



2019

Report on the Biosecurity Imports Levy



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Executive summary

The Australian Government announced a new Biosecurity Import Levy (BIL) in the 2018-19 Budget. The Department of Agriculture and Water (DAWR) has been consulting industry stakeholders on the levy since the Budget announcement.

Pegasus was engaged in January 2019 to gather industry views on the proposed levy, identify points of agreement on a way forward and canvass an approach to the design and implementation of the BIL based on views expressed by external stakeholders.

Industry is generally supportive of the government's biosecurity objectives and have pointed to the considerable voluntary investments by individual firms and industry associations to biosecurity outcomes.

However, industry does not consider that it has been provided with a logical or consistent rationale for the intended levy, is not convinced that the levy will generate a reliable source of funding for the biosecurity function and has different views about the most equitable and efficient point for application of the levy.

The current process of consultation has generated considerable frustration and is damaging DAWR's standing with many stakeholders. At this point, the process has not yielded a consensus as to the appropriate point of imposition for the tax, the basis for calculating the tax liability or the collection mechanism. No impact analysis appears to have been undertaken and there is no reliable estimate of the economic cost of collecting the tax, or its impact on businesses or end consumers.

The process needs to be reset and undertaken in a way that rebuilds the trust and confidence of an important set of biosecurity stakeholders.

Industry is seeking a more transparent process from government that clearly articulates the underlying policy problem and policy rationale for the new levy, including data on the unmitigated biosecurity risks that the levy is intended to address, identifies potential collection mechanisms and provides estimates of the likely costs and other impacts as they flow through the logistics chain.

Industry sees benefit in the government issuing a Green Paper type document that sets out the government's preferred position, but which leaves a final decision on the form of the levy until industry has had an opportunity to provide a considered response. The process of preparing a paper and seeking industry advice could be achieved within 8 to 10 weeks.

If the government wishes to pursue this issue, it would be desirable to ensure that representatives of the entire import logistics chain are provided with the opportunity to be involved from the outset; including smaller regional port authorities and port operators; industry sectors not currently within the scope of the levy, but who could be impacted, either directly through an expansion of the scope of the measure, such as the operators of cruise lines and air cargo operators, or indirectly through cost pass-throughs, including freight forwarders, land transport operators and end users.

The current process has alienated some critical stakeholders and there is little confidence in DAWR's ability to manage the required processes. Many stakeholders agree that it would be desirable to have the process led by an eminent person with experience of the transport, logistics and biosecurity sectors, with support from an industry working party.

1 Introduction

Pegasus Economics (Pegasus) has been engaged by the Department of Agriculture and Water Resources (DAWR) to prepare a report on implementation and design issues associated with the Biosecurity Imports Levy announced in the 2018-19 Budget. In particular, Pegasus has been commissioned to prepare a brief report to the Minister for Agriculture and Water Resources that presents industry views on the proposed levy, identifies points of agreement on a way forward and canvasses an approach to the design and implementation of the BIL based on views expressed by external stakeholders.

Industry views were collected through targeted consultations with stakeholders selected in consultation with DAWR and an industry forum held in Melbourne on 4 February 2019. Pegasus also met with a number of additional industry stakeholders who sought individual meetings following the forum. In addition, Pegasus has reviewed documents prepared by DAWR following industry meetings in 2018 and early 2019. The stakeholders consulted represent firms and representative bodies operating at different points along the logistics and supply chain, including importers, shippers, stevedores and port owners and operators. However, not all firms and representative bodies involved in these activities were represented, and some industry segments, such as carriers, airlines, air freight operators and exporters were not involved.

The project was undertaken between 27 January and 20 February 2019.

2 Background to the Biosecurity Imports Levy

As it was proposed in the 2018-19 Budget, the Biosecurity Imports Levy applies exclusively to sea freight.

There are three main categories of sea freight:

- Containers which are standardised boxes usually 8 feet wide, often 8 feet 6 inches high and mostly twenty foot or forty feet long, usually filled with cargo (Stopford, 2009, p. 65)
- Bulk refers to either dry or liquid products transported unpackaged in large quantities (Pecci, 2017)
- Break bulk refers to cargoes that are carried in unitised form such as palletised, bagged, strapped, bundled, drummed or crated and non-unitised cargoes such as motor vehicles and steel (Manaadiar, 2015).

The genesis of the Biosecurity Import Levy (BIL) was the 2017 report by the independent review of the capacity of the national biosecurity system and its underpinning Intergovernmental Agreement chaired by Wendy Craik AM (Craik, Palmer, & Sheldrake, 2017).¹ Recommendation 34 from the independent review was:

Funding for the national biosecurity system should be increased by:

- *implementing a per-container levy on incoming shipping containers of \$10 per twenty-foot equivalent unit and a levy of \$5 on incoming air containers, effective from 1 July 2019*

¹ Referred to here as the independent review but is also referred to elsewhere as the Intergovernmental Agreement on Biosecurity Review (IABR).

- *increasing the Passenger Movement Charge by \$5, effective from 1 July 2022, with the revenue generated hypothecated to the Australian Government agriculture department for use nationally to enhance activities across Australia's biosecurity system*
- *more widespread implementation by states and territories of land-based levies, with each jurisdiction to determine the magnitude of a levy based on its circumstances, but to include properties at least two hectares or greater.*

The revenue raised by these mechanisms should be directed to those areas of the national biosecurity system that are currently most underfunded, with a priority for strengthening environmental biosecurity activities, national monitoring and surveillance activities, R&I and national communications and awareness activities. (Craik, Palmer, & Sheldrake, 2017, p. 134)

In relation to non-containerised sea freight (bulk and break bulk), the independent review commented:

The panel believes that, on equity grounds, the levy should be expanded to include non-containerised incoming trade in the future, as the vessels themselves also create biosecurity risks. (Craik, Palmer, & Sheldrake, 2017, p. 121)

The independent review was reluctant to recommend a levy on non-containerised sea freight at that time, citing the DAWR (2015, p. 6) *Cost Recovery Implementation Statement, Biosecurity 2015-16*:

The department did examine other options to apply a levy to all types of imported cargo, however, there are no other cost-effective mechanisms available at this time.

The BIL was announced as a revenue measure in the 2018-19 Commonwealth Budget. According to Budget Paper No. 2:

As recommended by the Intergovernmental Agreement on Biosecurity Review, the Government will introduce a new levy on sea imports, imposed on port operators from 1 July 2019, to enable the Government to invest in measures that will help it detect, identify and respond to exotic pests and diseases earlier.

