompassed by the concept of global value chains (GVCs).

The establishment of a Trusted Trader Programme will address increasing trade volumes by segmenting and facilitating high volume low-risk trade in a way that enhances Australia's trade competitiveness to better facilitate GVC participation. It will also enable greater international supply chain security by instituting a framework of international supply chain security standards that currently do not exist in Australia.

Costs and Benefits

The Trusted Trader Programme Opton 2(A) imposes $50.5m (NPV), of regulatory costs on businesses participating in the Programme, while Option 2(B) imposes

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[2] Backer & Miroudot, "Mapping Global Value Chains", 4
[3] Ibid
[4] Saito, Ruta, Turunen, "Trade Interconnectedness: The World With Global Value Chains," Introduction
[5] Department of Immigration and Border Protection, *Blueprint for Integration,* (Commonwealth of Australia, 2014), 13.

$40.8m (NPV) of regulatory costs. In particular, regulatory costs are incurred during an entity's accreditation process. Larger costs include the completion of the self-assessment; site validation; investing in personnel, physical and IT security; maintenance of clear and accurate records and the provision of such records upon request by the Immigration and Border Protection Portfolio (the Portfolio); and Programme training.

However, this is offset by a $213.6m (NPV) cost reduction for business in Option 2(A) and $156.7m (NPV) cost reduction in Option 2(B). The main cost reductions for Trusted Traders arise through periodic payment of duty and reporting requirements; priority trade services; and reduced examinations.

While periodic reporting and payment of duty, priority trade services, and differentiated examinations can be quantified, other trade facilitation measures can not. It is not possible to quantify the impact of MRAs, recognition in Free Trade Agreements, or enhanced client service. However, research the Portfolio along with overseas Customs administrations have undertaken indicate that these qualitative measures have a huge impact on an country's trade performance.

Stakeholder views on the preferred option

During consultations in designing and costing the Trusted Trader Programme, industry expressed their general willingness to join the Programme. This suggests that industry believe the likely benefits of being a member of the Programme will outweigh the potential costs. The willingness of consulted businesses to join is particularly indicative, given that many of these businesses have had exposure to AEO/Trusted Trader Programmes in place overseas. They thus have an informed perspective of the likely costs and benefits associated with the proposed Programme, but instist on real, meaningful, and measureable benefits being offered to warrant any required investment. Only Option 2(A) and 2(B) offer such benefits.

Other options in the RIS

The other options considered were:

- Option 1, maintaining the status quo; and
- Option 3, the non-regulatory option.

Option 1 – maintaining the status quo – does not recognise the need to diversify from a purely transaction-based risk management model in order to foster growth in trade and increase supply chain security to better participate in GVCs. Without an established Programme, Australian industry will be left behind as its exports struggle to compete against those from countries whose industries produce goods and services with world-class price quality ratios due to greater GVC participation[6] enabled by respective AEO/Trusted Trader Programmes.

Option 1 also does not address rising trade volume. Without taking advantage of the segmentation opportunities for low risk high volume trade that the Trusted Trader Programme provides, the Portfolio will be left with no choice but to up-scale current operations with huge resource and capacity implications.

[6] Nicholas Humphries, "Global Value Chains, Border Management, and Australian Trade", Lowy Institute for International Policy, 2014

Option 3 is a non-regulatory option that would attempt to offer the same trade facilitation measures as benefits to participant entities. In Option 3, the Portfolio would establish a list of entities it considered to be “trusted” based only on information garnered from its current operations and records. As a result, the number of companies participating in the Programme would be dramatically less than in the preferred Option 2(A) or Option 2(B).

In addition, Option 3 does not align with all the supply chain security criteria set out in the WCO SAFE Framework. Therefore, the Programme would not meet the requirements for Mutual Recognition Agreements to be signed with key trading partners – a major incentive to Programme participation, and driver of increased trade competitiveness. Consequently, the impact of Option 3 on real GDP growth is only $60.3m – or 21 per cent of Option 2(A)’s projected $278m economic dividend, and 29 per cent of Option 2(B)’s – while contributing nothing to international supply chain security.

1. BACKGROUND

The Immigration and Border Protection Portfolio (the Portfolio) is Australia's primary border agency. The Portfolio is responsible for protecting the safety, security, and commercial interests of Australians through border protection designed to support legitimate trade and travel, and to ensure collection of border revenue and trade statistics.

On 3 July 2013, the Portfolio released the 'Blueprint for Reform of the Service: 2013 – 2018' (the Blueprint). The Blueprint sets out a range of initiatives built around automating and streamlining as many processes as possible so that traders and travellers experience the least amount of impediment to their border transactions.

One of the key areas of focus of the Blueprint is to transform our trade and goods approach by facilitating trusted trade. International developments in the facilitation of trade currently provide an opportunity for the Portfolio to reduce the regulation of our international traders whilst at the same time enhancing supply chain security. The key to unlocking these improvements lies in the concept of differentiated border clearance. This concept involves Governments tailoring their border clearance requirements to match the risk specific to the particular goods and their supply chain. The approach, which is commonly known as the Authorised Economic Operator (AEO) model has been taken up by all of Australia's major trading partners over the last few years. Furthermore, the approach is one of the key requirements attaching to the World Trade Organisation's Agreement on Trade Facilitation.

Overall, the Portfolio wants the trader[7] experience to be fast and seamless, making business easier and contributing to greater economic growth. The Portfolio has committed to working with industry to provide trusted and compliant traders with expedited border clearance where they have strong security and integrity practices. The Portfolio has also committed to increasing our work ahead of the border, focusing on Mutual Recognition Agreements (MRAs) with trading partners to acknowledge Authorised Economic Operator (AEO) and trusted trader schemes that reduce risk at the border.

To deliver on this commitment, the Portfolio has undertaken a co-design process with industry and the Portfolio' partner agencies to consider the policy options available.

2. THE PROBLEM

<u>The increase in volume of trade</u>

The Portfolio has a key role in Australia's economic prosperity. By facilitating the transfer of licit commodities and keeping illicit goods out, the Portfolio provides a safe and secure border environment that facilitates trade and fosters economic growth and community protection.

However, the globalisation of the production process has changed the nature of international trade. Decades of trade liberalisation policies in Australia and abroad have resulted in companies seeking out comparative advantages and factor

[7] Traders include individual members of the community who make infrequent or one-off purchases of goods e.g. one-off purchases of goods overseas on the internet.

endowments at all stages of production. As a result, trade is no longer defined by products being made in one country sold across a border into another, but products made from goods and services sourced from many countries[8].

Today, international trade takes into account the cross border flows of investment know-how, ideas and people, as well as the design, production, marketing, logistics, distribution, and support required to bring a product or a service from conception to end use – best encompassed by the concept of Global Value Chains (GVCs) and summarized at Figure 1.[9]

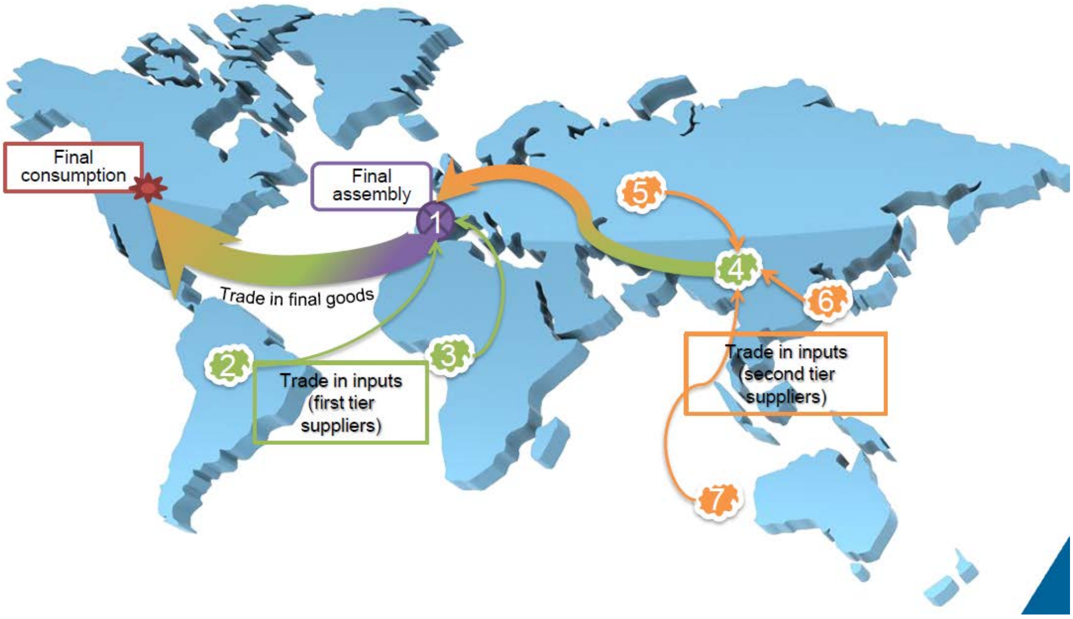

Figure 1: Simplified representation of a Global Value Chain[10]. References 2, 3 and 4 represent intermediate products which are combined into the final product represented by reference 1. Reference 4 is an intermediate product itself composed of inputs represented by 5, 6 and 7.

As a result, more than half of the world's manufactured imports are *inputs* – primary goods, parts, components, and semi-finished products.[11] More than 70 per cent of world services imports are intermediate services.[12] Trade in intermediate goods and services now represent more than two thirds of global trade.[13]

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[8] Nicholas Humphries, "Global Value Chains, Border Management, and Australian Trade", Lowy Institute for International Policy, 2014

[9] Koen Backer & Sebastien Miroudot, "Mapping Global Value Chains," *OECD Trade Policy Papers* 159 (OECD Publishing, 2013) 1 & Mika Saito, Michele Ruta, Jarkko Turunen, and a staff team, "Trade Interconnectedness: The World with Global Value Chains," International Monetary Fund. [Link to e-publication]

[10] OECD, *Interconnected Economies: Benefiting from Global Value Chains*,(OECD Publishing, 2013), 15 – map source : ARTICQUE c

[11] Backer & Miroudot, "Mapping Global Value Chains", 4

[12] Ibid

[13] Saito, Ruta, Turunen, "Trade Interconnectedness: The World With Global Value Chains," Introduction

Trade, in intermediate goods and services, has seen a marked increase in trade volume. Over the past ten years, the Portfolio has witnessed large increases in sea and air cargo consignments. Forecasts of future growth during the forward estimates period indicate we will see a 54 per cent increase in air freight and a 17 per cent increase in containerised sea cargo[14](Figure 2).

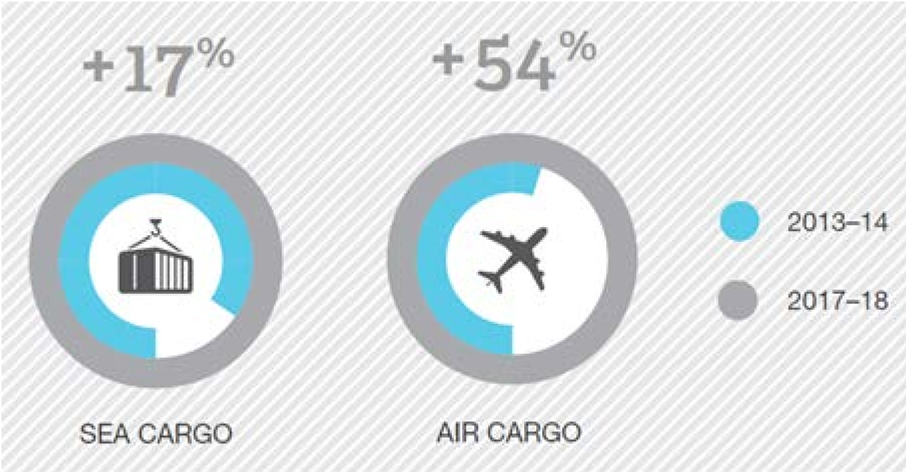

Figure 2: Forecasts of future growth during the forward estimates period indicate we will see a 54 per cent increase in air freight and a 17 per cent increase in containerised sea cargo.[15]

The changing nature of international trade, and the trade volume that follows, has serious policy implications for Australia's economic performance and its border protection, particularly how Australia can best participate in the new forms of international trade[16].

Complex Global Value Chains

Australia is a trading nation which relies on the safety and security of its border environment to foster economic growth. Risks in the border environment are many and varied, ranging from terrorism to tobacco smuggling. These risks, when realised, damage Australia's economic prosperity, the livelihoods of legitimate traders and compromise the Australian way of life. The mitigation of these risks demands the ongoing vigilance of border agencies to detect, deter and prevent illicit activity.

The globalisation of production has led to more complex value chains and industry business models. For example, goods are increasingly moved immediately from ships to trains or other modes of transport and are transported to in-shore multi-modal hubs for handling. These models move the point of control away from ports into new environments and introduce an additional transport step, while the goods are still nominally subject to the control of Customs. This model does not fit well within the existing regulatory approach and any inability by the Portfolio to support new business models is a significant economic risk and potential inhibitor of trade.

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[14] Department of Immigration and Border Protection, *Blueprint for Integration*, (Commonwealth of Australia, 2014), 13.
[15] Ibid.
[16] Nicholas Humphries, "Global Value Chains, Border Management, and Australian Trade", Lowy Institute for International Policy, 2014

As a result, the Portfolio faces a major challenge to mitigate border risks while at the same time not damaging Australian industries' ability to participate in GVCs. To do this, the Portfolio must acknowledge that the vast majority of trade and travel is entirely legitimate[17]. In order to focus on that which is not, the Portfolio must distinguish between the two. By differentiating between high and low risk cargo, the Portfolio can facilitate the expedited clearance of low risk cargo and allocate scarce resources to that which it deems high-risk. Given the sheer volume and complexity of trade the Portfolio must deal with, expediting the movement of regular low risk cargo is essential to the security function itself.[18]

Our current approach

Currently, the Portfolio applies a standard transactional approach to trade with little differentiation between highly compliant and high risk traders. For example, under the existing standard approach all traders must comply with the same requirements when making a report in relation to cargo or making an import declaration or export declaration in relation to goods. This means that a person responsible for reporting cargo, whether highly compliant or otherwise, must make a cargo report, including all the relevant information specified in the approved format, by the time specified in the *Customs Act 1901* (the Customs Act). Similarly, an owner of goods over a specified value, whether highly compliant or not, must make an import declaration or export declaration in relation to the goods, in the approved format. The kind of information reported or declared does not depend on whether the person is highly compliant or otherwise.

The Integrated Cargo System (ICS) is the IT system enabling the management of imports and exports. The ICS is the only method of electronically reporting the legitimate movement of goods across Australia's borders. The ICS is used by importers and exporters as well as transport and logistics service providers to meet the electronic reporting obligations set out in the Customs Act. The system features risk management technology to help the Portfolio' officers target high-risk trade transactions and enables the risk assessment and swift movement of low risk transactions. The existing IT framework for the ICS is set out at figure 3 (imports) and figure 4 (exports).

Whilst all traders must comply with the same requirements in relation to the reporting of information, the approach to compliance intervention activities (for example, examination of goods) is an intelligence-led, risk based approach. This is perhaps the best way the Portfolio has adjusted its practices to meet the demands of international trade in the twenty-first century.

[17] Ibid

[18] Alan Bersin, "Lines and Flows: The Beginning and End of Borders," (New York: Ira M Belfer Lecture, Brooklyn Law School, October 2011), 7

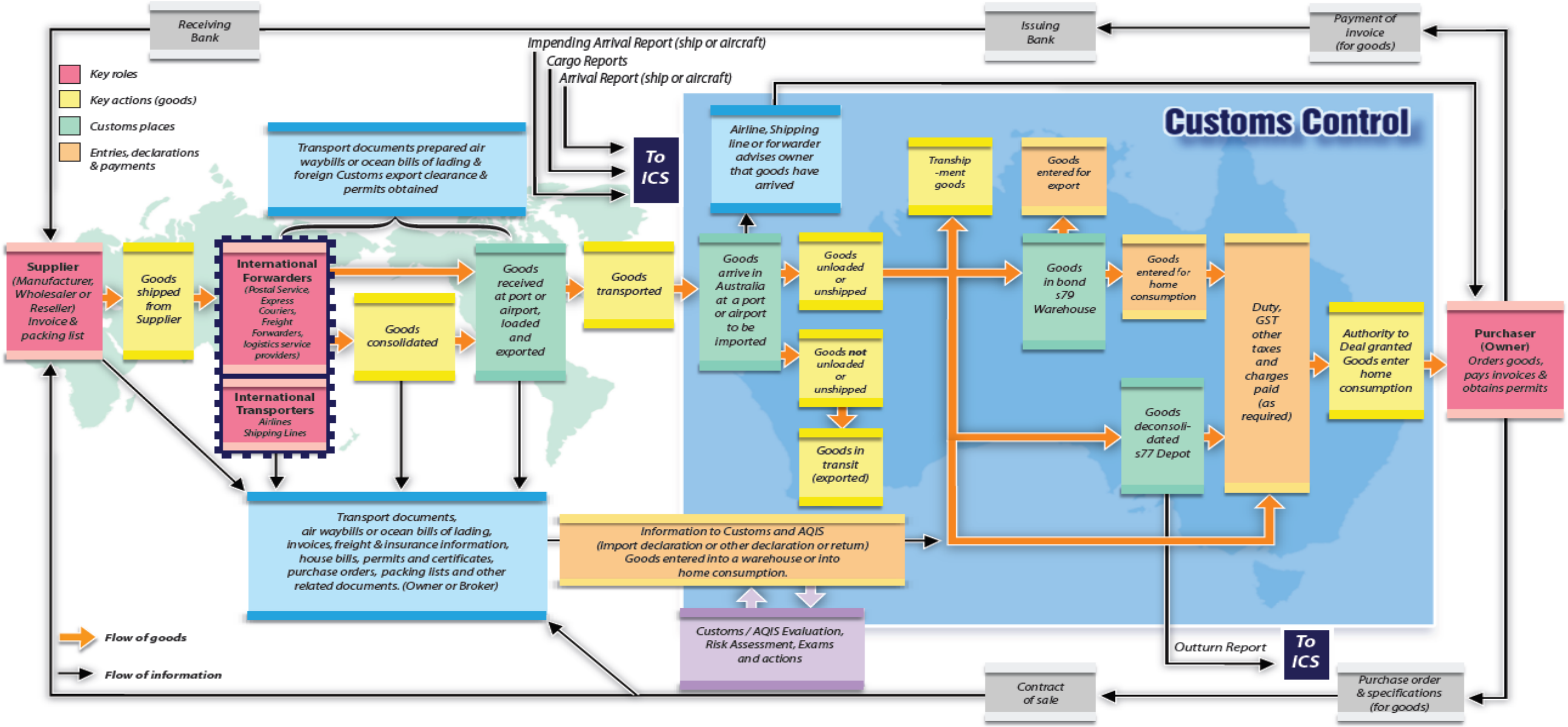

Figure 3: High level process diagram summarising the existing process for the importation of commercial goods. This diagram identifies both the movement of goods and the key communications between entities in the supply chain and the Portfolio.

MESSAGES:

#	Report	Reponse from Customs
1	Export Declaration	EDN CLEAR
2	Warehouse Release Notice	Warehouse Release Notice CLEAR MATCH Movement Status
3		Cargo Arrival Advice (unsolicited to Depot)
4	Depot Receival Notice	Depot Receival Notice CLEAR CONSOLIDATE Movement Status
5	Sub-manifest	CRN CLEAR
6	Depot Release Notice	Depot Release Notice CLEAR
7	CTO Receival Notice	CTO Receival Notice CLEAR LOAD Movement Status
8	Departure Report	Departure Report CLEAR Paper certificate of clearance is issued here
9	Main Manifest	Main Manifest CLEAR

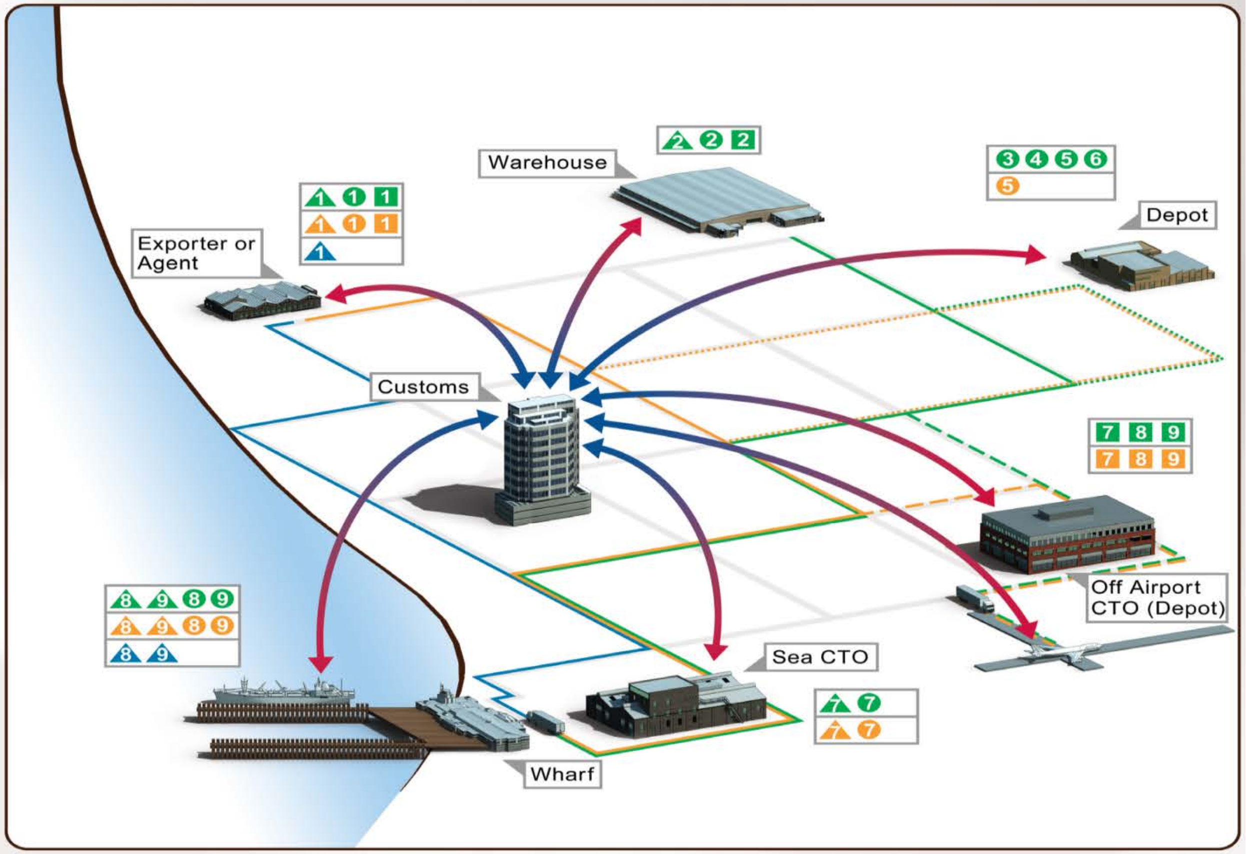

Figure 4: High level process diagram summarising the key reporting obligations between entities in the supply chain and the Portfolio.

With increasing volumes of trade, an increase in the number of cargo reports, import declarations and export declarations can be expected and current intelligence led risk-based intervention strategies alone will not be enough to mitigate risk *and* facilitate trade. For example, current IT systems and resources are unlikely to be able to manage the processing of the increased volumes of transactions. In addition, whilst an intelligence-led, risk-based approach is made to compliance intervention activity, it is expected that with an increasing volume of trade, an increase in compliance intervention will also be required. Current resourcing is unlikely to be sufficient to manage this increase.

As a result, current border management will pose serious risk to Australia's economic competitiveness. In Australia, every day a product is delayed before being shipped reduces trade by more than one per cent, this equates to $8 million per day in lost exports.[19] Delays in processing legitimate trade also puts pressure on port infrastructure, with flow-on effects for integrated logistics and supply chains. The Australian Logistics Council estimates savings of $1.5 billion for the economy in associated costs for every one per cent increase in efficiency of transport and logistics supply chains[20].

