



## Discussion paper

### Cost recovery arrangements for NRSIEE emissions standards

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This paper provides an overview of the proposed cost recovery arrangements for regulating emissions standards for non-road spark ignition engines and equipment (NRSIEE). The regulations and cost recovery arrangements only apply to new and not second hand NRSIEE products.

The proposed cost recovery arrangements set out the charging structure for application fees for Australian certifications and applications for exemptions, as well as the levies on import and supply of locally manufactured NRSIEE.

The proposed cost recovery charges are being developed in accordance with the Australian Government Cost Recovery Framework and the Australian Government Cost Recovery Guidelines. A draft Cost Recovery Implementation Statement (CRIS) with the full details of the proposed cost recovery arrangements will be released for public consultation. The draft CRIS will provide information on how the Department of the Environment and Energy intends to implement cost recovery for regulating emissions standards for NRSIEE as well as financial forecasts and financial performance. In anticipation of the release of the draft CRIS, this information paper provides an update on the proposed cost recovery arrangements.

Although the main vehicle for industry consultation on cost recovery will be through the Cost Recovery Implementation Statement we welcome any comments on this paper. To support the finalisation of the draft CRIS, feedback on this paper is sought by **27 September 2017**. Feedback can be provided to [productemissions@environment.gov.au](mailto:productemissions@environment.gov.au).

### Overview of the proposed NRSIEE cost recovery arrangements

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Cost recovery involves government entities charging individuals or non-government organisations some or all of the efficient costs of a regulatory activity. This may include goods, services or regulation, or a combination of these. Cost recovery increases awareness of the real costs of government activity. The proposed cost recovery arrangements for NRSIEE regulatory activities consists of fees and levies designed in accordance with the Australian Government's charging framework and Cost Recovery Guidelines (CRGs). Fees apply for costs that result from the provision of particular services to individuals who are involved with the scheme and levies are used to recover costs arising from broader program delivery including compliance and enforcement.

For the NRSIEE scheme, fees will be charged for applications for the certification of engines to the Australian standards (for those not already certified overseas) and for applications for exemptions from complying with the standards. The costs for these services are linked to specific individuals or organisations submitting applications that require assessment and follow up action.

A levy on imports and a levy on supply of locally manufactured<sup>1</sup> products will cover the costs of compliance, enforcement and delivery of the scheme. The import and supply of NRSIEE products into the Australian market generates the need for this regulatory activity so, in line with the requirements set out by the CRGs, it is appropriate for costs to be recovered from importers and local manufacturers.

**Application fees for Australian Certification assessments**

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In order for new NRSIEE products to be imported or manufactured and supplied into the Australian market they will need to meet the emissions standards specified in Rules made under the Product Emissions Standards Bill 2017.

Products that have been certified as meeting the standards by the US EPA, California Air Resources Board, Canada, or the European Union will be recognised as meeting the Australian standards. Products certified under these systems have an identifying certification number which will need to be provided when the products are imported. When making an import declaration, tariff codes relating to NRSIEE products will trigger a Community Protection Question requesting input of the certification (or exemption) number.

In the event that a NRSIEE product is not already certified in a recognised jurisdiction then an application can be made to the Department of the Environment and Energy for Australian certification. Applicants for Australian certification will need to submit laboratory emissions testing results to the Department for assessment. If certification is granted then a unique identifying certification number will be issued for the product/s along with a set of conditions.

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

There will be 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 will be 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 emissions testing must be able to demonstrate compliance with the engine testing procedures specified in the Australian standards. These will be equivalent to the testing procedure specified in the United States Environment Protection Agency Code of Federal Regulations Part 1065. Appendix 1 provides process maps outlining the assessment processes.

**Table 1: Certification application fee structure**

Charge title	Rate
Certification application (ILAC lab testing)	\$1,330
Certification application (non-ILAC lab testing)	\$5,220

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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.

## Application fees for Exemption assessments

Under particular circumstances certain types of NRSIEE products that do not meet the emissions standards may be imported or sold in Australia under exemption provisions. Applications for exemptions must be made to the Department and need to be approved prior to the import or sale of the product.

There are three exemption categories that are context specific and which have different requirements for provision of supporting information. Exemption applications involve 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 NRSIEE product. Appendix 2 provides process maps for exemption applications.