This measure will apply a \$10.02 levy per twenty foot container (or equivalent) and non-containerised cargo will incur a levy of \$1 per tonne. The levy will be payable on a quarterly basis. The levy is estimated to have a gain to revenue of \$360.0 million in fiscal balance terms over the forward estimates period. In underlying cash balance terms the measure has a gain of \$325.0 million over the forward estimates. The Department of Agriculture and Water Resources will administer the levy. (The Commonwealth of Australia, 2018, p. 7)

The proposed scope of the BIL, the basis of the calculation of charges and the collection mechanism has changed since the Budget. While the original budget measure was formulated in terms of a \$10.02 levy per twenty-foot container (or equivalent) and non-containerised cargo will incur a levy of \$1 per tonne, DAWR has subsequently put forward variations to that model for industry to consider as shown in Table 1 below.

Table 1: Levy Base and Rates

	Budget	Proposed new DAWR position (November 2018)	Alternative proposal by an industry party put forward by DAWR (January 2019)
Vessels	N/A	\$0.027 per ton vessel gross tonnage	\$0.059 per ton vessel gross tonnage
Containers	\$10.02 per twenty foot equivalent unit (TEU)	\$10 per TEU	\$10 per TEU
Break bulk cargo	\$1 per metric tonne	\$1 per metric tonne	\$1 per metric tonne
Bulk cargo	\$1 per metric tonne	\$0.50 per metric tonne	N/A
Total revenue	\$325m over three year forward estimates	\$325m over three year forward estimates	\$325m over three year forward estimates

Source: DAWR (2018b; 2019).

In addition, discussion regarding the imposition point has also moved over the course of the consultation. The 2018-19 Budget Papers indicated that the levy would be collected from ‘port operators’, by which it is understood that the government intended the tax to be collected from port terminal operators or, in common language, stevedores. Pegasus understands that subsequent discussion canvassed the possibility of applying the tax at other points in the supply chain until DAWR (2018b) proposed in November 2018 that the levy be applied to ‘vessel owners, operators or their agents’.

For the purpose of this paper, references to the BIL refer to the measure as originally set out in the Budget Papers, except where the comment specifically refers to a variation of the Budget measure.

3 Views of Stakeholders

It is important not to over-generalise the views of industry. While we were able to talk directly with over twenty separate firms and associations, and to engage with over 60 stakeholders at an industry forum, those stakeholders did not claim to be representative of industry as a whole, and many operators, including smaller and regionally based firms, have not been directly engaged in this process.

The industry is very diverse and includes a range of different views about biosecurity and the merits of contributing directly to DAWR’s biosecurity activities. The industry stakeholders potentially impacted by the levy operate at different points in the import logistics chain and have different exposures to biosecurity issues. They provide very different services, have different business models and differ in their capacity to recover costs from other parties. They would be impacted differently by the levy and the way in which it is to be collected, and so have different views about its implementation.

While this is a very diverse and somewhat fragmented industry with a range of different interests, based on our consultations, the stakeholders we consulted are generally supportive of biosecurity objectives and recognised the need for an appropriate funding base to support the continued provision of biosecurity services at Australia’s border. They recognise that biosecurity breaches have the potential to threaten the reputation of Australian products and business continuity. Industry

stakeholders point to the considerable voluntary investments by individual businesses that contribute to biosecurity outcomes.

At the same time, it is fair to say that industry is dismayed by the quality of the engagement they have had with the government and DAWR since the budget measure was announced, uncertain about the intended policy rationale for the levy, which has changed over the course of the consultations, is not convinced that the levy will generate a reliable source of funding for the biosecurity function and has different views about the most equitable and efficient point for application of the levy.

Their concerns relate both to the transparency with which the proposed levy has been developed and to DAWR's method and style of engagement. Our impression is that DAWR has diligently recorded and attempted to take on board the objections of industry to the various alternative models proposed for the tax. The list of stakeholder concerns summarised at Appendix B was compiled by DAWR and largely reflects the concerns expressed by industry. However, DAWR has not been as successful in demonstrating to industry that it is willing to work collaboratively in resolving the multiple objections and concerns that have been raised.

The main concerns that were expressed to us are discussed below.

3.1 Policy rationale

Industry stakeholders commented that they had received mixed messages about the intended policy rationale behind the imposition of the BIL. They point out that there has been no clear, stable statement of the policy problem, the design principles that underpinned the development of the proposed tax, the basis for the intended point of imposition or calculation of the impacts of the levy, or an assessment of the likely economic and other impacts.

Stakeholders were initially informed that the BIL was introduced in order to build DAWR's biosecurity detection and response capabilities. The Budget measure indicated that the levy would:

enable the Government to invest in measures that will help it detect, identify and respond to exotic pests and diseases earlier. (The Commonwealth of Australia, 2018, p. 7)

Subsequent advice from DAWR suggested that the levy would help fund a more general range of activities that could not be cost recovered. According to DAWR (2018a):

The levy will fund activities that can not be cost recovered

The levy amounts to general taxation, supporting funding for system activity and investment that can not be cost recovered

However, DAWR has also informed stakeholders that the BIL was intended to target biosecurity risks created by certain import activities. According to DAWR (2018c):

The Levy targets the risks associated with a key pathway for the transmission of harmful pests and diseases into Australia - vessels and containers carrying imported goods into Australia by sea.

In other words, DAWR has offered multiple, conflicting justifications for the BIL as a supplement for Departmental funding, as a general revenue measure and as a Pigouvian tax directed towards

correcting a specific market failure in relation to the negative impacts for society as a whole arising from the risks created by importing products through sea freight.²

At the same time, industry is aware that as a form of taxation, any receipts from the BIL would be directed to the Consolidated Revenue Fund and any additional funding for DAWR would need to be appropriated separately. While industry acknowledge a verbal commitment from the Minister for Agriculture and Water Resources to ensure that proceeds from the levy would be spent on biosecurity, they point out that this commitment is not legally enforceable and, at best, would only apply while the current Minister occupies the position. The changing rationales offered for the levy and residual uncertainties about the application of funds over the longer term have led some industry stakeholders to see the levy as a cash grab disguised as a biosecurity measure.

The absence of a clear and consistent policy rationale has undermined attempts to develop a consensus position with industry about who the tax should be applied to and how it should be collected.

