



**Australian Government**  
**Department of Agriculture,  
Water and the Environment**

## **COST RECOVERY IMPLEMENTATION STATEMENT 2021-22**

### **Product Emissions Standards**

**Regulating emissions from non-road  
spark-ignition engines and equipment and marine engines**



## Contents

1	INTRODUCTION .....	3
1.1	Purpose of the CRIS.....	3
1.2	Description of the regulatory charging activity .....	3
2	POLICY AND STATUTORY AUTHORITY TO COST RECOVER.....	5
2.1	Government policy approval to cost recover the regulatory activity.....	5
2.2	Statutory authority to charge .....	5
3	COST RECOVERY MODEL .....	5
3.1	Outputs and business processes of the regulatory charging activity .....	5
3.2	Costs of the regulatory charging activity .....	7
3.3	Design of regulatory charges .....	8
4	RISK ASSESSMENT .....	14
5	STAKEHOLDER ENGAGEMENT.....	15
5.1	Ongoing engagement strategy on regulatory charging .....	15
5.2	Summary of recent stakeholder engagement .....	15
6	FINANCIAL ESTIMATES .....	16
7	FINANCIAL AND NON-FINANCIAL PERFORMANCE.....	16
7.1	Financial performance .....	16
7.2	Non-financial performance .....	17
8	KEY DATES AND EVENTS.....	20
9	CRIS APPROVAL AND CHANGE REGISTER.....	20

# 1 INTRODUCTION

## 1.1 Purpose of the CRIS

This Cost Recovery Implementation Statement (CRIS) provides information on how the Department of Agriculture, Water and the Environment (the department) implements cost recovery to administer emission standards for new spark-ignition non-road engines and propulsion marine engines. The CRIS also reports financial and non-financial performance information relating to the regulation of product emissions. The department reviews and maintains the CRIS while the regulatory activity and cost recovery arrangements are in place.

The cost recovery model has been designed to reflect the most efficient and effective costs associated with all aspects of delivering the regulatory scheme.

## 1.2 Description of the regulatory charging activity

The key policy objective of the department's regulatory charging arrangement is to address air pollution and minimise adverse impacts on human and environmental health by regulating emissions-controlled products.

The *Product Emissions Standards Act 2017* (the Act) commenced on 15 September 2017. The Act allows the Minister for the Environment to set emissions standards for products by designating them as "emissions-controlled products" or ECPs. The first ECPs regulated under the Act are new spark-ignition non-road engines of 19 kilowatts or less in power and new spark-ignition propulsion marine engines.

The department aims to fully cost recover the projected total cost base of the arrangement. Cost recovery arrangements for the emissions standards consist of fees and levies. Levies are paid by importers and local manufacturers who introduce new outdoor power equipment and marine engines to Australia. Local manufacture means the manufacture of engines and does not include the assembly of imported engines into equipment. Currently there is no domestic manufacturing of engines.

### **Why have emissions standards been introduced for non-road spark ignition engines and marine engines?**

Prior to the introduction of the Product Emissions Standards, exhaust emissions from non-road engines and propulsion marine engines were unregulated in Australia. The sector was recognised as a significant contributor to pollution in urban areas at peak times.

Non-road engines and propulsion marine engines emit various air pollutants including particulate matter (PM), hydrocarbons (HC) and oxides of nitrogen (NOx). Engines that do not meet emissions standards can be high polluters relative to their engine size and usage. For example, a two-stroke leaf blower used for one hour can emit the same emissions of NOx as a car, and as much hydrocarbons as 150 cars, when operated over the same timeframe.

Increased population exposure to air pollutants increases the risk of adverse health effects. Significant health costs are associated with inhalational exposure to fine PM by the general population, including costs of hospital admission and lost work productivity. There is also no known

threshold for PM exposure below which health effects do not occur, meaning any exposure can be harmful.

Regulating emissions from spark-ignition non-road engines and propulsion marine engines through emissions standards is expected to deliver \$1.7 billion in avoided health costs over 20 years. The emissions standards have an additional benefit as lower-emitting engines are more fuel efficient and this results in lower greenhouse gas emissions.

The implementation of the standards ensures Australians receive high-quality, low-emitting engines and equipment, and air pollution harmful to human health and the environment is reduced.

The Product Emissions Standards set limits on the emissions of NO<sub>x</sub>, carbon monoxide and HC from non-road engines and propulsion marine engines. Since 1 July 2018, all new non-road engines and propulsion marine engines imported and domestically manufactured have been required to comply with the standards. Since 1 July 2020, all new non-road engines and propulsion marine engines sold in Australia have been required to comply with the standards.

Non-road engines and propulsion marine engines that are certified as meeting the emissions standards from the United States Environment Protection Authority, California Air Resources Board, Canada, and the European Union meet the Australian standards. If a product is not already certified in one of these jurisdictions, an application may be made for Australian certification. In certain circumstances some products may be eligible for an exemption from the standards.

The department has sought to minimise regulatory and administrative burden (and therefore costs) in designing and delivering the scheme. For instance, features of overseas schemes that would significantly increase charges to industry with little overall benefit in an Australian context have been excluded. These include averaging, banking and trading of emissions; evaporative emission standards; and domestic certification of products already covered by trusted international certifications. Costs have also been reduced in establishing the information technology system to support the scheme by integrating with the department's existing client relationship management interface.

The scheme has been successful in stopping the imports of non-compliant products and has received widespread support from industry during its establishment and implementation. Modelling commissioned by the department indicates the Standards have driven a significant reduction in noxious emissions. In the latest financial year, more than 2 million cleaner engines were imported and emissions of hydrocarbons and oxides of nitrogen from engines covered by the Standards have roughly halved.

Cost recovery (or regulatory charging) falls within the Australian Government Charging Framework. Regulatory charging is appropriate because the import and supply of non-road engines and propulsion marine engines into the Australian market generates the need for this regulatory activity, that is, the regulation of engines to reduce their emissions of pollutants. As outlined in the Australian Government Charging Framework it is appropriate for costs to be recovered from the sector being regulated. If it were not for the activities of this group, the regulatory activity would not be required to be undertaken.

Regulatory charging also increases awareness of the real costs of government activity.

## **2 POLICY AND STATUTORY AUTHORITY TO COST RECOVER**

### **2.1 Government policy approval to cost recover the regulatory activity**

On 9 May 2017, as part of the 2017-18 Budget, the Government announced full cost recovery would be introduced to administer the new product emissions standards. Details of the announcement can be found in the former [Department of Environment and Energy's 2017-18 Portfolio Budget Statement](#).

### **2.2 Statutory authority to charge**

The *Product Emissions Standards Act 2017*, *Product Emissions Standards (Customs) Charges Act 2017*, and *Product Emissions Standards (Excise) Charges Act 2017* came into effect on 15 September 2017 providing authority for the emissions standards and their associated regulatory charges. Rules and regulations made under the new legislation provide the details of the fees and levy.

The legislation authorising cost recovery is identified below.

#### [Product Emissions Standards Act 2017](#)

- States that the rules may provide for charging fees for services provided in the performance of functions under this Act and for the collection and recovery of charges.

#### [Product Emissions Standards Rules 2017](#)

- Sets out the details of the fees for receiving and processing applications for Australian certification and exemptions;
- Sets out the collection and recovery of the customs charge and excise charge.

#### [Product Emissions Standards \(Customs\) Charges Act 2017](#)

- States that charge is imposed on the importation of emissions-controlled products and that the amount of the charge (or the method of calculating it) is to prescribed by the regulations.

#### [Product Emissions Standards \(Customs\) Charges Regulations 2018](#)

- Sets the amount of charge imposed on the importation of emissions-controlled products.

#### [Product Emissions Standards \(Excise\) Charges Act 2017](#)

- States that charge is imposed on the manufacture of emissions-controlled products and that the amount of the charge (or the method of calculating it) is to prescribed by the regulations.

#### [Product Emissions Standards \(Excise\) Charges Regulations 2018](#)

- Sets the amount of charge imposed on the manufacture of emissions-controlled products.

## **3 COST RECOVERY MODEL**

### **3.1 Outputs and business processes of the regulatory charging activity**

The outputs of the regulatory charging activity and the key business processes used to produce those outputs are outlined in Table 1. The costs of assurance, incident management, program management and administration outputs are recovered via the levy. The costs of assessment outputs are recovered via application fees.

