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AUSTRALIAN CUSTOMS DEVELOPMENTS AND THEIR IMPACT ON AUSTRALIA'S INTERNATIONAL TRADE STATISTICS

Paper prepared by John Billing, Australian Bureau of Statistics - Australia

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Contact: john.billing@abs.gov.au

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AUSTRALIAN CUSTOMS DEVELOPMENTS AND THEIR IMPACT ON AUSTRALIA'S INTERNATIONAL TRADE STATISTICS

Introduction

1. Two Australian Customs developments, when implemented, are expected to have significant impacts on the compilation of Australia's international merchandise trade statistics. These developments are the Cargo Management Re-engineering (CMR) Project and the Accredited Client Program. A phased implementation of these developments is planned, with the initial phases of relevance for Australia's trade statistics likely to commence operation in the second half of 2002.
2. The concepts, sources and methods currently used for compiling Australia's international merchandise trade statistics are set out in *International Merchandise Trade, Australia: Concepts, Sources and Methods, 2001* (ABS Cat. no. 5489.0). An electronic version can be accessed on the ABS web site (www.abs.gov.au, see Themes, International Trade). Australia's international merchandise trade statistics generally comply with the international standards set out in the UN publication *International Merchandise Trade Statistics: Concepts and Definitions, 1998*.
3. Australia's trade statistics are compiled from records submitted by importers, exporters or their agents to the Australian Customs Service (Customs). Customs data on a transactional basis are provided daily to the Australian Bureau of Statistics (ABS). The ABS does not have the resources to comprehensively assure the quality of all import and export data. The large bulk of transactions included in the statistics are 'as reported to Customs'.
4. ABS editing procedures are designed to ensure that sufficient editing is undertaken to maintain the quality and integrity of trade data to at least the 6 digit level of the Harmonized System. Most effort is directed at ensuring that large value transactions are correct. The editing procedures currently used are summarised in Chapter 5 of the Concepts, Sources and Methods publication.

Timeliness

5. Selected international merchandise trade data are made available internally for the compilation of estimates for the monthly ABS publication *International Trade in Goods and Services, Australia* (ABS Cat. no. 5368.0), which are produced on a balance of payments basis. These are provided on the 5th working day of the next month for imports and the 13th working day of the next month for exports. Detailed merchandise trade data are released externally on the 12th working day for imports and the 21st working day for exports (coinciding with the release of 5368.0).

Data quality

6. The quality of the source records used, and Australia's monthly trade statistics, are assessed in Chapter 8 of the Concepts, Sources and Methods publication. The analysis shows that the median amendment

to the aggregate source records prior to initial publication, in the four years to June 2000, was \$285 million (Australian dollars) per month or 3.2% of total for imports, and \$487 million or 6.4% of total for exports. Medians are used because a small number of very large reporting errors greatly affects individual monthly comparisons and the average overall.

7. By contrast, revisions made after the initial publication of the data are very small. The average monthly revision from the initial to final published estimate, over the same period, was only \$6 million for both imports and exports, less than 0.1% of the totals. There will of course be errors that haven't been detected in the published data, as well as trade for which no entries have been provided. However there is no evidence of any substantial or systemic problems in these respects.

Cargo Management Re-engineering Project

8. In the mid to late 1990s, the Australian Customs Service initiated a program of consultation with industry and government agencies, which concluded that a comprehensive re-engineering of Customs cargo management processes was necessary. In March 2000, Customs released the CMR Business Model. The proposed business processes are designed to facilitate the flow of legitimate trade and allow industry maximum flexibility in communicating electronically with Customs. Agreements which vary the minimum standard procedures are to be developed by Customs with individual organisations, based on the level of risk presented, in conjunction with the Australian Quarantine and Inspection Service (AQIS), the ABS and the relevant Permit Issuing Agencies (PIAs) in Australia.
9. Legislation giving effect to the changes was passed by the Australian Parliament in June 2001, with the provisions able to be implemented during a period of up to two years after the passage of the legislation. At the time of writing, the timetable for implementation is being reassessed due to changes in the arrangements for delivering the IT solutions for the project. Detailed specifications for the systems have reached an advanced stage of preparation. It is expected that the current and new systems will operate in parallel for a time to allow industry time to make the necessary changes to their systems and procedures.
10. The objective of the ABS has been to ensure that key trade statistical requirements continue to be met from the new systems, and that, wherever possible, the quality of data reported is maintained or improved. Detailed planning of changes to ABS systems and procedures will commence when further details of the Customs changes are available. The ABS will work to ensure that business continues as usual during the transitional period and that there are no uncontrolled impacts on trade statistics. Key data items and classifications will be largely the same as for the current system. There will be changes to the thresholds for some declarations, the range of data captured, and how some items are reported / derived.