As trade volume increases and resources are strained, transaction costs at the border (and beyond) for those engaged in international trade will continue to rise in an environment where *reducing* transaction costs at the border is essential to Australian industry's participation in GVCs. Further, as long as the Portfolio takes a transactional approach to trade without differentiation, scarce resources will be diverted from addressing high risk trade to processing high volume low-risk trade. The Portfolio must strive to alleviate unnecessary administrative and regulatory burden while also meeting the challenges of increased trade flows and a growing array of border risks. This will not occur by simply scaling up our cargo clearance functions.

International developments

All of Australia's major trading partners have recognised the need to diversify from a purely transaction-based risk management model to foster growth in trade and increase supply chain security by developing Programmes based on the AEO[21] concept - a key feature of the World Customs Organization's (WCO) Framework of Standards to Secure and Facilitate Global Trade (the SAFE Framework). Australia does not currently have an established AEO/Trusted Trader Programme.

Most countries in Australia's GVC network have established AEO/Trusted Trader Programmes. Table 3 identifies Australia's top ten import source countries, export markets, and two-way trading partners. All countries identified in table 3 have established a Trusted Trader Programme. All but one of Australia's bi-lateral Free Trade Agreement (FTA) partners has an established Trusted Trader Programme.

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[19] Australian Customs and Border Protection Service, Blueprint for Reform, 2013 – 2018, page 13, http://www.customs.gov.au/webdata/resources/files/PORTFOLIO-Blueprint-for-Reform-2013-2018.pdf, accessed 1 September 2014

[20] Australian Customs and Border Protection Service, Blueprint for Reform, 2013 – 2018, page 13, http://www.customs.gov.au/webdata/resources/files/PORTFOLIO-Blueprint-for-Reform-2013-2018.pdf, accessed 1 September 2014

[21] An AEO is a member of the international trading community that is deemed a low Customs risk and for whom greater level of facilitation should be accorded. In this business case, an AEO is referred to as a 'Trusted Trader.'

	Imports sources		Exports markets		Two-way trade	
	% share	Rank	% share	Rank	% share	Rank
China	14.5	1	28.1	1	21.1	1
Japan	6.5	3	16.1	2	11.2	2
USA	12.3	2	4.8	4	8.7	3
South Korea	3.0	10	6.9	3	4.9	4
Singapore	5.9	4	3.3	7	4.7	5
UK	3.6	7	3.1	8	3.4	6
NZ	3.1	9	3.6	6	3.4	7
Thailand	4.2	5			3.1	8
Malaysia	3.2	8	2.3	10	2.7	9
India			4.4	5	2.7	10

Table 1: Summary of the percentage share and rank of import sources, exports markets and two-way trading partners for Australia's trade in goods and services in 2012-13 (published by Department of Foreign Affairs and Trade). All of Australia's top ten import source countries and nine of Australia's top ten export markets have established Trusted Trader Programmes.

Different AEO/Trusted Trader models operating overseas are relevant for consideration in Australia because they demonstrate how other customs administrations have worked with evolving international supply chains to effectively utilise Customs resources, increase supply chain security, and facilitate trade. However, the range of AEO programmes operating around the globe demonstrate the need for each program – provided it adheres to SAFE Framework international standards – to be developed with each individual countries circumstances in mind, and not to take a one-size-fits-all approach to AEO programmes.

AEO/Trusted Trader programs are a paradigm shift away from the traditional notions of customs control and transaction-based verification, to an approach whereby governments partner with industry to share responsibility for securing the international supply chain and compliance with trade regulation.

AEO/Trusted Trader Programmes are growing in scope and number internationally. Figure 5 provides a representation of the countries with an established AEO/Trusted Trader Programme as of the release of the 2014 WCO AEO Compendium. In excess of 50 Trusted Trader Programmes are currently in operation, with 10 more about to be launched.[22] The importance placed on Trusted Trader Programmes by international organisations and the international community is becoming more widespread. The World Trade Organization (WTO) has recognized the value of Trusted Trader Programmes through the Agreement on Trade Facilitation[23] which recommends ratifying countries work to implement Trusted Trader Programmes.

[22] World Customs Organization, "Compendium of Authorized Economic Operator Programme." Compliance and Facilitation Directorate, 2014.

[23] The WTO Agreement on Trade Facilitation outlines to approaches to the provision of trade facilitation measures. The first approach recommends the implementation of a Trusted Trader Programme for those entities who meet certain criteria. Alternatively, Customs authorities may seek to provide trade facilitation measures to all entities involved in international trade equally.

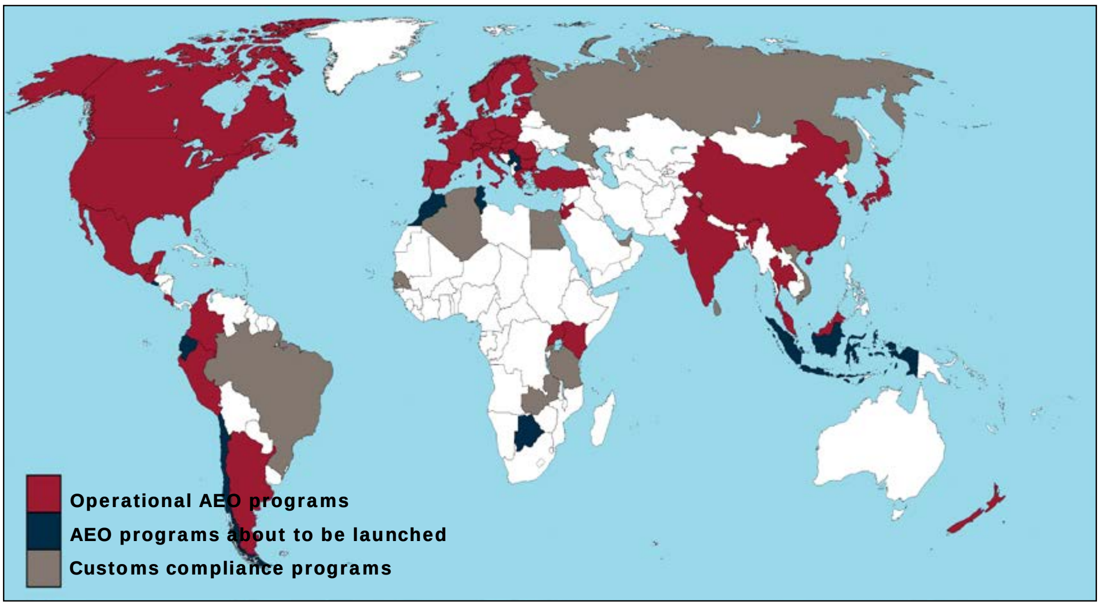

Figure 5: Countries with established AEO programs as of the release of the 2014 World Customs Organisation AEO Compendium

One key component of the international AEO concept is the introduction of Mutual Recognition Arrangments (MRAs). MRAs involve partner countries recognising each other's AEO programmes and extending benefits to their participants where they are part of a secure supply chain to their country. This is a major incentive for participating exporters who derive the benefits (for example, streamlined clearance processes and fewer examinations) when goods land in the destination country. Another benefit of MRAs is that in the event of a supply chain disruption, trusted traders will be given priority treatment in keeping international trade moving as the trusted trader will be recognised by both the importing and exporting economy as having a secure supply chain and therefore being able to continue trading.

A range of trade facilitation benefits would ensue for Australian exporters under a MRA, including recognition as being low risk and streamlined customs clearance processes in overseas Customs jurisdictions. Australia is unable to enter into MRA discussions with our major trading partners until such time as an Australian Programme is agreed. Currently, in excess of 20 MRAs have been concluded with a further 10 MRA negotiations ongoing. If this proposal is approved, Australia will quickly move to establish MRAs with our major trading partners including China, Japan, USA, Korea and New Zealand.

Multinationals and missed opportunities for Australian traders

Without a Trusted Trader Programme, Australian industry is at a competitive disadvantage. Multinational companies with Trusted Trader status are less likely to introduce Australian entities into their GVCs as, Australian entities have no way to demonstrate to their export markets that their supply chain security practices meet international AEO equivalent standards.[24] This puts Australian entities at a competitive disadvantage in GVC participation given the headquarter economies of the United States, the European Union, Japan, and Korea (home to the

[24] Nicholas Humphries, "Global Value Chains, Border Management, and Australian Trade", Lowy Institute for International Policy, 2014

majority of multinational companies) have established Trusted Trader Programmes.[25]

Multinational corporations coordinate a 'significant' percentage (estimated to be as high as 80 per cent) of GVC trade within their 'networks of affiliates'.[26] The future success of Australian industry rests with its ability to plug into such networks. Increasingly, multinational companies are concerned with their own supply chain security and AEO equivalent status. As a result, supply chain security is an important factor when multinational companies decide who to engage with in business[27].

The benefit of having an established MRA, for industry, is highlighted by New Zealand's trusted traders experience exporting goods into the United States. New Zealand exporters participating in that countries Programme are three and a half times less likely to have their cargo held up for examination on arrival at a United States port.[28] The reduced processing time is due to the fact that New Zealand authorized cargo is deemed 'low-risk' by the United States authorities. Authorized New Zealand cargo now makes up 30 per cent of New Zealand's gross exports[29].

Impact on traders if there was a disruption in the supply chain

Supply chains can be disrupted by a security event. The 11 September 2001 terrorist attacks on the World Trade Centre in New York and the Pentagon disrupted the supply chain. Following the attacks, the United States Government took immediate measures to stop all inbound air traffic into the US, and instituted very strict inspection procedures for both individuals and cargo at all land and sea entry points. These measures had the almost immediate effect of bringing commercial international trade with the United States to a virtual standstill. Over time, land, sea, and air traffic resumed, but only in the face of strong pressure from many quarters, notably the United States Congress, to greatly increase inbound security into the United States[30]. One program implemented as a result was the Customs-Trade Partnership Against Terrorism (C-TPAT) - the United States' AEO equivalent program.

A further example of the potential for a security event to disrupt international trade occurred on 29 October 2010, when plastic explosives were discovered on separate cargo planes bound for the United States. By the time of discovery, the explosive devices on both planes had already traveled on passenger aircraft. In the aftermath, it was observed by Aviation Econimics that, 'in a worst case, it would stop world trade, UPS and FedEx (the companies involved) would probably go bust. We'd have a full-disaster scenario'.[31]

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[25] Ibid

[26] Organisation for Economic Co-Operation and Development, World Trade Organization, United Nations UNCTAD, "Implications of Global Value Chains for Trade, Investment, Development and Jobs," 23

[27] Nicholas Humphries, "Global Value Chains, Border Management, and Australian Trade", Lowy Institute for International Policy, 2014

[28] "Secure Trade Scheme Clears $150 Billion in Trade", May 25, 2014 Link to e-publication

[29] Nicholas Humphries, "Global Value Chains, Border Management, and Australian Trade", Lowy Institute for International Policy, 2014

[30] David Widdowson, Bryce Blegen, Mikhail Kashubsky, and Andrew Grainger, "Review of Accredited Operator Schemes," (Bathurst: Centre for Customs and Excise Study, Charles Sturt University, Australian International Trade & Transport Industry Development Fund, 2014), 9, Link to e-publication

[31] Matthias Gebauer, 'Foiled Parcel Plot: World Scrambles to Tighten Air Cargo Security', Des Spiegel, 2 November 2010

In the event of another national emergency or terrorist act, and the subsequent closing of air, land, and sea United States' Ports of Entry, the United States Government has stated that C-TPAT status will be taken into consideration when the processing of shipments is resumed. Thus, C-TPAT certified shipments will have priority access to the United States market. Currently, under current regulatory (Customs) arrangements, Australian traders have no means of demonstrating to overseas markets that their supply chains are secure. Therefore, under current Customs arrangements, Australian traders are at a greater risk than those countries with established AEO programmes of experiencing a disruption in the export supply chain if an international security incident were to occur.

3. WHAT ACTION IS NEEDED?

For Australian industry to participate in twenty-first century international trade, The Portfolio must look at ways to further streamline the Australian trading experience for traders with strong security practices and a history of compliant behaviour to provide trade facilitation benefits. This will facilitate greater GVC participation and, in turn, assist the Australian economy to reap the benefits of increased international competitiveness, income, and jobs[32].

Participation in GVCs correlates with increased investment, productivity, and economic growth - the greater the participation level, the greater the growth rate.[33] Consistent with traditional trade theory, evidence shows that higher trade flows in intermediate goods – both imports and exports – result in increased productivity.[34] In addition, GVC participation correlates with increased employment and income. While outsourcing and offshoring are often seen in the public debate as synonymous with job losses, as economic adjustments are made, evidence shows that in the longer-term a positive relationship between *imports* and employment develops.[35]

As a result, it is critical that government policy levers are set to facilitate Australian industries GVC participation. In the alternative, Australia will be left behind as its exports struggle to compete against those from countries whose industries produce goods and services with world-class price quality ratios thanks to their own GVC participation[36].

The Centre for Customs and Excise at Charles Sturt University has undertaken extensive research assessing Australia's position regarding the implementation of a programme to provide trade facilitation benefits to traders with strong security practices and a history of compliant behaviour. Industry sentiment reflected in the Charles Sturt University report states that an AEO-type scheme would help to 'avoid being uncompetitive against international competitors who already have AEO in their own countries'[37].

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[32] Nicholas Humphries, "Global Value Chains, Border Management, and Australian Trade", Lowy Institute for International Policy, 2014
[33] Saito, Ruta, Turunen, "Trade Interconnectedness: The World With Global Value Chains," 6 – 13
[34] Ibid
[35] Saito, Ruta, Turunen, "Trade Interconnectedness: The World With Global Value Chains," 6
[36] Nicholas Humphries, "Global Value Chains, Border Management, and Australian Trade", Lowy Institute for International Policy, 2014
[37] David Widdowson, Bryce Blegen, Mikhail Kashubsky, and Andrew Grainger, "Review of Accredited Operator Schemes," (Bathurst: Centre for Customs and Excise Study, Charles Sturt University, Australian International Trade & Transport Industry Development Fund, 2014), 58, link to e-publication

The Centre's engagement with the Portfolio during this research has indicated there is a need and industry support for the implementation of an Australian Trusted Trader Programme.

There are five primary outcomes of a Trusted Trader Programme.

Outcomes	Description
Enhanced economic competitiveness	Economic competitiveness will be enhanced through benefits such as streamlined clearance and greater supply chain certainty. The negotiation of MRAs will extend these benefits to the clearance of our exports in their country of destination.
Reduced regulatory burden	The Trusted Trader Programme will reduce the regulatory burden associated with the movement of goods along the supply chain for accredited participants. Trusted traders will be subject to fewer interventions and less interaction with border agencies, particularly for those entities provided with streamlined reporting arrangements.
Increased supply chain security	As more and more companies secure their supply chains to the level required by international standards the risk of a security incident involving the movement of international cargo will be diminished.
Enhanced risk management of goods at the Australian border	The Trusted Trader Programme will provide a better understanding of the entities moving goods across our borders. It will exploit big data by making connections with the data holdings of programme participants. It will enable border agencies to focus their attention on higher risk goods.
Accelerated trade resumption following an international security event	Under current regulatory (Customs) arrangements, Australian traders have no means of demonstrating to overseas markets that their supply chains are secure. International security events inhibit the free flow of goods across international boundaries. The Programme will provide Australian traders with the accreditation they need

Outcomes	Description
	to satisfy overseas Customs authorities during a trade disruption that their supply chains are low risk.

Table 2: Outcomes of a Trusted Trader Programme

Australia's AEO/Trusted Trader Programme and its accompanying benefits will be subject to a staged implementation. As a result, the measurement of such objectives will be in the longer term.

An Australian AEO/Trusted Trader Programme will aid Australian entities' GVC participation by increasing Australia's export competitiveness. Exports increasingly require not only market access and high levels of reliability but the achievement of global standards that are now 'front and center as determinants of competitiveness'.[38] In addition, imports are also critical to export competitiveness. Evidence shows the capacity to import efficient inputs[39] increasingly determine the export competitiveness of a country's products. The recently released '2014 Australian International Business Survey' supports this with 60 per cent of its respondents combining exporting with importing or outsourcing. Therefore, an AEO/Trusted Trader Programme - with attached import benefits -will reduce the transaction cost of importing that in turn will add to Australia's export competitiveness.

However, to fully address the problem identified in section 2, the Portfolio has co-design the Trusted Trader Programme with industry and Portfolio partner agencies to recognise emerging business models, GVCs, and to ensure that measurable benefits can be provided without compromising the integrity of the border. The Portfolio has undertaken this co-design process in accordance with the consultation plan outlined in this document at section 6.

4. POLICY OPTIONS

Overview

The Australian Government has committed in its Industry, Innovation and Competitiveness Agenda (14 October 2014) to make it easier and cheaper to do business, particularly for small business by reducing the burden of regulation, reducing the burden of taxation and improving access to high-quality, low-cost inputs to business by opening the economy to greater domestic and international competition. As a measure to further open our economy to domestic and international competition and investment to improve access to high-quality, low-cost goods, the Government commited to consult with industry to co-design a 'trusted trader' programme to streamline customs procedures, including through reduced paperwork and inspections for trusted exporters and importers, to allow them to get their goods to market faster.

[38] Organisation for Economic Co-Operation and Development, World Trade Organization, United Nations UNCTAD, "Global Value Chains: Challenges, Opportunities, and Implications for Policy," 25
[39] *Inputs* are primary goods, parts, components, and semi-finished products.

The Australian Government also committed in the G20 Australia 2014 – Comprehensive Growth Strategy to begin designing a Trusted Trader Programme to foster legitimate trade.

The Government has committed to consulting with industry to co-design the policy options. As a result of the co-design process, three policy options have been identified:

1. Status quo - Continue to apply the standard approach to trade
2. Regulatory Option - Develop a Trusted Trader Programme applicable to import and export supply chains including supply chain security and trade compliance elements. The Programme would provide extensive trade facilitation benefits for Australian industry in return for meeting standards of supply chain security and trade compliance. These standards will align with the World Customs Organization (WCO) SAFE Framework of Standards to Secure and Facilitate Global Trade (SAFE Framework).
3. Non-Regulatory Option – Revise the targeting and intervention model to reduce intervention for certain trusted entities without the establishment of a formal, legislated scheme.

Policy Option 1: Status Quo - Continue to apply the standard approach to trade

Despite the significant increases in the amount of international trade, the increasingly complex cargo supply chains and industry business models and trends in international jurisdictions to develop AEO programmes; the Service could continue to maintain the standard approach to trade without any differentiation for various segments, highly compliant or trusted traders.

Under this option, border resources could be maintained in the face of growth and industry business model change. However, this will put at risk Australia's competitiveness, and the ability of the Portfolio to support industry participation in the new forms of international commerce.

Policy Options 2(A) and 2(B): Regulatory Options - Develop a Trusted Trader Programme applicable to import and export supply chains including supply chain security and trade compliance elements

Overview

The Programme implemented under Option 2(A) or Option 2(B) will provide extensive benefits for Government and the Australian economy as a whole; as well as delivering trade facilitation benefits for Australian industry in return for meeting supply chain security and trade compliance minimum standards. These standards will align with the WCO SAFE Framework. Participation in the Programme will be voluntary. Whilst supply chain security will be the primary consideration for participation in the Programme, trade compliance will be a pre-requisite for the Programme.

Entities that meet the requirements in relation to trade compliance but fail to satisfy requirements relating to supply chain security, and vice versa, will not be able to participate in the Programme. The Programme will have a tiered structure to allow flexibility for entities with regards to their business model, processes, trade volumes, and size.

The tiered structure will allow an entity to meet a base level of supply chain security (including trade compliance) to initially join the Programme and to then expand upon the base level of standards over time. A breach of the Programme criteria by a Trusted Trader may result in demotion to a lower tier or removal from the Programme – depending on the circumstances.

Design Principles

Australia's Trusted Trader Programme will be based on the following principles:

- The Programme will benefit Government by:
    - increasing the security of supply chains in and out of Australia; and
    - providing access to other Customs administrations risk-assessments for supply chain participants, following the negotiation of Mutual Recognition Agreements with key trading partners;
    - promoting economic growth ain international competitiveness;
- The Programme will benefit industry by:
    - providing tangible and credible trade facilitation benefits in exchange for meeting supply chain security and trade compliance criteria; and
    - providing priority clearance overseas in the event of a security incident that disrupts international trade;
- Appropriate governance, application and review processes will be developed to equitably manage the number of entities accredited in each year in accordance with resources;
- The Programme will be founded on cross-border agency collaboration;
- The Programme will demonstrate a Government-to-business partnership approach and shared responsibility;
- Industry participation will be voluntary;
- The Programme will be open to all participants in the international trade supply chain;
- Participants will be required to demonstrate a proven trade compliance and security history;
- There will be ongoing industry self-assessment against predetermined criteria;
- Incentives will be provided through the delivery of tiered benefits;
- Added benefits will be offered through customs-to-customs mutual recognition;
- Trusted technologies will be used where appropriate.

Programme membership

The Programme will be available for both the import and export cargo streams and service providers. The Programme will provide entities with the option of joining in relation to all components of their supply chain or just their particular business. Coverage of all components of their supply chain will ensure that they immediately access the full benefits of the Programme. This may be more attractive to large entities with the ability to influence the supply chain standards of their business partners. To attract SMEs to the Programme, it will be possible for an entity to have Trusted Trader status apply in relation to their operations only. However, in order to seek access to Programme benefits, these Trusted Traders will need to link up with other Trusted Traders in the supply chain (for example, customs brokers, freight forwarders, transport companies who have been accredited as Trusted Traders).

Participation criteria

To participate in the Programme an entity will be required to meet specified participation criteria which will be based on the WCO SAFE Framework. The SAFE Framework addresses a number of key areas of business operations to support supply chain security, trade compliance and general best practice that participants in the Trusted Trader Programme will need to meet. The high-level standards of the SAFE Framework are listed in Table 3:

Table 3 – WCO SAFE Framework Criteria

WCO SAFE Framework Criteria
Demonstrated compliance with customs requirements
Satisfactory system for management of commercial records
Financial viability
Consultation, Co-operation and Communication
Education, Training and Awareness
Information Exchange, Access and Confidentiality
Cargo Security
Conveyance Security
Premises Security
Personnel Security
Trading Partner Security
Crisis Management and Incident Recovery
Measurement, Analysis and Improvement

The requirements of the Australian Trusted Trader Progamme will be 'outcomes focussed.' Guidance will be provided to potential participants as to the required outcomes and the entity will be requested to explain how those outcomes are achieved. The particular requirements applicable to an entity will be established having regard to their particular business.[40] For example, the requirements for a customs broker will be very different to the requirements of a meat exporter. Basing the participation criteria on business activities will provide for a more tailored approach to the individual entity. Entities will only be required to meet those requirements that are specific or relevant to their business processes. For example, high-grade fences may not be relevant for a business located on a remote rural farm to achieve physical security. This will also allow flexibility to incorporate more advanced processes and systems that entities may already have in place.

EXAMPLE ONE: OUTCOMES FOCUSSED PARTICIPATION CRITERIA

[40] The types of activities that a relevant business may undertake can be broadly considered as: manufacture goods; physically handle goods (eg. container packing/unpacking); report goods (submitting declarations and reports to the Portfolio and other government agencies); store goods (including licensed customs depots and warehouses, but also the storage of goods while in transit to the point of export or final import destination at unlicensed premises); transport goods (any process of moving the goods from one place to another, including inland transport, shipping companies and airlines); and contract third parties (including supply chain services, whether in Australia or overseas).

SAFE Framework Criteria: Cargo Security

Outcome: The entity can demonstrate that they have established and/or bolstered measures to ensure that the integrity of cargo is maintained and that access to controls are at the highest appropriate level, as well as having established routine procedures that contribute to the security of cargo.