**Table 1 Outputs of the regulatory charging activity**

Charge point	Regulatory activity category / Output	Specific activities / business process
LEVY	<p><b>Assurance</b> <i>Activities to mitigate and manage the risk of non-compliance</i></p> <p>Outputs: Imports and supply of products are monitored for compliance, scheme awareness is high, regulated entities understand their responsibilities, compliance approach is targeted to the risk.</p>	Monitoring imports
		Monitoring supply
		Compliance education
		Education about the scheme
		Intelligence collection
		Compliance strategy development
LEVY	<p><b>Incident management</b> <i>Activities that respond to incidents concerning potential breaches of the scheme</i></p> <p>Outputs: Auditing potential breaches, investigating and documenting and responding proportionately to non-compliance.</p>	Targeted audit and assessment
		Investigations
		Enforcement action
		Seizure, forfeiture and destruction
LEVY	<p><b>Program management and administration:</b> <i>Activities that support the department to deliver, maintain and improve the design of the scheme</i></p> <p>Outputs: Best practice regulatory arrangements in place, legislation reviewed and updated, effective stakeholder engagement and responsiveness, effective business and IT systems, well trained staff and timely levy administration.</p>	Policy, legislation and review and scheme governance
		Stakeholder engagement
		Business system and data administration
		Workforce management, planning and development
		Levy administration and collection
FEE	<p><b>Assessment:</b> <i>Activities provided directly to an individual, business or organisation to assess applications for certification or exemption</i></p> <p>Outputs: Applications assessed within statutory timeframes, compliance with exemption conditions audited, and timely application fee administration.</p>	Assessing certification applications
		Assessing exemption applications
		Monitoring compliance with exemption conditions
		Responding to assessment decision appeals
		Payment processing for fees

The business processes for these activities are further detailed in [Appendix A](#).

### 3.2 Costs of the regulatory charging activity

The department uses an activity-based costing (ABC) system to determine the cost of regulatory activities. The ABC methodology reflects the effort undertaken to deliver a regulatory activity to the individual or entity. This methodology provides accountable and transparent cost allocation, and supports efficient and effective cost recovery administration.

Costs can be categorised as direct and indirect expenses:

- Direct expenses are those that can be directly attributed to the provision of an activity, for example, assessing applications. Direct expenses include staff salaries, supplier costs and capital costs related to the IT system for management of data and workflows.
- Indirect expenses are those that support but are not directly linked to the provision of an activity. Indirect expenses include corporate employee salaries, and overheads such as information technology, finance, human resources, and indirect capital expenses which include plant, property, and depreciation.

The cost breakdown estimates for the current financial year are provided in Table 2.

**Table 2 Cost breakdown estimates for the current financial year (2021-22)**

Output	Direct costs	Indirect costs
Assurance, incident management, program management and administration (levy)	\$1,764,150	\$458,679
Assessment of exemption applications (fees)	\$13,950	\$3,627
TOTAL	\$1,778,100	\$462,306

The department intends to fully recover the projected total cost base of the arrangement. For 2021-22 to 2024-25 the department has anticipated an annual average cost base of \$2,358,720 per year. Education and compliance costs will increase moderately for future years, reflecting greater effort directed to supply monitoring, leading to increased scheme delivery costs compared to the initial four year period.

#### Levies

The amount of work involved in the assurance, incident management, and program management and administration activities is largely driven by import volumes although it is also affected by the number of lines of import data scrutinised by the department and the number of importers and suppliers in the market.

Assurance activities to monitor imports, enforcement and compliance contribute significantly to the cost base, and are largely driven by volumes. Each time a product or products are imported, the department checks compliance with the standards. With large numbers of imports there are more import anomalies to be checked, potential breaches to be assessed and systems and processes that need to be in place to ensure consistency and accountability in administration.

The main unit of import data is a “line” of import data within the Home Affairs Integrated Cargo System. There can be any number of individual items reported on a line of import data. A line of import data provides a unique product description (for example, XYZ model lawn mower), the quantity of the product being imported, details of the tariff code and statistical code for the product,

the value of the products on that line including the value of transport and insurance and details of shipping arrangements, customs agent and delivery address.

Each line of import data also identifies whether the import contains non-road or propulsion marine engines. If the import contains non-road or propulsion marine engines the import data includes the relevant engine certification number for the product. Following import each line of import data is checked against the certification numbers issued by the recognised overseas certification authorities to verify that the certification number is valid.

Other activities, including compliance education and stakeholder engagement, are driven by the number of regulated entities. Other costs in the cost base, such as for general administration and management, are not sensitive to volumes of imports or products sold or the number of entities.

### **Fees for service**

Application assessments for certification or exemptions from the standards are activities provided directly to an individual, business or organisation. The costs involved in assessing an application come from departmental staff salaries and supplier costs for undertaking the application assessment.

The assessment of an application includes an initial check that the applicant has provided all necessary documents, evidence and information to allow an assessment to be undertaken. If more information is required the applicant may be contacted by the assessment officer. When all the required information is provided applications are assessed against the statutory and technical requirements in the Rules. Assessment may involve obtaining legal advice and/or technical advice where required.

If approved, an exemption or certification certificate is issued with a unique identifying number and given effect under the legislation by being published on the department's website. Compliance with exemption conditions is monitored through reports provided by applicants and by conducting audits and taking any required corrective action.

### **3.3 Design of regulatory charges**

The department determines appropriate regulatory charges after establishing activity costs (the cost base) and volumes. The department uses a combination of levies and fees for service, designed in accordance with the Australian Government's Charging Framework.

The department's design of the charge points is driven by the principles of efficiency, equity and simplicity, as outlined in the Charging Framework.

Fees are charged for applications for the certification of engines to the Australian standards and for applications for exemptions from the standards. The costs for these services are linked to specific individuals or organisations submitting applications.

A levy on the import and local manufacture<sup>1</sup> of emissions-controlled products recovers the costs of the assurance, incident management, program administration and management activities that deliver

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<sup>1</sup> Local manufacture refers to the manufacture of engines and does not include the assembly of equipment using imported engines.



the scheme. The levy liability for importers is calculated using data on the value of imported emissions-controlled products provided by the Department of Home Affairs.

**Levy on import (and supply of locally manufactured) non-road or propulsion marine engines**

The levy on import (and supply of locally manufactured) non-road or propulsion marine engines recovers the costs of the assurance, incident management program administration and management activities that deliver the scheme.

The levy rate is a set percentage of the value of imports in a financial year, taking into account a high-value item and low-value importer thresholds. The levy is based on the value of the products imported to ensure those who create the need for the regulatory activity bear its cost on an equitable basis. This is a proxy for the main cost drivers for the scheme which are the volumes of imports and the numbers of import lines (for import monitoring) and the number of retailers and products (for supply monitoring).

The department considered alternative options to apply the levy including a flat rate per imported (or manufactured) product and a flat rate per line of import data. These approaches (outlined at [Appendix E](#)) were not supported because they are not as effective at apportioning costs in relation to the costs of implementing the scheme.

A flat rate per product levy places most of the levy costs on low value items as these are imported in high numbers. A flat rate per line of import data opens the scheme to potential gaming by importers adjusting the way they report on their imports.

The levy on the value of imports apportions scheme costs so the more importers financially benefit from importing products the more they pay. A high value per item threshold (see box below) included in the levy calculation makes allowance for the fact that some costs are driven by import lines, and some by numbers of products.

Apportioning levy costs based on import value provides a broadly equitable method because higher value products are typically imported in smaller quantities. Therefore, a single import line tends to pay a similar levy whether it is a large number of lower-value imports, or a smaller-number imports. However, the department considers this relationship does not hold true for very high-value engines or equipment. To account for this, the department applies a high-value threshold so the amount of a levy paid for the import of any single engine or piece of equipment does not exceed a certain value.

### **High Value Item Threshold**

The high value item threshold is included in the levy calculation to avoid unfair outcomes for high value items. For example, a single imported item worth \$100,000 would attract a levy of \$330 (at the 2021-22 levy rate of 0.33%) if there was no high value per item threshold. This amount is higher than the cost to the department of processing this type of single item import and the resulting supply monitoring and administration. The high value item threshold reduces the levy liability for this import.