Accredited Client Program

11. Development of the Accredited Client Program commenced in advance of the CMR project, but is now closely linked to it. The program provides much of the flexibility sought under CMR, and CMR systems will provide the functionality and support required for its operation. The benefits for accredited clients include simplified reporting requirements, less regular interaction with Customs systems, reduced government compliance auditing and alternative cost recovery charges.
12. To become an accredited client, an applicant will need to:
 - be able to communicate import and export information to Customs electronically

- show a history of providing accurate and timely provision of import and export information to Customs
- demonstrate that their systems will ensure their good compliance record will continue
- show a record of compliance with the import and export requirements of PIAs
- have access to electronic systems capable of creating and / or re-creating information relating to the importing or exporting of goods.

Periodic declarations

13. Under the Accredited Client Program eligible importers and exporters will be able to report to Customs on a periodic rather than a transactional basis. Minimal information will be provided at the time of import (none for exports), with the other information required provided in a monthly periodic declaration. The Customs legislation requires that the periodic declaration be lodged with Customs on the first calendar day of the following month, or as determined by the Minister and prescribed through regulation.
14. The reporting date included in the legislation was as agreed in consultation between the government agencies involved and industry representatives. The qualifying clause was added by Parliament, after representations by some elements of industry to align the reporting date for periodic declarations with that for the Business Activity Statement (BAS), which accounts for the new goods and services tax and several other taxes in Australia. Lodgement of the BAS form is generally required by the 21st calendar day of the following month for the type of business that might become an accredited client.
15. To obtain passage of the legislation, the Australian Government agreed to form a Reporting Date Working Group to consider further the appropriate reporting dates. The Working Group has met and a report is being prepared for the Minister for Customs, who under the additional clause has the power to vary the reporting date. Whatever the reporting date outcome, ABS systems and procedures will need to change to handle a different method of data capture and reduced timeliness of data supply. The quality assurance procedures applied will need to be modified and there will be reduced time to apply them. At least some aspects of the processing and dissemination timetables will be affected.

Reporting options

16. Three different options are to be supported by Customs for periodic reporting:
 - Option 1 - the periodic declaration will be a concatenation of the individual line entries that would otherwise be submitted on a transactional basis.
 - Option 2 - the periodic declaration will only include those data items that are not otherwise available to Customs. Customs will extract information from the separately submitted cargo reports relating to these transactions and complete the periodic declaration.
 - Option 3 - the periodic declaration will include aggregated entries for transactions with similar cross classified characteristics e.g. commodity, country, state, port, mode of transport etc. No linking is possible as it is precluded by aggregation.
17. Under Option 1 current quality assurance procedures can continue to be applied. While the basic procedures might not change for Option 2, its use is dependent on Customs satisfactorily linking many different reports and completing the declaration promptly. Under Option 3 some current procedures will not be able to be applied because of the change from a transaction based system to a 'semi-aggregated' periodic declaration. Confirmation of individual transactions will not be possible and unit

value editing will need to take account of the fact that individual lines may relate to multiple transactions.

Populations

18. We do not know how many businesses might become accredited clients or which reporting options will be more commonly taken up. Under the cost recovery model through which the costs of Customs services are recovered from traders, it is expected that only a couple of hundred might benefit financially from being an accredited client. However this may not be an overriding consideration. Customs will promote the scheme and it is open to all who can meet the criteria. A very small number of businesses have been involved in the initial consultations, with most still to decide which option is best for them. It is expected that the initial take-up rate for the program will be quite small, because of the time required for a business to achieve accreditation.

