



Australian Government  
Department of Industry,  
Innovation and Science

**National Measurement Institute**

# **COST RECOVERY IMPLEMENTATION STATEMENT**

## **Pattern Approval, Trade Measurement Licensing and Legal Metrology Appointments**

**2018-2019**

### **Consultation Draft**

This document is a draft for consultation. It includes additional information (as highlighted here) to provide context, and questions on which we are seeking feedback from stakeholders. This material will be removed from the final version.

The Australian Government Charging Framework, which includes the Cost Recovery Guidelines, sets out the overarching framework under which government entities design, implement and review cost recovered activities. Cost recovery involves government entities charging individuals or non-government organisations some or all of the efficient costs of a specific government activity. This may include goods, services, or regulation, or a combination of these.

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# 1. INTRODUCTION

## 1.1 Purpose of the Cost Recovery Implementation Statement

This Cost Recovery Implementation Statement (CRIS) provides information on how the National Measurement Institute (NMI) implements cost recovery activities associated with the administration of Pattern Approval (PA), Trade Measurement Licensing (Licensing) and Legal Metrology Authority Appointments (Appointments).

In April 2015, the Australian Government agreed to implement a whole-of-government charging framework to apply across the general government sector. The Framework provides that where an individual or organisation creates the demand for a government activity, they should generally be charged for it, unless the Government has found it appropriate to fund the activity through public resources. The Charging Framework consists of:

- a charging policy statement, which provides the rationale for Australian Government charging activities  
Based on the type of activity, policy outcomes sought, and relevant public interest considerations, the Government may decide to charge for an activity, taking into account the Government's charging policy statement.
- charging considerations to guide decision-making on whether charging might be appropriate  
There are a number of considerations in determining whether it may be appropriate to charge for a government activity. These include broad policy considerations, such as the effect of charging on the policy problem and proposed solution, and specific considerations, such as whether charging is the most efficient and effective source of funding for an activity. Different pricing models can be used based on the purpose and type of the charging activity.
- charging principles to assist with the design, implementation and review of charging activities, which could be regulatory, resource or commercial  
The six charging principles of transparency, efficiency, performance, equity, simplicity and policy consistency guide all the processes involved in a government charging activity.

The Australian Government Charging Framework (Charging Framework) is administered by the Department of Finance and is outlined in Resource Management Guide 302, Charging Framework and Resource Management Guide 304, the Australian Government Cost Recovery Guidelines (Guidelines). According to the Guidelines, a CRIS must be prepared for cost recovery arrangements for regulatory activities.

The Charging Framework builds on the 2014 Cost Recovery Guidelines. It encourages a common approach to planning, implementing and reviewing government charging, which should lead to improved and consistent government charging. The Charging Framework supports:

- the Australian Government's role in delivering quality public programs to Australian citizens, communities and the economy more broadly, by assisting to improve program funding decisions
- legislative responsibilities of Commonwealth entities, as detailed in the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

This consultation draft seeks feedback from interested stakeholders to inform the government's decision to refresh authority to recover costs for services associated with the delivery of regulatory functions by the NMI under the *National Measurement Act 1960* (the Act).

## 1.2 Description of the regulatory charging activity

NMI, a division of the Department of Industry, Innovation and Science, administers Australia's measurement framework under the *National Measurement Act 1960* (the Act) and the supporting Regulations and Guidelines.

NMI contributes to Australia's prosperity by leading a national system of measurement that is fit for purpose and trusted both nationally and internationally.

NMI's regulatory charging activities are undertaken as key elements within the wider national system of measurement. These activities include approving the design or pattern of measuring instruments (Pattern Approval or PA), and Licensing and Appointments of third parties, for example to verify measuring instruments and verify reference standards. They are undertaken by NMI's Legal Metrology branch.

Legal metrology comprises all measurements carried out for any legal purpose, and includes measurements that are subject to regulation by law or government decree together with the supporting technical and regulatory infrastructure. Trade measurement refers to all transactions whereby the price of commodities or goods includes a measured quantity or quality component. The primary purpose of the Australian trade measurement system is to ensure that the calculated price of traded goods is based on accurate measurement.