If the same value import (\$100,000) was made up of 1000 items of \$100 value, the high value per item threshold would not apply so the full levy amount of \$330 would be payable. This reflects the fact that the assurance costs of monitoring, enforcement and compliance are significantly higher for this import line, as the products may be supplied by numerous retailers across the country.

### **Low-value importer threshold**

A low levy threshold has been calculated below which the levy is not charged to an importer as it is not economical to do so. This is set at the cost of administering a levy liability which includes calculating the levy liability, contacting the importer to confirm the liability amount, sending an invoice and processing the payment. The cost of processing a levy payment under the product emissions standards scheme is around \$144.

A low levy threshold reduces the number of importers that would pay a levy by around 180. This approach typically excludes importers who import a small number of low value imports. This reduces the overall administrative costs of the scheme by around \$30,000 as the department does not incur the gross cost of recovering small levy amounts from those below the threshold.

The levy rate for supply of locally manufactured products is the same as the levy on imports to ensure a level playing field for any local manufacture that may commence. ([Appendix C](#) has a levy assessment process map and [Appendix D](#) contains frequently asked questions for levy payers).

### **Changes to levy rates and threshold**

In establishing the scheme, levy settings were set so the levy revenue, which commenced in the second year of the scheme, would fully recover the costs of the establishment and implementation of the scheme over its first four years. This meant that the levy rate was set so that three years of revenue would cover four years of costs.

From the 2021-22 financial year, the levy rate will reduce from the current rate of 0.45% of the value of the product, to 0.33% of product value, reflecting the fact that the establishment costs no longer are required to be recovered.

This will result in a reduction of at least 25% in the levy amount for all levy payers. The draft consultation CRIS proposed a levy rate between 0.33% and 0.38%. The final rate of 0.33% reflects stakeholder feedback relevant to import forecasts.

The levy rate has been calculated based on the projected outyear expense base for the arrangement (Table 3) and the projected value of Emissions Controlled Product subject to levy (Table 4), considering the low projected volumes of exemption and certification fees.

**Table 3 Leviable value of Emissions Controlled Products\* and cost recovery revenue**

Year	2017-18	2018-19	2019-20	2020-21
Total leviable import value	-	\$623,660,000	\$665,658,000	\$950,488,222
Total cost recovered revenue	-	\$2,806,470	\$2,995,461	\$4,277,197

\* excluding levy payers which do not have to pay due to low value threshold, and accounting for high value per item threshold

The product value information comes from import declaration data in the Integrated Cargo System administered by the Department of Home Affairs. The historical import volumes were used as the starting point for calculating forecast value and revenue. There has been significant variability in import volumes linked to periods of below average rainfall in 2018-19 and 2019-20 followed by the wetter than usual La Niña weather pattern during 2020-21. The COVID pandemic has also affected import volumes for 2020-21. With more consumers at home and with a wetter than usual weather pattern in 2020-21, there has been higher demand for non-road engines, resulting in higher import values.

The department has developed these value forecasts based on the value of leviable imports over the last three years. The starting point for import value in 2021-22 is an average of the past three years, comprising two years of lower than average rainfall and one year of higher than average rainfall and the effects of COVID. This is then forecast to grow at 5.85% each year, based on the 20 year average growth rate for imports in the sector (using Australian Bureau of Statistics import data).

The department will regularly assess the arrangement to inform whether a cost recovery review is required, to ensure revenue and expenses are aligned. Levy payers should be aware that future reviews may show that levy or fee rates need to be revised – up or down.

**Table 4 Forecast leviable value of Emissions Controlled Products and cost recovery revenue**

Year	2021-22	2022-23	2023-24	2024-25
Forecast leviable value	\$718,858,027	\$760,911,222	\$805,424,528	\$852,541,863
Forecast levy revenue	\$2,372,231	\$2,511,007	\$2,657,901	\$2,813,388

### Change to High Value Item Threshold

The high value per item threshold was set at \$20,000 value over the first three years of the levy for 2017-18 to 2020-21 financial years. The department is reducing this threshold to \$10,000 as modelling from the import data over the first three levy years indicates that a lower cap would better align levy payments with the cost of regulatory activities under the scheme for higher value items. This change will affect around 60 of the approximately 230 importers who will pay a levy for imports in 2021-22.

The draft consultation CRIS proposed to maintain the **low levy threshold** at approximately \$144. With the proposed reduction in levy rate, that would mean the value of products imported in one financial year before a levy is payable would increase to over \$40,000. For simplicity, the low levy threshold will be based on a total leviable product value of \$44,000, which means it will increase slightly to \$145.20.

## Fees for service

The application fees for Australian certification and exemptions recover the department's costs to undertake the regulatory assessment. This includes assessing the application, making a recommendation to the decision maker and issuing a certificate with a unique identifying number and a set of conditions to the applicant. The upfront application fees were determined according to the level of assessment required for the respective applications, reflecting complexity or length of assessment. The costs were originally set based on an estimate of similar effort for other related schemes and have since been verified for most application categories by assessing applications since 2018. Based on the small number of applications since 2018, the costs of assessing applications in each category has broadly reflected the initial cost estimates.

## Exemption applications

Exemptions from complying with the emissions standards are available in some circumstances, outlined below, where compliant alternative engines are not available.

Applications for exemptions must be made to the department. There are six exemption categories that are context specific and which have different requirements for provision of supporting information. The different exemption types have different levels of complexity and therefore different fees as specified below.

An application must include a fee payment to the department, the application is then assessed and if an exemption is granted, a unique identifying exemption number with a set of conditions will be provided for the emissions-controlled product.

**Table 5 Fees – application for exemptions**

Exemption category	What is included	Application Fee
(a)	<ul style="list-style-type: none"><li>Imported for re-export - will not be used in Australia or supplied to the Australian market</li></ul>	\$1,470
(b)	<ul style="list-style-type: none"><li>Imported for testing, evaluation and display purposes</li></ul>	\$390
(c)	<ul style="list-style-type: none"><li>Imported for use by the Australian military or security forces for national security purposes where compliant products are unsuitable or unavailable.</li></ul>	\$550
(d)	<ul style="list-style-type: none"><li>Imported for use by recognised bodies for specialized rescue or emergency tasks where compliant engines are unsuitable or unavailable</li></ul>	\$1,470
(e)	<ul style="list-style-type: none"><li>Imported for use in legitimate competition events managed by recognised incorporated organisations where compliant engines are unsuitable or unavailable.</li></ul>	\$1,470
(f)	<ul style="list-style-type: none"><li>Imported as replacement engines for an existing non-road or propulsion marine engine which has no suitable alternative.</li></ul>	\$1,470

An exemption from complying with the requirements of the legislation does not result in the product being exempt from paying the import levy.

The department does not propose to amend prices for exemption applications fees. As stated above, based on the small number of applications since 2018, the costs of assessing applications in each

category is generally consistent the initial cost estimates. It is also not proposed to apply indexation to these fees as the additional forecast revenue would be trivial and would be exceeded by the costs of adjusting systems and guidance material to reflect new fees.

**Table 6 Historical volumes and revenue for applications for exemption**

Exemption category	2017-18 volume	2017-18 revenue	2018-19 volume	2018-19 revenue	2019-20 volume	2019-20 revenue	2020-21 volume	2020-21 revenue
(a)	3	\$4,410	0	\$0	0	\$0	2	\$2,940
(b)	1	\$390	10	\$3,900	2	\$780	2	\$780
(c)	1	\$550	2	\$1,100	0	\$0	1	\$550
(d)	1	\$1,470	1	\$1,470	0	\$0	3	\$4,410
(e)	0	\$0	0	\$0	0	\$0	0	\$0
(f)	1	\$1,470	0	\$0	0	\$0	2	\$2,940
<b>Total</b>	<b>7</b>	<b>\$8,290</b>	<b>13</b>	<b>\$6,470</b>	<b>2</b>	<b>\$780</b>	<b>10</b>	<b>\$11,620</b>

The historical volumes were used as the starting point for estimating future volumes.