3.2 Reliance on the Independent Review

Stakeholders do not accept the proposition that the BIL as originally set out in the Budget was recommended by the independent review. According to the DAWR (2018c):

The Levy will, therefore, be applied equally to all containerised and non-containerised cargo imported by sea, as recommended by the review.

While stakeholders acknowledge there was a recommendation to impose a levy upon the importation of sea freight containers, they question the authority of the independent review as the basis for a selective application of the levy to sea freight given the independent review also recommended that the Passenger Movement Charge be increased by \$5, effective from 1 July 2022.

Stakeholders also point out that the independent review did not recommend the application of a levy to non-containerised sea freight. Stakeholders argue that the independent review merely suggested that on equity grounds the levy should be extended to incoming non-containerised trade in the future, but only once an appropriate mechanism had been identified. They point out that the independent review justified this suggestion on the basis of the biosecurity risk associated with vessels rather than the intrinsic risk associated with the cargo itself (Craik, Palmer, & Sheldrake, 2017, p. 121):

The panel believes that, on equity grounds, the levy should be expanded to include non-containerised incoming trade in the future, as the vessels themselves also create biosecurity risks.

Addressing the potential to apply a levy on self-assessed clearances, the independent review merely encouraged DAWR to continue investigations into whether an efficient and effective charging mechanism could be found to cover costs (Craik, Palmer, & Sheldrake, 2017, p. 124).

Attempts to justify the proposed BIL on the basis of the independent review appear to have contributed to industry uncertainty about the policy measure.

² A Pigouvian tax seeks to charge those creating a negative externality or spillover for the damage they create. Externalities (also known as spillovers) occur when participants in an activity do not necessarily bear all of the costs or reap all of the benefits from an activity.

3.3 Relationship between the tax impost and biosecurity

Stakeholders do not accept that the design of the proposed levy is congruent with the biosecurity risks generated by their activities. One of the justifications offered for the levy has been the biosecurity risk associated with sea freight imports. According to DAWR:

The Levy targets the risks associated with a key pathway for the transmission of harmful pests and diseases into Australia - vessels and containers carrying imported goods into Australia by sea. (Department of Agriculture and Water Resources, 2018c)

and

The rationale underpinning the levy specifies that all movements of vessels, containers and goods are a potential source of biosecurity risk. (Department of Agriculture and Water Resources, 2019)

Stakeholders are seeking a demonstration of the linkage between the incidence of the levy and the creation of biosecurity risks. They believe there is a disconnect between the source of the revenue to be collected from the levy on non-containerised sea freight and the biosecurity risk associated with that freight. For instance, the imposition of the levy on imports of crude oil and refined petroleum products could be expected to raise somewhere in the order approaching \$50 million per annum based on current import levels.³ The main biosecurity risk associated with crude oil and refined petroleum product imports is the landing of the tanker ship itself most likely arising from biofouling and ballast water that creates a marine biosecurity risk.⁴ Industry maintains that these risks are separable from the risks involved in the cargo itself and question the extent to which the assessed biosecurity risk is related to the tonnage of the freight carried.

Industry stakeholders argue that any biosecurity risk associated with the importation of crude oil and refined petroleum products is associated with the arrival of vessels from overseas ports. Although crude oil and refined petroleum product tankers represented only around 9.4 per cent of all cargo ship arrivals from overseas in 2015-16 (Bureau of Infrastructure, Transport and Regional Economics, 2018, p. 59), under the levy, this import will be responsible for around 42 per cent of the revenue collection on a net operating balance basis from the BIL. In this case, the downstream petroleum industry maintains that the cargo tonnage appears to be a poor proxy for the amount of biosecurity risk presented. Similar concerns have also been expressed in relation to some chemicals and cement imports.

Overall, the imposition of the BIL as originally designed, would have a disproportionate impact on low value and low margin bulk commodity imports that land in the kilotonnes, as compared to high value break bulk imports such as new passenger motor vehicles that generally retail on average for around \$30,000 and weigh less than two tonnes, or containers full of high value consumer products. Industry has pointed to the disproportionate impact of an effective \$1 per tonne levy on a \$300-\$500 per tonne shipment of concrete clinker or scrap metal compared with an effective \$2 levy on a

³ Based on latest imports of crude oil and refined petroleum products we estimate the levy would raise approximately \$48.8 million per annum. See Department of Environment and Energy (2019).

⁴ Biofouling are the marine plants and animals that attach and grow on the submerged parts of a vessel like the hull, propellers, anchors, niche areas and fishing gear (Department of Agriculture and Water Resources, 2019b). Ballast water is water taken on board by vessels to maintain stability and trim and its unmanaged release could potentially introduce a range of invasive marine species (Department of Agriculture and Water Resources, 2018).

passenger motor vehicle that retails for around \$60,000. For heavy, low value commodity imports, the levy could represent a significant proportion of the margin generated on each shipment. Industry has pointed out that these costs would need to be passed down the supply chain, to the extent possible, often to exporters in the agricultural sector.

Industry is not convinced that the disproportionate application of the levy across different industries provides a fair reflection of the relative contribution of the imports to biosecurity risks and has called on DAWR to provide a science-based justification for the different imposts on bulk commodities relative to other categories of imports.

The overall relative price impact on bulk commodity imports would be much greater than for high value break bulk and container imports, especially when no evidence has so far been presented that biosecurity risk is somehow related to weight or volume.

Industry argues that if the levy is to be justified on the cost of the biosecurity function, or the basis of the biosecurity risks, then the design of the levy should be directed towards the nature of the economic activity undertaken and its contribution to any potential unmitigated biosecurity harms. This would argue for a separate assessment of the risks associated with the transit of the vessel from the risks inherent in the imported product. This is also consistent with the viewpoint expressed by the independent review (Craik, Palmer, & Sheldrake, 2017, p. 121).

The weakness of the link between the BIL as originally proposed in the Budget and any analytical assessment of the biosecurity risks generated by the activities caught within its scope have generated scepticism amongst stakeholders about the basis of the tax and the integrity of the consultative process.

3.4 Scope of the Levy

Stakeholders are generally supportive of the need to contribute to a sustainable biosecurity system, but they question the scope and fairness of the levy as it has been proposed.