Client agreements

19. The revised Customs legislation allows the CEO of Customs to enter into import information contracts and export information contracts with importers and exporters under the Accredited Client Program. Before entering into an information contract the CEO must be satisfied that the client has demonstrated they meet objective criteria specified in the business rules. To show that the criteria have been met, the client must engage an independent auditor to conduct a commencement audit.

20. The information contract specifies the goods to be covered by the contract. Some goods may be excluded from the scope of the contract because they are precluded by Customs or AQIS e.g. there has to be a quarantine inspection of the goods before they are released for import. An importer or exporter can use multiple agents and therefore multiple periodic declarations might be provided in respect of a single business for any given reference period. If an agent is used, that person or agency's systems must also be assessed by the auditor.

21. Where a client needs to make amendments to a periodic declaration previously submitted to Customs, an 'adjustment' record on the next month's periodic declaration will be provided. Where the amendment is of a significant nature, the client is required to immediately notify the ABS by electronic mail and confirm the notified amendment on the next month's periodic declaration. A significant error for this purpose is one where the value nominated in a line of an entry and the actual value differs by \$250,000. The agreements specify approaches for dealing with underperformance under the contracts, which may ultimately lead to their termination.

22. There will be meetings with applicants which will enable each agency to deal with any concerns it has prior to the commencement of periodic reporting. There will be annual reviews under each contract. Each business will have a dedicated contact in Customs to coordinate their dealings with all of the agencies involved. These arrangements offer the opportunity for more direct and regular dealings with significant businesses on data quality issues.

Business rules

23. The business rules define the conditions and standards to be met by organisations that wish to join the Accredited Client Program. The business rules will operate in a similar fashion to regulations. They will be tabled in Parliament, and Parliament will be able to disallow them.

24. From a statistical perspective, the most important inclusions are Accreditation Standard 3 and Continuing Obligation 3. Accreditation Standard 3 says that ... 'The applicant must meet specified accuracy standards in relation to the importation and exportation of goods over the previous 12 months.'
25. In particular, no more than 2% of entry lines can have any of the following information incorrect:
- classification
 - quantity
 - customs value (imports) or customs export value (exports)
 - country of origin (imports) or country of destination (exports)
 - state of destination (imports) or state of origin (exports).
26. For the purposes of this clause, an error has occurred when:
- the customs value (for imports) or the customs export value (for exports) of goods nominated and the actual value differs by \$10,000, or 1%, whichever is the greater; or
 - the quantity of goods nominated and the actual quantity differs by 5% for specified commodities (wheat, sugar, crude oil, iron ore, coal, caustic soda, gold, silver and diamonds), or 50% for all other commodities; or
 - the code nominated differs from the actual code of the goods imported or exported for any of the other three fields specified above (classification, country and state). [Classification refers to the commodity code allocated, at the finest level.]
27. Continuing Obligation 3 says that ... 'The applicant must have systems in place so that when a systemic error in the preparation of information for Customs is identified, the situation is remedied.' A systemic error means an error of a class or type that repeatedly appears in one of the forms or declarations required to be lodged. The applicant must create a written record of any systemic errors identified (how the error was made, what action was taken to correct it, and what action was taken to prevent its recurrence). The record must be forwarded to Customs within 24 hours of the identification of the error.
28. These rules are aimed at preventing participation by importers or exporters who do not have a satisfactory compliance history in respect of providing accurate information. The tests are restricted to the most important fields for trade statistics and specified in such a way as to eliminate the more trivial errors from the tests. In a very broad sense, the intention has been to approximate the quality assurance procedures applied by the ABS i.e. restrict the measures to those that are more significant or 'material' for statistical purposes.