**Table 7 Forecast volumes and revenue for applications for exemption**

Exemption category	2021-22 volume	2021-22 revenue	2022-23 volume	2022-23 revenue	2023-24 volume	2023-24 revenue	2024-25 volume	2024-25 revenue
(a)	3	\$4,410	3	\$4,410	5	\$7,350	4	\$5,880
(b)	2	\$780	3	\$1,170	4	\$1,560	4	\$1,560
(c)	1	\$550	1	\$550	0	\$0	3	\$1,650
(d)	4	\$5,880	2	\$2,940	3	\$4,410	3	\$4,410
(e)	0	\$0	1	\$1,470	0	\$0	1	\$1,470
(f)	4	\$5,880	5	\$7,350	4	\$5,880	4	\$5,880
<b>Total</b>	<b>14</b>	<b>\$17,500</b>	<b>15</b>	<b>\$17,890</b>	<b>16</b>	<b>\$19,200</b>	<b>19</b>	<b>\$20,850</b>

Appendix B outlines the exemption application assessment process.

### **Applications for Australian Certification**

In the event that a non-road or propulsion marine engine is not already certified in a recognised jurisdiction then an application may be made to the department for Australian certification. Applications for Australian certification are required to submit laboratory emissions testing results to the department for assessment. If certification is granted then a unique identifying certification number will be issued along with a set of conditions.

Applications for Australian certification are assessed through one of two streams with different application fees. The differences in the assessment process and application fee reflect the complexity and therefore cost of the assessment, which will depend on the level of accreditation of the laboratory where emissions testing was conducted.

**Table 8 Fees – applications for Australian certification**

Item	Application	Fee
1	an application for which the relevant emissions testing was carried out at a test facility that was accredited as mentioned in paragraph 13(1)(a)	\$1,330
2	any other application	\$2,850

There is a lower application fee for certification applications where testing has been conducted in a laboratory accredited by the International Laboratory Accreditation Cooperation (ILAC) to the appropriate standard.

There is a higher application fee when testing is conducted in a non-ILAC accredited lab as independent technical advice may be required by the department to verify test results from non-accredited laboratories. The laboratory must be able to demonstrate that its testing complies with the engine testing procedures specified in the Australian emissions standards. These are equivalent to the testing procedure specified in the US EPA Code of Federal Regulations Part 1065.

The department does not propose to change prices for application fees because data from the small number of applications between 2018 and 2021 indicate the fees broadly reflect the effort involved in assessing them.

**Table 9 Historical volumes and revenue for applications for certification**

Applications for certification	2017-18 volume	2017-18 revenue	2018-19 volume	2018-19 revenue	2019-20 volume	2019-20 revenue	2020-21 volume	2020-21 revenue
Item 1	0	\$0	0	\$0	0	\$0	0	\$0
Item 2	4	\$11,400	0	\$0	0	\$0	0	\$0
Total	4	\$11,400	0	\$0	0	\$0	0	\$0

Based on a very small number of certification applications to date, the department does not anticipate any certification applications or any revenue from certification applications.

Appendix B outlines the certification application assessment process.

## 4 RISK ASSESSMENT

As part of the evaluation and review of the cost recovery arrangements after the first three years of the scheme, the department has completed a charging risk assessment. The overall risk assessment rating for implementation of revised cost recovery arrangements is low. Table 4 identifies risks for the cost recovery arrangement and management strategies.

**Table 10 Risks for the cost recovery arrangements**

Risk	Management Strategy
<ul style="list-style-type: none"> <li>Charges may under or over recover the costs associated with effective and efficient administration of the scheme leading to stakeholder concern</li> </ul>	<ul style="list-style-type: none"> <li>Regularly review the cost recovery arrangements to ensure revenue is in line with expectations and that costs remain within forecast levels. Make any statutory changes required.</li> <li>Work with levy payers to review cost recovery outcomes and estimates of total imports</li> </ul>
<ul style="list-style-type: none"> <li>Stakeholders do not understand which charges they may need to pay.</li> </ul>	<ul style="list-style-type: none"> <li>Ensure broad stakeholder engagement to inform importers and domestic manufacturers of cost recovery arrangements.</li> <li>Clearly document charges through CRIS, make them publicly available.</li> </ul>

	<ul style="list-style-type: none"> <li>• Provide advice to stakeholders, including through a dedicated telephone number.</li> </ul>
<ul style="list-style-type: none"> <li>• CRIS consultation does not reach all stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure that all past and present levy and fee payers as well as peak bodies and the broader industry are involved and contacted through public consultation process which is undertaken as part of the CRIS process.</li> </ul>

The key risks for the scheme relate to the levy and fees, how these may change over time and how often they may change. Drivers for the need to change the fees and levies are changes in the value (and volume) of imports, changes in the costs of delivering the program and changes to the demand for the services under the scheme. The fees and levies and costs of administering the scheme will be monitored regularly and this may lead to the fees and levies being adjusted – up or down.

## 5 STAKEHOLDER ENGAGEMENT

### 5.1 Ongoing engagement strategy on regulatory charging

The department engages with stakeholders on regulatory charging for the standards by:

- Updating the CRIS for public review and conducting formal consultation prior to changes in the cost recovery settings
- Regular communication with industry peak bodies, for example presenting updates on scheme performance and upcoming consultations at peak body annual general meetings
- Building consultative relationships with stakeholders and engaging in discussion when opportunities arise through standard business operations
- Including cost recovery questions in general stakeholder surveys.

The department performs continuous improvement to support effective stakeholder engagement. The CRIS will be updated and published annually as the basis for engagement on scheme regulatory charging. The department will seek stakeholder feedback to regularly review the success of the regulatory charging engagement strategy.

### 5.2 Summary of recent stakeholder engagement

The department published the Product Emissions Standards 2021-22 draft CRIS in September 2021. Consultation on the draft CRIS was open to the public for a four-week period, between 24 September and 25 October 2021, and stakeholders from the marine and outdoor power engine industry sectors were invited to provide feedback. The Outboard Engine Distributors Association, the Outdoor Power Equipment Association, and all stakeholders who contributed to scheme cost recovery in 2018-19, 2019-20 and 2020-21 were notified by of the consultation by email. 15 submissions were made. Recent feedback on scheme cost recovery arrangements was also provided by stakeholders through the Product Emissions Standards general stakeholder survey conducted in January 2021 and ad hoc discussions with importers.

The key themes raised by stakeholders in consultation included:

- Support for the proposal to reduce the levy rate and efforts to keep overall costs to industry as low as possible.

- A mix of views on the way the structure of the levy apportions the levy between importers of different products, for example between high-value products and lower-value products, between loose engines and equipment, and for businesses re-exporting products.
- Encouragement for additional compliance enforcement activity.
- Interest in whether the levy would be further reduced or ultimately removed in the future if there is consistently high industry compliance.
- Views on the direction of future imports from the sector and trends that may influence them.

Following consultation on the 2021-22 draft CRIS, the levy rate will be reduced from 0.45% to 0.33% and the high-value item threshold from \$20,000 to \$10,000. No other substantive changes have been made to the cost recovery settings in response to consultation feedback. A report detailing the stakeholder feedback and the department's response to this feedback has been published separately on the department's website. The department will consider (outside the CRIS process) stakeholder feedback that was not related to cost settings and whether improvements to administration of the scheme (for example, how the department measures and reports on performance and finances) can be made in response to that feedback.

## 6 FINANCIAL ESTIMATES

**Table 11** Financial estimates for arrangement

	2021-22 Forecast	2021-22 Actual	2022-23 Forecast	2023-24 Forecast	2024-25 Forecast
Expenses = X	\$2,240,406		\$2,287,290	\$2,429,557	\$2,477,626
Revenue = Y	\$2,372,231		\$2,511,007	\$2,657,901	\$2,813,388
Balance = Y – X	\$131,825		\$223,716	\$228,344	\$335,762
Explain material <sup>a</sup> variance	Not material				
Explain balance management strategy	<i>If expenses and revenue do not align, levy and fee rates will be reviewed.</i>				

<sup>a</sup> As defined by AASB1031 and Division 12 – Materiality and Disclosure of the Finance Minister's Orders.

## 7 FINANCIAL AND NON-FINANCIAL PERFORMANCE

### 7.1 Financial performance

The Product Emissions Standards cost recovery arrangements are currently in their fourth year of operation. The cost recovered revenue, primarily from the levy on the import or sale of domestically manufactured emissions-controlled products, will be sufficient (including the levy revenue from the current financial year 2020-21) to recover scheme establishment and running costs over the first four years.