They argue the BIL as it has been put to them is essentially a tax on sea freight and that other vectors through the biosecurity ring around Australia's border have not been included in the measure. This impacts on the likely effectiveness of the measure, and the proportion of the overall funding burden for the biosecurity system that will fall on sea freight.

Stakeholders point out that the independent review recommended the imposition of the levy on the arrival of air freight as well as an increase in the Passenger Movement Charge (PMC). In the course of discussions with DAWR, stakeholders have nominated a number of risk creators or risk exacerbators at Australia's border who have so far been excluded from the scope of the levy as originally proposed in the Budget, including:

- air freight
- airline passengers
- cruise ships
- cruise ship passengers
- arrival of recreational yachts (under their own power).⁵

⁵ Risk exacerbators are those whose actions create a negative spillover or externality or who put a positive spillover or externality at risk (The Treasury (New Zealand), 2002, p. 7).

Most stakeholders maintain that it is unfair and inefficient to target sea freight for the imposition of the levy when other risk exacerbators have been excluded.

According to DAWR (2018a):

A new levy would pay for the non-regulatory activities required to maintain Australia's Appropriate Level of Protection (ALOP) by improving our capacity to detect, identify, respond to and manage pest and disease incursions.

Some stakeholders were concerned that revenue collected from the BIL would be directed towards the biosecurity system as a whole, and that the BIL proceeds collected exclusively from sea freight would be directed towards biosecurity measures for other risk exacerbators so far excluded from the scope of the BIL. Concerns were raised that proceeds collected from sea freight would be used to cross subsidise biosecurity measures in other areas, including its competitor in air freight.

While stakeholders recognise the government has placed a moratorium on any further increase in the PMC until 1 July 2022, they were unconvinced by DAWR's (2018c) suggestion that air cargo had been excluded from the levy because there is little reliable data on air cargo imports into Australia and the promise that the exclusion of air cargo from the scope of the levy would be re-considered at the review of the BIL to occur within three years of its commencement.

While the stakeholders we consulted generally support biosecurity, they do not understand why sections of the sea freight industry have been singled out for what they see as a punitive tax when other risk creators and risk exacerbators can be readily identified.

3.5 Where the levy is imposed

At this point the consultative process has not yielded a consensus around the point at which the levy is to be imposed.

In the original 2018-19 Budget announcement, the BIL was to be collected from terminal operators. However, in November 2018 DAWR (2018b) suggested instead that the BIL could be collected from vessel owners, operators or their agents (referred to collectively as shipping lines). Other possible collection points that have been identified through the consultative process include port authorities, freight forwarders, customs brokers, and cargo owners/importers.

As the scope of the levy and the possible collection points have been extended to include other potential stakeholders, the consultative process has progressively included and then enraged a broader set of industry stakeholders. All of the firms identified to date as potential collection points have pointed to practical difficulties and cost implications involved in imposing the levy at that point in the import logistics chain.

Stakeholders have expressed considerable concern about the scope for firms with market power to impose additional costs associated with the collection of the levy on the firms they deal with.⁶ They have suggested that firms would 'clip the coupon' at each point in the supply chain. Insights into the extent of the pass through can be obtained from tax incidence theory (Kosicki & Cahill, 2006). Tax incidence seeks to determine what portion of an increase in tax imposed on a producer is ultimately

⁶ The economic and legal literature has provided several different definitions of market power. One common definition is that a firm possesses market power when it can behave persistently in a manner different from the behaviour that a competitive market would enforce on a firm facing otherwise similar cost and demand conditions (Kaysen & Turner, 1959, p. 75). Another definition of market power is "the ability of a firm to raise price above the competitive level without losing so many sales so rapidly that the price increase is unprofitable and must be rescinded" (Landes & Posner, 1981, p. 937).

paid by the producer in the form of a lower after-tax price, and which portion is paid by buyers in the form of a higher price (Kosicki & Cahill, 2006, p. 630). The incidence of higher costs falls most heavily upon that side of the market that responds least to price (those that are most price inelastic).

Industry has argued that, depending on the market power of different firms within the import logistics chain, the eventual cost of the levy imposed on the end consumer could represent a substantial proportion of the value of the tax collected. Firms with little market power and thin margins have indicated that the levy could impact on their viability as they would have difficulty in passing on the costs.

Some stakeholders further raised concerns that parties that seek to pass through the BIL would have to apply the goods and services tax (GST) to the administration fees they were charging in addition to passing through the BIL.

Some modelling on the economic impact of the levy would assist in identifying the most efficient point of imposition and would go some way to reassuring industry stakeholders as to the likely impact of the levy on their businesses, but at this point DAWR either does not appear to have undertaken this work or has been unwilling to share it with industry.

3.5.1 Stevedores

It was originally intended in the 2018-19 Budget announcement that the levy would to be imposed through a charge on port terminal operators, who unload cargo from vessels at Australian ports (Department of Agriculture and Water Resources, 2018c).⁷ In Australia port terminal operators are usually referred to as stevedores (Bureau of Infrastructure, Transport and Regional Economics, 2018, p. 2). A stevedoring company typically owns equipment used in the loading or discharging operation and hires labour for that purpose. A stevedoring company may also contract with a terminal owner to manage all terminal operations.

According to DAWR (2018a), the BIL was imposed upon stevedores as:

- the most practical and cost-effective charging point
- existing payment systems can be used.

However, stevedores claim that the BIL could not be practically implemented as originally envisaged. They point out that the basis for assessment of the levy set out in the Budget is not consistent with their business models and pricing arrangements. While a container charge could be applied, there would be practical difficulties in collecting tonnage information required for break bulk cargoes and irregular sized cargoes that sit on top of containers.

If required to collect the levy, non-container stevedores would need to invest in building the IT and accounting systems required to reliably identify, collect, pay and audit their levy obligations. They maintain that the associated costs would represent a significant proportion of the overall value of the levy. The need to develop new systems would likely fall disproportionately on non-container stevedores operating at regional ports outside of the major capital cities.

The overall reluctance on the part of container stevedores to collect the levy may be related to criticism they have received over their imposition of infrastructure charges and their sensitivity over

⁷ A terminal is a section of the port consisting of one or more berths devoted to a particular type of cargo handling (Stopford, 2009, p. 81).

imposing any new additional charges.⁸ According to the Australian Competition and Consumer Commission (ACCC) (2018, p. 16), the introduction of these charges, and/or the significant increase in the charges, have attracted significant criticism from transport operators, unions, importers and exporters, as well as interest from federal and state governments.