NMI also offers a broad range of services in biological, chemical, and physical measurement. Some examples include analytical services in chemistry and microbiology for food and environmental testing; specialist chemical analysis for illicit drugs or drugs in sport; calibration of measuring instruments and of physical standards such as reference masses; and training in measurement techniques. While NMI charges for these services, they are outside the scope of this statement as they are not regulatory charging activities.

### 1.2.1 National measurement policy statement

A national measurement policy statement was released in November 2017 to clearly state the Government's intentions for Australia's national measurement system and set out principles underpinning Government decision making in relation to measurement. The primary objective of the Australian Government's role in measurement is to provide a strong and effective national measurement system that is trusted and accepted both domestically and internationally.

The objectives of this policy statement are underpinned by a set of principles that provide guidance to government decision making about measurement. Some of the key principles include maintaining a sustainable funding model whilst supporting innovation and minimising regulatory burden on stakeholders. Figure 1 provides an overview of the policy objectives and the set of key principles.

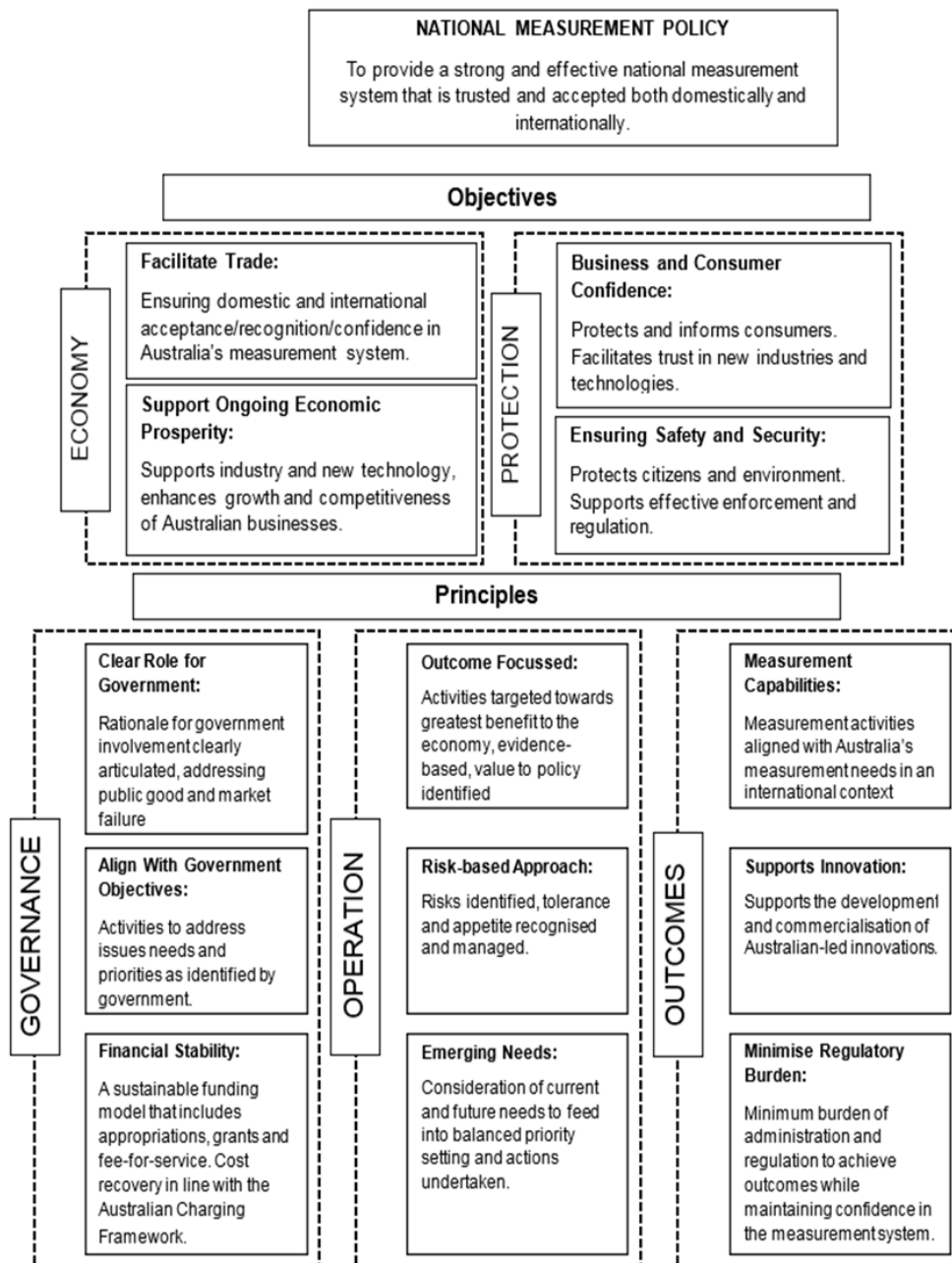
Consistent with this policy statement, the NMI expends part of its allocated appropriation to:

- support innovation, by providing PA test laboratories to facilitate stakeholder compliance obligations and reduce regulatory burden
- support the metrological system, by providing measurement activities that enhance compliance (e.g. 'conformity to type' testing)
- meet Australia's international obligations as a member of the International Organisation of Legal Metrology (OIML), which is the governance body for legal metrology internationally. This membership enables Australian stakeholders to have a voice in the development and revision of international standards for measuring instruments that reduce technical barriers to trade.

The Government is seeking to engage and understand from stakeholders:

- how to ensure Australia's measurement system is financially sustainable, while at the same time facilitating innovation and reducing regulatory burden,
- how the cost recovery model for regulatory services delivered by the NMI may affect stakeholder decisions to take up these services and participate in the measurement system.

**Figure 1 - National Measurement Policy, its Objectives and key Principles**



### 1.2.2 Pattern Approval

In Australia, manufacturers and importers of measuring instruments (e.g. retail scales, weighbridges, petrol dispensers, breath-alcohol analysers etc.) are generally required to have a PA certificate from NMI before instruments can be used for trade or other regulatory purposes.

A measuring instrument is being used for trade if it is used:

- in determining the consideration in respect of a transaction, or
- in determining the amount of a tax.

In Australia, all measuring instruments used for trade must be pattern-approved.

PA confirms that a measuring instrument's design meets relevant documentary standards and performs as intended over a range of environmental and operating conditions. NMI examines trade and other legal measuring instruments against relevant standards and issues certificates for pattern approval that are internationally recognised.

When reviewing applications for pattern approval of trade measuring instruments where certification has already been issued in another country, NMI recognises test reports from international laboratories issued in accordance with the OIML's framework for mutual acceptance arrangements, and can also accept certain other test results.

Where an appropriate compliance certificate is not available, Australian testing of the instrument is undertaken under a range of conditions to ensure that it can measure accurately under the conditions in which it is likely to be used. This provides confidence in domestic and international trade and other functions and benefits the whole economy.

NMI may also appoint Approving Authorities to conduct independent pattern approval testing of measuring instruments. Test results from an Approving Authority will be considered by the NMI when assessing the suitability of a measuring instrument for trade or legal purposes.

PA through an Australian authority underpins confidence in the accuracy of measuring instruments used for international and local trade without undue reliance on overseas authorities, whose focus may not be on protecting Australian trading interests. Most international jurisdictions retain national responsibility for regulatory decision-making of this kind.

PA fees are set by regulation with the fee structure detailed in Schedule 13 of the *National Measurement Regulations 1999*.

### 1.2.3 Licensing

NMI licences third-party private organisations to:

- verify measuring instruments used for trade (Servicing Licensees); and
- operate public weighbridges (Public Weighbridge Licensees).

Businesses across Australia rely on the capability of servicing licensees and public weighbridge licensees (private sector organisations) to comply with the requirements of the Act to help maintain the metrological infrastructure for trade measurement.

NMI's approach is to ensure Australia's servicing licensee workforce is maintained at an appropriate level of competency, that verifications are being performed correctly and that verifiers have access to the necessary procedures, systems and equipment to perform their duties correctly and in accordance with the Act.

Licensees return data on verification of instruments to NMI, which supports efficient delivery of NMI compliance activities and lowers the overall regulatory burden on stakeholders by reducing compliance inspection costs.

Servicing licensee fees are prescribed under Division 2.4 and Public Weighbridge licence fees are prescribed under Division 3.2 of the *National Trade Measurement Regulations 2009*.