Revenue received from cost recovery fees and levies is paid directly to consolidated revenue by the department, and as such is recognised as administered revenue. The department receives appropriation revenue from the Commonwealth in recognition of revenue expected to be raised from fees and levies over the four years of the arrangement.



**Table 12 Financial performance for arrangement**

	2017-18 Actuals	2018-19 Actuals	2019-20 Actuals	2020-21 Actuals
Expenses = X	\$1,260,226*	\$1,275,468	\$1,199,627	\$1,289,509
Revenue (Cost Recovery - paid directly into consolidated revenue) = A	\$19,690	\$2,806,470	\$2,995,461	\$4,277,197
Revenue (Departmental appropriation) = B	\$1,531,000	\$1,563,672	\$1,502,998	\$1,289,509
<b>Balance of expenses against departmental appropriation for arrangement = B – X</b>	<b>\$270,774</b>	<b>\$288,204</b>	<b>\$303,371</b>	<b>\$0</b>
Explain material variance	Scheme delivery costs over the first four years have been marginally lower than initially forecast, partly due to the deferral of the supply offence by one year (from 1 July 2019 to 1 July 2020) and the subsequent impact of COVID restricting travel which has reduced the amount of on-site education and compliance activity that could be undertaken.			
Explain impact on balance management strategy				

\* Not shown in expenses is capital expenditure of \$1.108m in 2017-18 on an IT system build.

The levy liability for the first two levy years has been collected with 99.5% of the 2018-19 levy liability collected and 99.71% of the 2019-20 levy liability collected to date. The remaining outstanding payments are made up of debts to the Commonwealth that are subject to debt collection activity together with liabilities from some organisations that are in receivership. Levy payments for the 2020-21 financial year become due on 30 November 2021.

## 7.2 Non-financial performance

The non-financial performance of the regulation of non-road engines and propulsion marine engines is guided by three strategic objectives:

- **Objective 1:** maintain and improve air quality, human health, and the environment by reducing emissions from outdoor petrol-powered equipment and marine engines.
- **Objective 2:** ensure any emissions-reduction measures provide for a consistent national approach and are commensurate with international trade requirements and accepted international standards.
- **Objective 3:** ensure that any compliance approach provides a net benefit to the community and meets the objectives of the Australian Government's Deregulation Agenda by minimising the impact and costs on business to the extent possible.

Work towards achieving these objectives is evaluated against performance measures. The department reports on the measures for which there is available data and is collecting data to report against additional measures. For example, the department is currently engaged in a process of calculating the reduction in noxious and greenhouse gas emissions for the first three years of the scheme.

**Regulatory Activity: Assurance – monitoring imports and supply**

**Measure:** Import and supply of emissions-controlled products is monitored for compliance with the Standards

Importers of products in these tariff codes (approximately 10 million products a year) must declare whether the products are emissions-controlled products at import and, if they are, provide certification numbers. The department checks certification details and follow up undeclared products where declaration details suggest they could be emissions-controlled products. Import data from the Department of Home Affairs is received and updated in a monitoring database weekly. On average, there have been 829 follow-ups regarding irregular import declarations each year.

**Table 13 Follow-up action with importers**

Year	Follow-ups with importers
2018-19	857
2019-20	717
2020-21	913

When the department identifies irregular import declarations through its compliance monitoring program, it directly educates these importers and their customs brokers via email, letter, and phone about their obligations under the standards and the information they need to include in their declarations.

To support the supply monitoring process, the department has compiled a national dataset of over 1,300 retailers and online suppliers. Online supply monitoring has been underway in 2020-21 following the commencement of the supply offence on 1 July 2020. Monitoring of retailers will commence when COVID-19 restrictions allow.

**Regulatory Activity: Assurance – education about the scheme and compliance education**

**Measure:** Regulated entities are supported to understand and comply with their regulatory obligations

The department has conducted education activities to support regulated entities to understand and comply with their regulatory obligations. These include:

- advertisements in trade magazines for the outdoor power equipment and marine industry ahead of key implementation dates.
- an education campaign for retailers and peak equipment associations.
- published guides and factsheets in nine languages for targeted stakeholder groups.
- presented seminars and guides at customs brokers conferences and webinars.
- online advertising and social media targeting consumers searching for these products online.

**Regulatory Activity: Program management and administration - stakeholder engagement****Measure:** We effectively engage and respond to stakeholders

Through engagement with stakeholders, the department became aware of the significant impact the drought was having on the industry’s ability to sell non-compliant products before the initial commencement date of the supply offence on 1 July 2019. The department actively consulted a broad range of stakeholders (industry bodies, importers and retailers across the power equipment and marine sectors) to consider the costs and benefits to stakeholders and the objects of the Standards. In response to this consultation the supply offence commencement date was changed to 1 July 2020.

There is a dedicated email address and phone line for enquiries from the regulated community. Across 2018-19, 2019-20 and 2020-21 the department received and responded to 452 general enquiries with an average response time of 2.8 days.

**Table 14      General enquiries processed**

Year	Enquiries received	Average response time
2018-19	232	2.1 business days
2019-20	114	4 business days
2020-21	106	2.9 business days
<b>TOTAL</b>	<b>452</b>	<b>2.8 business days</b>

In January 2021 the department released a survey to the regulated community requesting feedback on the Standards and to gauge our performance on several measures. The department plans to continue engaging stakeholders through an annual survey.

**Regulatory Activity: Program management and administration - Levy administration****Measure:** Statements of liability and levy invoices are issued in a timely manner.

The department assists levy payers with levy payments by providing a statement of all their imports over the previous financial year and a calculation of their levy for them to check and verify. The department endeavours to do this in a timely manner after the end of the financial year. All levy liability notices for 201819 were issued by 31 August. All levy liability notices for 2019-20 were issued by 13 August and all notices for 2020-21 by 5 August.

The department also endeavours to issue levy invoices well ahead of the levy payment due date of 30 November. 164 levy invoices were issued for the 2018-19 financial with 95% issued by 31 October. 180 levy invoices were issues for the 2019-20 financial year with 86% issued by 5 November.

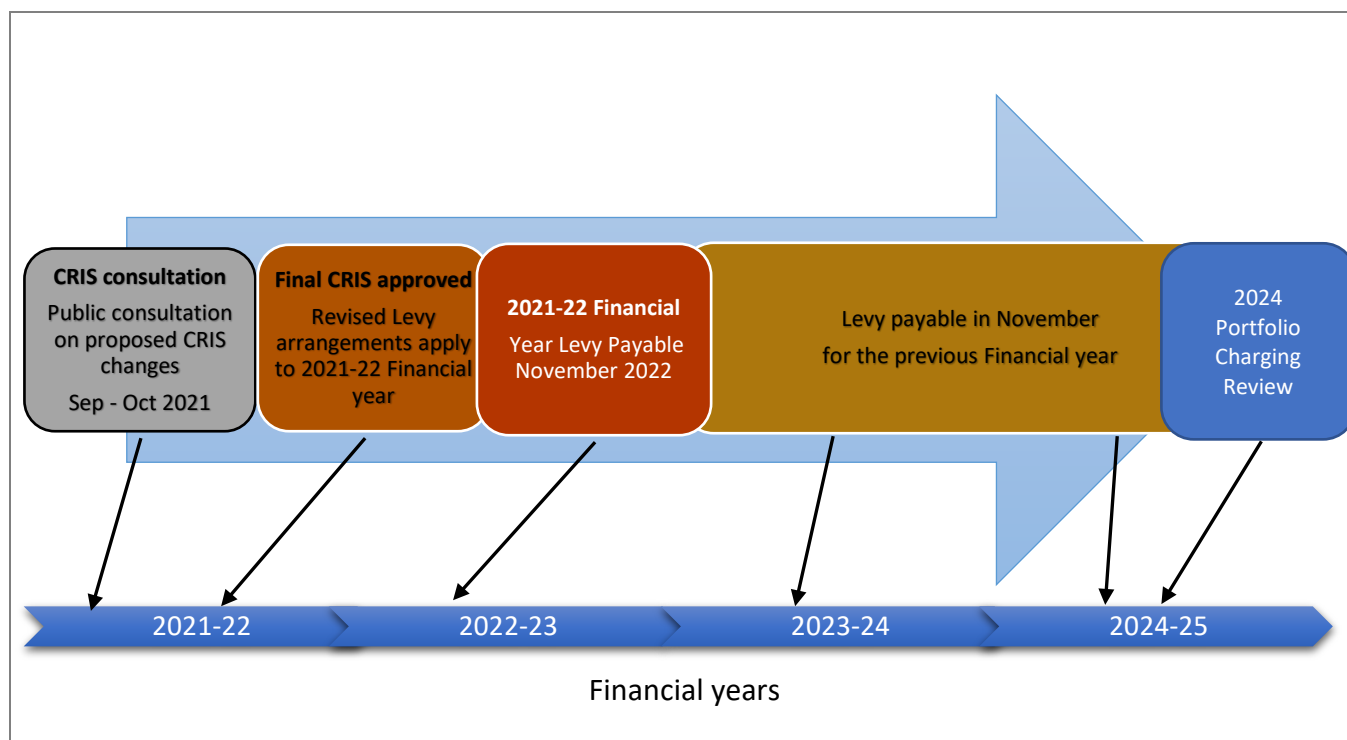
**Regulatory Activity: Assessments****Measure:** Certification and Exemption applications are processed in a timely manner and assessed within the statutory timeframe of 60 days