Industry stakeholders remain uncertain of the extent to which these costs would be passed through the supply chain.

The shipping line generally contracts directly with stevedores and land transport operators must go to the stevedore to which they are directed (Australian Competition and Consumer Commission, 2018, p. 4). Cargo owners/importers have a choice of which shipping line and land transport operator to use but not the stevedore that the shipping line will use. As a result, cargo owners/importers have no direct relationship with stevedores.

When seeking to recover the impost of the levy, it is likely that stevedores will also seek to recover the cost associated with the development of new systems required to charge for and collect the new levy. Stevedores consulted suggested these development costs will be substantial. Therefore, the cost impost will cascade through the supply chain and likely multiply over and above the initial impost of the levy itself through the cost recovery of the development of new systems required for compliance and collection. In reflecting on the BIL as originally proposed in the Budget as being an impost on the stevedores, Shipping Australia (2018) warned:

Australian consumers will pay at least twice as much as the Government collects, through the inefficient and broadly targeted new tax. This is because of the multiplier effect of administrative charges down the supply chain.

It is unlikely that stevedores would choose to try to pass on the impost of the BIL onto shipping lines as they have little bargaining power to leverage. According to the ACCC (2018, p. 21):

Depending on the port, stevedores may face competition from up to two alternative suppliers in relation to providing stevedoring services to shipping lines. A shipping line may therefore choose to take their business elsewhere if a stevedore charges too much for quayside services.

On the other hand, in all likelihood the BIL would be passed through from stevedores to land transport operators once they take delivery of the cargo. As land transport operators and cargo owners do not directly choose the stevedore, they cannot practically respond to higher charges by taking their business elsewhere (Australian Competition and Consumer Commission, 2018, p. 21). According to the ACCC (2018, p. 22):

Since land transport operators are unable to shift their business or bargain with stevedores, it follows that they are subject to strong market power from the stevedores.

The imposition of infrastructure fees by stevedores upon land transport operators as opposed to shipping lines provides guidance as to the likely route of pass through arising from the imposition of the BIL as originally proposed in the Budget. Some stakeholders have expressed concern that

⁸ Infrastructure charges are fees charged by stevedores to truck and train companies (or collectively 'land transport operators') for collecting or delivering laden containers at their terminals (Australian Competition and Consumer Commission, 2018, p. 16).

imposing the BIL upon stevedores could result in price gouging, particularly in relation to containers, in light of the experience of container stevedore infrastructure charges.⁹ As a consequence, numerous stakeholders are opposed to imposing the BIL upon stevedores given the experience with infrastructure charges.

3.5.2 Shipping Lines

DAWR has suggested that instead of stevedores, as originally intended, the levy could be collected from vessel owners, operators or their agents DAWR (2018c).

Under contract to cargo owners, shipping lines are companies that transport cargo using specialist ships from one port to another (Australian Competition and Consumer Commission, 2018, p. 2).

DAWR (2018b) has suggested that shipping lines might be an appropriate point of imposition because they have access to a suitable charging structures and a reporting tool that would minimise new administrative requirements for vessel masters or their agents.

Shipping lines and their industry association have, however, pointed to some practical difficulties in collecting the tax from vessel owners. Shipping lines are most often domiciled overseas making compliance and collection problematic. However, if shipping lines wish to continue to do business in Australia this is not an insurmountable obstacle to overcome. As an alternative, the levy could potentially be imposed on the agents of the shipping lines. Also, some of the international shipping lines do have subsidiaries domiciled in Australia.

Contracting arrangements between shipping lines and import agents can be complex and would not easily accommodate collection of the levy as it has been proposed. While some freight is carried on the spot market in a negotiated process, bulk freight forwarders generally enter into long term contracts with cargo owners/importers. The industry has pointed out that if the BIL were imposed upon shipping lines they would be limited in their capacity immediately to recover the cost from cargo owners/importers until such time as they could renegotiate contracts with customers. Based on advice received, we understand that these contracts can sometimes have a duration of three years or more.

The shipping lines also pointed to timing and cost issues likely to arise if they are required to collect the BIL. They explained that, under current invoicing arrangements, the owners of goods are generally charged upfront for their share of biosecurity fees. However, if the shipping lines become the collection point for BIL, they would need to apportion the BIL between the owners of the cargo and send an additional invoice for sometimes small amounts to cover their levy obligations.

If responsibility for paying the BIL were imposed upon shipping lines, they could be expected to pass through the impost along the supply chain until it reached the cargo owner/importer along with any administration fees associated with developing new charging and collection mechanisms. As in the case of stevedores, the cost impost will cascade through the supply chain and likely multiply over and above the initial impost of the BIL itself.

An additional concern raised by other stakeholders is that shipping line pricing structures are not always transparent, and as such they could ultimately attempt to pass through a lot more in any price increase prompted by the imposition of the BIL than just the BIL and a reasonable

⁹ Price gouging is pricing goods and services at the highest level that the market will bear regardless of production costs (Taylor & VanDoren, 2003).

administration fee charge. The ACCC (2018, p. 24n) has warned about this in relation to the terminal handling charges levied by shipping lines:

Terminal handling charges (THCs) are ancillary charges collected by shipping lines from cargo owners to recover the cost of paying the stevedores for the loading or unloading of containers and other port-related costs incurred at the port of origin or destination. We understand that there is no consistent manner in which shipping lines calculate THCs and we have observed very large variances in THCs charged by different shipping lines calling at similar ports and similar stevedores.

The industry is unclear at this point whether DAWR proposes to pursue the option of imposing the collection of the levy on shipping lines or what the economic and financial impacts might be.

3.5.3 Port Authorities

Pegasus understands that there has been discussion as to the possibility of imposing the levy on port authorities, but that has been vigorously resisted by the ports.

Ports provide a range of services and facilities which include basic port infrastructure, such as facilities for the berthing of ships and loading and unloading of cargo; and navigation infrastructure, such as shipping channels, to provide for the safe access of ships to the berths (Essential Services Commission Victoria, 2009, p. 50). Ports also provide land in the vicinity of the berths on which cargoes can be assembled for loading or placed temporarily following discharge, as well as road and rail access and other services within the port environs.