**Table 2: Exemption categories and application fees**

Exemption category	What is included	Application Fee
1	<ul style="list-style-type: none"> <li>NRSIEE imported for testing, evaluation and display purposes</li> </ul>	\$390
2	<ul style="list-style-type: none"> <li>NRSIEE used by Australian military or security forces for national security purposes where compliant engines are unsuitable or unavailable.</li> </ul>	\$550
3	<ul style="list-style-type: none"> <li>NRSIEE imported for re-export which will not be used in Australia or supplied to the Australian market</li> <li>NRSIEE used by recognised bodies for specialized rescue or emergency tasks where compliant engines are unsuitable or unavailable</li> <li>Replacement engines for an existing marine propulsion engine, not including outboards:               <ul style="list-style-type: none"> <li>which is, or is powering, NRSIEE that has been supplied to the Australian market before 1 July 2019;</li> <li>which was not certified under the rules;</li> <li>which has failed or become unserviceable; and</li> <li>where compliant replacement engines are unsuitable or unavailable.</li> </ul> </li> <li>NRSIEE solely for use in legitimate competition events managed by recognised incorporated organisations where compliant engines are unsuitable or unavailable.</li> </ul>	\$1470

## Levy on imports and supply of locally manufactured NRSIEE

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The levy on imports of NRSIEE and supply of locally manufactured NRSIEE will recover the costs of compliance and enforcement activities and activities that support NRSIEE scheme delivery. The levy owed by each liable importer will be calculated over a 12 month period using import data obtained from the Department of Immigration and Border Protection from the previous financial year.

There will be an iterative process between the Department and importers, ensuring accurate calculation of the levy liability. Only new imported items will be subject to the levy. (Appendix 3 has a process map for the levy assessment process).

The levy on supply of locally manufactured NRSIEE will be calculated using reports submitted by manufacturers to the Department within the first 60 days after the end of a reporting period (further details will be in the Rules made under the Product Emission Standards legislation)<sup>2</sup>.

At this stage it is not anticipated that the levy on supply of locally manufactured NRSIEE will be a significant source of revenue for the program as there is currently no domestic manufacture of non-road spark ignition engines. (Appendix 3 has a process map for the levy on supply of locally manufactured NRSIEE assessment process).

### The levy calculation

The proposed levy rate is 0.54% percent of the value of imports in a financial year. This will be calculated from import data provided by the Department of Immigration and Border Protection. The levy recovers the cost of delivering the program taking into account the expected revenue from fees for certifications and exemptions.

The process at import is that any NRSIEE related tariff codes will trigger a Community Protection Question requiring an importer to enter a certification or exemption code. Following import the code can be checked to identify anomalies.

A high value NRSIEE item threshold is proposed to reflect the cost of administering an import. There are high value NRSIEE items imported in both the Outdoor Powered Equipment and Marine segments. High and very high cost items are generally imported in small numbers or individually as one item per line on an import declaration. Setting the maximum item value threshold at \$40,000 (with a value based levy of 0.54%) gives a maximum levy per item of \$216 which closely approximates the estimated cost to check that import. This high value threshold also coincides with the upper value of NRSIEE engines in general use based on Red Book values.

A low levy threshold of \$140 is proposed to streamline administration and reduce costs. The NRSIEE cost model shows the cost of processing a levy payment to be around \$140. This means that below this amount it would cost the Department more to collect a levy payment than is raised by the payment itself. Setting a low levy threshold of \$140 reduces the costs to run the scheme and results in a lower levy for industry.

It is proposed that the levy be invoiced annually. The levy liability will be calculated based on the total NRSIEE imports for the previous financial year. The first year that importers may be liable for a levy on imports of NRSIEE will be 2019 for the imports made in the 2018-2019 financial year.

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<sup>2</sup> Local manufacture refers to the manufacture of engines and does not include the assembly of equipment using imported engines.

Each year the Department will obtain import data for the previous financial year from the Department of Immigration and Border Protection. A levy liability will be calculated and a statement of liability will be issued and sent to importers. Importers are able to correct import declarations that have been incorrectly reported by amending import data with the Department of Immigration and Border Protection.

After 1 October the Department will obtain the corrected import data from the Department of Immigration and Border Protection and make a final levy calculation which will be invoiced. Importers will have 30 days to pay the levy invoice prior to follow up from the Department. Throughout this process and prior to issuing a statement and an invoice the Department will be in regular contact with stakeholders to advise them of upcoming key dates.

The proposed levy rate for supply of locally manufactured NRSIEE is the same as the levy on imports to ensure a level playing field.