All applications for certification and exemption have been assessed within the statutory timeframe of 60 days.

**Table 15 Certification and exemption applications processed**

Year	Certification applications processed	Exemption applications processed	Percentage processed within time standards
2017-18	4	7	100%
2018-19	0	13	100%
2019-20	0	2	100%
2020-21	0	10	100%

## 8 KEY DATES AND EVENTS



## 9 CRIS APPROVAL AND CHANGE REGISTER

Date of change	CRIS change	Approver	Basis for change
18/12/2017	Agreement to the CRIS	Minister of the Environment & Energy	New regulatory charging activity
26/11/2021	Update of financial estimates and levy charge	Assistant Minister for Waste Reduction and Environmental Management	Review of cost recovery arrangements

## Appendix A

### **Assurance**

Assurance activities mitigate and manage the risk of non-compliance with the scheme:

- Weekly monitoring of customs data, identifying discrepancies in import declarations, following up with importers and customs brokers.
- Monitoring site visits to retailers by inspectors, using regulatory powers; monitoring online retail platforms.
- Educating the regulated community about their obligations through our website, letters, emails, articles in industry publications, phone calls, education site visits, webinars and talks at conferences, shows and field days, responding to inquiries, guides and factsheets.
- Raising awareness of the scheme and education of other stakeholders including customs brokers and consumers, responding to enquiries
- Intelligence collection on regulated entities to inform audits and investigations
- Analysing compliance risks to the scheme and developing strategies and annual compliance and education work plans to mitigate risks

### **Incident Management**

Incident management involves activities that respond to incidents concerning potential breaches of the scheme:

- Assessment and audit of potential breaches, including following up with importers or suppliers (including online retailers or retail platforms); verifying correct labelling, certification and record-keeping; and liaison with international regulators to verify certifications.
- Investigations by inspectors using regulatory powers, which may involve site visits to importer or supplier premises.
- Undertaking enforcement responses to established breaches, including issuing penalty infringements, negotiating enforceable undertakings, and bringing civil penalty proceedings or prosecutions.
- Seizing and forfeiting products when required in investigations or enforcement action, developing operating procedures for seizure and forfeiture and for storage or destruction of forfeited products

## **Program management and administration**

Program management and administration includes activities that support the department to deliver, maintain and improve the design of the scheme:

- Evaluating the effectiveness of the scheme and charging arrangements, monitoring cost recovery financial performance.
- Reviewing and updating the legislation to ensure it remains fit-for-purpose and aligns with international standards, including statutory review of legislation in 2024.
- Internal, regulatory and international reporting, scheme governance and oversight and record keeping.
- Stakeholder engagement through surveys, responding to enquiries, meetings and discussions with industry associations, importers, suppliers, manufacturers, online marketplaces and retail platforms, customs brokers, international regulators and other stakeholders to obtain feedback about scheme effectiveness, target and refine education approaches.
- Maintaining and improving the IT system used for import monitoring, compliance tracking and case management, levy calculation and collection, payment processing, application processing.
- Workforce planning, training and development and staff costs that are not included in other outputs, such as recruitment and developing work health and safety procedures for activities such as site visits
- Verifying import data to calculate levy liability, issuing levy liability notices and liaison with importers to ensure correct levy calculation, issuing levy invoices, processing payment, payment compliance and debt recovery

## **Assessment**

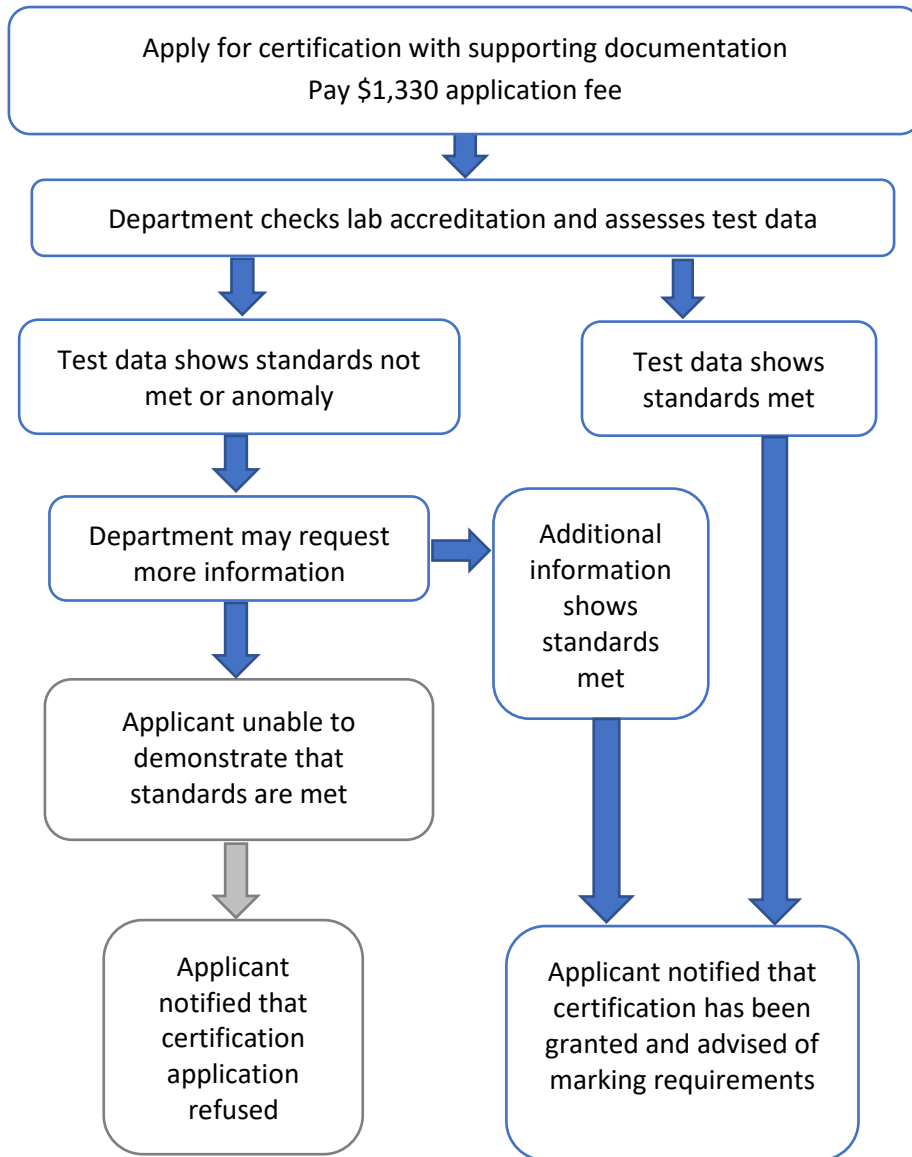
Assessment activities are provided directly to an individual, business or organisation to assess applications for certification or for an exemption from complying with the standards. Assessment activities are cost recovered through fees payable by the individual, business or organisation making the application (See section 3.3). Assessment activities include:

- Ensuring the applicant has provided all necessary documents, evidence and information, assessing applications against statutory and technical requirements (including obtaining legal advice and/or technical advice where required), developing exemption conditions notifying applicants and producing public notice of outcomes.
- Responding to enquiries and maintaining standard operating procedure documentation.
- Monitoring / auditing compliance with conditions of exemptions and taking any required corrective action.
- Managing any appeals to the Administrative Appeals Tribunal regarding certification and exemption decisions.
- Processing and ensuring payments for application fees

Appendix B

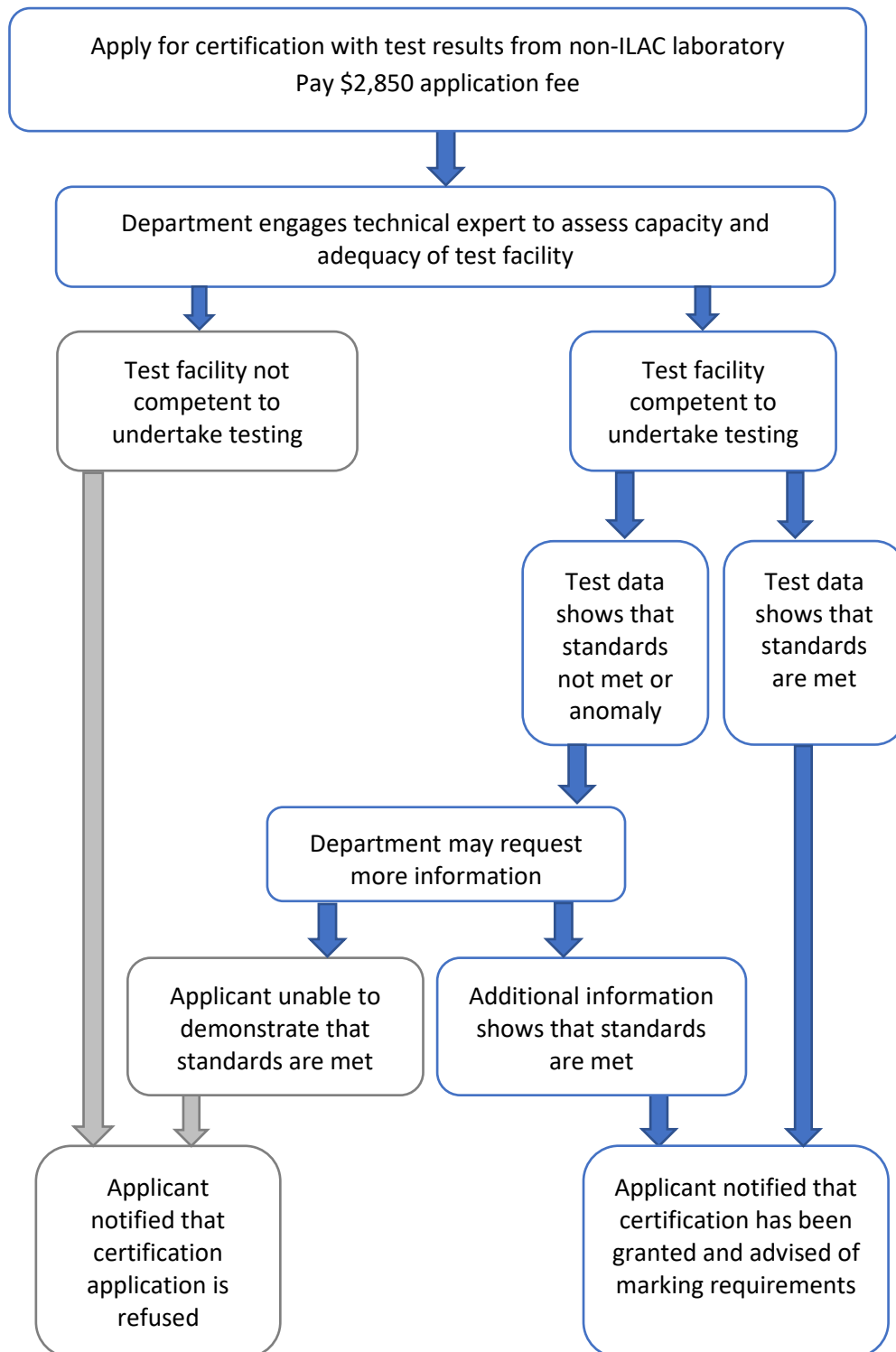
**Certification application and assessment process**

**Engine testing completed by ILAC-accredited laboratory**



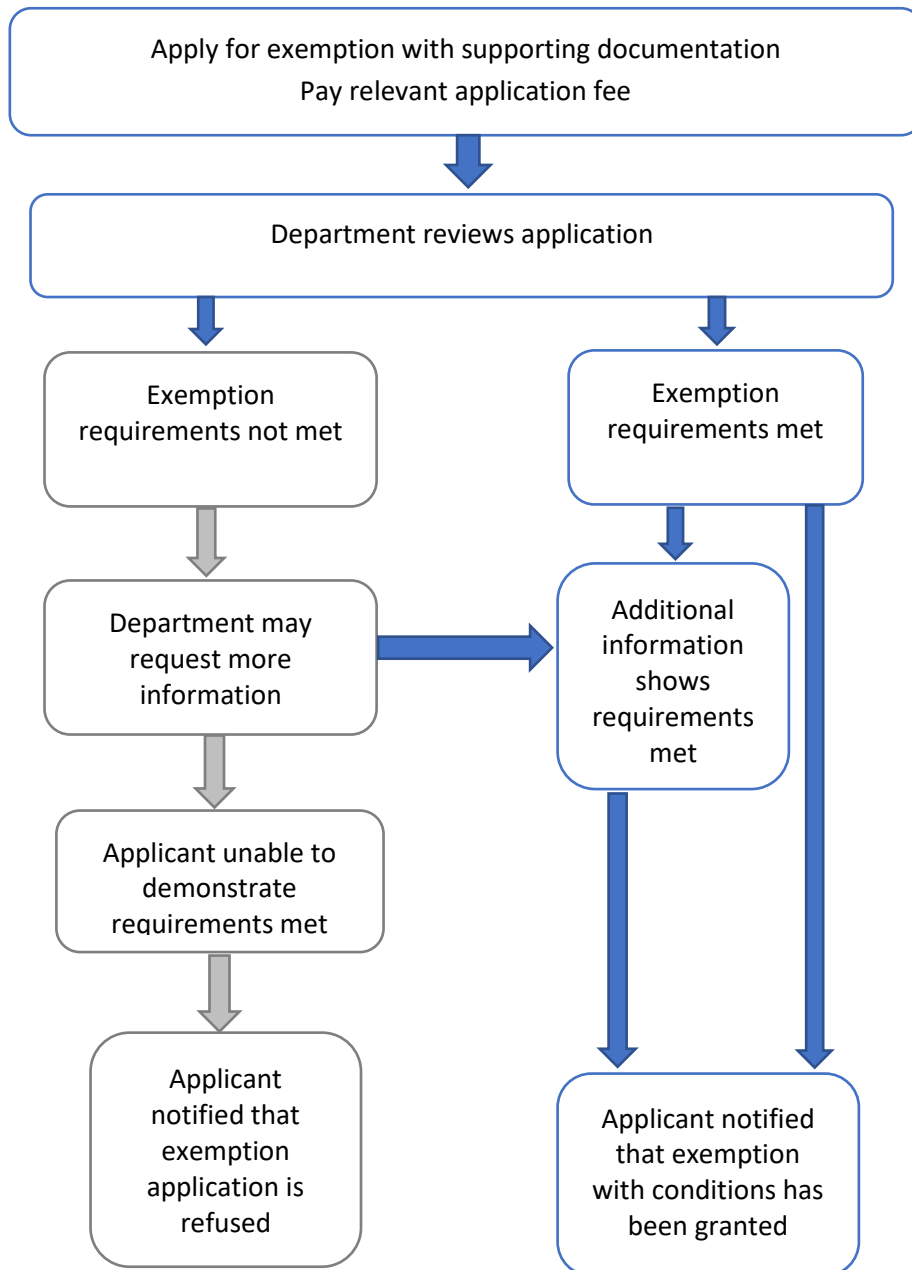
## Certification application and assessment process