## 1.2.4 Appointments

To support legal metrology and the trade measurement system, NMI appoints third-party, private sector organisations as authorities including:

- **Certifying authorities** to certify measuring instruments, e.g. evidential breath-alcohol analysers and grain protein measuring instruments, and Australian certified reference materials including aqueous ethanol solutions and whole-grain barley and wheat for use in calibrating appropriate measuring instruments and establish measurement traceability
- **Verifying authorities** to verify reference standards of measurement and physical quantities of an artefact that establish measurement traceability
- **Approving authorities** to conduct PA testing of electricity meters, water meters and gas meters and evidential breath-alcohol analysers
- **Utility meter verifiers** to verify electricity meters and water meters.

'Traceability' of a measurement means that it can be related through an unbroken chain of comparisons to a national reference standard, within a stated tolerance or measurement uncertainty.

The charges currently imposed by NMI for pattern approval, trade measurement licensing and legal metrology appointments are significantly outweighed by the costs incurred in their administration.

**Table 1:** Forecast revenue and expenses for 2017–18

|              | Pattern Approval | Servicing and Public Weighbridge Licensing | Legal Metrology Authority Appointments |
|--------------|------------------|--|--|
| Revenue (X)  | \$430,000        | \$410,000                                  | \$20,000                               |
| Expenses (Y) | \$1,630,000      | \$687,870                                  | \$76,430                               |

## 2. POLICY AND STATUTORY AUTHORITY TO COST RECOVER

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

Where the Australian Government has made a decision to charge for a regulatory activity, these activities are subject to the Australian Government Cost Recovery Guidelines (the Guidelines). The Guidelines set out the overarching framework under which government entities design, implement and review regulatory charging activities. While the overarching charging principles apply to regulatory charging activities, they must also meet the requirements in the Guidelines, including:

- policy approval from the Australian Government to charge
- statutory authority to charge
- alignment between expenses and revenue
- up-to-date, publicly available documentation and reporting.

The regulatory activities covered by this Statement have been delivered by NMI or its predecessor agencies over many decades, as set out below. In accordance with the Guidelines, policy approval to charge for these activities will be reconfirmed by Government following consultation with stakeholders on cost recovery models.



### 2.1.1 Pattern Approval

Prior to NMI's formation in 2004, the National Standards Commission charged fees for this activity. Pattern Approval (PA) of measuring instruments as carried out by NMI is a regulatory activity. Under the Charging Framework this activity should be charged on a cost recovery basis (full or partial).

### 2.1.2 Licensing

Following a 2007 decision of the Council of Australian Governments, a national system for trade measurement administered by NMI commenced in July 2010, with previous charging regimes harmonised to a single set of national charges for issuing licences.

Licensing of private sector operators as servicing licensees and public weighbridge licensees by NMI is a regulatory activity. Under the Charging Framework this activity should be charged on a cost recovery basis (full or partial).

### 2.1.3 Appointments

Appointment of private sector operators as legal metrology authorities by NMI is a regulatory activity. Under the Charging Framework this activity should be charged on a cost recovery basis (full or partial).

## 2.2 Statutory authority to charge

Subsections 18A (3) and 19A (8) of the Act authorise fees to be charged for activities undertaken by the Chief Metrologist or their delegate. The *National Measurement Regulations 1999* (Regulations) prescribe fees for examination and certification of patterns of measuring instruments. The Regulations prescribe fees for issuing of servicing and public weighbridge licences.

- PA fees are set by regulation, with annual indexation provided for from July 2014. The fee structure and indexation method is detailed in Schedule 13 of the *National Measurement Regulations 1999*.
- Licensing fees are set by regulation and have not been increased since 2010. The fee structure is set out in Division 2.4 (Servicing Licensees) and Division 3.2 (Public Weighbridge Licensees) of the *National Trade Measurement Regulations 2009*.
- Fees have not been prescribed under the Regulations for appointment of legal metrology authorities, and have been set administratively at \$1,100 (GST exempt) per application.