How this may be achieved?: An entity may deliver this outcome by:

– the use of CCTV surveillance in areas where cargo is stored and loaded for transport;

– secure cargo storage areas, which can only be accessed in the presence of senior staff; or

– the conduct of random inspections of cargo and storage areas immediately before and/or during loading.

Accreditation, validation and ongoing management

The assessment of an entity's supply chain security and trade compliance practices will occur through an 'accreditation process' consistent with the WCO SAFE Framework. The accreditation process encompasses all the steps that a potential participant must complete to demonstrate they meet the participation criteria outlined above.

The accreditation process will involve a risk assessment and, for tier 2 and 3, physical validation of an entity's supply chain security and trade compliance practices having regard to the nature of the business, its supply chain, the goods, technology and systems. There will also be ongoing risk assessment of Trusted Traders which will be achieved through ongoing reassessment and revalidation processes. Trusted Traders will share responsibility with the Portfolio through ongoing management of their supply chains and would be expected to voluntarily disclose any incidents or irregularities as a part of that process. Figure 6 represents a process flow diagram for the accreditation process.

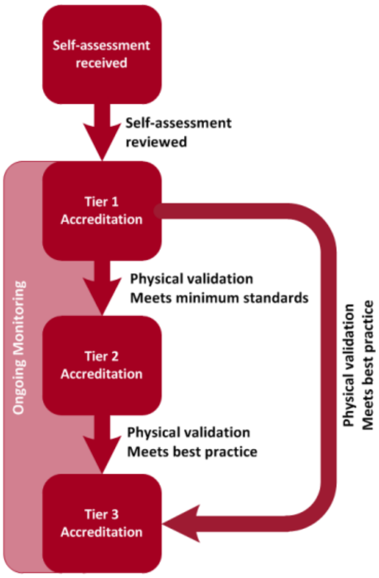

Figure 6: Overview of the accreditation process.

The key activities in the accreditation process are summarised in Table 4.

Table 4: Summary of activities in the accreditation process

Activity	Description
Activity 1- Self-Assessment (Tier 1)	**Entity** In line with international practice, the entity seeking accreditation as a Trusted Trader will complete a self-assessment against the participation criteria and prepare the information to support the self-assessment. The self-assessment will require the entity to perform a 'self-audit' of the supply chain security and trade compliance practices it currently employs and determine if they need to be improved to participate in the Programme. The self-assessment will provide the entity seeking accreditation with a benchmark for assessing their business processes, procedures and systems and will enable the entity to access limited trade facilitation benefits without undertaking a comprehensive validation. The entity seeking accreditation will forward the completed self-assessment and supporting information to the Portfolio for assessment. **Portfolio** The Portfolio will assess the self-assessment. This would involve the creation of a business profile,[41] assessment of intelligence holding and compliance history,[42] and an assessment of supply chain security processes. If the entity is assessed as meeting the participation criteria, the entity will be accredited to participate in the Programme and be assisted through the provision of limited trade facilitation measures. Where appropriate, other supply chain security or compliance accreditations held by an entity will be recognised in the self-assessment process.
Activity 2 – Validation (Tier 2 and 3)	A Trusted Trader will be required to undergo a validation in order to secure further, ongoing trade facilitation measures in Tier 2 and Tier 3. This would involve the validation of the supply chain security and trade compliance practices of the Trusted Trader to verify whether the business is eligible to participate in the next tier of the Programme. The validation would assess all the criteria outlined either in the self-assessment or in information material provided to or available to the Portfolio. The outcome of the validation will determine the tier of accreditation for the

[41] The business profile will include an overview of financial viability, risk management systems, IT and information management, invoicing and commercial management, and personnel management (including background checks where appropriate).

[42] A compliance history assessment would involve an assessment of compliance with legislation relating to the import, export and movement of goods across the border continuum.

Activity	Description
	individual Trusted Trader. The validation process may include inspection of documentation and systems along with a physical inspection, observation of processes and interviews to assess the Trusted Trader against the security and trade compliance measures outlined in the self-assessment. Where appropriate, other supply chain security or compliance accreditations held by an entity will be recognised.
Activity 3 - Reassessment	A Trusted Trader will be required to provide an annual certification that they still meet the standards established by the Programme. Any new information relating to any relevant changes to their business operations throughout the year would also be included in this certification. Trusted Traders would be required to make appropriate adjustments or improvements if deficiencies are identified. The certification would be provided to the Portfolio for consideration and may trigger a revalidation if participation conditions are not met.
Activity 4 – Revalidation	In line with the SAFE Framework, the Trusted Trader would be required to undergo a Portfolio led revalidation of its supply chain security and trade compliance practices after a specified period of time or following the identification of an incident or irregularities. The frequency of the revalidation processes will be determined with consideration to the administrative and regulatory burden of the accreditation process and the need to maintain the integrity of the Programme.
Activity 5 – Ongoing Management	A key principle of the Programme is the sharing of risk and responsibility between the Trusted Trader and the Portfolio. To support ongoing management of the integrity of the Programme, Trusted Traders are expected to voluntarily disclose any supply chain security or trade compliance incidents or irregularities to the Portfolio. The self-disclosure of incidents or irregularities by the Trusted Trader would have a large bearing on any outcomes from subsequent investigation by the Portfolio. This commitment to shared responsibility is a central aspect of ongoing management of the Programme.

Once an entity reaches Tier 2, Trusted Traders will be provided with a logo and branding to display on official documents and at their premises. This is a visual representation of their accredited status and will provide increased marketability and reputational enhancement for the company. Each tier of Trusted Traders would be differentiated through their logos, while initial pilot partners will also receive special recognition for their commitment to shared responsibility for management of their supply chain security and trade compliance.

Tiers

The Trusted Trader Programme will utilise three vertical tiers (figure 7) to structure benefits in order to promote best practice management of supply chain security and trade compliance amongst participants:

- **Tier one:** Upon successful assessment of a prospective Trusted Trader's self-assessment, they will be granted Tier one status. This is a holding tier where Trusted Traders will be provided with limited trade facilitation measures while they wait for a validation (including site visits) to be performed.
- **Tier Two:** Trusted Traders whose supply chain security and trade compliance practices meet the standards of the Trusted Trader Programme through a successful validation will be assigned to tier two. Tier two will enhance the competitiveness of Trusted Traders through the provision of a range of trade facilitation measures.
- **Tier Three:** Trusted Traders who exceed the minimum standards of the Programme and demonstrate best practice in supply chain security will achieve tier three status. Tier three status will impart even greater trade facilitation measures to Trusted Traders through access to a range of streamlined reporting models which will decrease regulatory burden and provide increased certainty to the Trusted Trader.

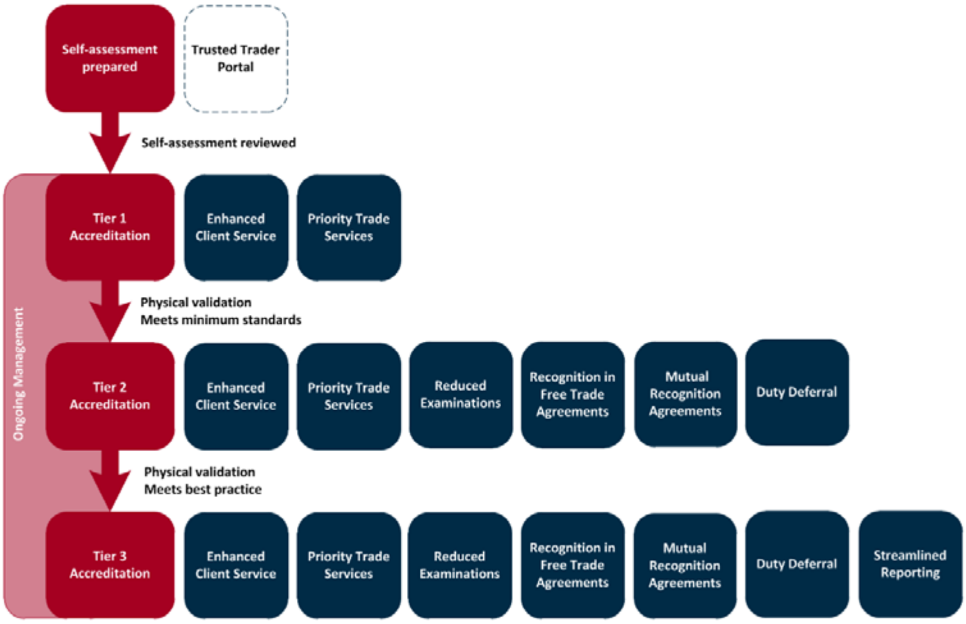

Figure 7: Overview of the tiered structure and associated trade facilitation measures of the Trusted Trader Programme.[43]

Trade facilitation measures provided to Trusted Traders

Trusted Traders will be able to access certain trade facilitation measures relevant to their tier level in return for meeting and maintaining the required supply chain security and trade compliance standards. The trade facilitation measures that are intended to be made available will offer benefits to Trusted Traders and Government. The key trade facilitation measures that are intended to be made available to Trusted Traders are listed in table 5. The listed measures represent a mix of those that can be made available relatively quickly and others that will

[43] The final delineation of trade facilitation measures between varying tiers is still to be finalised through co-design with industry stakeholders.

require legislative amendment and further consultation with government and industry to determine the detail of the measure. In addition to the measures listed in table 11, the government will continue to work with Trusted Traders (and potential participants) to explore other opportunities to reduce regulatory burden and provide additional trade facilitation measures.

The implementation of trade facilitation measures will be staggered across three implementation phases (the implementation approach will be discussed in greater detail in Section 7). This will provide the Portfolio with more time to conduct further stakeholder consultation, including with policy agencies, and detailed policy design of the proposed trade facilitation measures and ensure effective implementation. Consultation with industry through the Industry Advisory Group has highlighted that some trade facilitation measures are considered more valuable than others, this is illustrated through Figure 8. Consequently, the implementation of trade facilitation measures has been prioritised accordingly.

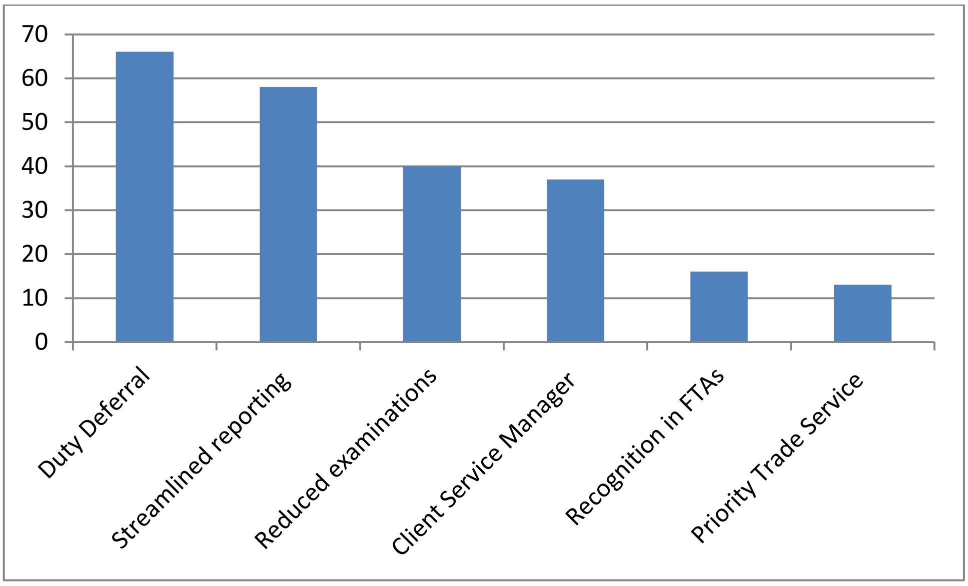

Figure 8: Ranking of trade facilitation measures by Industry Advisory Group members.

Table 5: Trade facilitation measures intended to be provided to Trusted Traders.

Measure	Description	Beneficiary
Streamlined reporting	The introduction of alternate reporting arrangements to meet reporting obligations will substantially reduce the cost of meeting Government requirements and therefore reduce regulatory burden for Trusted Traders. These alternate reporting arrangements will relate to the reporting, movement and clearance of goods. Through these arrangements, the Portfolio will be able to move away from its traditional transactional approach and modernise its cargo reporting, movement and clearance processes. These measures are a vital aspect of the Trusted Trader Programme. **Reporting of cargo** – Currently each cargo reporter must report to the Portfolio the particulars of all goods that the cargo reporter has arranged to be carried on the ship or aircraft on a voyage or flight. The cargo report must contain the information set out in an approved statement. Different statements may be approved in different circumstances or by different kinds of cargo reporters. Trusted Traders will be able to report cargo using a different approved statement to that used by other	Importers Exporters Freight Forwarders Customs Brokers Depot/Warehouse licence holders Government

Measure	Description	Beneficiary
	entities in the supply chain. The information in the approved statement for Trusted Traders will be reported at a higher level than that required for other entities in the supply chain. The Portfolio will be able to access the lower level information in accordance with arrangements agreed with the Trusted Trader. These arrangements may include greater use of internal data from Trusted Traders. **Movement of goods** – Currently, an application to move goods subject to Customs control must be made to the Portfolio, either electronically or by document, to obtain permission to move the goods to a place specified in the application. Alternative arrangements will be provided for Trusted Traders to move goods subject to the control of Customs. **Clearance of goods –** Currently, goods intended to be imported into Australia are entered into home consumption by communicating an import declaration in relation to each consignment. The information provided in a declaration is used to assess the goods for duty, Goods and Services Tax (GST) and other taxes and charges. Arrangements will be made for Trusted Traders to enter goods into home consumption via an alternative method. The inclusion of streamlined reporting arrangements in the Programme will require entities to meet specific criteria, in addition to the general participation criteria, such as: • A demonstrated history of compliance with customs related requirements with a greater focus on the reporting, movement and clearance of goods; and • systems to detect and correct errors voluntarily and immediately. Importantly, duty deferral is a key dependency for periodic reporting of declarations for the clearance of goods.	
Duty Deferral	A key dependency of streamlined reporting is the ability to move away from payment at the time of importation (that is, duty deferral) In practice, if streamlined clearance of goods involved making an import declaration periodically (rather than transaction based), customs duty would only be able to be paid at the time of making the periodic declaration. The deferral of customs duty and streamlined reporting will generate benefits for industry in that it will break the nexus between importation and immediate payment. Duty deferral is common place in many countries and is seen as a major incentive for many companies to join the programme. The larger the programme uptake the greater the benefit reaped by Government through its enhanced risk management approach and through the overall increased competitiveness of Australia's traders. It is widely recognised that industry stakeholders see duty deferral and periodic declaration of cargo for clearance purposes as two of the most valuable trade facilitation measure. The mechanism for payment of the deferred duty may involve payment on the importers existing monthly Business Activity Statement (BAS). Trusted Traders may also need to change accounting systems to accommodate the deferral of duty on the BAS. The inclusion of duty deferral in the Programme will	Importers Customs brokers acting on behalf of importers.

Measure	Description	Beneficiary
	require entities to meet specific criteria, in addition to the general participation criteria, such as: • being eligible to defer GST on importations of goods; • demonstrated satisfactory credit history; and • other measures in place to provide revenue assurance. The Portfolio expects to be in a position to provide duty deferral to Trusted Traders during Implementation Phase Three.	
Mutual Recognition Agreements (MRAs) with a number of key trading partners	MRAs will provide Trusted Traders with reciprocal trade facilitation benefits when exporting goods. The information received through MRAs will also assist the Portfolio to identify low risk overseas-based entities. The signing of MRAs with partner customs administrations has a number of dependencies. Experiences from international partners suggest that negotiation and signing of MRAs range from between one and eight years. The Portfolio will prioritise the negotiation and signing of a number of MRAs.	Exporters Importers Government
Reduced examinations	Trusted traders will be subject of fewer examinations based on the principle that they have been assessed as low risk and therefore qualify for differentiated treatment. Fewer interventions will lead to greater certainty regarding the clearance of goods. This may include: • A reduction in the number of import declarations and export declarations 'redlined,' reducing the requirement to produce documents to verify information prior to granting an authority to deal; • Fewer overall examinations of cargo (noting that this will not completely eliminate examinations); • Priority inspection when goods are selected for inspections; and • Where appropriate, the use of non-intrusive inspection equipment and techniques when inspecting goods. The Portfolio expects to be able to provide reduced examinations to Trusted Traders in implementation phase 2(a).	Importers Exporters Customs Brokers Freight Forwarders Government
Enhanced Client Service	The Client Service Manager will be a direct point of contact with the Portfolio which will provide or acquire accurate policy advice, assist with issue resolution (within the Portfolio and across border agencies) and facilitate the accreditation process. Client service managers will assist importers and exporters in ensuring that their goods move as quickly and efficiently as possible. This single collection point and increased sharing of information between the Portfolio and entities will augment Portfoloio intelligence and risk assessments. Having a single point of contact will improve the trading and overall customer service experience of Trusted Traders when dealing with the Portfolio. They will generally be able to acquire accurate policy advice and resolve issues more quickly. The Portfolio expects to be a position to provide enhanced client service to Trusted Traders in implementation phase 2(a).	All member supply chain entities Government
Priority Trade Services	Trusted traders will be the beneficiary of an increased service standard/head of the queue processing for trade	Importers Exporters

Measure	Description	Beneficiary
	service requests (for example, advance rulings, reviews of tariff advices given by the Portfolio and the processing of applications for a drawback of duty). Faster processing of trade services will provide increased certainty for trusted traders as to the correct customs treatment of goods (for example, the tariff classification or valuation of goods) and the amount of duty/indirect tax payable. Priority service will initially be managed by the Client Service Manager and subsequently through the use of a client identifier in the ICS. The Portfolio expects to be in a position to provide priority trade services to Trusted Traders in implementation phase 2(a).	Customs Brokers Other persons acting on behalf of importers or exporters
Recognition in Free Trade Agreements	The Portfolio will work with relevant partner countries to negotiate Trusted Traders access to streamlined procedures (for example, eliminating the need for a certificate of origin) for the purposes of supporting a claim of preference under a Free Trade Agreement (FTA). Given FTAs are negotiated outcomes, the nature of the recognition of the Programme in FTAs would ultimately depend on individual FTA negotiations between Australia and our trade partners.	Exporters Importers

Big Data

Opportunities to utilise 'big data'[44] will be explored with Trusted Traders to allow for existing trade reporting to the Portfolio to be augmented or replaced by much richer trade data. The amount of this big data is ever increasing and by connecting to it, the Portfolio can gain insight to better protect the community and improve clearance times. Direct access to a company's data stores will allow the Portfolio to make better informed and more responsive decisions on the movement and clearance of goods. Access to service provider's data may also provide the Portfolio with enhanced insight into the operations of the company, thereby reducing the risk associated with that entity.

To meet the requirements associated with a 'big data' feature of the Programme, service provider's would need to have real-time data warehouses that can transmit timely data on their cross-border operations to the Portfolio. This would allow the Portfolio to undertake data analytics and risk management of the import and export data prior to the goods arriving or leaving Australia, thereby granting the importer or exporter expedited clearance, fewer border controls and fewer physical and documentary examinations.

Consideration will be given to ensuring that the use of companies' data does not create additional regulatory burden for the company or compromise privacy.

There also needs to be consideration and agreement about the format and type of information that could be shared and the purposes for which the Portfolio will utilise the data.

CASE STUDY: USE OF 'BIG DATA' AS PART OF STREAMLINED ARRANGEMENTS FOR THE REPORTING OF CARGO

'Big data' could be explored as part of streamlined arrangements for the reporting of cargo. This approach could allow the goods to be reported to the Portfolio at the Parent bill level on condition that the consignment level data is retained in the cargo reporter or trader's systems for further access by the Portfolio if required. The URL is provided by the relevant party (either the cargo reporter or the

[44] 'Big data' relates to the stream of data that supports every import and export transaction.

trader) to allow relevant Portfolio officers access consignment data if required. Under this approach, the trader or reporter will be required to meet certain conditions in order to enter into such an arrangement. The conditions are imposed to ensure the Portfolio and any other Commonwealth agency (for example, Department of Agriculture) can apply a level of risk assessment for those goods or the reporter/trader. This informs the decision making process for that entity to be part of the Programme which results in this alternate way of reporting.

This concept suggests an approach similar to the existing High Value Low Volume (HVLV) reporting scheme that is currently in place. Whilst there may not be real time risk assessment of the consignments, the URL is available if there is a need to do some level of risk assessment. One of the conditions of streamlined reportingmay require the Portfolio to be provided advance information about the goods which will be arriving into the country.

One option that will be explored as part of the Programme is the ability for a Trusted Trader's goods of a similar commodity and under the $1000 threshold, to be provided with an alternate way of meeting the cargo reporting obligations under section 64AB of the Customs Act. This alternate reporting arrangement would remove the requirement for the Trusted Trader to make a cargo reports at the House Airway Bill (HAWB) level. However, information of that level must be maintained in dedicated computer facilities as specified.

The aircraft operator would make a Parent Cargo Report (Master Airway Bill level), then the Freight Forwarder would make a Parent Bill (sub master) with a URL that allows access to the dedicated computer facilities (i.e. the freight forwarders internal system where any HAWBs information can be accessed). In most cases there is more information contained within the Freight Forwarders system than what is actually reported to the Portfolio. The URL access will be limited to relevant officers for risk assessment purposes as per normal 'access' arrangements. This level of reporting can also allow for the movement of cargo without the requirement for lower level cargo reports to be reported. The value of the goods (low value as per the definition within the Customs Act) means there may not be duty payable on these goods.

This approach is expected to provide significant gains in 'shrinking the haystack'. For example, one company currently sends individual low value consignments by air cargo. Given the nature of their products, they may be a likely candidate for this type of concept. Since January 2014, 2267 air cargo reports at the parent bill level and 3,763,318 air cargo reports at the HAWB level were lodged with ICS for the company (total 3,765,585 cargo reports in total). If air cargo reports at the HAWB level were no longer required (rather the information obtained in an alternate manner), this would 'shrink the haystack' and enable greater focus on higher risk entities and goods. Furthermore, if these cargo reports at a HAWB level were not required to be reported to the Portfolio, this one company could save approximately $39 million.

<u>Recognition of existing government and non-government Programmes in the border environment</u>

Where appropriate, the Programme will leverage off existing government and non-government supply chain security programmes, accreditations or standards and to recognise those in the accreditation process for the Programme.

The Portfolio will undertake an assessment of how other government and non-government security and trade compliance programmes at the border might be recognised within the Programme. This assessment will be undertaken in accordance with the following principles:

- The recognition process ensures that the domestic programme includes a rigorous physical validation, to support successful negotiation of MRAs.
- The recognition process ensures that the Programme criteria are met and that the other programme includes ongoing compliance monitoring against that programme's requirements.
- The recognition process should not impose an increased regulatory burden on industry.

Where a programme cannot be recognised in its entirety (for example, as the programme's criteria are not entirely consistent with the Trusted Trader Programme criteria) an entity's voluntary compliance with security or trade compliance standards will still be taken into account.

In the accreditation process for the Programme, entities will be strongly encouraged and supported to provide all information to the Portfolio that may help to demonstrate how it meets the Programme criteria. This could include, but not be limited to, any of the following:

- Licences and permits,
- Accreditations, certifications or registrations
- Voluntary Codes of Practice
- membership of professional or industry associations
- Awards or recognition programmes.

CASE STUDY: ALIGNMENT OF MEAT EXPORT REQUIREMENTS AND THE TRUSTED TRADER PROGRAMME

The Trusted Trader Programme is being co-designed with industry and partner government agencies.

The Portfolio, Department of Agriculture (Agriculture) and Department of Infrastructure (through the Office of Transport Security (OTS)) all have a regulatory presence at the border. The Trusted Trader Programme offers a real opportunity for these agencies to work together to identify areas for cooperation and to reduce burden on industry.

Agriculture's current Export Meat Program, and particularly Tier two arrangements, is a good example where such cooperation would offer a benefit to each agency and to industry.

The Export Meat Program is underpinned by legislative requirements and processes to ensure the safety, suitability and integrity of Australian meat and meat products. As a result of these requirements and processes the meat supply chain is very secure.