### **When will charges be implemented?**

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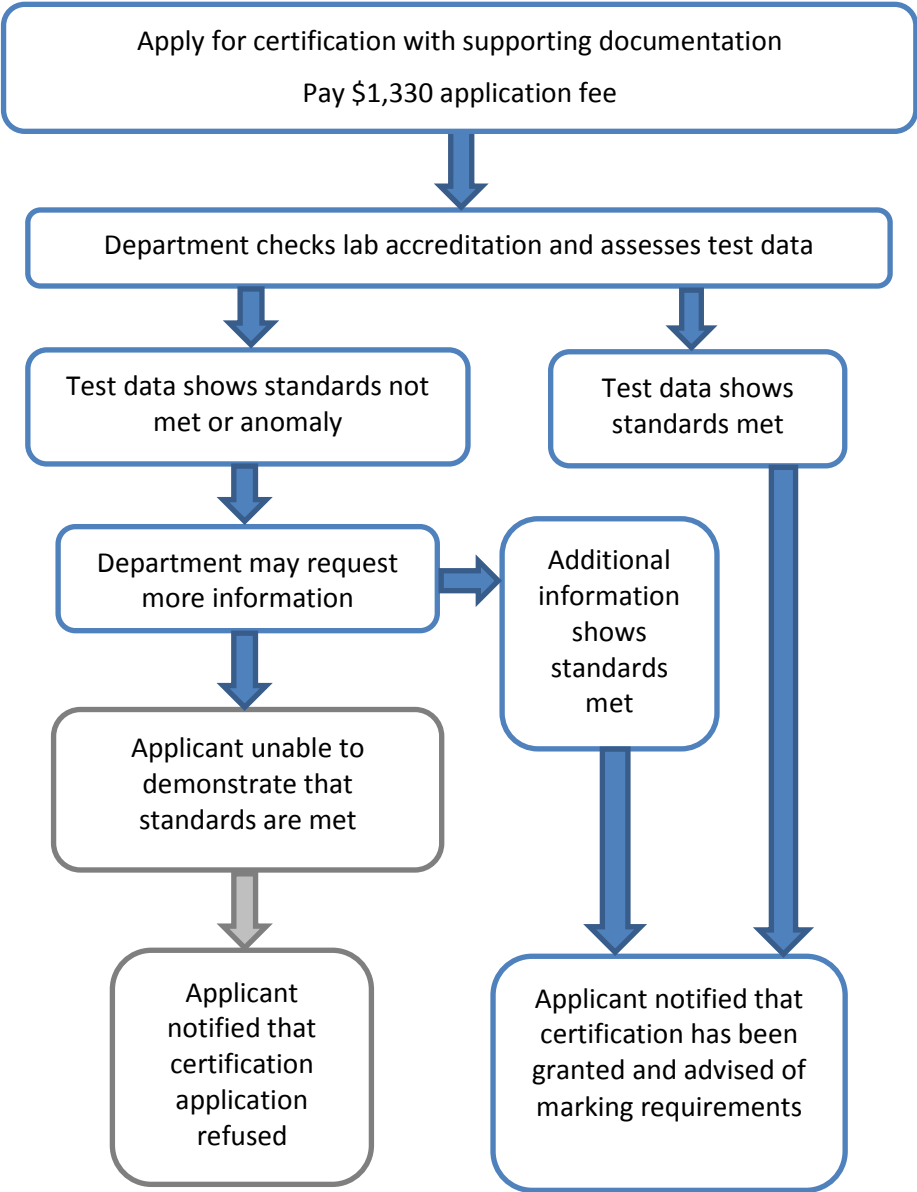
Regulatory charging will come into effect once all authorising legislation has been passed and the cost recovery implementation statement has been finalised and approved. This is expected to occur in late 2017. Applications for certifications and exemptions and their associated fees can then commence.

Levies will be payable on NRSIEE imported or locally manufactured NRSIEE supplied from 1 July 2018.