Ports generate income by charging ships for the use of their facilities (Stopford, 2009, p. 83). Port charges levied on visiting ships generally fit into the following three categories:

- Navigation service charges: these charges are levied on a ship on entry to port and are generally regarded as a charge for the right to enter the port and the provision of navigational aids, maritime access channels and port traffic control
- Harbour service charges: these charges are levied against the ship when it is alongside the wharf
- Cargo service charges, also referred to as wharfage, are charges levied on the basis of the volume loaded or discharges in the port (Davey, 2009, p. 2).

There are practical difficulties in attempting to recover the BIL as it is currently proposed from port authorities. Wharfage is often paid by the shipping line in the first instance as a service to cargo owners/importers, but as they are considered a cost to the cargo owner/importer, they are passed through as a separate charge by the shipping line and not incorporated in its freight rate (Industry Commission, 1993, p. 119). However, Pegasus understands that the entity which pays the wharfage charges can vary relating to the terms of the contract between the shipping line and the cargo owner/importer. Sometimes wharfage is paid by shipping agents.¹⁰ In other instances, wharfage is paid directly by the cargo receiving party such as the cargo owner/importer or the customs broker.

It would appear that the major port authorities have the charging and collection systems that would enable them to recoup the costs of the BIL as originally envisaged as they already charge shippers on

¹⁰ A shipping agent is a person who deals with the transactions of a ship in every port that the ship visits or docks (Marine Insight News Network, 2018). The shipping agent represents the ship's owner and/or charterer in port (International Maritime Organization, 2017).

this basis through wharfage. As one stakeholder expressed it, the wharfage charged by port authorities is the best currently available proxy for the type of charges the BIL is seeking to impose.

However, one potential drawback with imposing the BIL on port authorities is that they do not necessarily own all of the terminals in their port as some of them can be privately owned, and as such cannot levy wharfage on privately owned terminals. For example, we understand that the Caltex Kurnell terminal in Botany Bay and the Viva Energy Australia Gore Bay terminal on Sydney Harbour are privately owned and no port authority wharfage is applied.

In addition, some port authorities in regional Australia operate on thin margins and may not have the capacity to support the level of system integrity required of a tax system. It is unclear to what extent the smaller port authorities have been engaged in DAWR's consultative process.

If the obligation to pay the BIL was imposed on port authorities, they could be expected to pass the impost and any associated costs down the supply chain to shipping lines and agents. As in the case of stevedores and shipping lines, the cost impost would cascade through the supply chain and likely multiply over and above the initial impost of the BIL itself.

Concern has also been expressed by some stakeholders that imposing the BIL on port authorities could also result in over-collecting and price gouging. Ports have often been characterised as natural monopolies.¹¹ As Shipping Australia (2014) has previously observed:

The Port of Melbourne (PoM) is a natural monopoly with respect to container and car cargoes due to the large separation distances from other container/car ports, the limited landside connections by road and rail and no regional competition in these services.

Similarly, according to the Essential Services Commission of South Australia (2017, p. 7):

South Australian port infrastructure services are generally considered to be natural monopoly services. This is due to the high costs of duplicating the port infrastructure required to deliver those services, which significantly limits competition in ports services.

3.5.4 Other

Other possible collection points that have been identified through the consultative process include freight forwarders, customs brokers, and cargo owners/importers.

There is a developing consensus amongst the industry representatives that have been consulted that if a levy on imports is to be introduced, the point of imposition should be as close as possible to the cargo owners/importers who have created the demand for the import. This would mean that the economic incidence (who ultimately bears the burden) and the legal incidence (who pays the bill to the Australian Government) would be as close as possible, thereby minimising the scope for cost multipliers as costs are passed through the supply chain. Stakeholders believe the impost of the BIL as originally proposed should ultimately fall on cargo owners/importers.

However, imposition of the levy on thousands or millions of individual importers may not be practical. To support a more feasible point of collection, the charge would need to be moved up the

¹¹ Natural monopoly is the situation where the entire demand within the relevant market can be satisfied at lowest cost by one firm (Posner, 1969, p. 548). It usually reflects the existence of unexhausted economies of scale, but can persist beyond the point at which economies of scale have been exhausted and average costs begin to rise.

supply chain to freight forwarders or customs brokers. It is not clear, however, that freight forwarders or customs brokers would be in a position to identify every consignee or practically recover their costs from individual importers. At a minimum, they would need to develop expensive new systems to identify, apply, collect and pay the levy collections.

It would also be fair to say that a wide cross section of firms at the lower end of the import logistics chain have not been fully engaged in this process to date, and that thinking about how the levy would be applied to them is not yet well developed.

If DAWR wished to pursue these issues, it would need to engage much more closely with relevant representative bodies.

3.6 Collection mechanism

At this stage, DAWR appears to have in mind a new collection mechanism for the BIL, to be developed by firms involved at the point of imposition.

A number of stakeholders have pointed out that this would mean that, wherever the point of imposition may land, industry would be required to make a considerable investment in new systems for collecting and reporting the levy payments and maintaining the systems required for audit purposes. Stakeholders expressed concern that not only would they be expected to incur the impost of the BIL itself, but that government was expecting them to also incur the cost associated with establishing the collection mechanism. Stakeholders considered this doubling up of the burden associated with the impost of the BIL to be unreasonable, given the availability of other, lower cost collection mechanisms commonly employed to collect similar taxes.

The Department of Home Affairs operates a broad Integrated Cargo System (ICS), which collects data from a range of parties (Department of Agriculture and Water Resources, 2018c). One charging point under the ICS is the Full Import Declaration (FID).

The ICS has a number of external applications, including to the Australian Taxation Office (ATO), the Australian Bureau of Statistics (ABS) and DAWR. The ATO collects the GST, the luxury car tax (LCT), the wine equalisation tax (WET), and some customs duty through the FID. DAWR already collects biosecurity assessment and inspection fees on imports through the ICS and FID.

Pegasus understands that the freight and trade industry associations, ports and stevedores have already advised government that if the BIL is to be collected from industry then it should be collected by government directly from the importer through the existing FID. These firms do not of course represent all the firms who are potentially caught by the BIL, but they comprise a large proportion of the industry, and all the sectors that DAWR has so far suggested might be the point at which the levy should be imposed. Industry representatives have also indicated to us that while they think the FID is a more appropriate collection mechanism, they do not necessarily all agree on precisely how the FID should be employed. This, however, is a matter of detail that could be worked through.