Agriculture's Export Meat Program provides inspection, verification and certification services to the export meat industry in Australia. The services provided include:

- The provision of export certification acceptable to Australia's trading partners;
- A scientifically-based inspection system that underpins the production of wholesome meat and meat products;
- A capacity for on-going scientific review of the inspection system;
- The supply of inspection services and veterinary oversight as required to all establishments registered for export with the Department of Agriculture;
- Audit activities that verify industry compliance with the *Export Control Act 1982* and subordinate orders, including overseas market access requirements and establishments' Approved Arrangements.

A comparison of Tier two registered establishments with the SAFE Framework, which underpins the Trusted Trader Programme, shows strong similarities between requirements. Most of the physical and procedural security requirements of the SAFE Framework would be covered, limiting the number of additional SAFE Framework requirements these establishments would have to demonstrate compliance with to join the Trusted Trader Programme.

There are a number of areas where meat export Programme requirements clearly meet SAFE framework requirements, particularly in relation to physical security. For example, the SAFE framework guidance requires written procedures be developed and utilised stipulating how seals are to be controlled and affixed. These procedures are detailed in the Approved Arrangement of registered establishments and are subject to Agriculture audit.

There are a number of areas where there are some differences between SAFE framework and meat export Programme requirements. For example, in the area of personnel security, the SAFE framework guidance requires all reasonable precautions to be undertaken when recruiting new staff to verify that they are not previously convicted of security-related, Customs or other criminal offences. Under section 4.05 of the Export Control (Prescribed Goods – General) Order 2005, key personnel of influence must meet a fit and proper person test. This requirement aligns with the SAFE guidance, but only extends to management and not to general employees. There are no obligations to vet general employees in the same way.

At least some of these elements are likely to also be met by Tier two meat exporters outside of Agriculture's regulatory framework. For example, the SAFE framework guidance requires adequate information technology security measures to be used to protect against access by unauthorised persons. Whilst it has been observed meat facilities have records access control arrangements in place, these controls are not specified as a requirement of the meat export Programme.

There is likely to be a reduced burden for Tier two Meat registered establishments in joining Trusted Trader Programme compared with others. Further analysis is required into the alignment between the SAFE framework and meat export requirements.

Equally, given the high supply chain security outcome of requirements for Tier two registered establishments, such establishments are likely to be recognised by OTS as meeting air cargo security requirements. These establishments would gain recognition as Accredited Exporters under OTS's proposed new air cargo security approach. Trusted Traders would also be given recognition as Accredited Exporters.

For air cargo security in particular, having Tier two registered establishments in the Trusted Trader Programme would be of real benefit. From the Portfolio' 2013 ICS data for air cargo, Meat (AHECC 2 digit code '2' – Meat and edible offal) accounted for around 88,000 tonnes of air cargo or 22% of the weight of all air cargo and $732 million or 1.6% of the value of all air cargo. The top 20 meat exporters by weight account for over 70 per cent of the total weight of meat exports, or around 15 per cent of the weight of all air cargo exports. Of these top exporters, eight are Tier two registered establishments. The balance are understood to be intermediaries, who would source product from Tier two registered establishments as required. For most destinations, meat must come from Tier two registered establishments, accounting for almost 50 per cent of meat air export volume. It is expected at least 50 per cent of meat exports by air can be attributed to Tier two registered establishments and will have been secured to the higher standard.

In the event of a supply chain incident the continued acceptance of trusted cargo without additional examination, would be of significant benefit. Resources could then be channelled to examining cargo which is either perishable or of high value.

To test the benefits associated with aligning the programs across three departments the Trusted Trader Programme Pilot phase will include a Tier two meat exporter.

Trusted Trader Symposium

A Trusted Trader Symposium will also be held periodically with Trusted Traders to enable participants to connect and network with other Trusted Traders and relevant Government agencies. Information sessions will also be held at the symposium to enhance trusted trader's knowledge and awareness of Trusted Traders of key areas.

Policy Option 3: Non-Regulatory Option – Modernising the customs approach for trusted trade

This option would involve a smaller version of the trusted trader concept. It would reduce intervention for certain trusted entities without the establishment of a formal, legislated framework and without a requirement for entities to demonstrate how they meet specified supply chain security and trade compliance criteria. The option will be available for both the import and export cargo streams and include importers, exporters and service providers.

The Portfolio would establish a list of entities it considered to be "trusted" based on the reputation of the company, the risk level of the product lines the company traditionally imports, the outcomes of previous compliance audits and assessments and the historical interactions of the company with border agencies. In essence this option would effectively institute an approach of endowing trust on selected importers and exporters based on Government records. These would be companies with an established history of importing or exporting a consistent type of product, good outcomes from previous audit assessments, and whose own reputation is highly valued. Establishing the list may also include assessments of external compliance history, such as Australian Taxation Office and Australian Securities and Investment Commission reports.

Once selected, companies would be notified of their status, and advised that maintaining the status would be achieved through the expectations of continued high level compliance, including the voluntary disclosure of any errors. Sample post entry verification exercises would be undertaken by the Portfolio periodically, to provide compliance assurance.

In return for being recognised as "trusted", these entities would have the option of accessing streamlined customs procedures relating to the reporting, movement and clearance of goods including the deferral of customs duty. In addition, the entities would be subject to reduced examinations and intervention (unless specified intelligence alerted the Portfolio to a new risk) and priority trade service requests (for example, advance rulings, reviews of tariff advices given by the ACPBS and the processing of applications for a drawback of duty) and enhanced client service.

Key differences to the core elements of policy Options 2(A) and 2(B) are as follows:

- Selection of eligible entities would not align with all criteria set out in the WCO SAFE Framework;
- No requirement for entities to complete a self-assessment and undergo a validation process to be considered "trusted";
- Judgement based on entities supply chain security based on less relevant information
- No requirement to undergo a Portfolio led revalidation;
- No requirement to voluntarily disclosure, however, it would be expected that to continue to be treated as "trusted", the entity would maintain a high level of compliance, including the voluntary disclosure of any errors;
- No tiered structure of benefits;
- Inherent bias towards large entities over SMEs
- The option would not meet the requirements for Mutual Recognition Agreements to be signed.

5. LIKELY NET BENEFITS

Policy Option 1: Status Quo - Continue to apply the standard approach to trade without any differentiation for various segments, highly compliant or trusted traders

Who is affected and what is the impact?

A summary of the impact of the status quo remaining, in light of current trends in international trade and Australia's trade competitiveness, is provided in the table below.

Industry (for example, importers, exporters, service providers)	Government
Reduced economic competitiveness for Australian entities operating in international markets due to underutilisation of GVCs. If Australian industries GVC participation is not facilitated by government policy initiatives, Australia will be left behind as its exports struggle to compete against those countries whose industries produce goods and services with world-class price quality ratios thanks to their own GVC participation.[45]	Government revenues could suffer as Australian industry becomes less competitive internationally in a more globalised world.
Decreased market access compared to international competitors who have access to a Trusted Trader Programme and mutual recognition of that programme by other Customs administrations. This means that Australian exporters are not able to access reciprocal trade facilitation benefits.[46]	The Portfolio is less able to efficiently and effectively facilitate trade due to limited resourcing and ageing systems. Given the increase in volume of trade, an increase in compliance intervention would be required and current resourcing is unlikely to be sufficient to manage this increase. Continuing to take a transactional approach to trade with very limited differentiation for highly compliant or trusted traders will divert scarce resources from addressing high risk trade to processing high volume low-risk trade. This would lead to an increased risk of delays in international trade due to the increasing volume of trade. Scaling up our cargo clearance functions in response to increases in trade will not enable the Portfolio to reduce any unnecessary administrative and regulatory burden.

[45] Nicholas Humphries, "Global Value Chains, Border Management, and Australian Trade", Lowy Institute for International Policy, 2014

[46] The benefit of having an established MRA, for industry, is highlighted by New Zealand's experience exporting goods into the United States. New Zealand exporters are three and a half times less likely to have their cargo held up for examination on arrival at a United States port. The reduced processing time is due to the fact that New Zealand authorized cargo is deemed 'low-risk' by the United States authorities. Authorized New Zealand cargo now makes up 30 per cent of New Zealand's gross exports.

Industry (for example, importers, exporters, service providers)	Government
The Portfolio becoming a greater constraint on trade because of increases in trade volumes. As trade volumes increase and resources are constrained, there is an increased risk of delays in international trade. Delays in international trade pose a serious risk to Australia's economic competitiveness as this increases the transaction cost at the border (and beyond) for those engaged in international trade compromising Australian entities ability to participate in GVCs. In Australia, every day a product is delayed before being shipped reduces trade by more than one per cent, this equates to $8 million per day in lost exports.[47] Delays in processing legitimate trade also puts pressure on port infrastructure, with flow-on effects for integrated logistics and supply chains. The Australian Logistics Council estimates savings of $1.5 billion for the economy in associated costs for every one per cent increase in efficiency of transport and logistics supply chains.[48]	With increasing volumes of trade, an increase in the number of cargo reports, import declarations and export declarations can be expected and current intelligence-led risk-based intervention strategies alone will not be enough to mitigate risk unless significant additional inspections are undertaken.
Under current regulatory (Customs) arrangements, Australian traders have no means of demonstrating to overseas markets that their supply chains are secure. This places Australian entities at a competitive disadvantage when seeking to engage in business with multinational companies who consider supply chain security to be an important factor when deciding who to engage with in business.	The Australian government would be out of step with international standards, notably the WCO's SAFE Framework and the World Trade Organization's proposed Agreement on Trade Facilitation which both promote the implementation of Trusted Trader Programmes by signatory countries.
Inability to continue trading during trade disruptions resulting from major security incidents. Trade facilitation benefits of Trusted Trader Programmes include priority to resume trade in the event of a security event disrupting the supply chain. Under current regulatory (Customs) arrangements, Australian traders have no means of demonstrating to overseas markets that their supply chains are secure. Therefore, Australian entities are at a greater risk than those countries with established Trusted Trader Programmes of experiencing a disruption in the export supply chain if an international security incident were to occur.	

What are the costs and benefits?

There will be no change in costs to businesses, community organisations or individuals under this option. Costs incurred under this policy option are the benchmark to which additional costs are added and benefits deducted in relation to policy options 2(A), 2(B) and 3.

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[47] Australian Customs and Border Protection Service, Blueprint for Reform, 2013 – 2018, page 13, http://www.customs.gov.au/webdata/resources/files/PORTFOLIO-Blueprint-for-Reform-2013-2018.pdf, accessed 1 September 2014

[48] Australian Customs and Border Protection Service, Blueprint for Reform, 2013 – 2018, page 13, http://www.customs.gov.au/webdata/resources/files/PORTFOLIO-Blueprint-for-Reform-2013-2018.pdf, accessed 1 September 2014

The premise of a Trusted Trader Programme is to provide trade facilitation benefits in return for meeting specified supply chain security and trade compliance standards. If the status quo continued, industry stakeholders would not incur costs associated with meeting the specified supply chain security and trade compliance standards. However, this would come at the cost.

Furthermore, industry stakeholders would not benefit from the trade facilitation measures outlined in options 2(A), 2(B), or 3. These measures would provide a deregulatory benefit if made available as outlined in options 2(A), 2(B) and 3 below. Furthermore, the Australian economy would not benefit from the indirect economic wide impacts which would be made available under options 2(A), 2(B) or 3.

What is the net impact?

Given there is no change in costs to businesses, community organisations or individuals under this option the net impact is a loss of opportunity to obtain the benefits of policy options 2(A), 2(B) and 3, or achieve the outcomes of policy options 2(A), 2(B) and 3.

Policy Options 2(A) and 2(B): Regulatory Option - Develop a Trusted Trader Programme applicable to import and export supply chains including supply chain security and compliance elements

Overview

This option is expected to achieve the following outcomes:

- **Enhanced economic competitiveness** - Economic competitiveness will be enhanced through benefits such as streamlined clearance and greater supply chain certainty. The negotiation of MRAs will extend these benefits to the clearance of our exports in their country of destination.

- **Reduced regulatory burden** - The Trusted Trader Programme will reduce the regulatory burden associated with the movement of goods along the supply chain for accredited participants. Trusted traders will be subject to fewer interventions and less interaction with border agencies, particularly for those entities provided with streamlined reporting arrangements. Options 2(A) and 2(B) contains deregulatory offsetting measures by way of the streamlined reporting arrangements, provision of duty deferral and reductions in examinations. In addition by recognising and leveraging existing government and non-government supply chain security programmes, accreditations or standards, this option will avoid unnecessarily duplicating evaluations of businesses supply chain security and would reduce the regulatory burden.

- **Increased supply chain security** - As more and more companies secure their supply chains to the level required by international standards the risk of a security incident involving the movement of international cargo will be diminished.

- **Enhanced risk management of goods at the Australian border** - The Trusted Trader Programme will provide a better understanding of the entities moving goods across our borders. It will exploit big data by making connections with the data holdings of programme participants. It will enable border agencies to focus their attention on higher risk goods.

- **Accelerated trade resumption following an international security event** - Under current regulatory (Customs) arrangements, Australian traders have no means of demonstrating to overseas markets that their supply chains are secure. International security events inhibit the free flow of goods across international boundaries. The Programme will provide Australian traders with the accreditation they need to satisfy overseas Customs authorities during a trade disruption that their supply chains are low risk.

The core elements of this option have been developed consistent with the WCO SAFE Framework and in consultation with international border agencies with experience in implementing a Trusted Trader Programme.

ALIGNMENT WITH INTERNATIONAL STANDARDS

The WCO SAFE Framework has been applied in the development of the core elements of this option. The WCO SAFE Framework provides the minimum set of standards for Customs administrations to put in place to ensure supply chain security. This includes the approach to implementing an Authorised Economic Operator (AEO) programme, including articulating a standard set of criteria to be met by businesses to be accepted as AEOs. Many international AEO programmes have been developed in accordance with the WCO SAFE Framework. Therefore, meeting the criteria of the WCO SAFE Framework increases the likelihood of Australia's Trusted Trader Programme obtaining mutual recognition more readily. The core elements (for example, the trade facilitation measures, assessment and validation processes, tiered structure to accreditation and benefits) have also been developed taking into account the practice of international border agencies experience in implementing Trusted Trader Programmes. For example, the four key activities outlined in Options 2(A) and 2(B) in relation to the accreditation and validation process are common features of AEO programmes implemented by other countries and align with guidance contained in the SAFE Framework. A summary of the alignment with the accreditation and validation processes in AEO programmes implemented by Australia's key trading partners and the guidance in the SAFE Framework Annex III is provided at Attachment B.

Who is affected and what is the impact?

Industry impacts

Policy options 2(A) or 2(B) will have a number of impacts on industry stakeholders (importers, exporters and service providers). Entities that can demonstrate a high level of supply chain security and trade compliance will be the beneficiary of a number of trade facilitation measures. These include client service managers, priority trade services, reduced examinations, recognition in free trade and mutual recognition agreements, duty deferral and streamlined reporting. When working together, these benefits will enhance the economic competitiveness of participants and provide greater trade facilitation and increased market access.

To meet the requirements set out in policy options 2(A) or 2(B), Trusted Traders may be required to improve and maintain business processes or systems. While this would come at a cost, it is expected that business changes will be offset through prolonged participation in the Programme. This is particularly the case when considering the impact of trade facilitation measures such as duty deferral, which will provide a benefit due to an increased opportunity of cash (gross benefit estimated at $21.7m total over ten years for policy options 2(A) (to 2023/24) to

Trusted Traders and a benefit of $14.0m for Option 2(B)) and streamlined reporting, which will ease costs of compliance and regulatory burden.

While these particular measures stand to benefit importers primarily, the Portfolio recognises that a number of exporters also import goods. Overall, for policy option 2(A) the net impact to industry of the Programme has been estimated to be a $270.2m saving over ten years ($163.1m NPV) and a net regulatory burden saving of $24.3m annually.[49] From financial year 2018/19 industry participants are expected to receive a benefit of approximately $56.4m per year ($35.1m NPV per year). For policy option 2(B) the net impact to industry will be a $196.2m saving over 10 years ($115.9m NPV), and a net regulatory burden saving of $17.8m annually.

The operation of MRAs with key trading partners is expected to reduce costs for exporters, facilitate trade and increase supply chain security. MRAs provide reciprocal trade facilitation measures to traders recognised under Trusted Trader Programmes which have undergone comparative analysis by partner Customs administrations. MRAs will simplify the clearance processes of overseas Customs administrations for Australian exporters as they are recognised as low risk. They also work to increase commonality of customs procedures across jurisdictions and enhanced communication and collaboration leading to the reduction in interventions and faster release of goods.

Policy option 2(A) and 2(B) will also impact the Government. Policy options 2(A) and 2(B) enable an enhanced approach to risk management and will increase the supply chain security of Australia's trade flows as the Portfolio will be provided with an enhanced view of the entities involved in the movement of goods along the supply chain. This will complement the Portfolio current transaction-based risk assessment. Internationally, Trusted Trader Programmes have assisted in improving the hit rate from the physical examination of non-trusted companies.[50] Consequently, it is expected that the Trusted Trader Programme will enhance the Portfolio' ability to deter and detect those with nefarious intent at the border, whilst at the same time facilitating trade.

Other government agencies will be also be impacted by policy options 2(A) or 2(B) as they are called on to support and facilitate the provision of trade facilitation measures for Trusted Traders. The Treasury Department, Australian Taxation Office, Department of Foreign Affairs and Trade, Department of Agriculture, Department of Industry and Department of Transport are all key stakeholders in the development of the Trusted Trader Programme. Various changes required to support a Trusted Trader Programme may necessitate business changes in these partner agencies. Conversely, Australia's law enforcement agencies would benefit from a more effective risk management model driving more effective targeting of high risk trade transactions.

While a policy option 2(A) will come at a cost to government (net impact to Government estimated at a cost of approximately $150m (total over 10 years, $108.5m NPV)[51], net benefits will be released through greater GVC participation

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[49] This estimate does not include savings that can be attributed to the provision of client service managers, establishment of MRAs or recognition in Free Trade Agreements due to insufficient reliable data.

[50] Lars Karlsson, "The Stairway" (Vårgårda, Sweden: Swedish Customs, Swedish Business Development Agency, 2005), 168.

[51] This cost does not include the 'cash flow impact' cost to Government associated with the availability of duty deferral. The availability of duty deferral to eligible Trusted Traders impacts on the underlying cash as one month of customs duty will be deferred into the following financial year.

and a more competitive, productive trading community. Increased trade facilitation and market access for Australia's Trusted Traders could lead to increased revenue for government as they become more competitive domestically and internationally. Competitiveness drives profitability which in turn leads to increased tax revenue. The costs will primarily relate to resourcing business changes and key enabling activities, in particular systems changes. In addition, the inclusion of duty deferral as a trade facilitation measure will present a cost to Government due to the effect on the cash flow as one month of customs duty will be deferred into the following financial year. Whilst the inclusion of duty deferral as a trade facilitation measure, duty deferral is a key dependency for the periodic reporting of declarations for the clearance of goods. Streamlined reporting arrangements, including the periodic reporting of declarations for the clearance of goods is estimated to present a saving to Government of $16.7m (total over 10 years) due to decreased load on the Portfolio ICT systems.

Policy options 2(A) and 2(B) will require amendments to the Customs Act are required to set up the regulatory framework for the Programme, enable Trusted Traders to benefit from streamlined customs procedures (e.g. duty deferral and streamlined reporting), enable rules (a legislative instrument) to be made regarding the operation of the Programme and provide for the review of decisions made under the framework. The amendments will not alter existing regulatory obligations applicable to an entity who is not accredited as a Trusted Trader.

Small and Medium Enterprises

The Portfolio recognises the importance of Small and Medium Enterprises (SMEs) to Australia's economic competitiveness and trade performance. As a result, SMEs will be a meaningful part of Option 2(A) or 2(B) of the Programme. The presence of SMEs in the Programme is underpinned by the following fundamental Programme principles:

- there is no entity size, or trade volume or value threshold to Programme eligibility;
- the trade compliant history requirement does not favour entities of any size over those of another;
- Programme participation is voluntary and free;
- the WCO supply chain security SAFE Framework of Standards is outcome focused rather than prescriptive;
- the Programme is intended to reflect the business practice of participants and adapt to entities of varying size and complexity;
- investment required in supply chain security is relative to the size and complexity of the entity;
- the less complex the entity, the less complex the application and validation process; and
- trade facilitation measures as benefits are applied to Programme participant's level of international trade participation – not the size of its operation.

The above Programme principles demonstrate that the Trusted Trader Programme Option 2(A) or 2(B) is not a one-size-fits-all approach to supply chain security and trade compliance. The outcomes focused adaptability of the

Programme, and the SAFE Framework of Standards that it is based on is specifically designed to be able to apply to a whole range of business practices, processes, and supply chains – including those of SMEs.

Guidance will be provided to potential participants as to the required outcomes and the entity will be requested to explain how those outcomes are achieved. The particular requirements applicable to an entity will be established having regard to their particular business.[1] For example, the requirements for a customs broker will be very different to the requirements of a meat exporter. Basing the participation criteria on business activities will provide for a more tailored approach to the individual entity. Entities will only be required to meet those requirements that are specific or relevant to their business processes.

As a result, the level of investment required to participate in the Programme and how that investment is demonstrated to meet minimum supply chain security standards will be very different for SMEs from multinational companies. This structural adaptability will enable participants of all sizes and business functions to participate in the Programme. Moreover, given SMEs are generally more specialised or focused on one particular business activity this approach eases their entry into the Programme. Other structural factors, such as the ability for Trusted Traders to partner together to form secure supply chains, also contributes to the accessibility of the Programme for SMEs.

The same principle applies to any distributional impact that may arise if larger firms seek to use their commercial leverage to ensure their business partners and service providers are accredited Trusted Traders. While supply chain participants already compete in a competitive environment; Trusted Trader accreditation will potentially become a commercial advantage many business partners and service providers seek to exploit. However, the ability to get such accreditation should be consistent across each specific industry (e.g. customs brokers) regardless of business partner or service provider size.

Advice provided by representatives from the US C-TPAT program indicates that the outcomes focussed approach to evaluating SAFE Framework Criteria reduces barriers to participation in the program. As such SMEs are less likely to require upfront capital investment and expenditure in order to meet minimum security requirements. For example, high-grade fences may not be relevant for a business located on a remote rural farm to achieve physical security. The accessibility of SME participation in the Programme, and the adaptability of the SAFE Framework of Standards is also supported by the fact that 48% of US C-TPAT importers and brokers are SMEs with between 1 and 100 employees.

Regardless of size there are some entities that are more likely to meet the substantive accreditation due to the type of international trade they are engaged in. It is a fact that some industries already have more rigorous supply chain security practices than others. For example, meat, dairy, pharmaceutical, and defence materials exporters are more likely to already meet all or most SAFE Framework of Standards requirements. As a result, some entities will require less investment than others. However, such a reality should not unfairly impact competitiveness as competing entities in the same industry (e.g. meat exporters) already must adhere to the same industry standards.

[1]The types of activities that a relevant business may undertake can be broadly considered as: manufacture goods; physically handle goods (eg. container packing/unpacking); report goods (submitting declarations and reports to the Portfolio and other government agencies); store goods (including licensed customs depots and warehouses, but also the storage of goods while in transit to the point of export or final import destination at unlicensed premises); transport goods (any process of moving the goods from one place to another, including inland transport, shipping companies and airlines); and contract third parties (including supply chain services, whether in Australia or overseas).

The Portfolio expects the participation of larger firms to marginally outweigh the participation of SMEs. This is not due to Programme bias, but rather the commercial realities of the Australian companies that currently engage in international trade. While SMEs do participate directly in international trade, the most typical path for SME entry into GVCs is to sell their goods and services to larger multinational firms that co-ordinate up to 80 per cent of GVCs. Evidence of this 'in-direct' exporting phenomenon again comes from the United States where SMEs are responsible for 28 per cent of US gross trade, but up to 41 per cent of US trade in value added[52]. As a result, SMEs stand to benefit from the Trusted Trader Programme as both direct participants in the Programme, as well as through greater whole-of-economy GVC participation that the Programme will enable.