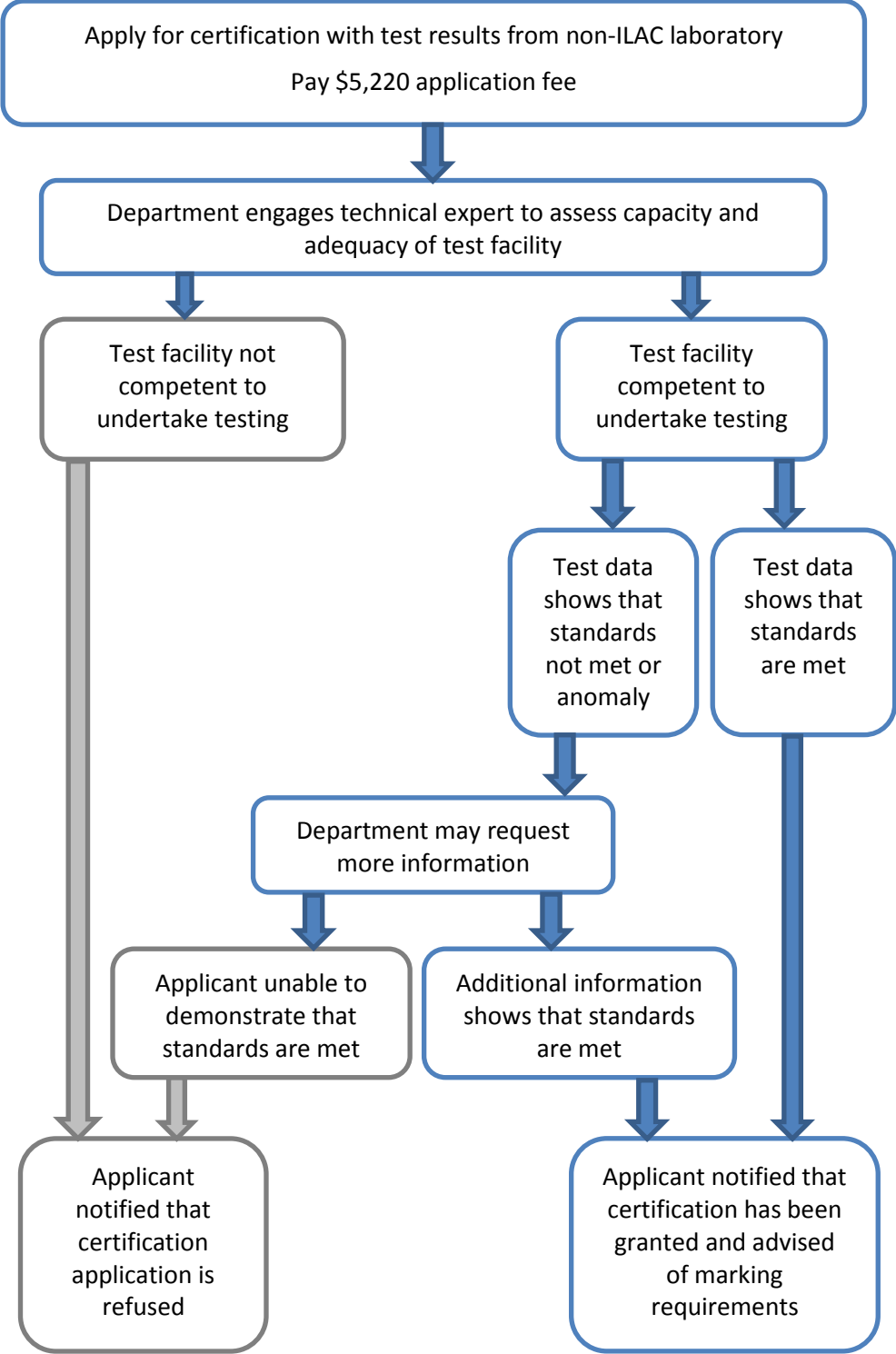
**Appendix 1 – Certification application and assessment process**