## 3. COST RECOVERY MODEL

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

#### 3.1.1 Pattern Approval

Activities carried out by the PA team are separated into three (3) core functions:

1. Assessing documentation and issuing PA certificates (applicable to all measuring instruments submitted for PA purposes), which accounts for approximately 36% of the PA total actual cost and is partially recovered through fees;
2. Laboratory testing of measuring instruments, which accounts for approximately 50% of the PA total actual cost and is partially recovered through fees; and
3. Input into the development of national and international technical policies for measuring instruments used for trade, to maintain Australia's measurement framework and fulfil international obligations, which accounts for approximately 14% of the PA total actual cost and is funded wholly through appropriation.



In each of the last three years between 200 and 300 certificates were issued, of which between 60% and 80% were for product lifecycle modifications or upgrades, with the remainder for new instruments.

Laboratory based testing is only required where measuring instruments are submitted without appropriate test results as specified by NMI. NMI recognises test reports from international laboratories issued in accordance with the OIML framework for mutual acceptance arrangements (section 6.1.2), and can also accept certain other test results.

### 3.1.2 Licensing and Appointments

Private sector organisations support the delivery of a robust trade measurement system for Australia. There are more than 600 licensees and more than 50 legal metrology authorities. Servicing licensees employ around 1,200 verifiers.

The business process for these activities includes:

- Application receipt and processing - file creation and acknowledgement
- Application evaluation - review the documentation supplied, make further enquiry or seek clarification if necessary, determine whether relevant criteria are satisfied

## 3.2 Costs of the regulatory charging activity

In line with the Charging Framework, costs are categorised into the following groups:

**Direct costs:** can be easily traced to a cost object with a high degree of accuracy. The allocation of direct costs to a cost object is relatively straightforward. The most common direct costs are staff salaries (including on-costs such as training, superannuation and leave) and supplier costs (e.g. office supplies).

**Indirect costs:** are the costs that cannot be easily linked to a cost object or for which the costs of tracking this outweigh the benefits. Indirect costs are apportioned to a cost object using the internal costing methodology. Common indirect costs include overhead costs such as corporate costs (e.g. finance, human resources, IT, office accommodation) and salaries of staff in support areas (e.g. regulatory practice and support functions).

NMI's cost recovery models incorporate both direct costs and indirect costs which can be assigned or traced specifically to the respective regulatory activities, including:

#### Direct Costs

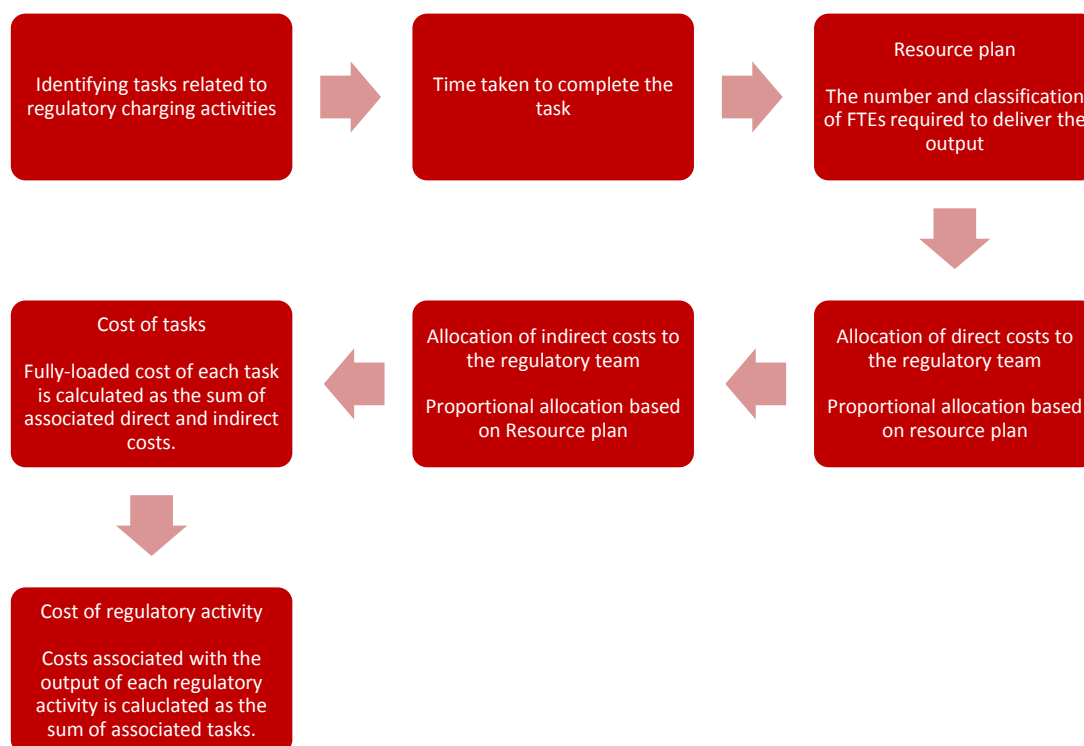
- Employee costs
- Operational costs for providing the service, including laboratory consumables, contractors, repairs and maintenance for laboratory equipment and administrative expenses.