### Engine testing completed by non-ILAC-accredited laboratory





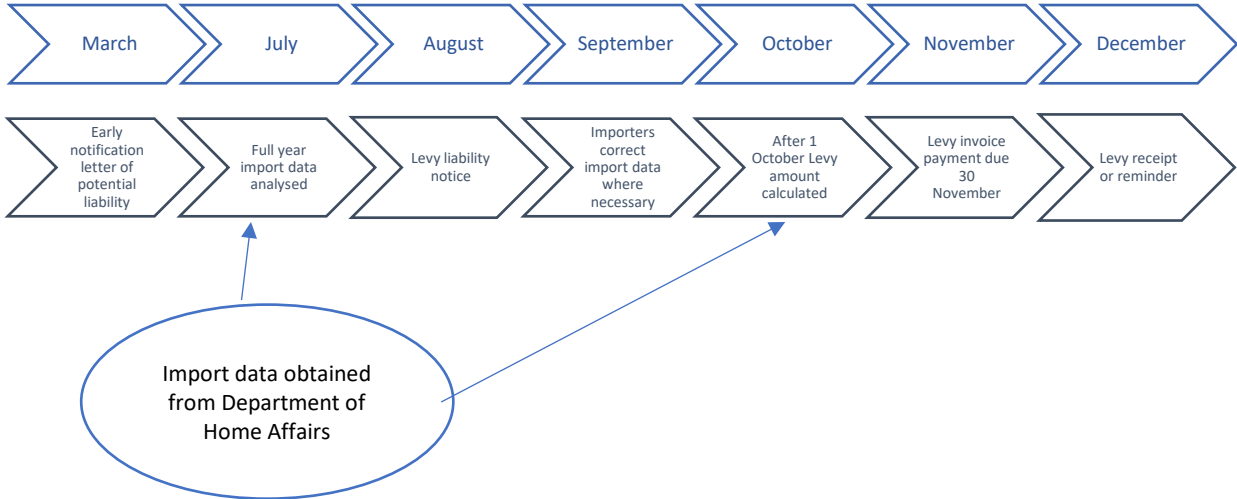
## Exemption application and assessment process



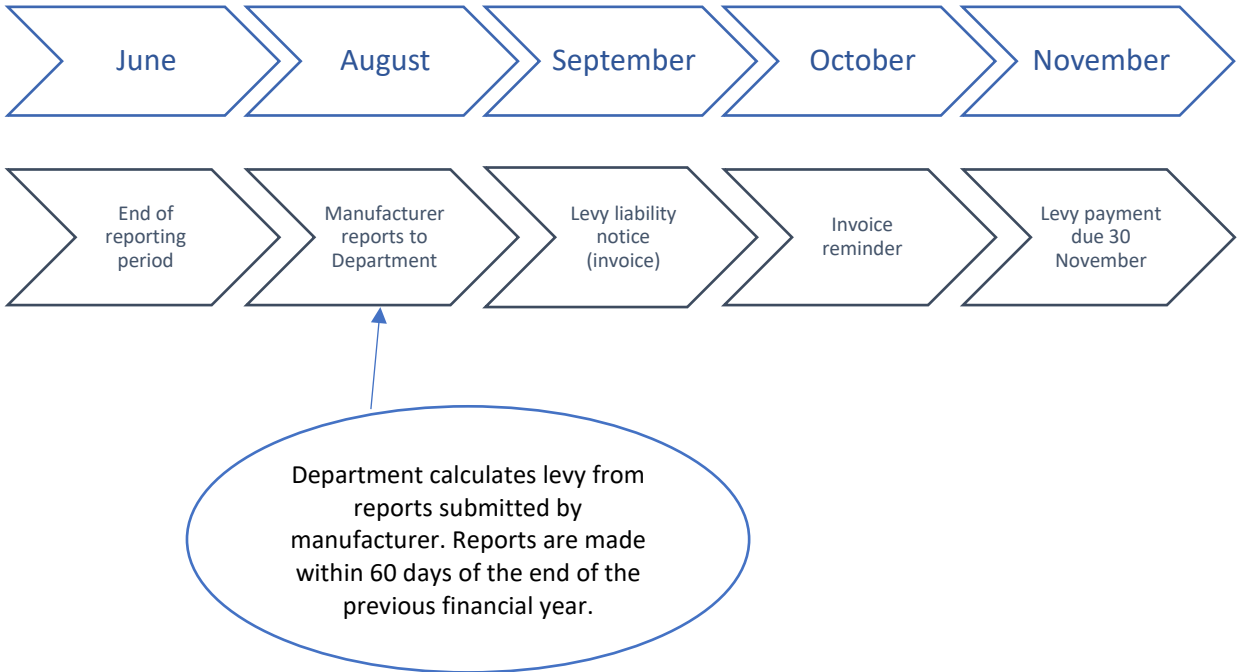
Appendix C

**Levies assessment and collection processes**

**Timeline for collection of the levy on imports**



**Timeline for collection of the levy on supply of locally manufactured products**



## Appendix D

### Further information on the levy amounts payable

**Q: When will I be informed that I might be liable for a levy?**

**A:** Prior to the end of the financial year the department contacts importers to inform them that they may be liable for the levy. After the end the financial year, the department obtains import data from the Department of Home Affairs and issues a statement of liability to the importer for the relevant financial year. If the importer believes that they may have incorrectly completed their import declaration and the statement is incorrect they will need to amend the import declaration data. This is required by 1 October of that year. After this date the department re-obtains the import declaration data from the Department of Home Affairs and recalculates the levy liability and issues an invoice with payment to be made by 30 November of that same year.

**Q: How does the Department calculate the levy?**

**A:** The department collects import declaration data from the Department of Home Affairs. The calculation is then made according to the following formula:

**Total declared value of products imported in a financial year x levy rate (0.33%)**

The total declared value is based on the customs value + line transport & insurance.

As part of the department's calculation of the levy, the leviable value per item is capped by the high value item threshold (\$10,000). This means that levy is payable only on the first \$10,000 of an item's value. For example, if the value of an individual item is \$60,000 or \$1,000,000 the maximum value that will be used for the calculation is \$10,000. If you import one item in a financial year and its declared value in your import declaration is \$75,000 then the levy calculation will be based on \$10,000.

$\$10,000 \times 0.33 \text{ percent} = \$33 \text{ Levy}$

**Q: What other thresholds does the department apply?**

**A:** A low levy payer threshold of \$145.20 in a financial year currently applies. This means that if the total levy liability for an importer is \$145.20 or less you are not liable to pay the levy at all.

## Appendix E

### Alternative levy design options considered by the department

Structure	Equity	Efficiency	Simplicity	Other issues
Levy by value	Equitable because it apportions levy in proportion to value of imports, which is a proxy for the level of financial benefit derived from NRSIEE imports. Combined with a high-value threshold, it is closely aligned with most cost drivers and the contribution to the need for the scheme.	Efficient method for levy calculation – import value is required to be declared for all imports under the Customs Act.	Simple method for levy calculation.	
High value threshold	Makes a per-value levy more equitable by better aligning levy with some scheme cost drivers (import lines, which drive import monitoring costs).		Slightly reduces simplicity of the levy.	
Low value threshold		Aids efficiency by reducing cost in recovering many small levy amounts. Reduces overall cost of the scheme and costs for all levy payers.	Simplifies levy collection process as fewer levy payers	
Alternative: Per product flat rate levy	Less equitable than a value-based levy because importers with the same value of imports (and therefore same benefit from the importing activity which creates the need for the scheme) are levied differently based on whether they happen to import more cheaper products or fewer expensive products.	Reduces efficiency in recovering scheme costs because this information is not always available or required on import declarations.	Per product levy is simple.	

Structure	Equity	Efficiency	Simplicity	Other issues
Alternative: Per import line flat rate levy	Could have unintended or perverse consequences for equity as it encourages combining multiple imports on one line, which would inhibit compliance monitoring and raise equity issues if some importers did this and others did not.			Could have unintended or perverse consequences as encourages combining multiple imports on one line, which would inhibit compliance monitoring and raise equity issues.
Alternative: Export rebate	Reduces equity because importers who re-export would not contribute to levy even though they contribute to need for compliance monitoring, etc.	Very negative impact on efficiency. Would add significant costs to administration of scheme and overall costs borne by levy payers. Requires verification and enforcement.	Very negative for simplicity. Complicated to administer.	