Data quality

29. Industry representatives have considered the tests to be very difficult to meet. Their views are coloured by the knowledge that, even in the best of systems, there is a lack of perfect precision about the information supplied e.g. does a box include 99 or 100 T shirts? In reality, no-one expects that degree of precision and the tests provide tolerances about the 'true figures' for value and quantity. For statistical codes, it is very difficult to provide any tolerances. They are either right or wrong, even though there are some 'shades of grey' in interpreting some classifications. The tolerances for these fields is essentially built into the 2% overall error rate permitted.
30. The 2% error rate was set by looking at the errors that had been detected by the ABS, in respect of the small number of businesses participating in the development of the program several years ago, using

its normal procedures at the time. All had lower overall error rates than 2%. There was no separate examination of the data reported, in its entirety, in respect of any of these businesses. The ABS is now scrutinising lower value transactions to a much lesser extent and it is therefore likely that the error rates that would now be observed would be considerably less. The ABS considers the test to be quite generous.

31. While improvements in the general quality of data are worthwhile, there is no direct link between the overall error rate and those individual errors that are most significant to the compilation of trade aggregates i.e. significant errors in value (or classification) for large transactions. A single error made by a business can be highly significant, even if that business' overall error rate is low.
32. Often the errors are relatively random and involve use of the wrong exchange rate, a code being entered in a value field, misplacement of a decimal point, use of an incorrect unit of quantity, or the lodgement of non-indicative information prior to the later confirmation of the accurate details of an entry. On the other hand, it could reasonably be expected that an accredited client would have systems and procedures in place to detect and correct such errors before the records are submitted to Customs. More time is provided under the Accredited Client Program for the business to 'get the data right'.
33. Another critical issue is the industry perception of the specification and use of an error rate. Does 98% accuracy suddenly become good enough, when previously 100% accuracy was the requirement set out in the legislation (even if this is not fully achievable in practice)? Might not the use of a lower accuracy standard be counter productive in attempting to improve the quality of data reported, particularly if it provides no protection from the types of errors of greatest concern?

Timeliness

34. Implementation of the Accredited Client Program will delay the release of some trade statistics, due to the later receipt of information on periodic declarations. The later data supply, and some of the difficulties outlined with assuring the quality of data reported periodically, may reduce the quality of initially published estimates, resulting in greater revisions to published data.
35. The ABS will continue to work closely with Customs and industry to minimise any adverse impacts and to take advantage of those aspects which offer opportunities for quality improvements. The program offers significant benefits to regular importers and exporters, while Customs, AQIS and the ABS are working together to ensure that the broader community interests are adequately protected under the new arrangements.

Summary

36. This paper has described two distinctly different, but linked, Australian Customs developments which are likely to have a significant impact on the compilation of Australia's trade statistics over the next couple of years. There are still uncertainties about some key matters e.g. reporting date for period declarations, the future timetable for the CMR development.
37. The ABS has good working relationships and arrangements with Customs. However the scale of these developments will require continued attention to the relationship. A Memorandum of Understanding (MOU) between Customs and the ABS is yet to be developed. It is planned that this will include senior level meetings between the agencies 2-3 times a year. Customs is reviewing its current business processes and organisational structure to ensure it takes best advantage from the changes being made.

38. The ABS would appreciate comment from conference participants on the matters raised. The following issues are arguably of greatest interest:

- experience of other countries with periodic declarations (in a Customs clearance context)
- quality assurance procedures used for periodic declarations
- accuracy standards used for monitoring or improving reporting
- transition / migration planning for major Customs system changes
- managing the relationship between Customs and statistical agencies
- handling feedback to Customs on data quality issues.

APPENDIX: DEVELOPMENTS IN AUSTRALIA'S MERCHANDISE TRADE STATISTICS

Concepts, Sources and Methods

1. Australia's international merchandise trade statistics are generally compiled in accordance with the international standards for international merchandise trade statistics established by the United Nations, as described in *International Merchandise Trade Statistics: Concepts and Definitions* Series M, No.52, Rev.2, 1998.
2. To improve understanding of how Australia's international merchandise trade statistics are compiled, the ABS released a new publication *International Merchandise Trade, Australia: Concepts, Sources and Methods* (ABS Cat. no. 5489.0) in May 2001. The new publication outlines the conceptual framework for Australia's international merchandise trade statistics and describes the data sources and methods used to compile them.
3. It explains the classifications used to capture and disseminate trade statistics, describes how the data are edited and confidentialised, and analyses different aspects of the quality of trade data. It explains the relationship of international merchandise trade statistics to other statistics and discusses several emerging issues.
4. The publication was prepared independently of the development by the UN of the IMTS Compilers Manual. Users can access the publication free of charge via the ABS web site (<URL:<http://www.abs.gov.au>>, see Themes, International Trade, Publications). The ABS intends to update the web site version of the publication as changes are required. Copies of the printed publication have been provided to the OECD and UNSD.