Economy wide impacts

The above analysis outlines only the direct impacts of the policy options 2(A) and 2(B) in that they directly affect the actions and outcomes experienced by government and industry. These direct impacts however, have a flow on impact to the economy. For example, the reduction in operational expenditure by industry may result in some industry participants using the saved funds to invest in other areas of the business, hire additional labour, or reduce prices. These actions would flow through the economy impacting core economic variables such as prices, labour, wages, investment, spending and consumption.

To determine the potential magnitude of these flow-on (or indirect) impacts of the Trusted Trader Programme, sophisticated economic modelling techniques and programmes have been used by Ernst and Young to estimate how the economy would react. Numbers used in this process include all NPV figures for policy options 2(A), 2(B), and 3 respectively and are set out in Attachment C.

These potential economy-wide impacts were evaluated against a base case (that is, the status quo). As such, deviations from the base case were interpreted as the potential economic effects of the instigation of the Trusted Trader Programme.

What are the costs and benefits?

Entities which can demonstrate a high level of supply chain security and trade compliance will be the beneficiary of a number of incentives. These include client service managers, priority trade services, reduced examinations, recognition in free trade and mutual recognition agreements, duty deferral and streamlined reporting. When working together, these benefits will enhance the economic competitiveness of participants and provide greater trade facilitation and increased market access. As the programme unfolds, the Portfolio will work with trusted traders to explore opportunities to further reduce the regulatory burden and provide additional trade facilitation benefits.

The trade facilitation measures will deliver:

- Increased productivity for Trusted Traders
- An increased proportion of trade secured in accordance with the WCO's SAFE Framework
- Improved cash flow for Trusted Traders
- A modernised our Intervention Strategy

[52] Organisation for Economic Co-Operation and Development, World Trade Organization, United Nations UNCTAD, "Global Value Chains: Challenges, Opportunities, and Implications for Policy," 21 & 22

- Increased levels of compliance by Australia's traders
- Increased supply chain certainty for Trusted Traders

Further detail on how these benefits will be delivered is set out in Attachment D.

Additional benefits that may be provided to Trusted Traders as a result of the trade facilitation measures include:

- reduced theft and losses;
- improved customer loyalty (due to reliability);
- improved inventory management
- improved employee commitment;
- reduced security and safety incidents;
- reduced crime and vandalism;
- improved security and communication between supply chain partners.

<u>What are the quantitative costs and benefits?</u>

A cost-benefit analysis undertaken by Ernst and Young shows Option 2(A) delivers a net benefit of $163.1m (NPV, total over ten years) to industry. A cost-benefit analysis undertaken by Ernst and Young shows Option 2(B) delivers a net benefit of $115.9m (NPV, total over ten years) to industry. Attachment E outlines the NPV of the net impacts (costs and benefits) to industry resulting from policy options 2(A), 2(B) and 3.

Quantification of the costs and benefits of the Trusted Trader Programme are largely dependent on the number of entities accredited as Trusted Traders. Estimates of participation in the Trusted Trader Programme for Option 2(A) have been modeled based on the following assumptions:

- Maximum growth rate in participation will occur from 2016/17 to 2018/19 followed by a 3% growth rate. This growth rate is consistent with the US (C-TPAT) and Canada (Partners in Protection) Programmes which experienced high growth in the early years of implementation and then a steady state. The growth rate from 2016/17 to 2018/19 has been forecast as linear on the basis that participation in the Programme will be dependent on the capability of the Portfolio to accredit entities seeking access to the Programme.
- The number of importers participating in the Programme by 2018/19 will represent 30% of imports by transaction (which represents approximately 50% by value). This represents 0.21% of importers by number (497 out of 240,062) based on meeting this target through entities with the highest number of transactions participating in the Programme. The number of exporters participating in the Programme by 2018/19 will represent approximately 50% of exports by value. This represents 0.77% of total exporters (359 out of 46,732) based on meeting this target through entities with export transactions valued over $10 million participating in the Programme. This is supported by international experience in participation in Trusted Trader Programmes, in particular the number of participants in the US C-TPAT Programme reflect approximately 50% of imports by value. A greater number of importers than exporters participating in the Programme is consistent with Canada's experience with the Partners in Protection Programme.
- Some importers are also exporters (and vice versa). To account for this (and the potential for double counting) in the participant numbers outlined

above, in determining the costs associated with the Trusted Trader Programme it is assumed that 15 per cent of the total number of importers and exporters identified above (133) are an importer/exporter. As a consequence, the total number of participants is reduced by 266 (as the number of service providers, is assumed to be in the ratio of 1:1 to the total number of importers and exporters). This assumption is derived from Portfolio data. More specifically, the top 30 per cent of importers (by transactions) and top 50 per cent of exporters (by value) (in line with the assumptions outlined above) was examined to identify the number of businesses that were listed as both an importer and exporter. This adjustment has not been made for the quantification of benefits as participants who are involved in the importation and exportation of goods receive both import and export related benefits.

- The number of service providers (for example, customs brokers, freight forwarders) has been estimated on a 1:1 ratio (total number of importers and exporters:service providers). This ratio is assumed to be lower than that experienced by the US (1:1.7 importers only participating in C-TPAT) and Canada (varying from 1:1.6 to 1:2 participating in Partners in Protection) due to a more concentrated business environment in Australia and lower number of service providers.
- Participation rates in each tier reflect the role of the tier (that is, accreditation in tier 1, primary benefits in tier two and best practice in Tier three). It is assumed that participants will remain in Tier one during the first year of accreditation, 90% of tier one Trusted Traders will progress to tier two in the second year of participation and 10% of Tier one Trusted Traders will progress to Tier two and then Tier three commencing in 2017/18). The percentage of participants in Tier three is consistent with the percentage participation in the best practice tier of the US C-TPAT (approximately 8% of participants (imports sector only). It is assumed that all service providers (that is, not importers or exporters) will move from Tier one to Tier two in the second year of participation. While service providers may be accredited as a Tier three Trusted Trader, as the quantification of benefits associated with a Tier three Trusted Trader would be passed on to the relevant importer/exporter, only importers and exporters have been identified as a Tier three Trusted Trader.

Benefits

The trade facilitation measures in Option 2(A) will deliver a gross benefit of approximately $341.4m to accredited importers, exporters and other service providers. This benefit derives from a reduction in operational expenditure associated with streamlined reporting arrangements and duty deferral (NPV $43.0m total over ten years) and productivity increases associated with the provision of priority trade services, differentiated examinations and some components of streamlined reporting ($170.6m, NPV, total over ten years). In Option 2(B) these benefits translate to $256.5m gross industry benefit, reduction in operational expenditure of $30.1m (NPV), and productivity increases of $126.6m NPV.

Due to the unavailability of reliable data to quantify benefits associated with the provision of client service managers, recognition in Free Trade Agreements and the establishment of MRAs with key trading partners. Whilst it is expected that these incentives will provide a tangible level of benefit for industry participants, at this stage, they could not be quantified due to a lack of data and the unknown characteristics that surround these benefits. For example, recognition in FTAs and the establishment of MRAs requires negotiations to occur with our trading partners. At this stage it is unknown how long the negotiations may take, how many agreements will be entered into over the next ten years and with which countries they will firstly be negotiated with.

Whilst not a core incentive offered by the programme, a flow on benefit of becoming a Trusted Trader are the competitive advantages that may be experienced by Traders and service providers for being part of the programme. For example, a service provider may be able to tender for more opportunities offered by exporters and importers should exporters and importers stipulate that to ensure the security of their supply chain that only Trusted Traders may apply. Given the nature of this benefit however, this has also been considered to be a qualitative benefit for the purposes of undertaking the cost-benefit analysis.

The availability of streamlined reporting arrangements under this option would provide measurable regulatory savings to industry. These savings have been estimated at approximately $319.7m (total over 10 years) due to reduced administrative and substantive compliance costs.

Key assumptions for calculating the benefits are set out in Attachment F.

Costs

To meet the requirements set out in policy option 2(A) and 2(B), Trusted Traders may be required to improve and maintain business processes or systems. Cost areas that have been identified are:

- Completion of the self-assessment;
- Preparation and participation in a site validation by the Portfolio;
- Signing of an agreement;
- Maintenance of clear and accurate records of new training;
- Disclosure of a breach of terms;
- Delivery of personnel, physical security and IT and cyber security training (initial and ongoing);
- Preparation for an participation of compliance audit and provision of records to the Portfolio upon request;
- Preparation and participation in reaccreditation activities.

Detailed requirements for the accreditation process and ongoing participation in the Trusted Trader Programme have not been developed. Consultation with industry stakeholders verified that in the absence of detailed requirements, it would not be possible to accurately identify costs to industry. Assumptions have been used to estimate the effort required by industry participants (businesses) to be accredited as a Trusted Trader and maintain that accreditation. Where possible these assumptions were estimated in line with assumptions in relation to Portfolio staff effort associated with the activities. Costs per hour were estimated using the effort assumptions and guidance provided by the Office of Best Practice Regulation (OBPR) concerning labour costs where “the default hourly cost is based on average weekly earnings, but adjusted to include income tax. This provides an economy-wide value for employees of $34.20 per hour. This value is scaled up using a multiplier of 1.75 (or 75 per cent as it is input into the Regulatory Burden Measure) to account for the non-wage labour on-costs and overhead costs.”[53] These assumptions are set out in Attachment G.

<u>Estimating the regulatory burden</u>

[53] OBPR (2014) *Regulatory Burden Measurement Framework: Guidance Note*; page 15.

The Portfolio has utilised the Regulatory Burden Measurement Tool available through the Office of Best Practice Regulation to quantify the regulatory cost/saving of policy options 2(A) and 2(B). An average annual regulatory saving of $24.3m has been calculated for Option 2(A). For policy option 2(B) an annual regulatory saving of $17.8m has been calculated. These costs are set out in Attachment H.

Conclusions on the net impact

Option 2(A) presents a return on investment for industry participants ($270.2m total over ten years to 2023/24) and greatest delivery of benefits for industry participants ($341.4m over 10 years; net impact to industry $163.1m NPV total over 10 years) The option includes trade facilitation measures which will modernise the existing transaction-based approach providing a deregulation measure for government and participants.

By providing extensive trade facilitation measures, the Programme would be expected to achieve the highest participation uptake and growth over the implementation period, enabling the outcomes and benefits of a Trusted Trader Programme to be realised to the greatest extent. Furthermore, implementing the proposed trade facilitation measures over the shortest possible timeframe is expected to result in the more timely benefits realisation for participants and Government.

Option 2(B) presents a return on investment for industry participants ($196.2m total over ten years to 2023/24) and greatest delivery of benefits for industry participants ($256.5m over 10 years; net impact to industry $115.9m NPV total over 10 years) The option includes trade facilitation measures which will also modernise the existing transaction-based approach providing a deregulation measure for government and participants – albeit at a slower pace than Option 2(A).

Both the preferred Option 2(A) and 2(B) are based on the competitive principles of the SAFE Framework of Standards that seeks in be inclusive of a wide variety of entities regardless of size or business practice. In particular, SMEs participation in the Programme under Option 2(A) or 2(B), will be enabled by the application of supply chain security standards in a way that is outcomes focused rather than prescriptive in nature. The same approach has been adopted in other jurisdictions to ensure respective country Programmes are able to harness the economic impact of SMEs; most notably in the United States, where 48% of importers and brokers in their AEO/Trusted Trader Programme are SMEs.

Policy Option 3: Non-Regulatory Option – Modernising the customs approach for trusted trade

Overview

This option is expected to achieve the following outcomes:

- **Enhanced economic competitiveness** - Economic competitiveness will be enhanced through benefits such as streamlined clearance and greater supply chain certainty.

- **Reduced regulatory burden** – Option 3 will reduce the regulatory burden associated with the movement of goods along the supply chain for accredited participants. Participants will be subject to fewer interventions and less interaction with border agencies, particularly for those entities provided with streamlined reporting arrangements. Option 3 contains deregulatory offsetting measures by way of the streamlined reporting arrangements, provision of duty deferral and reductions in examinations.

- **Enhanced risk management of goods at the Australian border -** The option will enable border agencies to focus their attention on higher risk goods. It will exploit big data by making connections with the data holdings of programme participants.

ALIGNMENT WITH INTERNATIONAL STANDARDS

This option is similar to benefits given to traders under the lower levels of China's multi-tiered programme, where a history of good compliance is rewarded with favourable treatment or reduced intervention. However, this option would not necessarily meet the requirements of the WCO SAFE Framework and no assessment would be undertaken against the WCO SAFE Framework criteria.

Who is affected and what is the impact?

This would deliver similar benefits to importers as Option 2(A), speeding up clearance processes and delivering savings on reduction of delayed deliveries, storage and container hire through expedited clearances. It would also meet the intended objective of reducing the pool of goods that border agencies need to analyse and assess for intervention activities and routinely audit for misreporting (thereby "shrinking the haystack").

However, as the option would not involve an assessment against the WCO SAFE Framework criteria it would be unlikely that foreign Governments will accept this model as a legitimate AEO programme. This means there would be little opportunity for mutual recognition and would deliver little benefit to importers, exporters and service providers.

This model would, however, increase border risk for imports as no independent assessment of an entities supply chain security and trade compliance and no formal agreement on standards and expectations will be entered into by the company with the Government. This option would not demonstrate a customs-to-business partnership, nor give the "trusted" entity any obligation to meet ongoing standards to remain in the programme.

This option may risk compromising competitive neutrality principles if it is perceived as a programme that the Government uses to bestow favourable treatment on selected entities to the detriment of competitors as the programme would not be open to all traders, and may limit accessibility for small and medium enterprises.

Minor legislative amendments to the Customs Act to be made to provide the alternate way in which "trusted" entities may meet certain obligations under the Customs Act.

<u>What are the costs and benefits?</u>

The trade facilitation measures available under this option will deliver the following benefits:

- Increased productivity for Trusted Traders;
- An increased proportion of trade secured in accordance with the WCO's SAFE Framework;
- Improved cash flow for Trusted Traders;
- A modernised our Intervention Strategy;
- Increased levels of compliance by Australia's traders;
- Increased supply chain certainty for Trusted Traders.

Further detail on how these benefits will be delivered is set out in Attachment I.

The lack of any independent assessment against supply chain security and trade compliance criteria means that the Portfolio will not be able to enter into MRAs with key trading partners which will affect the extent of the benefits available to "trusted" entities. The absence of MRAs will significantly limit the benefits available to exporters.

Economy wide impacts

The above analysis outlines only the direct impact of the policy option Economic Wide analysis to be inserted in that they directly affect the actions and outcomes experienced by government and industry. These direct impacts however, have a flow on impact to the economy. For example, the reduction in operational expenditure by industry may result in some industry participants using the saved funds to invest in other areas of the business, hire additional labour, or reduce prices. These actions would flow through the economy impacting core economic variables such as prices, labour, wages, investment, spending and consumption.

To determine the potential magnitude of these flow-on (or indirect) impacts of the Trusted Trader Programme, economic modelling techniques have been used to estimate how the economy would react. These potential economy-wide impacts were evaluated against a base case (that is, the status quo). As such, deviations from the base case were interpreted as the potential economic effects of the instigation of the Trusted Trader Programme. These impacts are set out in Attachment C.

<u>What are the quantitative costs and benefits?</u>

A cost-benefit analysis undertaken by Ernst and Young shows policy option 3 delivers a net benefit of $33.4m (NPV, total over ten years) to industry. There are no costs to industry associated with Option 3.

Quantification of the benefits of policy option 3 are largely dependent on the number of entities identified as “trusted”. Participation rates in policy option 3 have been based on the following assumptions:

- Maximum growth rate in participation will occur in the first four years of the Programme (that is, up to 2018/19). This growth rate is consistent with the US (C-TPAT) and Canada (Partners in Protection) Programmes which experienced high growth in the early years of implementation and then a steady state. The growth rate from 2015/16 to 2018/19 has been forecast as linear on the basis that participation in the Programme will be dependent on the capability of the Portfolio to accredit entities seeking access to the Programme. The growth rate from 2019/20 onwards is forecast at 3%.
- The number of importers participating in the Programme by 2018/19 will represent 10% of the number of importers, exporters and service providers estimated for the purposes of Option 2(A). This is consistent with the percentage participation in the best practice tier of the US C-TPAT (approximately 8% of participants (imports sector only)).

Benefits

The trade facilitation measures will deliver a gross benefit of approximately $33.4m (NPV, total over ten years) to accredited importers, exporters and other service providers. This benefit derives from a reduction in operational expenditure associated with streamlined reporting arrangements and duty deferral ($6.4m NPV, total over ten years) and from improvements in efficiency (productivity increases) associated with associated with the provision of priority trade services, differentiated examinations and some components of streamlined reporting ($27.0m, NPV total over ten years).

The availability of streamlined reporting arrangements under this option would provide measurable regulatory savings to industry. These savings have been estimated at approximately $47.9m (total over 10 years) due to reduced administrative and substantive compliance costs.

Assumptions made in assessing benefits are as per policy option 2(A).

Costs

There would be no additional layer of regulation introduced on industry, consequently the regulatory cost to industry to participate in this programme would be nil.

This option would have a minor cost impact on Government with additional overheads in analysing and assessing candidates.

<u>Estimating the regulatory burden</u>

The Portfolio has utilised the Regulatory Burden Measurement Tool available through the Office of Best Practice Regulation to quantify the regulatory cost/saving of policy option 3. Costs of this option have been calculated at a total average saving for business over ten years of $4.3m per year (Attachment H).

<u>Conclusions on the net impact</u>

Whilst policy option 3 will provide a regulatory saving due to the provision of trade facilitation measures, this option presents a number of risks that must be considered. In particular, the inability for achieving mutual recognition with key trading partners will lead to list benefit to participants. Furthermore, this option presents a risk of compromising competitive neutrality principles.

The option is also limited in the outcomes that will be achieved. For example, this option does not require “trusted” entities to secure their supply chains to a level required by international standards. Consequently, this option will not provide Australian traders with the accreditation they need to satisfy overseas Customs authorities during a trade disruption that their supply chains are low risk. Consequently, Australian traders will continue to be at risk of incurring delays in trade resumption following an international security event.

6. CONSULTATION

Overview

Comprehensive and genuine consultation has been – and will continue to be – integral to the design and success of the Programme[54]. As a result, the Portfolio has engaged in extensive and intensive targeted consultation that aims to be:

- continuous throughout the design and implementation stages of the Programme;
- broad-based involving a range of industry and government stakeholders with an interest in border management, GVC participation, and trade facilitation;
- well managed and time sensitive to not unnecessarily burden industry and help maintain industry enthusiasm for the process and engagement in the Programme;
- methodical in addressing key policy questions in a coherent, consistent and transparent way that meets stakeholder expectations and informs the Programme at each stage of the policy development process;
- accessible to stakeholders by staging engagement forums in both Sydney and Melbourne, traveling to individual stakeholder places of business for one-on-one discussions, and maintaining a Programme website where all consultation outcomes can be easily accessed;
- consistent with lessons learnt internationally from jurisdictions with established AEO programmes; and
- subject to review and evaluation.

Who will you consult?

The Portfolio' engagement with industry stakeholders, partner border agencies, and international customs administrations in the policy design stage was developed to ensure that the Portfolio follows a best practice approach to consultation, clearly identifying its purpose and intended outcomes.

The plan identified the key messages and questions to put to industry and government stakeholders to ensure the Portfolio:

- recognises and, where possible, avoids any adverse impacts or costs to industry and government;
- designs a programme that best fits emerging business models;
- identifies a programme that delivers the best possible benefits to industry; and
- ensures continued international market access.

[54] Two early assessment RIS' have been prepared in relation to the Trusted Trader Programme. These assessments have not been published as they were prepared prior to codesign of the Programme.

The Portfolio is committed to designing a Programme that increases trade facilitation and maximises the potential impact on Australia's overall economic competitiveness - while not weakening border protection. To do this, the Portfolio identified a wide range of industry and government stakeholders across all sectors of the international supply chain; and a cross section of industries and traders the Programme is intended to appeal to.

This was necessary to gauge industry interest in the Programme; gain a better understanding of industry business models; communicate to industry Programme fundamentals and design principles; identify challenges to Programme implementation; and develop potential benefits that could be offered to Programme participants.

Further, to ensure a whole-of-government approach is taken to the development of the Programme, and lessons are learnt from jurisdictions with established AEO Programmes, the Portfolio also engaged broadly with other government agencies, and overseas customs administrations that have implemented (or are implementing) AEO programmes.

<u>How will you consult with them?</u>

- <u>Early Engagement</u>

Initial stakeholder engagement commenced in May 2014 through the publication of a Discussion Paper that set out the fundamentals of the Programme and an accompanying survey to gauge initial interest in the Programme, and set out Programme design fundamentals and principles, foreseeable implementation challenges, and potential benefits to joining the Programme. Specific questions addressed current business models, interaction with agencies regulating the border (including the Portfolio and the Department of Agriculture), foreseeable benefits to industry and – importantly - interest in *further engagement* with the Portfolio on the development and design of the Programme.

The Portfolio received approximately 50 responses to the Discussion Paper. Respondents overwhelming expressed interest in joining the Programme. The Portfolio then undertook intensive consultation with those industry stakeholders who expressed interest in meeting with the Portfolio to further discuss their responses to the Discussion Paper.

During the above stakeholder consultations, industry expressed their general willingness to join the Programme. This suggests that industry believe the likely benefits of being a member of the Programme will outweigh the potential costs. The willingness of consulted businesses to join is particularly indicative, given that many of these businesses have had exposure to AEO/Trusted Trader Programmes in place overseas. They thus have an informed perspective of the likely costs and benefits associated with the proposed Programme. However, stakeholders have made clear during consultation that real, meaningful, and measureable benefits must be offered to warrant any required investment. The benefits industry prioritised during stakeholder consultation are set out in Figure 9. These specific industry views have been incorporated in preferred Option 2(A) and 2(B).

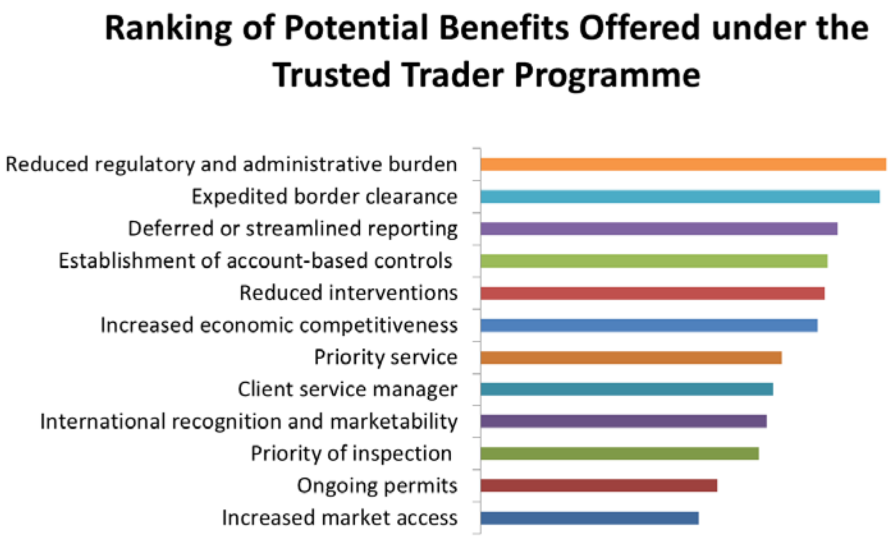

Figure 9: Industry ranked potential benefits

- Industry Summit

On 18 August 2014 the Portfolio hosted an inaugural Industry Summit (the Summit). The Summit signalled the Portfolio's commitment to engaging industry in ways to modernise customs and trade related border functions meeting the challenges of the 21st century. A key focus of the Summit was the Portfolio's Trusted Trader Programme and the need to consult industry throughout the design and implementation. A panel session with top Portfolio executives and other government agency representatives was held to guage early interest and input from industry stakeholders.