#### Indirect Costs

- Other costs (such as property and overhead charges)
- Depreciation on assets used for the activity.

Figure 2 provides an overview of the methodology used for cost allocation specific to each regulatory activity. Table 2 provides the direct, indirect and capital costs for the activities forecast for 2017-18.

**Figure 2: Cost allocation methodology**



Part 6 of this document provides case studies to demonstrate fees associated with the regulatory activities.

**Table 2: Costs of regulatory Charging Activities (2017-18)**

|                         | Direct costs       | Indirect costs   | Capital costs |
|-------------------------|--------------------|------------------|---------------|
| <b>Pattern Approval</b> | \$940,000          | \$690,000        | \$0           |
| <b>Licensing</b>        | \$590,191          | \$97,679         | \$0           |
| <b>Appointments</b>     | \$65,577           | \$10,853         | \$0           |
| <b>TOTAL</b>            | <b>\$1,595,768</b> | <b>\$798,532</b> | <b>\$0</b>    |

### 3.3 Design of regulatory charges

The characteristics of a government activity determine the type of cost recovery charge used. Fees are charged when a good, service or regulation is provided directly to a specific individual or organisation.

Fees are designed to reflect as closely as possible the underlying cost of maintaining the capability and capacity to deliver the services, based on previous and projected demands.

In the case of pattern approval (PA), the costs of laboratory testing and of desktop assessment are significantly different. Fees for these two activities have been set separately within the PA function,

to reflect the higher cost of laboratory testing (particularly fixed costs associated with equipment and property).

Cost recovery for these regulatory functions enables NMI to maintain a sustainable legal metrology infrastructure that delivers confidence in Australia's measurement system and supports innovation.

The fees proposed in this consultation document have been developed to:

- promote consistent, transparent and accountable charging for government activities
- reduce cross subsidisation between regulatory and non-regulatory activities

NMI is undertaking a measurement law review to ensure Australia's measurement system is equipped for the future, and regulations are fit for purpose. The review will consider options to:

- remove unnecessary regulatory burden
- consolidate the legislative framework
- move Australia's measurement legislation towards a more principles-based framework

This review is expected to take up to 4 years for completion, including a transition period, so the regulatory charging models in this document cover a corresponding maximum period of 4 years from 1 July 2018.

The fees for all the regulatory activities have been developed assuming that historic demand remains stable and that demand will not be significantly reduced by increases in price.

The projected demand for these regulatory activities is assumed to be:

- 250 pattern approval certificates issued
- 30 PA testing modules
- 350 organisations licensed to verify trade measuring instruments
- 240 organisations licensed to operate public weighbridges
- 70 organisations appointed as authorities.

Factors which may influence future demands for these activities include:

- Ongoing innovation and development of measuring instrument technology
- Market factors affecting manufacturing of measuring instruments in Australia
- Demand from servicing licensee clients to verify trade measuring instruments at a commercially viable rate
- Demand from licensee clients to use public weighbridges at a commercially viable rate
- Demand from authority clients to use their services at a commercially viable rate.

- What is your projected demand for these regulatory services over the next 3-5 years?  
Is there any other information which would help improve NMI's projection of demand over this period?

## 4. RISK ASSESSMENT

In accordance with the Australian Government Charging Framework, NMI has undertaken a preliminary Charging Risk Assessment (CRA) which included the following key components:

- level of change for cost recovery activities
- level of cost recovery revenue
- complexity in the cost recovery arrangements (i.e. both fees and charges)
- level of change in legislative arrangements
- level of complexity of working with other government entities to deliver the regulatory functions
- level of impact of cost recovery on payers, and
- outcome of consultation with stakeholders (i.e. any significant issues raised).