DAWR (2018c) has opposed suggestions from stakeholders that the BIL would be most efficiently collected through the FID. DAWR has suggested that the FID:

- does not allow for charging of empty containers
- would require extensive changes to the ICS to alter the basis for charging, which would be unlikely to be completed in time for commencement on 1 July 2019.

The importation of empty containers represents around 7 per cent of total container imports, so based on the latest available figures on container imports would reduce proceeds from containers under the BIL from around \$39.2 million per annum to around \$36.5 million per annum.¹² The loss of revenue from not capturing empty containers would be small relative to the efficiency gains in employing an established, low cost collection mechanism.

As an alternative to the FID, DAWR (2018b) suggested in November 2018 that the Maritime Arrivals Reporting System (MARS) could be used as the collection mechanism for the BIL. MARS is an online web portal used by commercial vessel masters and shipping agents to submit pre-arrival documents required of all international vessels seeking Australian biosecurity clearance (Department of Agriculture and Water Resources, 2018d). However, one industry stakeholder with knowledge of both the FID and MARS indicated that MARS was ‘not fit for purpose’ as a tax collection mechanism. MARS is used by the shipping agent/vessel to report arrival and be given clearance to enter Australian waters and berth. It does not relate or interface with cargo as the importer or their customs broker reports via the FID. In some carriage contracts the ship owner has no interaction with the cargo interest whatsoever. As such, MARS is primarily a reporting tool for vessel arrivals and thus lacks the necessary structure to impose the BIL with its complexities on calculating a TEU rate, and a cargo tonnage rate. On this basis, the FID provides a far more realistic option for the imposition of the BIL (as originally proposed) even though it would require some re-engineering.

Other stakeholders within the downstream petroleum industry suggested that a small increase in the excise equivalent customs duty applying to petroleum products would be a more efficient collection mechanism than a tonnage charge imposed through a new collection mechanism.

Industry considers that if the levy is to proceed, it would be preferable to collect the tax via an existing low-cost tax mechanism. At this point, however, there are different views as to how that mechanism might be applied.

The choice of a collection mechanism is not an issue that can be considered in isolation. Because a collection mechanism exists doesn’t mean it should be used. The appropriateness of the collection mechanism needs to be considered in the light of the underlying policy rationale for the levy and the point in the import logistics chain at which it should be imposed. Some collection mechanisms are more efficient for some industry stakeholders than others, and it would be unfortunate if the point of imposition of the levy were to be determined by the availability of a convenient collection mechanism. Industry representatives considered that the fundamental issues around the rationale, scope and point of imposition should be addressed before a final decision is made about the collection mechanism.

3.7 Transparency and engagement

The current process of consultation has generated considerable frustration and is damaging DAWR’s reputation and ability to work with stakeholders into the future.

Stakeholders have been exasperated by the absence of a stable point of analysis and the lack of data to justify the calculation of the levy rates. Stakeholders say that they have asked repeatedly for the scientific or economic evidence that would support the application of the levy to sea freight imports and the proposed charges on containers and bulk freight. Industry representatives do not understand why DAWR has been reluctant to provide this information, or work with industry to generate the data required.

¹² See Bureau of Infrastructure, Transport and Regional Economics (2018a, p. 16).

Even stakeholders that are most sympathetic to DAWR have expressed concern about the lack of early consultation as the levy was developed and the absence of a regulation impact statement type process that would provide an opportunity for industry to understand, and comment, on the details of the levy design, the costs (and opportunities) for their business and the economic impacts.

Noting the absence of a clear and consistent policy justification for the levy, industry stakeholders have observed that the scope and intended application of the measure has changed as successive groups of stakeholders have raised concerns about the levy.

The major burden of the levy as originally proposed in the Budget would fall on containers and bulk cargoes. In response to stakeholder concerns expressed regarding the undue burden imposed on bulk cargoes, DAWR (2018b) floated an alternative proposal in November 2018 to reduce the BIL on bulk cargo from \$1 per tonne to \$0.50, with the revenue shortfall made up from a new \$0.027 per ton charge based on vessel gross tonnage (or gross register tonnage).¹³ Industry stakeholders consider that no justification has been offered to justify the basis of these calculations other than it would reduce the opposition of some bulk cargo importers while the total amount collected would remain at \$325 million over three years.

The impact of this shift in liability for the levy, however, has incensed other stakeholders who were now expected to make up the revenue shortfall. This has reinforced the impression amongst stakeholders that the various policy rationales offered for the tax are simply opportunistic arguments intended to justify what is essentially a revenue raising measure. DAWR's willingness to shift the claimed policy rationale and application of the tax in response to questioning has given some stakeholders the impression that intransigent positions toward payment and collection of the tax would be rewarded.

Some stakeholders forcefully express the view that the levy is an attempt to make up from industry the budget savings that have been imposed on DAWR biosecurity since 2011-12. Reflecting on their own experiences with the services provided by DAWR, many stakeholders consider that the biosecurity function is under-funded. Industry also points to observations in the independent review that appropriation funding for the DAWR Biosecurity declined markedly from 2011-12 to 2014-15, falling by almost 30 per cent in real terms in just three years (Craig, Palmer, & Sheldrake, 2017, p. 104). Stakeholders also pointed to similar observations by the Inspector-General of Biosecurity (2017, p. 20):

Frontline inspector numbers have fallen by 25 per cent over the past five years, but volumes of incoming sea and air cargo, mail and passengers continue to rise steadily, as do accompanying biosecurity risks.

There is an opportunity to engage with stakeholders on sustainable measures to improve DAWR's biosecurity capabilities. The industry has some sympathy for DAWR's predicament, and is prepared to make a financial contribution, but industry is seeking more transparency and accountability from DAWR as to how it spends any money that will be collected, the results that are likely to be obtained, and the benefits for industry.

Stakeholders are calling for an improved process for engagement on the BIL and much greater transparency and accountability for the revenue to be raised from the BIL and how the additional funding will be spent.

¹³ Gross tonnage refers to the internal volume of a water-going vessel (Bruno, 2018).

4 A way forward

At this point, the process for implementation of the levy has not yielded a consensus as to the appropriate point of imposition for the BIL, the basis for calculating the tax liability or the collection mechanism. No impact analysis appears to have been undertaken and there is no reliable estimate of the economic cost of collecting the tax, or its impact on businesses or end consumers.

The DAWR appears to be a long way from being in a position where it could brief the Office of Parliamentary Counsel on the legislation that needs to be drafted for the BIL.