- Industry Advisory Group

The response to the aforementioned Industry Discussion Paper, Summit feedback, and the importance the Portfolio places on continued consultation, led to the creation of an Industry Advisory Group (IAG). The IAG is intended to facilitate discussion with key stakeholders and partner agencies and to provide input, advice, and feedback on key policy questions as the Programme developed. The IAG is also expected to allow an opportunity for Programme objectives, work packages and outcomes to be communicated. The IAG is fundamental to the co-design of the Programme.

The IAG Terms of Reference identify that the role of the IAG may include but will not be limited to:

- providing guidance to the Service on the practical implications to industry of the implementation of the Programme;

- providing feedback on the proposed eligibility requirements and benefits associated with the development of the Programme;

- providing input on the implementation plan for the Programme;

- provide insight on industry operating models and how the Programme can be utilised for various supply chain prototypes.

The IAG comprises a cross section of representatives from the trading community and Australian business (including small to medium size enterprises), logistics providers, key advocacy groups and key Government agencies.

The first IAG meeting was held in August 2014. There has since been meetings held in October and November 2014, with further meetings planned on an approximate monthly basis throughout 2015 - leading up to the commencement of the Programme. Corresponding meetings are held in Sydney and Melbourne and follow a consistent and transparent methodology.

Each IAG meeting has a pre-determined agenda of policy questions to address. This is facilitated by Discussion Papers on relevant policy questions sent to IAG members a week prior to each meeting. To facilitate public consultation on the development of the policy options, the papers circulated to IAG members and outcomes of IAG meetings are published on the Portfolio website. Interested parties may also provide feedback via email at trustedtrader@customs.gov.au. The following table sets out the 2014 IAG meeting agendas:

Meeting	**Agenda**
Meeting 1 19 August 2014 - Sydney	• Overview of programme developments to date • Outline of potential programme criteria – supply chain security and/or trade compliance
Meeting 2 8 October 2014 (Melbourne) 22 October 2014 (Sydney)	• Outline of potential programme design – tiers and components • Discussion on who can be accredited in the Trusted Trader Programme • Discussion on what the eligibility criteria will be for different types of participants • Discussion of benefits that could be offered in the programme
Meeting 3 10 November 2014 (Melbourne) 12 November 2014 (Sydney)	• Proposed tiered model for Australia • The accreditation process for Trusted Traders • Potential options for legislation • How the Trusted Trader Programme will recognise and leverage off existing government and non-government programmes in the border environment

Following each IAG meeting and discussion, the Portfolio is able to present its position on each policy question having considered all relevant feedback and input. The policy position is prepared in consultation and collaboration with other government border agencies.

Following each IAG meeting, the policy position, meeting outcomes and action items are sent out to IAG members for their comment. If necessary, these papers are further clarified and discussed at the subsequent IAG meeting to receive endorsement by IAG members. Reference to specifc views of stakeholders and outcomes of past IAG meetings is referenced in the 'Best Option' discussion on ‘eligibility’, ‘membership’, ‘tiered approach’, ‘accreditation’, ‘benefits’, and ‘legislation’.

There is a 2015 forward agenda of IAG meetings. However, policy questions for the forward agenda are not yet finalised. This allows the Portfolia flexibility to change the order of priority based on rolling feedback from past IAGs and other internal and external consultation. The following table sets out the *anticipated* 2015 IAG meeting’s agenda:

Meeting	**Agenda**
Meeting 4 January 2015 (Melbourne) February 2015 (Sydney)	• Eligibility requirements for Trusted Traders • How the tiered structure will operate • Principles for Australia’s Pilot Programme • Triggers or conditions for revalidation
Meeting 5 March 2015 (Melbourne) April 2015 (Sydney)	• New IT systems to be introduced for the launch of the programme • Outline on the proposed elements of the early access programme • Overview of the process for pre-border recognition of foreign accredited operators which is required for mutual recognition agreements • Further details about the type and number of tiers for the Trusted Trader Programme
Meeting 6 May 2015 (Melbourne) June 2015 (Sydney)	• Overview of the programme to be launched on 1 July 2015 • Implementation issues or risks • Overview of the review and appeals process for participation in the Trusted Trader Programme
Meeting 7 End of June 2015 or start of July 2015 (Melbourne and Sydney)	• Update on the launch of the programme • Update on the early access programme • Future phases of the Trusted Trader Programme

- Partner Agency Engagement

The Portfolio is also working closely with partner agencies to ensure a harmonised approach at the border, a simplified application process and whole-of-government endorsement of the TTP. Representatives from Agriculture and OTS regularly attend stakeholder engagement meetings (including internal Portfolio stakeholder meetings) and the Portfolio holds fortnightly trilateral meetings to discuss progress. A Director from OTS with extensive experience in supply chain security has also been embedded in the Trusted Trader team.

In addition, the Portfolio is also engaged with other government agencies on an on-going basis. In particular, the Department of the Treasury, Department of Finance, Department of Industry, DFAT, Department of Defence, the Australian Taxation Office, Austrade, the Office of Best Practice and Regulation, the ABS, and the ACCC to address key aspects of the policy design process such as potential benefits that might be considered under the Programme.

Furthermore, the IAG meetings are also attended by representatives from OTS, Agriculture, DFAT, The Department of Industry and Austrade.

- International Engagement

Portfolio Counsellors[55] have been tasked to engage with partner administrations to seek information on their AEO programmes, to both learn from them and seek opportunities for collaboration.

Initial work and collaboration has begun with a number of international customs authorities in preparation for Mutual Recognition Agreements negotiations – actual negotiations cannot begin until the TTP has been approved by Government.

In late August 2014, at the invitation of United States Customs and Border Protection (USCBP), two officers from the Trusted Trader team attended a Customs-Trade Partnership Against Terrorism (C-TPAT) conference in the US. This conference provided an opportunity to obtain information on best practice and lessons learnt from USCBP, New Zealand Customs Service (NZCS) and Canadian Border Services Agency (CBSA) during the implementation of their respective schemes. USCBP also offered to send an officer to Australia for a month to provide assistance in the development of Australia's TTP.

Further, Australia co-chaired the 2nd Indian Ocean Rim Association (IORA) Customs and Trade Facilitation Forum with India from 15 to 17 September 2014. IORA focused on the implementation of AEO programmes and Mutual Recognition.

The Asia-Pacific Economic Cooperation (APEC) has funded a feasibility study with China Customs, which is scheduled to commence its initial phase in January 2015. It will include a number of desktop and live exercises to establish whether the consignment data provided can be used in real time to identify the AEO's cargo pre-arrival, allowing their AEO status to be recognised and the release of goods to be expedited. This will reduce any clearance delays at the border as well as reducing storage, insurance and transaction costs for the importer. This project will assist in developing a common methodology to recognise AEO participants in APEC member economies.

Future outlook

Programme consultation will continue through to February 2015 and beyond. Further consultation will be undertaken with industry stakeholders, partner border agencies, and international stakeholders on the design detail to ensure the best options have been considered for implementation on 1 July 2015. This consultation will follow the same structure of IAG, as well as continued partner agency and international engagement. Detailed implementation and evaluation is

[55] Portfolio Counsellors are overseas based staff that provide expert advice, capacity building, liaison and engagement with key trading and diplomatic partner countries on customs, law enforcement and trade related issues.

discussed in Section 8 of the RIS, along with who the Portfolio expects to consult with during that process. It is also expected that an officer from USCBP will travel to Australia early 2015 to assist the Trusted Trader team.

It is anticipated that consultation with policy agencies on benefits to be available to Trusted Traders or Trusted Trader Partners will be also be ongoing. The timeframe for completing this consultation will be dependent on the scope of benefits which may be available under the policy options.

7. THE BEST OPTION

Best Trusted Trader Programme option

Consistent with industry feedback (see below), the preferred Trusted Trader Programme option is Option 2(A) (set out above). Option 2(A) is a Trusted Trader Programme with an extensive range of trade facilitation benefits for industry participants that will be developed, with full implementation achieved by 2018/19. In return, participants will meet or exceed minimum supply chain security and trade compliance standards in line with the WCO SAFE Framework. Option 2(A) is preferred from Option 2(B) due to its greater economic impact on industry and Australia's competitiveness due to its shorter timeframe for implementation.

Option 1 (maintaining the status quo) and Option 3 (non-regulatory), are not preferred because they continue to put Australian industry at a competitive disadvantage to participating in international commerce; do nothing to increase Australia's contribution to international supply chain security; nor sufficiently address Australia's rapidly increasing trade volume (discussed below). In addition, Option A provides no whole-of-economy dividend, while Option 3's economic dividend is a mere 21 per cent of the preferred Option 2(A)'s projected $278m whole-of-economy impact.

In Option A, a greater range of supply chains will be accredited enabling the outcomes of the Option 2(A) Trusted Trader Programme to be delivered to a higher level and to a greater proportion of entities over a 4 year period. The trade facilitation measures offered in deregulatory benefits (for example, duty deferral, and streamlined arrangements for the reporting and clearance of cargo) will modernise the existing transaction based regulatory framework. Further, this option offers the greatest return on investment for industry and government. Participation modelling suggests that this option will attract the highest possible uptake by industry in the first five years, and provides a strong position for negotiating MRAs with key trading partners.

Throughout the policy design stages, feedback from stakeholder consultation has informed all facets of the Trusted Trader Programme Options considered by the Portfolio. In particular, a number of themes emerged as key considerations in determining the type of Trusted Trader Programme that would best serve Australia's economic competitiveness, trade performance, and rising volumes of trade in line with the emergence of GVCs. Such themes – and accompanying stakeholder feedback - are set out below.

- Eligibility

The earliest consultation addressed key Programme design questions. Specifically, whether the Programme should encompass both supply chain security and trade compliance - or supply chain security only was addressed in the first IAG meeting in August 2014. Many companies at that meeting indicated that they already have secure supply chains and were trade compliant. There was consensus at the August IAG that trade compliance should be a requirement of the Programme. There was broad support for the use of the WCO SAFE Framework of supply chain security standards as the appropriate measure of supply chain security. However, before a position could be established stakeholder feedback at the August IAG determined the need for clear definitions of both supply chain security and trade compliance. The following definitions were then developed and provided to industry at the second IAG meeting held in October:

- Supply chain security: Supply chain security refers to the arrangements used to maintain the integrity of goods against threats throughout the supply chain from the point of origin to their final destination. These arrangements include policies, procedures, systems and technology. They are intended to protect goods from a range of threats including, but not limited to, terrorism, cargo theft, substitution, contraband, smuggling, hijacking and damage.
- Trade compliance: The adherence to all government regulatory requirements associated with the movement of goods along the international supply chain.
-

Following further consultation, the position taken by the Portfolio is that the Programme will focus on supply chain security; however trade compliance will be a pre-requisite of participation in the Programme – consistent with the stakeholder views expressed at the August IAG. Over and above trade compliance, the aforementioned SAFE Framework will be the minimum standard required to participate in the Programme. To that end, it was determined that the Portfolio will develop and maintain high level guidance and, when necessary, specific detailed guidance to assist industry to meet such standards. Further, it was determined that Programme requirements will be flexible and have regard to different business activities and models.

- Membership

Consultation was also sought in regards to the type of entities participation in the Programme would be open to. The issue was addressed at the October IAG. Large corporations supported the Programme being open to traders only. However, there was broader industry support at the meeting for opening membership in the Programme to all supply chain entities. Taking this feedback into consideration, the Portfolio determined that all supply chain entities will be allowed to participate in the Programme and it was communicated that this option is preferable due the ability (or not) of SMEs to participate. Applicants will have the option of applying either for all components of their supply chain or for their particular business only.

- Tiered Approach

Once it was determined that the Programme would be open to all supply chain participants, thought had to be given to the best way to support the range of operating models and differing business needs of a wide range of entities participating in the Programme.This issue was addressed in the October IAG meeting. Feedback from industry determined that a tiered based system would be appropriate. It was also largely agreed at the October IAG that a tiered approach would assist SMEs to gain entry into the Programme. However, some challenges to this approach were also highlighted during industry consultation. In particular, the possibility a service provider is certified at a lower tier than a trader, and overall increased complexity. Despite some reservations, the preferred tiered model was a three-tiered one, capable of the most efficient enabling of the widest variety of business models.

Following the October IAG, the Portfolio recognised the flexibility a tiered approach would allow. A three tier model provides for an entry level where self-assessments are prepared by potential Programme participants. At the entry level, participants will have a point of contact in the Portfolio to assist with the self-assessment; however the applicant will not be an accredited Trusted Trader or have access to any trade facilitating benefits until accreditation is complete. Only when accreditation is complete and the entity is deemed to meet the SAFE Framework will they move to tier two and become Trusted Traders with attached benefits. Tier three is reserved for those participants who exceed minimum supply chain security standards and trade compliance by demonstrating best practice.

The Portfolio is currently investigating and consulting on how the tier rating of an entity will operate in relation to the entities different business activities and supply chains.

- Accreditation

While the three tier model has broad industry support, the process of accreditation presents other challenges. Once applicant entities complete their self-assessment, their supply chain security standards must be validated as meeting the SAFE Framework by the Portfolio. Feedback from industry at the IAG supported a time limit for improvement to supply chain security standards where a problem is identified during validation, but for there to be a degree of flexibility to reflect differing business models. Importantly, the flexibility requested by industry to meet security requirements relevant to their business activities is precisely the adaptability of the SAFE Framework of Standards that the Portfolio intends to make a defining principle of the Programme. Industry feedback on the accreditation process also supported the need for revalidation when a major event, such as an ownership change, has occurred within the company.

Following industry feedback, the Portfolio supports the establishment of a time limit to undertake any improvement action identified during the accreditation process – but flexibility in setting the time limit will remain the prerogative of the Portfolio in discussions with the applicant and regards to the complexity of the change required. Revalidation will be required every three to five years depending on the Portfolio's assessment of risk – or immediately following a major change within or to the entities business structure.

- Benefits

Due to the fact that all AEO/Trusted Trader Programmes are voluntary, industry participation in the Programme is fundamental to its success and sustainability. To that end, industry feedback concerning potential benefits awarded to programme participants was of particular importance. In the October meeting, the IAG considered the following potential participation benefits in order of importance:

  - Duty deferral
  - Streamlined reporting
  - Reduced examinations
  - A reduction in duplication between border agencies
  - Client Service Manager
  - Recognition in FTAs
  - Priority Trade Service

- o Expedited cargo clearance and facilitation

As a result, the aforementioned Option 2(A) supports a programme that takes into account *all* of the benefits listed above – and the pursuit of Mutual Recognition Agreements with overseas customs administrations. The inclusion of all benefits encourages the greatest level of participation in the programme, which in turn will have the greatest impact on Australia's economic competitiveness and trade performance.

- Legislation

In the November IAG, members noted that the main parameters and the head of power should be defined in the Customs Act. Consistent with that approach, the legislative framework for Option 2(A) or 2(B) will involve a head of power in the Customs Act. This will provide stability and transparency about the Programme. In addition, a subsidiary legislative instrument will provide further details about the implementation process and other aspects of the Programme. As a result, the Programme will be protected in the legislation but allow reasonable flexibility the change the rules as necessary.

Risks to best option

There are some legitimate qualifications and risks to the preferred Trusted Trader Programme. The clearest risk is that the Portfolio will be unable to deliver the full range of trade facilitation measures such as duty deferral. There is also a risk that timeframes for implementation could be adversely impacted and, as a result, delivery of the Programme and enthusiasm for it in the private sector may suffer.

Should time frames and benefits remain, delivery and enthusiasm for the Programme may go beyond Portfolio expectations. If participation is greater than projected participation, resources to support the Programme may not be able to manage the number of entities seeking accreditation. As a result, there will be higher costs to government to operate and manage the Programme in the developing years. In particular, FTE requirements are driven by participation rates and therefore are highly sensitive to changes in participation in the Programme.

Governance framework used to determine best option

Stakeholder feedback has not only been strategically sought but methodically assessed and considered. As a result, the best Trusted Trader Programme's (Option 2(A)) development and implementation is supported by a robust project governance framework.

In addition to the aforementioned Industry Advisory Group, the Trusted Trader team is supported in the design process by an Internal Working Group of subject matter experts from relevant divisions in the Portfolio. The Internal Working Group contributes to co-designing key elements of the Programme, including assessing the operational impact of the proposed design features and implementation strategies of the Programme.

The Trusted Trader team is supported in the decision making process by a Steering Committee and Design Authority Group. The Steering Committee provides cross-agency guidance, strategic direction and assurance. It consists of First Assistant Secretarys (SES Band 2) from Portfolio divisions that are most impacted and involved with the work to progress the Trusted Trader Programme. The Steering Committee also has standing members from other relevant government agencies.

The Design Authority Group is a sub-committee of the Steering Committee and is made up of the Assistant Secretarys (SES Band 1) from relevant Portfolio branches. It provides guidance, direction and support to ensure the work undertaken meets the Portfolio' objectives.

Key decisions are deferred to the Steering Committee or the Design Authority Group, following input from the Industry Advisory Group and Internal Working Group.

How the governance framework incorporates the consultation process and the approvals process

The governance framework encourages consultation and co-design with a range of stakeholders and ensures that the feedback provided is considered in the decision making process.

Firstly, Discussion Papers are developed by the Trusted Trader team, which relate to the pre-determined Industry Advisory Group agendas. These papers contain a number of policy options and questions to facilitate consultation with the Industry Advisory Group.

Draft versions of the Discussion Papers are presented to the Steering Committee, Design Authority Group and Internal Working Group for discussion and endorsement. They are accompanied with executive summaries that outline the main points of each paper. Following the meetings, any necessary amendments are incorporated into the papers. The endorsed Discussion Papers are then circulated to industry prior to the Industry Advisory Group meetings.

Discussion Papers are discussed at the Industry Advisory Group meetings. Due to the level of interest from industry, Industry Advisory Group meetings are held in 'rounds', where each round includes a meeting in both Sydney and Melbourne. The aim of the meetings is to gather industry feedback and information on the topics. From each round, feedback from both meetings is collated.

Following the Industry Advisory Group meetings, a proposed Portfolio position on each topic is developed. It takes into consideration the feedback from the Industry Advisory Group members and other consultations. The proposed position paper is subject to review and endorsement within the Portfolio before being presented to industry.

The development of the proposed Portfolio position on a topic may highlight a number of issues/ dependencies/risks that require further investigation and development for the implementation of the Programme. The governance structure allows for those reviews to be targeted, according to the issues raised. For example, issues that are operational in nature are discussed with/approved by the Internal Working Group. Issues that are more strategic in nature, or require agreement at the Assistant Secretary level, are presented to the Design Authority Group for consultation/approval. Positions that are cross-agency or whole-of-service focussed are endorsed by the Steering Committee. The proposed Portfolio position, which has been endorsed, is then tabled at the next round of Industry Advisory Group meetings.

The interaction between the consultation process and the approvals process is highlighted in the diagram below.

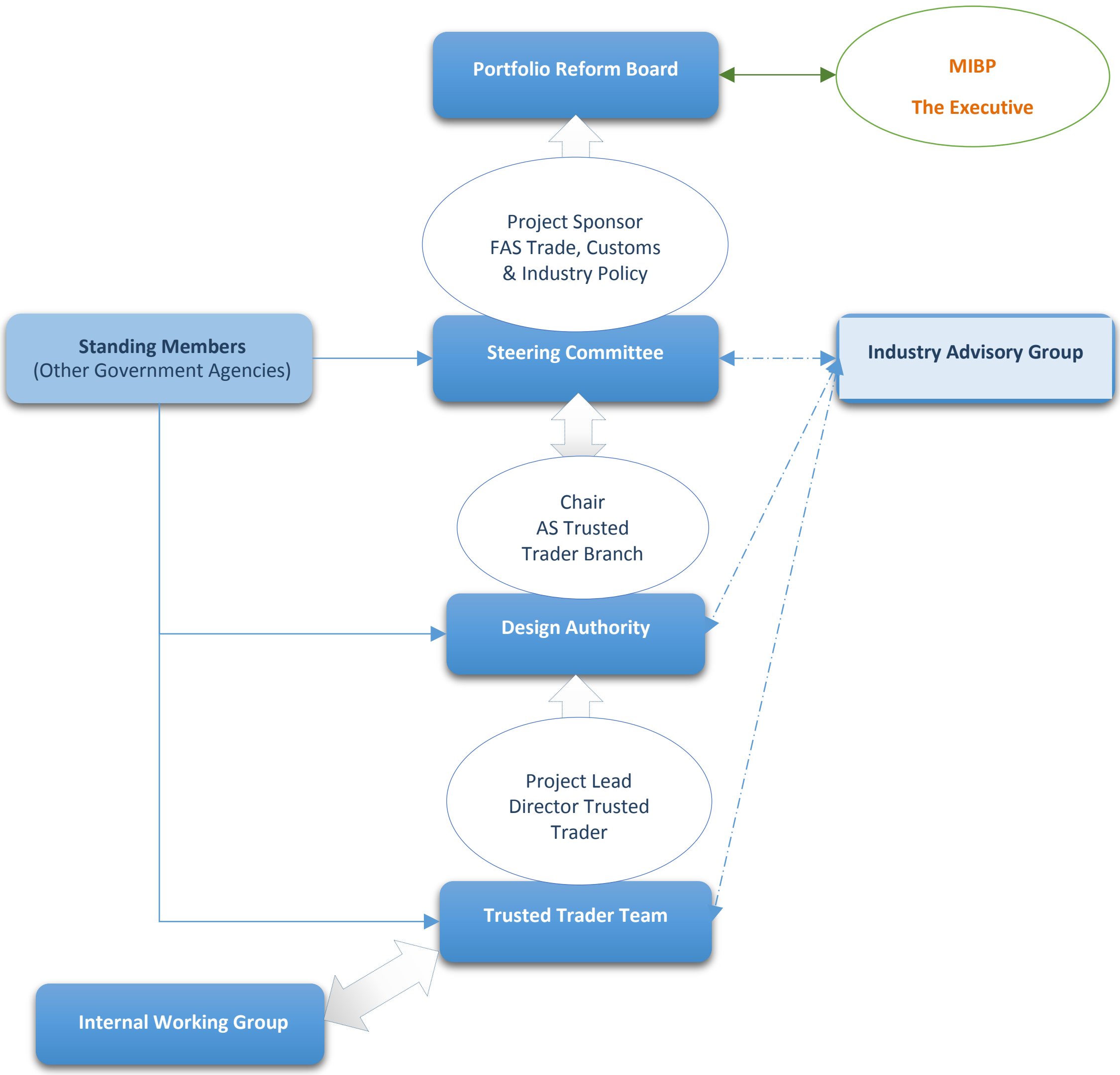

Figure 10: Project governance and approvals framework

<u>Future state</u>

Following the implementation of the first phase in July 2015, ongoing design and development decisions on subsequent phases will be deferred to the Steering Committee. Consultation will continue to occur with the Industry Advisory Group. The Industry Advisory Group will continue to operate in conjunction with the ongoing phased implementation of the Programme.

8. IMPLEMENTATION AND EVALUATION

The phased implementation of the Trusted Trader Programme preferred Option 2(A) is inextricably linked to the Portfolio Programme evaluation strategy. It is intended that full implementation of the Programme will only occur after the successful evaluation of each implementation phase. The detailed design of the Programme commenced in 2014/15 (phase 1). The first iteration of the Programme (phase 2(a)) will commence on 1 July 2015 as a Trusted Trader Pilot Programme (the Pilot). Following successful completion and evaluation of the Pilot, Phase 2(b) of the Programme will begin. Successful completion and evaluation of Phase 2(b) will then lead to full implementation of the Programme in Phase 3.

Both the implementation and evaluation of each Programme stage will be supported by a robust project governance framework (as illustrated above by Figure 10). The Trusted Trader project team will be supported by an Internal

Working Group of relevant subject matter experts, and an Industry Advisory Group made up of interested members of the trading community and other advocacy groups. Key decisions of implementation and evaluation will be deferred to the Design Authority Group or Steering Committee following input from the Industry Advisory Group and Internal Working Group. Ultimate decisions on when to progress the Programme from one phase to the next will be informed by this process, and ultimately made by the Steering Committee.