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

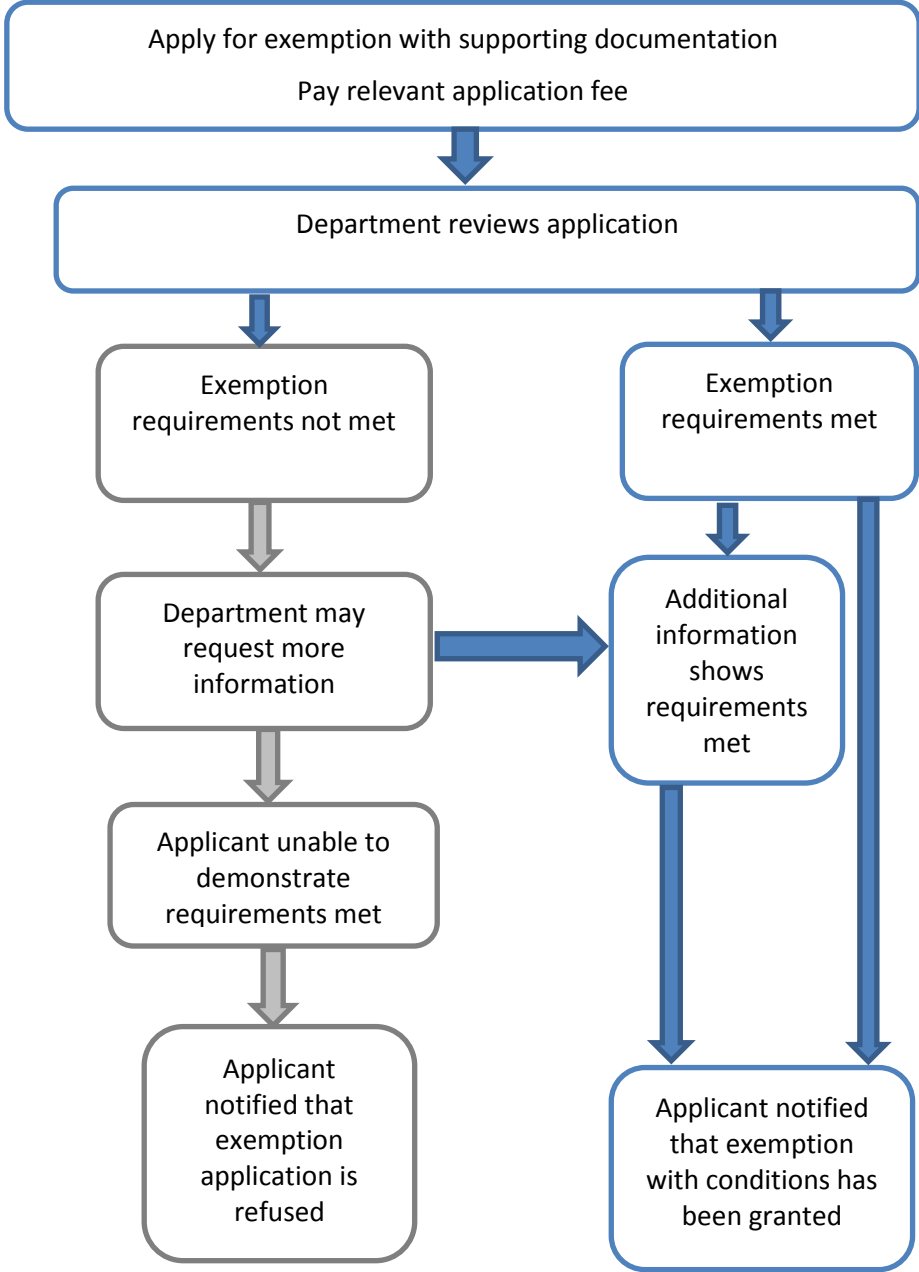


**Engine testing completed by non-ILAC-accredited laboratory**



**Appendix 2 – Exemption application and assessment process**

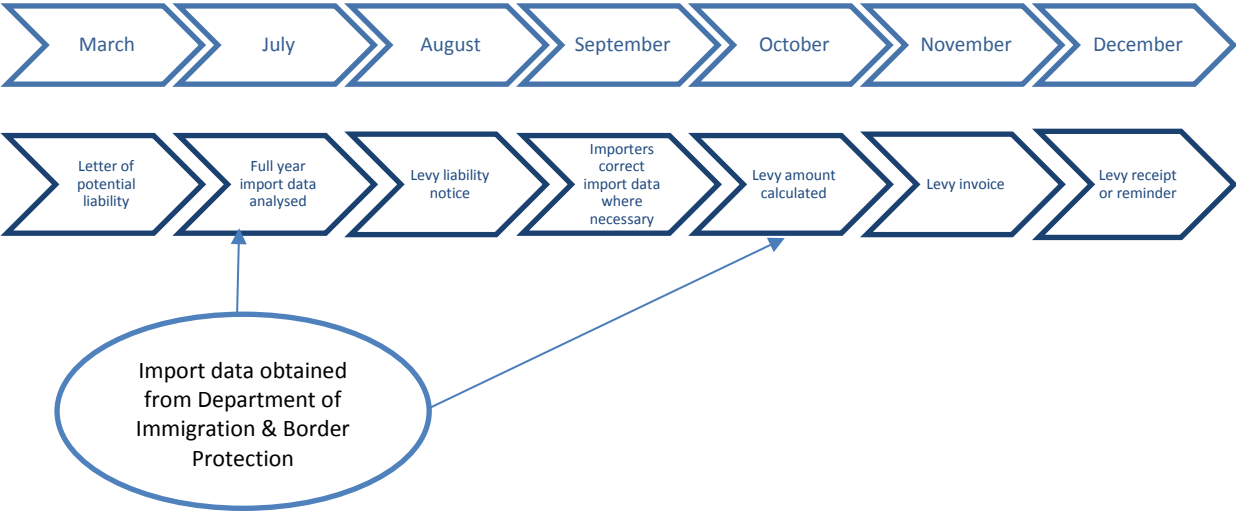
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### Appendix 3 – Levies assessment and collection processes

#### Timeline for collection of the levy on imports of NRSIEE



#### Timeline for collection of the levy on supply of locally manufactured NRSIEE