It would be tempting to base the levy around the FID, as most stakeholders think that it represents the most efficient collection mechanism. If DAWR had decided to use the FID in the middle of 2018 it would have removed the most contentious element of the consultations with industry and might have provided a basis for further constructive consultations of how the levy might be structured. However, that was not done and now a wider group of stakeholders has been engaged, such as port authorities, cruise lines and natural resource commodity exporters, that have a less natural connection with the FID. In any event, there are issues about how the FID would be employed that are still to be worked through. Stakeholders indicated to us that a 'quick and dirty' decision now to collect the BIL through the FID when there are so many unresolved issues surrounding the policy rationale, scope and impact of the tax would be seen as an abuse of the process and would further alienate stakeholders who have engaged in good faith with the process to this point.

The process for implementation needs to be reset and undertaken in a way that rebuilds the trust and confidence of an important set of biosecurity stakeholders.

The industry is seeking from government a more transparent process that clearly articulates the underlying policy problem and policy rationale for the new levy, including data on the unmitigated biosecurity risks that the levy is intended to address, identifies potential collection mechanisms and provides estimates of the likely costs and other impacts as they flow through the logistics chain.

Industry sees benefit in the government issuing a Green Paper type document that sets out the government's preferred position, but which leaves a final decision on the form of the levy until industry has had an opportunity to provide a considered response. The process of preparing a paper and seeking industry advice could be achieved within 8 to 10 weeks.

If the government wishes to pursue this issue, it would be desirable to ensure that representatives of the entire import logistics chain are provided with the opportunity to be involved from the outset; including smaller regional port authorities and port operators; representatives of end users, including the National Farmers' Federation and motoring organisations; and to include industry sectors not currently within the scope of the levy, but who could be impacted, either directly through an expansion of the scope of the measure, such as the operators of cruise lines and air cargo operators, or indirectly through cost pass-throughs, including freight forwarders and land transport operators.

However, the current process has alienated some critical stakeholders who have lost confidence in DAWR's ability to manage the required processes. Many stakeholders agree that it would be desirable to have the process led by an eminent person with experience of the transport, logistics and biosecurity sectors, with support from an industry working party.

In the course of any future consultation process on biosecurity funding, consideration should also be given to bundling up and consolidating existing biosecurity fees and charges for assessment and

inspection with any new proposed biosecurity taxes so parties do not have to pay multiple different charges at multiple different collection points to fund the provision of biosecurity services.

In order to reassure stakeholders that any additional revenue collected through a biosecurity tax in the future will be allocated to border biosecurity compliance and enforcement, and provide a measure of accountability for industry stakeholders, the government could produce an annual Biosecurity Budget Statement as a Budget Related Paper. The existing annual DAWR Portfolio Budget Statement is somewhat opaque and difficult to follow, especially for those not familiar with Commonwealth Government budgeting and accounting practices. The Biosecurity Budget Statement could provide a full reconciliation of funding sources and expenses for DAWR Biosecurity. It could outline current biosecurity priorities as well as provide more meaningful indicators on the quality of service provided such as turnaround times on biosecurity inspections.

Appendix A: List of Stakeholders Consulted

List of stakeholders consulted in either teleconferences or in face-to-face meetings

Tuesday 29 January 2019

- Federal Chamber of Automotive Industries (face-to-face in Canberra)
- Australian Institute of Petroleum (face-to-face in Canberra)

Wednesday 30 January 2019

- Freight & Trade Alliance (teleconference)
- Gas Energy Australia (face-to-face in Canberra)

Thursday 31 January 2019

- Ports Australia (teleconference)

Friday 1 February 2019

- Cruise Lines International Association (CLIA) Australasia (teleconference)
- Carnival Cruise Line Australia (teleconference)
- Royal Caribbean International (teleconference)
- Norwegian Cruise Line (teleconference)
- Cement Industry Federation (teleconference)
- Australian Logistics Council (teleconference)

Tuesday 5 February 2019

- Patrick Terminals (face-to-face in Melbourne)
- Port of Melbourne (face-to-face in Melbourne)
- DP World Australia (face-to-face in Melbourne)
- BP Australia (face-to-face in Melbourne)

Wednesday 6 February 2019

- The Australian Industry Group (Ai Group) (face-to-face in Melbourne)
- Food and Beverage Importers Association (face-to-face in Melbourne)

Thursday 7 February 2019

- Caltex Australia Petroleum Pty Ltd (face-to-face in Canberra)
- Fertilizer Australia (face-to-face in Canberra)

Friday 8 February 2019

- The Australian Aluminium Council (teleconference)

Monday 11 February 2019

- Australian Federation of International Forwarders (face-to-face in Sydney)
- Llew Russell (face-to-face in Sydney)
- NSW Ports (face-to-face in Sydney)

Tuesday 12 February 2019

- Shipping Australia (face-to-face in Sydney)
- Qube Ports (face-to-face in Sydney)

Monday 18 February 2019

- Bluescope Steel

List of stakeholders who provided written submissions

- Llew Russell
- Australasian Convenience and Petroleum Marketers Association

Appendix B: Industry feedback collected by the Department

- Clarity about rationale
- Greater transparency needed around levy revenue and expenditure
- Equitable targeting of all risk creators
- Recognition of existing efforts made by industry to reduce biosecurity risk – and rates to be more strictly commensurate to biosecurity risk
- Integration of the levy into existing systems and processes
- Direct collection of the levy from risk creators to avoid the escalation of costs as the levy is passed through the supply chain
- Adequate lead time and certainty ahead of commencement
- Either adopt a comprehensive risk-based approach covering all key sources of biosecurity risk or a simple flat tax – the current model is both overly complex and not adequately risk-based
- Collect through existing mechanisms
- Scope and revenue raised should directly reflect scope and quantum of expenditure measures
- Greater transparency around regulatory impact
- Give regard to trade, exports, and international competitiveness impacts; creation of market distortions; & potential perverse incentive
- Consistency needed with existing policies (i.e. treatment of offshore platforms)
- Minimise (escalation of) cost for “upstream” entities, such as port terminal operators and vessel operators, by targeting end-user directly (i.e. via the FID)
- Nature of consultation has been unsatisfactory – particularly no consultation prior to 2018-19 Budget announcement and no RIS
- Need for consistent messaging to enable industry to seek feedback from members and provide considered views during consultations

Source: DAWR (2019a)

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