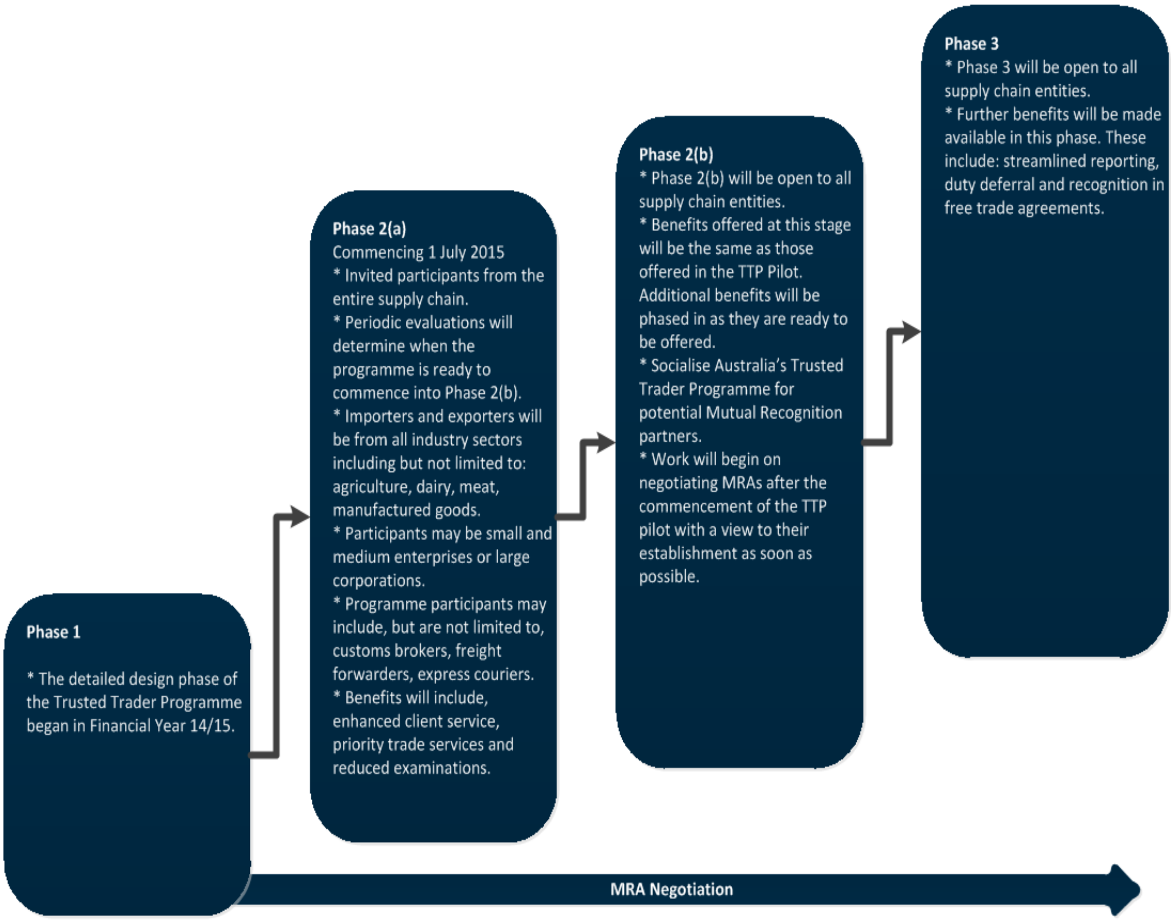

Figure 11: Phased implementation approach of the Programme.

Trusted Trader Pilot Programme 1 July 2015 (phase 2(a))

The Pilot participant companies will be able to test the design, processes and structure of the Programme before it is opened to all supply chain entities in phase 2(b). The Pilot participants will be asked to provide feedback on the accreditation process, including the documentary requirements, the potential benefits and any additional aspects of the programme that may need evaluation or re-assessment by the Portfolio.

The Pilot participants will likely have expressed a high interest in the Trusted Trader Programme and will have impeccable business reputations and sound trade compliance records. As a result, the Pilot participants may be able to transition into the Trusted Trader Programme with minimal alteration to their business processes, including systems and security requirements.

Limiting the numbers of participants in the Pilot will allow a smooth transition for business that can be well supported by Portfolio staff and allow for monitoring and review of the revised government intervention strategies, client management role, and other benefits. It will allow flexibility for refinement and help establish the credibility of the Trusted Trader Programme.

The selection of participants will be undertaken in consultation with the Department of Agriculture, the Australian Taxation Office and the Department of Infrastructure and Regional Development (Office of Transport Security). Wherever possible, the Trusted Trader Programme will leverage off other supply chain accreditation programmes in those agencies to maximise the benefits to participants, avoid regulatory duplication, and keep cost to Pilot participants of accreditation down to the maximum extent possible.

The structure of the Pilot will be dependent on the legislative amendments to support it. If there is a legislative framework in place to support the Pilot in July 2015, it will see a small number of participants invited to apply to join the Programme. If the legislative amendments are not passed by July 2015, the Pilot will instead be a “readiness assessment” with participants asked to become development partners of the Programme however they will not be accredited participants. When the proposed legislative amendments are passed, accreditation for the development partner may be completed in a reduced timeframe.

Evaluating the Trusted Trader Pilot Programme (phase 2(a))

The Pilot will be evaluated on a periodic basis every three months to determine whether it is meeting key Programme criteria and is ready to be opened up to the wider trading community. A number of factors will determine the readiness of the Programme for greater participation. The Trusted Trader governance framework will consider the following success indicators to determine the Pilot’s success (or otherwise) before moving to Phase 2(b) of the Programme:

- Developed and implemented communication strategy to cover all preliminary Programme advice and guidance;
- Cooperative engagement with Pilot participants to refine and mature the Programme self-assessment application;
- Clearly defined ‘trade compliance’ pre-requisite conditions for Programme entry;
- The Programme validation process has been successfully tested against a diverse range of industry sectors;
- The Programme validation process has been successfully tested against import and export supply chains, and service providers’ operation and business models;
- The Programme validation process has been successfully tested against both sea and air cargo supply chains;
- The impact of enhanced client service, priority trade service, and reduced examinations on both Pilot participants and the Portfolio has been successfully measured;
- The Portfolio is confident the outcomes of the Programme application and validation process meet or exceed minimum supply chain security, SAFE Framework standards;
- The Portfolio is confident Programme systems, processes, and outcomes will attract overseas Mutual Recognition.
- The Portfolio is confident sufficient internal systems, resourcing, and expertise exist to deal with a large increase in Programme participation.

It is expected that along with the Trusted Trader team, the Internal Working Group will raise any issues, problems or concerns that may eventuate as the Pilot is established. A streamlining of processes will undoubtedly occur at an operational level, whereas the strategic oversight of the Pilot remains with the Design Authority Group and Steering Committee to pre-empt or deal with any significant internal or industry concerns that may arise.

In addition, the success of the Pilot will be gauged through a pre-entry survey which all prospective Pilot participants would complete. This survey would provide the Portfolio with a qualitative baseline with which to measure Pilot performance and industry expectations against on a periodic basis. Only when the Pilot (phase 2(a)) is deemed to satisfy both Portfolio and Pilot participants to a satisfactory level will the Programme advance to Phase 2(b).

Evaluating Phase 2(b) of the Trusted Trader Programme

Once the Programme is deemed ready, Phase 2(b) will begin and be open to all supply chain entities. Trade facilitation measures offered in Phase 2(b) will be the same as those offered in the Pilot. Therefore, Phase 2(b) will be a period of consolidation for the Programme and the systems and processes that enable it. This is especially important given the large increase in participants expected in Phase 3 as more meaningful benefits are introduced (see below). Additional trade facilitation measures will be phased in as they are ready to be offered. These measures may include, but are not limited to initial models of streamlined reporting.

As a result, many of the same success indicators that applied to the evaluation of the Pilot will remain relevant to the evaluation of Phase 2(b) of the Programme. However, the measure and sustainability of their success will be on a much larger scale. All systems, processes, and expertise will be tested against a far greater number of participants and industry sectors with infinitely more diverse supply chains and business models.

In addition to the success indicators advocated above, the following considerations will also apply to the evaluation of Phase 2(b) of the Programme:

- Continuing cooperative stakeholder engagement. For example, to develop a Trusted Trader logo that participant entities in the Programme may use to brand and market themselves to their markets upon reaching Tier 2 of the Programme;
- Targeted Mutual Recognition discussions/negotiations are underway with key trading partners;
- Detailed policy design regarding duty deferral, and streamlined reporting, is established;
- Detailed policy design regarding Information Computer Technology connected systems and processes, is established;
- There is readiness of further supporting legislative amendments, business processes, and information technology that Phase 2 of the Programme may require;
- There is a qualitative increase in supply chain security standards across participants; and
- There is a decrease in regulatory burden and trade compliance costs to Programme participants.

The Programme governance framework will support and enable the policy discussions needed to facilitate the readiness of the Programme to move to Phase 3. Only when the above is complete is the Programme Phase 3 ready.

Evaluating Phase 3 of the Trusted Trader Programme

Phase 3 will remain open to all supply chain entities. It is expected that during this stage, membership in the Programme will expand quickly. Phase 3 will also align with the provision of further trade facilitation measures. These measures will include more complex models of streamlined reporting and duty deferral. Such measures will be introduced in Phase 3 of the programme because they require negotiation and clarification with other Government policy agencies – successful completion of which is required in Phase 2(b). It is also expected that Phase 3 of the Programme will see Mutual Recognition negotiations become more intensive. Additional success indicators for Phase 3 of the Programme include the following:

- Successful implementation of all trade facilitation benefits including duty deferral and streamlined reporting;
- Continued Mutual Recognition negotiation with key trading partners;
- The completion of the first Mutual Recognition Agreement;
- Continued and further decreases in compliance costs to Programme participants;
- Successful use of Trusted Trader status and brand in Programme participant's international commerce.
- The beginning of policy development for new and enhanced benefits for Programme participants.

Whole of Programme review

While many evaluation points of Programme success will be specific to each Phase of the Programme, at every Phase a number of holistic whole of Programme success indicators will also need to be addressed.

Following the implementation of the Pilot and each subsequent phase of the Programme, a Post Implementation Review will be undertaken. The Post Implementation Review will provide an evaluation of the success of the Programme against identified performance measures. It will also address a number of core questions from a whole-of-Programme perspective, such as:

- Is the programme appropriate to support Government priorities, organisation objectives and needs of industry?
- Do traders know about the programme?
- Are the participation rates of the programme being realised?
- Is it being delivered efficiently and effectively?
- Are benefits to traders being realised?
- Are the objectives of the programme being realised?

The Post Implementation Review will determine whether the Programme continues to perform a useful purpose from a trade facilitation, and supply chain security perspective, and achieve its stated objectives. The Steering Committee will review the results of the Post Implementation Review and determine the appropriate action. Action may include amending the implementation plan, proceeding in accordance with the implementation plan or remaining in a Phase longer than anticipated to ensure processes are working correctly. It will also provide an opportunity to evaluate the Programme's stated objective of leveraging other Government departments supply chain security efforts to ensure a whole-of-government is being maintained.

The same principles of implementation and evaluation remain for Option 2(B), but will occur over a seven year time frame.

ATTACHMENT A – OVERVIEW OF INTERNATIONAL AUTHORISED ECONOMIC OPERATOR PROGRAMMES

Table 1 Summary of Authorised Economic Operation programmes implemented by Canada, China, Japan, New Zealand and the United States[56]

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Country	Programme Title	Scope	Overview	Key features	Benefits
Canada	Partners in Protection (PIP)[57]	Import and export Importers Exporters Carriers Customs brokers Couriers Warehouse operators Freight forwarders Shipping agents	PIP is a voluntary program established by the Canada Border Services Agency (CBSA) to encourage industry, in all authorized lines of business, to assist the CBSA in its efforts to enhance border security, combat organized crime and terrorism, detect and prevent contraband smuggling, and increase awareness of issues to secure the flow of legitimate goods across the border. PIP allows for flexibility and customization of security measures, within certain established minimum security requirements, based on the applicant/member's business size, number of employees, location, and	Applicants to the PIP program complete and submit a Security Profile in which they provide detailed information on how they meet the program's minimum security criteria including: physical security and access controls; procedural security, conveyance, cargo and equipment (container, trailer and rail car) security, data and document security, personnel security, security training and awareness; and business partner security. The Security Profile is reviewed, concerns identified, and a thorough risk assessment performed. An onsite validation of the company is	Participants in the PIP program can obtain the following benefits: • lower rate of physical examinations; • assignment of a single point of contact for customs issues; • dedicated access lanes at certain ports of entry for eligible highway carriers; • program communication and stakeholder consultation; • recognition by

[56] World Customs Organisation, 2014 Edition, Compendium of Authorized Economic Operator Programmes, Compliance and Facilitation Directorate, Link to e-publication , accessed 28 August 2014

[57] In addition to the PIP program, the CBSA have established the Customs Self-Assessment (CSA) program which is designed for low-risk, pre-approved importers, carriers and registered drivers. To take advantage of the program, CSA-approved importers and carriers must use a registered driver to carry CSA-eligible goods into Canada in the highway mode. The CSA program simplifies many of the import border requirements so that low-risk shipments can be processed more quickly and efficiently at the border, saving businesses time and money. It also allows the CBSA to better focus its resources on identifying high-risk shipments that pose a potential threat to the health, safety or economic well-being of Canadians.("Customs Self-Assessment Program", Link to e-publication , accessed 29 August 2014)

Country	Programme Title	Scope	Overview	Key features	Benefits
			business activities carried out at particular locations. The PIP program is a distinct CBSA Trusted Trader program, but is related to and shares application/membership information with other Trusted Trader programs (for example, Customs Self-Assessment (CSA) and Free and Secure Trade (FAST)).	performed to confirm the program requirements are met. The company is invited to sign a Memorandum of Understanding in which they commit to maintaining PIPs minimum security criteria and exchanging information. PIP members are revalidated at least every four years, in which an update security profile, risk assessment, and site validation are performed.	international customs administrations via MRAs.
China	Classified Management of Enterprises	Import and export Importers Exporters Customs brokers	China classifies its exporters, importers and Customs brokers into 5 categories in its normal course of business; AA, A, B, C and D. AA and A classification enterprises are provided with trade facilitation benefits; B classification enterprises receive routine treatment and C and D classification enterprises are subject to stringent regulatory measures. Entities in the AA class are China's Authorised Economic Operators (AEOs). Entities move and down tiers as a result of their compliance and security measures. To receive an AA classification, entities must satisfy trade compliance and security requirements, as well as certain financial solvency and business management requirements (such as	General requirements ofimporters, exporters, manufacturers, customs brokers to participate in the program are: 1. Being a class A operator for more than one year; 2 To have a lower than 3% error rate of import and export declarations in the previous year; 3. Customs verification audit should show that the requirements in terms of customs management, the enterprise's operations and management and trade security have been met; 4. To submit the Assessment Report on Business Operations and Management Status and the Audit Report for the previous year prepared by an accounting firm on an annual basis; 5. Submit the business form of import	Importers, exporters and manufacturers participating in the program can obtain the following benefits: • Establishing trust; • Assigning special officers to help companies to coordinate and resolve Customs issues; • Application of the lower examination rates to the export and import cargoes; • Submitting declarations at the place of registration; • Inspection and clearance procedures at ports;

Country	Programme Title	Scope	Overview	Key features	Benefits
			adherence to anti-corruption laws).	and export/business form of agent declaration every six months. [6. For Customs brokers only: to lodge more than 20,000 (5,000 for central and western areas of China) import and export declaration forms or entry and exit records as an agent in the previous year]. The accreditation includes the following: 1. Self-assessment; 2. Submitting application; 3. Information verification both internally and externally; 4. Validation audit (on site visit); 5. Approval by the Central Customs; 6. Issuing a Certificate; 7. Periodical checking of the documents and post validation audit based on risk assessment.	• Inspection and clearance formalities at the business site; • Assigning a special team to carry out on-site checks; • Priority to handling urgent Customs clearance formalities out of working hours and during holidays; • Priority in handling trade formalities, such as entering records, modifying and reporting for verification purposes; • Priority in handling declaration registration formalities. Customs brokers and forwarders participating in the program can obtain the following benefits: • Customs will designate coordinators to help companies resolve difficult customs issues; • Customs will organise professional declaration training and job

Country	Programme Title	Scope	Overview	Key features	Benefits
					assessments for declaration agents subject to application of declaration agency; • Priority to performing declaration, inspection and clearance formalities; • Priority to handling processing trade formalities such as entering records modifying and reporting for verification purposes; • Priority to handling urgent customs clearance formalities out of working hours and during holidays; • Priority to handling permit extension formalities of declaration registration to declaration agencies and their subsidiaries; • Priority to organising professional declaration training and job assessments for declaration agents.

Country	Programme Title	Scope	Overview	Key features	Benefits
Japan	AEO	Imports and Exports Importers Exporters Warehouse operators Customs brokers Logistic operators (carreirs, forwarders, shipping companies, airlines) Manufacturers	The program is aimed at ensuring security while facilitating legitimate trade. The programme is consistent with the WCO SAFE Framework.	General requirements to participate in the program include: 1. Compliance record; 2.Proper ability to conduct operations; 3. Compliance programme. Accreditation requirements for the program include: 1. Prior consultation (voluntary); 2. Self-assessment; 3. Examination of documents, on-site audit => AEO status; 4. Post-authorisation audit. If there is a problem –"Administrative order for improvement". If no change – the status is revoked.	Participants in the program can obtain the following benefits: • Compliance-reflected examination and inspection; • Pre-arrival lodgement of import declaration and permission; • Release of cargo before duty/tax payment declaration and duty/tax payment; • Periodical lodgement of duty/tax payment declaration; • Waive the requirement to place export goods into the Customs area; • Establishment of a new Customs warehouse only by notification to Customs; • Compliance-reflected reduced audit for warehouse operators; • No monthly fee for customs warehouses; • Simplification of Customs transit procedure; • Option of Customs

Country	Programme Title	Scope	Overview	Key features	Benefits
					offices for declarations for Customs.
New Zealand	Secure Exports Scheme	Export Exporters – operates from pack to port of loading. Exporters are also responsible for their thrid party operators and logistics includes transporters and brokers.	The SES is designed to give New Zealand exporters greater certainty at international borders by minimising Customs delays and by giving exporters priority in trade recovery situations. The scheme is a voluntary agreement between Customs and exporters. It is open to all regardless of the goods exported and the methods to export. The purpose of the scheme is to protect exported goods from being tampered with, sabotaged, smuggled, or subjected to other trans-national crimes.[58]	SES partners must maintain an agreed level of security and data integrity in their day to day operations. This includes a commitment to have measures in place to protect goods from the moment they are packed in the container to their delivery at the point of export. This commitment ensures packed containers are secured with a Customs-approved seal or marking. This signals that it is under Customs control and can be considered secure by overseas customs administrations. To become an SES member, exporters must supply Customs with a security plan which is physically validated by NZ Customs. A security plan documents the policies, processes and procedures that a company has in place to ensure that goods for export are securely packed,	The following benefits to the SES scheme participants are offered: • Approved secure supply chain from point of pack to port of loading. • Predictability of the supply chain because of less government intervention; this means minimal disruption and fewer compliance costs. • Discounted Customs transaction fees. • Enhanced supply chain security means minimised trade disruption.

[58] Secure Exports Scheme, Link to e-publication , accessed on 29 August 2014

Country	Programme Title	Scope	Overview	Key features	Benefits
				accurately accounted for and securely transported to the point of export from New Zealand. Potential SES members must also supply a process map illustrating the flow of goods and documentation/information from receipt of order to the point of export, a site plan, and a security plan prepared in conjunction with their transport operator. [59]	
United States	Customs-Trade Partnership against Terrorism (C-TPAT)	Import Whole supply chain Excludes warehouse operators Includes ports and foreign manufacturers	C-TPAT seeks to safeguard the world's vibrant trade industry from terrorists, maintaining the economic health of the US and its neighbors. The partnership develops and adopts measures that add security but do not have a chilling effect on trade, a difficult balancing act. [60]	When they join the anti-terror partnership, companies sign an agreement to work with the US Customs and Border Protection (CBP) to protect the supply chain, identify security gaps, and implement specific security measures and best practices. Partners provide CBP with a security profile outlining the specific security measures the company has in place. Applicants must address a broad range of security topics and present security profiles that list action plans to align security throughout their supply chain. C-TPAT members are considered low-	The following benefits to the C-TPAT participants are offered: • Reduced Examination Rates for C-TPAT Importers • Access to the Free and Secure Trade (FAST) Lanes • Stratified Exam Benefit for Importer Partners • Front of the Line Processing • Business Resumption • Expedited Trade Processing • Access to a Supply

[59] Secure Exports Scheme, Link to e-publication , accessed on 29 August 2014
[60] "C-TPAT: Customs-Trade Partnership Against Terrorism", Link to e-publication , accessed 29 August 2014

Country	Programme Title	Scope	Overview	Key features	Benefits
				risk and are therefore less likely to be examined. This designation is based on a company's past compliance history, security profile, and the validation of a sample international supply chain.[61]	Chain Security Specialist (SCSS) • Access to the C-TPAT Portal System • Eligibility to Attend C-TPAT's Annual Conference • Eligibility to Participate in the Importer Self-Assessment (ISA) Program • Penalty Mitigation • Eligibility to Other Programs • Mutual Recognition

[61] "C-TPAT: Customs-Trade Partnership Against Terrorism", Link to e-publication , accessed 29 August 2014

ATTACHMENT B –ALIGNMENT WITH INTERNATIONAL STANDARDS

	Self Assessment	**Validation**	**Ongoing self-management**	**Ongoing management**
SAFE Framework	The trusted trader will "establish a self-assessment process to manage and monitor performance."[62] While this requires a trusted trader to establish internal self-assessment processes, it does not stipulate whether the Customs administration should impose a self-assessment as a part of the accreditation process.	The conditions and requirements of the programme "must be fulfilled within prescribed time limits determined by the authorizing Customs administration. The time periods may vary according to the particular role being played by the applicant and other specifications that will be determined by the complexity and nature of the trade being undertaken."[63]	The trusted trader may, "in conformance with the criteria set out in the" programme, "be requested by the Customs administration to complete periodic reports capturing the information" in accordance with identified supply chain security and trade compliance standards.[64] There is no standard period under the WCO SAFE Framework for revalidation.	"The monitoring process may consist of audits based on risk or cause and, where appropriate, random spot checks by Customs."[65]
Australia - proposed Option 2(A)	Includes a self assessment	Timeframe determined by the role of the Trusted Trader and nature of the trade being undertaken.	Annual certification by a Trusted Trader that they continue to meet the standards established by the Programme. Requirement to notify of relevant changes to their business operations.	Voluntary disclosure of any supply chain security or trade compliance incidents or irregularities.

[62] World Customs Organization, *SAFE Framework of Standards to secure and facilitate global trade.* June 2012. p III/15.
[63] Ibid, p III/16.
[64] World Customs Organization, *SAFE Framework of Standards to secure and facilitate global trade.* June 2012. p III/17.
[65] Ibid, III/17.

	Self Assessment	Validation	Ongoing self-management	Ongoing management
			Revalidation after specified period or following the identification of an incident or irregularities.	
United States	Includes a self-assessment security plan and company profile.	Improvement action required within 90 days.	Self-policing and submission of annual self-assessment.	Validation within 1 year of certification and revalidation within 4 years of initial validation.
China	Includes self-assessment.	No timeframe specified in open sources.	Assessment report on operations prepared by an accounting firm annually. Submit import and export business form every six months.	Post validation-audit based on risk assessment.
European Union	Includes self-assessment.	No timeframe specified, up to member country's discretion.	Regular monitoring is the primary responsibility of the trusted trader.	Ongoing reassessment (no time limit specified, conditions-based) – recommended at least once every 3 years.
Japan	Includes self-assessment.	No time frame specified in open sources	Internal self-audit once per year.	Japan Customs reserves the right to validate the self-audit as and when required.
New Zealand	Self-assessment security plan on application.	No timeframe specified in open sources.	Self-policing.	Security audits performed at agreed times.