Harmonized System Changes

5. The Harmonized System (HS) provides the basis for the description and classification of goods for Customs purposes in Australia and many other countries. On 1 January 2002, Australia will implement the latest WCO revisions to the international 6-digit HS classification. The changes have consequential impacts on the 8-digit import tariff items, and on the 8-digit export and 10-digit import statistical codes, used in Australia.
6. The Australian Customs Service and the ABS have reviewed the tariff and statistical codes affected by the 6-digit HS level changes. While the review mostly focused on those items identified as requiring change due to the international review, the opportunity was also taken to make other changes to simplify and improve usage of the classifications.
7. Initial proposals for the detailed classifications were developed by applying the previous dissections wherever possible. The ABS consulted relevant industry organisations where significant changes were proposed or technical advice or assistance was required. The proposals were made available via the ABS web site and all known stakeholders advised of the review. Throughout the process the ABS worked closely with the other government agencies involved and consulted with several international and overseas agencies on aspects of the review.
8. Following implementation of the changes resulting from the review, Australia will have 8548 import statistical codes (an increase of 9.8%) and 5742 export statistical codes (an increase of 1.8%). These can be compared with the 5249 6-digit HS headings under the revised classification. The ABS will not

be backcasting any trade data, but the concordances between the old and new classifications will be available to data users.

The New Tax System

9. Australia introduced The New Tax System (TNTS) on 1 July 2000. A number of aspects are of interest for future trade statistics, including the introduction of the Australian Business Number (ABN). Under TNTS, registered businesses receive an ABN and are included on the government managed Australian Business Register (ABR). The name of each business and its ABN are publicly available from the ABR. Government policy is that the ABN is to be used in all dealings by government with business. Customs introduced use of the ABN in its systems on 1 July 2000.
10. Introduction of the ABN provides significant statistical opportunities. There is considerable interest in knowing the characteristics of businesses involved in the export or import of goods, including the industries to which they belong. Information on the trade activity, particularly exports, of businesses and industries has therefore been an area of substantial unmet demand.
11. The ABN can be used to enable matching, confrontation, supplementation and substitution of Customs data with data from other sources available to the ABS. This enables the ABS to enhance data sets, or create new data sets, without imposing any additional reporting load on businesses. Specifically, the ABS is matching the ABNs of the actual importer or exporter with other sources, to capture the standard industry codes and other characteristics of those businesses. It will then be able to publish trade statistics on a standard industry basis, consistent with other industry statistics produced by the ABS.
12. The ABS is undertaking various investigations and analyses on the data that is now available and expects to release some experimental estimates during 2002. Regular publication of the estimates is dependent on overcoming some ABN reporting problems for exports and linking to a new ABS units model to be implemented in mid 2002. The ABN is also a key element in a number of globalisation studies that the ABS is undertaking.

Further information

13. A theme page for international trade statistics has been created on the ABS web site (see para 4 above). The ABS regularly updates the theme page and places publicly available documents on the web site when they are released. The aim is make the theme page the main point of reference for anyone wanting to find out more about Australia's trade statistics.
14. For more specific matters, contact can be made with one of the following officers:
 - Ivan King, Head, International and Financial Accounts Branch ivan.king@abs.gov.au
 - John Billing, Director, International Trade john.billing@abs.gov.au
 - Rhodri Jones, Assistant Director, Exports and Imports rhodri.jones@abs.gov.au (compilation and quality assurance of exports and imports data)
 - Christine McLaughlin, Assistant Director, Trade Development christine.mclaughlin@abs.gov.au (concepts, customs developments, tax investigations, bilateral studies)
 - Sharyn Sturgeon, Assistant Director, Trade Data Management sharyn.sturgeon@abs.gov.au (classifications, confidentiality, dissemination)