	Self Assessment	Validation	Ongoing self-management	Ongoing management
South Korea	Includes a self-assessment.	No timeframe specified in open sources.	Ongoing annual self-assessment.	Period of validity depends on AEO status.

ATTACHMENT C – ECOMONIC WIDE IMPACT

The wider economic impact of the policy options is set out below.

Change in	Real household consumption	Real investment	Real Government consumption	Export volumes	Import volumes	Net exports	Real GDP
Option 2(A) Economic wide impacts ($ million)	406.3	133	-59.6	32.2	248.3	-216.1	277.5
Option 2(A) % deviation from baseline ##	0.05	0.03	-0.02	0.01	0.07	N/A	0.02
Option 2(B) Economic wide impacts ($million)	309.5	99.2	-55.8	26.6	181.6	-155	208.3
Option 2(B) % deviation from baseline ##	0.04	0.02	-0.02	0.01	0.05	N/A	0.01
Option 3 Economic wide impacts ($ million)	89.4	28.7	-15.7	7.6	52.7	-45.1	60.3
Option 3 % deviation from baseline ##	0.01	0.01	-0.01	0.0	0.02	N/A	0.0

% deviation from baseline in 2013/14 prices.

ATTACHMENT D – BENEFITS OF OPTION 2(A) AND 2(B)

Measureable benefit	Mechanism
Increased productivity for Trusted Traders	**Enhanced client service** will lead to increased productivity for all supply chain entities accredited as a Trusted Trader. This will be achieved through the provision of a dedicated Client Service Manager for each Trusted Trader who will be their single point of contact and aid in issue resolution and provision (or acquisition) of timely and accurate policy advice. **MRAs** would increase the productivity of accredited importers and exporters as they would receive reciprocal trade facilitation benefits when exporting goods to a mutual recognition partner country. This would streamline the clearance process when goods arrive in an overseas jurisdiction covered in an MRA. For example, New Zealand's trusted exporters are three times less likely to have their goods examined than non-trusted exporters when exporting to the United States. **Priority trade services** will increase the productivity of accredited importers, exporters and other persons acting on behalf of importers and exporters as they will be the beneficiary of an increased service standard/top-of-pile processing for trade service requests (for example, advance rulings, reviews of tariff advices given by the Portfolio and the processing of applications for a drawback of duty). Faster processing of trade services would provide increased certainty for Trusted Traders of the correct customs treatment of goods (for example, the tariff classification or valuation of goods) and the amount of duty/indirect tax payable. **Recognition in Free Trade Agreements** is expected to increase the productivity of accredited exporters who export goods that meet rules of origin under Free Trade Agreements where streamlined procedures have been negotiated (for example, eliminating the need for a certificate of origin). An increase in productivity would be expected if a Trusted Trader (exporter) is no longer required to obtain a certificate of origin to provide prima facie evidence that the goods meet the rules of origin for preferential treatment to apply under a Free Trade Agreement. This would have a time saving for Trusted Traders (exporters) as they are no longer required to provide documentary evidence to the issuing authority or fill out forms to obtain a certificate of origin. **Reduced examinations** would lead to increased productivity for accredited importers, exporters, customs brokers and freight forwarders through decreased incidences of having to produce documents or answer questions to verify particulars of goods shown in an import declaration or export declaration. In addition, Trusted Traders would have increased certainty over the status of release of their goods which would enable greater effectiveness in the management of their supply chain and entities contracted to facilitate the physical movement of the goods. **Streamlined reporting** will result in increased productivity for accredited importers, exporters, freight forwarders, customs brokers and depot/warehouse licence holders through providing alternate reporting obligations for Trusted Traders in relation to the reporting of cargo, movement of goods and clearance of goods.

Measureable benefit	Mechanism
Increasing proportion of trade secured in accordance with the WCO's SAFE Framework	The competitive advantages and tangible benefits provided to all Trusted Traders will promote a greater drive towards supply chain security (including the adoption of the SAFE Framework) and trade compliance best practice in the broader trade community as entities seek to share in the benefits enjoyed by Trusted Traders.
Improved cash flow for Trusted Traders	Accredited importers and exporters will have access to a range of fiscal benefits including duty deferral, accelerated applications for a drawback of duty and eliminating the need to obtain a Certificate of Origin (fees can range from $15 to $60 per certificate, payable to the authority issuing the certificate), all of which will improve their cash flow. A reduction in examinations may lead to a reduction in costs of delay which may be incurred as a result of examination of goods by the Portfolio. Streamlined reporting arrangements would also increase the cash flow for Trusted Traders (importers) due to a decrease in storage costs and cost of demurrage and container dwell times due to certainty of availability.
Modernising our Intervention Strategy	The Programme will enable the Portfolio to revolutionise its intervention strategy, allowing the identification of low risk entities (as opposed to transactions), across the supply chain. MRAs will be critical to this allowing the Portfolio to also identify low risk overseas-based entities who export to Australia. Reduced examinations and streamlined reporting for Trusted Traders will enable the Portfolio to focus its resources on high risk entities.
Increasing levels of compliance by Australia's traders	The competitive advantages and tangible benefits provided to Trusted Traders will provide incentive for trade compliance (e.g. accurately reporting the value of their imports and exports) within the Australian trading community.
Increased supply chain certainty for Trusted Traders	The benefits offered to Trusted Traders will provide them with greater supply chain certainty, particularly around the status and treatment of their goods both in Australia (through streamlined reporting and reduced interventions) and overseas (through MRAs) and in relation to priority trade services. **Priority trade services** will increase the supply chain certainty of accredited importers as they will have increased confidence over the correct treatment of goods for Portfolio purposes. This would enable Trusted Traders to more effectively plan their trade transactions for imported goods. **MRAs** will boost supply chain certainty for Trusted Traders (exporters) in the international trading system as they will have greater confidence over the clearance of their goods in overseas jurisdictions which the Portfolio has established an MRA with. Faster clearance will better enable these exporters to meet just-in-time supply chain logistics requirements. **Reduced examinations** would increase supply chain certainty for accredited importers, exporters and other service providers as they would have greater confidence over the status of their goods, along with increased certainty over requirements around presentation of documents to the Portfolio for examination. **Streamlined reporting** will provide greater supply chain

Measureable benefit	Mechanism
	certainty to accredited importers, exporters and other service providers over the clearance status of their trade transactions. Traders who are certain about the availability of their goods upon importation are able to plan accordingly and therefore improve their time to market. This will enable them to meet more stringent supply chain logistics requirements making them more competitive domestically and internationally.

ATTACHMENT E – INDUSTRY NET IMPACTS (COSTS AND BENEFITS)

The tables below outline the NPV of the net impacts (costs and benefits) to industry resulting from policy options 2(A), 2(B) and 3. The benefits have been aggregated into reductions in operational expenditure (which incorporates benefits associated with duty deferral and some aspects of streamlined reporting) and improvements in efficiency due to improved productivity of labour (including benefits associated with priority trade services, differentiated examinations and some components of streamlined reporting).

Policy option 2(A): Regulatory Option - Develop a Trusted Trader Programme applicable to import and export supply chains including supply chain security and compliance elements

Policy option 2(A)		2014/15 $'000	2015/16 $'000	2016/17 $'000	2017/18 $'000	2018/19 $'000	2019/20 $'000	2020/21 $'000	2021/22 $'000	2022/23 $'000	2023/24 $'000	Total $'000
Gross Benefit	**Industry**	-			2,436	4,573	42,840	42,062	41,299	40,552	39,820	213,584
	Reduction in operational expenditure	-			1,186	2,187	8,329	8,124	7,925	7,732	7,545	43,028
	Improvement in efficiency (productivity increase)	-			1,250	2,386	34,512	33,938	33,374	32,820	32,275	170,556
Gross Cost	**Industry**	-	402	4,901	9,715	10,154	8,141	4,403	4,327	4,253	4,180	50,474
Net Impact to Industry		**-**	**-402**	**-4,901**	**-7,279**	**-5,580**	**34,699**	**37,659**	**36,972**	**36,300**	**35,641**	**163,109**

Policy option 2(B): Regulatory Option - Develop a Trusted Trader Programme applicable to import and export supply chains including supply chain security and compliance elements

Policy option 2(B)		2014/15 $'000	2015/16 $'000	2016/17 $'000	2017/18 $'000	2018/19 $'000	2019/20 $'000	2020/21 $'000	2021/22 $'000	2022/23 $'000	2023/24 $'000	Total $'000
Gross Benefit	**Industry**	-			105	1,565	21,636	27,362	32,506	37,111	36,441	156,726
	Reduction in operational expenditure	-			15	372	4,206	5,284	6,237	7,076	6,905	30,097
	Improvement in efficiency (productivity increase)	-			90	1,193	17,429	22,077	26,268	30,035	29,536	126,629
Gross Cost	**Industry**	-	402	2,653	4,897	5,115	5,895	6,206	6,476	5,325	3,825	40,793
Net Impact to Industry		-	**-402**	**-2,653**	**-4,792**	**-3,549**	**15,741**	**21,156**	**26,030**	**31,786**	**32,616**	**115,932**

Policy option 3: Non-Regulatory Option – Modernising the customs approach for trusted trade

Policy option 3		2014/15 $'000	2015/16 $'000	2016/17 $'000	2017/18 $'000	2018/19 $'000	2019/20 $'000	2020/21 $'000	2021/22 $'000	2022/23 $'000	2023/24 $'000	Total $'000
Gross Benefit	**Industry**	-	9	285	3,763	5,143	5,038	4,935	4,834	4,736	4,641	33,384
	Reduction in operational expenditure	-	1	41	732	994	968	942	917	893	870	6,359
	Improvement in efficiency (productivity increase)	-	7	244	3,031	4,149	4,070	3,993	3,917	3,844	3,771	27,025
Gross Cost	**Industry**	-										
Net Impact to Industry		**-**	**9**	**285**	**3,763**	**5,143**	**5,038**	**4,935**	**4,834**	**4,736**	**4,641**	**33,384**

ATTACHMENT F – KEY ASSUMPTIONS FOR QUANTIFICATION OF BENEFITS

Key assumptions for the benefits quantified are below.

Trade Facilitation Measure	Description	Value
Priority trade services	Tiers applicable	All tiers
	Number of amendments per trader (average)	0.02
	Time saving per amendment	0.17 hours
	Cost saving per hour (labour cost)	$59.85
Differentiated examinations	Tiers applicable	Tiers 2 and 3
	Decrease in volume of documentary examinations per trader (government; average)	0.39
	Decrease in volume of documentary examinations per trader (importer; average)	0.22
	Processing time per document (government; average)	0.17 hours
	Processing time per document (industry; average)	0.08 hours
	Cost saving per hour (labour cost)	$59.85
Duty deferral NOTE: Commencing in 2017/18 for option2(A) and option 3; commencing in 2018/19 for option 2(B)	Tiers applicable	Tiers 2 and 3 (excluding importers who can access existing duty deferral arrangements)
	Length of duty deferral	36 days
	Daily cost of capital (average interbank overnight cash rate for 2013/14)	0.01%

Trade Facilitation Measure	Description	Value
Streamlined reporting[66]	Tiers applicable from 2015/16 – 2018/19 Tiers applicable from 2019/20 onwards Note: Streamlined arrangements in relation to the movement of goods available from 2016/17, streamlined arrangements in relation to the reporting and clearance of goods commence from 2017/18 for options 2(A) and 3 or 2018/19 under option 2(B).	Tier 3 Tiers 2 and 3
	Number of containers examined per trader (average)	168
	Number of futile trips per container (average)	10%
	Cost to industry of futile trip (average)	$275
	Cost to industry of storage of container (average)	$50
	Detention costs per trader per year (average)	$1,867
	Current number of import declarations per importer per month (average)	192
	Current time to complete an import declaration	0.33 hours
	Expected number of import declarations under the Programme	1
	Expected time to complete an import declaration under the Programme	7.5 hours
	Current number of cargo reports per importer per month (top 30% importers)	5,192
	Reduction in number of cargo reports (based on number of house bills that will no longer be required under the Programme)	91.4%
	Current time to complete/submit a cargo report	0.17 hours
	Annual cost saving per 1% reduction in reports (through reduction in MIPs)	$36,456

[66] The benefit anticipated from streamlined reporting meant the quantification of it occurred through three stages. Firstly, the benefit associated with cash savings (that is, a reduction in operating expenditure) was found. This was in relation to a reduction in costs associated with the movement of cargo, storage costs and detention costs. Secondly, the benefits associated with improvements in efficiency and productivity were quantified whereby due to a change in policies and processes, industry would be able to streamline their reporting processes in relation to cargo reports and import declarations. For government, the benefit quantified was the saving in ICT costs due to the expected reduction in reports/declarations being made by industry and the ICT requirements needed to handle these reports/declarations.

ATTACHMENT G – KEY ASSUMPTIONS FOR QUANTIFICATION OF COSTS

Administration costs

The effort assumptions used to estimate administration costs, their rationale and value are detailed in the table below.

Assumption	Rationale	Value
Completion of self-assessment form – Once-off cost for Tier 1 businesses	10 FTE days for officers to accredit businesses to Tier 1 – assumed to be 1.5 times the effort for businesses to prepare	15 FTE days
Site validation by the Portfolio – Once-off cost for Tier 2 and 3 businesses	30 FTE days for officers to accredit businesses to Tier 2 or 3 – assumed to be two thirds effort for businesses to prepare.	20 FTE days
Signing of agreement – Once-off cost for Tier 1 businesses	Taking into account internal legal input, review and discussions around meeting the requirements of the agreement.	4 FTE days
Maintenance of clear and accurate records of new training – Ongoing cost for Tier 2 and 3 businesses	Recording of new training directly relating to TTP participation	1 hour per year
Disclosure of a breach of terms – Ongoing cost for Tier 2 and 3 businesses	Anticipated to be a limited number of issues due to business process and accreditation checks. The majority (90%) of breaches are expected to be only minor (requiring 1 FTE day to resolve). The remainder of breaches (10%) are expected to be major (requiring 5 FTE days to resolve).	10% of participants 1 FTE day to resolve, 90 % of participants 5 FTE days to resolve

Compliance costs

Trusted Traders will be required to undertake compliance activities to participate in the Trusted Trader Programme on an ongoing basis. In complying with requirements Trusted Traders will be required to:

- participate in compliance and assurance activities undertaken by the Portfolio; and
- undergo a revalidation against the participation criteria after a specified period or following the identification of an incident or irregularities.

The effort assumptions used to estimate compliance costs, their rationale and value are detailed in the table below.

Assumption	Rationale	Value
Compliance audit and provision of records to the Portfolio upon request - Ongoing cost for Tier 2 & 3 businesses occurring every second year	0.5 days per month per client for Customs staff – 6 FTE days annually. Assumption is that 1.5 times the effort for businesses	9 FTE days
Reaccreditation - Ongoing cost for Tier 2 & 3 businesses occurring every fourth year	6 days for Customs staff to reaccredit. Assumption is that 1.5 times the effort	9 FTE days

Assumption	Rationale	Value
	for businesses	

Training

Trusted Traders will be required to provide personnel, physical security and IT/cyber security training to a proportion of their staff.

Participating businesses will incur three broad cost types in complying with this requirement:

- Developing a new training program, and embedding this in operational procedures;
- Providing training to current staff;
- Providing training to new staff over time.

As the security training requirement has yet to be fully designed, a number of uncertainties remain. These include:

- The nature of the training (in terms of level of detail and frequency);
- The number of staff that will be required to undergo the training (as the exact participants in the Programme, and their staffing profiles, are unknown).

To account for these uncertainties, the following assumptions have been made to estimate per business costs. These estimates assume all Trusted Traders will be required to meet the security training requirement. Depending on the design of the security training requirement, it may be possible that some Trusted Traders may already satisfy the requirement through their existing training practices, and thus would not incur any regulatory costs associated with the requirement.

	Assumption	Source	Value
Developing a new training program, and embedding this in operational procedures	Staff time required to develop and embed	PwC (2012) Chemical Security Regulation Impact Statement: Precursors to homemade explosives.[67]	22.5
	Hourly staff cost	OBPR (2014) Regulatory Burden Measurement Framework: Guidance Note.	$59.85
	Total cost per business (on year of joining)		$829.95
Providing training to current staff	Total number of Australians employed, June 2013	ABS (2014), Labour Force Australia, cat no 6202.0	11,476,586
	Percentage of employment accounted for by medium/large businesses	ABS (2012), Small Business: An economic overview	53%
	Total number of	ABS (2014), Counts of	54,128

[67] In 2012, COAG considered a RIS that focused on proposed measures to control chemicals that are precursors to homemade explosives. One of the proposed measures was security awareness training for staff. Drawing on consultations with industry, the Chemical Security RIS estimated that it would take a business between one and three days to develop a new training program. For the purposes of assessing industry costs associated with the Trusted Trader Programme, it has been estimated that it would take each business three days to develop and embed the new training program.

	Assumption	Source	Value
	medium/large businesses, June 2013	Australian Businesses, including entries and exits, cat no 8165.0	
	Average number of employees per medium/large business	Calculation[68]	112
	Percentage of employees that would be required to undergo training	ABS (2012), Employee hours and earnings, cat no 6306.0	10%
	Length of training (in hours)	Approximation	1
	Total number of training hours	Calculation[69]	11
	Cost per hour	OBPR (2014) Regulatory Burden Measurement Framework: Guidance Note.	$59.85
		Total cost per business (on year of joining)	$415
Providing training to new staff	Average number of employees per medium/large business	See above	112
	Average annual turnover	RBA (2012), Labour Market Turnover and Mobility	20%
	Percentage of employees that would be required to undergo training	See above	10%
	Number of new employees that would be required to undergo training	Calculation	2
	Length of training (in hours)	See above	1
	Total number of training hours	Calculation	2
	Cost per hour	OBPR (2014) Regulatory Burden Measurement Framework: Guidance Note.	$59.85
		Total cost per business (per year, every year after joining)	$83

[68] Assumed that each business accredited as a Trusted Trader would employ an average of 112 staff. This assumption is derived from ABS labour force and business count statistics. This assumption is likely to be an overestimate, given that it is based on the employment profiles of medium and large businesses, and not small businesses.

[69] Assumed that the training would primarily be intended for staff in a position of management or organisational control to then embed in operational procedures. According to the ABS, approximately 10 per cent of employees are categorised as belonging to the Manager occupation.

ATTACHMENT H – REGULATORY BURDEN MEASUREMENT

Policy option 2(A): Regulatory Option - Develop a Trusted Trader Programme applicable to import and export supply chains including supply chain security and compliance elements

Average annual regulatory costs (from business as usual) – Option 2(A)				
Change in costs ($ million)	Business	Community organisations	Individuals	Total change in costs
Total, by sector	$24.3m	$0	$0	$24.3
Change in costs represents a regulatory saving				
Cost offset ($ million)	Business	Community organisations	Individuals	Total, by source
Agency	$	$	$	$
Are all new costs offset? ☐ Deregulatory—no offsets required				
Total (Change in costs – Cost offset) ($ million) = $24.3m				

Policy option 2(B): Regulatory Option - Develop a Trusted Trader Programme applicable to import and export supply chains including supply chain security and compliance elements

Average annual regulatory costs (from business as usual) – Option 2(B)				
Change in costs ($ million)	Business	Community organisations	Individuals	Total change in costs
Total, by sector	$17.8m	$0	$0	$17.8
Change in costs represents a regulatory saving				
Cost offset ($ million)	Business	Community organisations	Individuals	Total, by source
Agency	$	$	$	$
Are all new costs offset? ☐ Deregulatory—no offsets required				
Total (Change in costs – Cost offset) ($ million) = $17.8m				

Policy option 3: Non-Regulatory Option – Modernising the customs approach for trusted trade

Average annual regulatory costs (from business as usual) – option 3				
Change in costs ($ million)	Business	Community organisations	Individuals	Total change in costs
Total, by sector	$4.3m	$0	$0	$4.3m
Change in costs represents a regulatory saving				
Cost offset ($ million)	Business	Community organisations	Individuals	Total, by source
Agency	$	$	$	$
Are all new costs offset? □ Deregulatory—no offsets required				
Total (Change in costs – Cost offset) ($ million) = $4.3m				

ATTACHMENT I -– BENEFITS OF OPTION 3

Measureable benefit	Mechanism
Increased productivity for Trusted Traders	**Enhanced client service** will lead to increased productivity for all supply chain entities accredited as a "trusted" entity. This will be achieved through the provision of a dedicated Client Service Manager for each "trusted" entity who will be their single point of contact and aid in issue resolution and provision (or acquisition) of timely and accurate policy advice. **Priority trade services** will increase the productivity of trusted importers, exporters and other persons acting on behalf of importers and exporters as they will be the beneficiary of an increased service standard/top-of-pile processing for trade service requests (for example, advance rulings, reviews of tariff advices given by the Portfolio and the processing of applications for a drawback of duty). Faster processing of trade services would provide increased certainty for "trusted" entities of the correct customs treatment of goods (for example, the tariff classification or valuation of goods) and the amount of duty/indirect tax payable. **Reduced examinations** would lead to increased productivity for trusted importers, exporters, customs brokers and freight forwarders through decreased incidences of having to produce documents or answer questions to verify particulars of goods shown in an import declaration or export declaration. In addition, "trusted" entities would have increased certainty over the status of release of their goods which would enable greater effectiveness in the management of their supply chain and entities contracted to facilitate the physical movement of the goods. **Streamlined reporting** will result in increased productivity for trusted importers, exporters, freight forwarders, customs brokers and depot/warehouse licence holders through providing alternate reporting obligations in relation to the reporting of cargo, movement of goods and clearance of goods.
Improved cash flow for Trusted Traders	Trusted importers and exporters will have access to a range of fiscal benefits including duty deferral and accelerated applications for a drawback of duty. A reduction in examinations may lead to a reduction in costs of delay which may be incurred as a result of examination of goods by the Portfolio. Streamlined reporting arrangements would also increase the cash flow for trusted importers due to a decrease in storage costs and cost of demurrage and container dwell times due to certainty of availability.
Modernising our Intervention Strategy	The Programme will enable the Portfolio to modernise its intervention strategy, allowing the identification of low risk entities (as opposed to transactions), across the supply chain. This will be to a lesser degree compared to Option 2(A) or Option 2(B) as with the absence of MRAs, the Portfolio will be limited in its ability to identify low risk overseas-based entities who export to Australia. Reduced examinations and streamlined reporting for trusted importers will enable the Portfolio to focus its resources on high risk entities.

Measureable benefit	Mechanism
Increasing levels of compliance by Australia's traders	The competitive advantages and tangible benefits provided to trusted entities will provide incentive for trade compliance (e.g. accurately reporting the value of their imports and exports) within the Australian trading community.
Increased supply chain certainty for Trusted Traders	Through streamlined reporting and reduced interventions, the benefits offered to trusted entities will provide them with greater supply chain certainty, particularly around the status and treatment of their goods limited to Australia **Priority trade services** will increase the supply chain certainty of trusted importers as they will have increased confidence over the correct treatment of goods for Portfolio purposes. This would enable trusted importers to more effectively plan their trade transactions for imported goods. **Reduced examinations** would increase supply chain certainty for trusted importers, exporters and other service providers as they would have greater confidence over the status of their goods, along with increased certainty over requirements around presentation of documents to Portfolio for examination. **Streamlined reporting** will provide greater supply chain certainty to trusted importers, exporters and other service providers over the clearance status of their trade transactions. Traders who are certain about the availability of their goods upon importation are able to plan accordingly and therefore improve their time to market. This will enable them to meet more stringent supply chain logistics requirements making them more competitive domestically and internationally.