The result of this assessment was a '**HIGH**' risk rating for NMI's cost recovery arrangements. A high risk rating requires that the Finance Minister agrees the Cost Recovery Implementation Statement prior to charging commencing.

This rating will be reassessed for the costing models finalised on the basis of responses received during consultation, and confirmed with the Department of Finance.

The Australian Government's Charging Policy is that individuals or groups that create the need for an activity should pay for that activity, unless the Government decides otherwise. There needs to be a significant policy case for a charge to not reflect the full cost of an activity.

In this context a key consideration when charging for NMI's regulatory activities is the impact on volume of each activity.

This includes:

- Measuring instrument manufacturers withdrawing from developing and manufacturing new technologies in Australia and no longer requiring pattern approval testing; and
- Licensees and Authorities reconsidering their participation in the trade measurement framework.

- Are there other significant risks associated with increased fees for these regulatory activities?
- What mitigation measures would assist NMI to manage these risks?

## 5. STAKEHOLDER ENGAGEMENT

In the Australian metrology framework, NMI is part of a complex environment of stakeholders, which interact to deliver regulatory arrangements for a wide range of sectors, including manufacturers, licensed and appointed authorities and service providers. NMI actively engages with stakeholders throughout the year through a range of engagement activities and communication channels.

NMI will hold public consultations for this draft CRIS document from 14 December 2017 to 8 February 2018. Feedback from these consultations will be considered in the revised schedule of fees and charges outlined for 2018-19.

The draft CRIS will be published on the NMI website with a feedback form.

The finalised CRIS will be updated and published on the NMI website. Any new models will apply from 1 July 2018, subject to any decisions made by Government.

## 6. FINANCIAL ESTIMATES

This section sets out how a full cost recovery model may be established assuming consistent market demands and similar operating costs for future years.

NMI is aware full cost recovery of legal metrology regulatory activities may have a significant impact on some parts of the market and is taking this opportunity to consider the views of market participants.

Summary of proposed fee increases include:

### Pattern Approval

- Processing and Issuing a Certificate – 75 per cent fee increase with options to transition the increase.
- Laboratory based testing – To recover 50 per cent of the expenditure with options to transition the increase.

### Licensing

- Servicing Licensees – 50 per cent fee increase with options to transition the increase
- Public Weighbridge Licensees – 50 per cent fee increase with options to transition the increase

### Appointments

- Multiplier of approximately 4 applied to the current fee pricing with options to transition the increase

When the Government determines the appropriate level of cost recovery, the regulatory charges will continue to be indexed to align with the September 2017 reforms to the Charging Framework, which requires all government charges to be indexed.

As stated in section 3.3, the design of the regulatory charging models in this document have been limited to a maximum period of 4 years from 1 July 2018. This is to avoid any potential conflict with any future changes to the regulatory environment resulting from the measurement law review.

The cost recovery models will be reviewed again following the measurement law review and NMI will continue to work with industry to identify sustainable cost recovery models.

## 6.1 Pattern Approval

NMI's website outlines the PA process at

<http://measurement.gov.au/Industry/services/Pages/Pattern-Approval.aspx>.

Maintaining an Australian PA capability requires cost recovery arrangements which are sustainable in the long term.

Manufacturing measuring instruments is an international industry. Due to population, geography and politico-economic factors including regional trading arrangements, the effective market size for instruments assessed by overseas PA authorities is much greater than for Australia, so instrument manufacturers may spread the costs of PA in those jurisdictions over a greater number of instruments.

As PA acts as part of the fundamental infrastructure for supporting reliable and accurate trade measurement, it is important that Australia is able to benefit from innovations in this field.

- Will higher PA fees act as a significant barrier to uptake of innovation in this field within Australia?

The costing for issuing PA certificates (section 6.1.1) and PA laboratory based testing (section 6.1.3) have been provided separately to align with the demand associated with each of these functions. The feedback from the consultation is expected to inform the quantification of the economic impact of proposed cost recovery.

Note:

- the calculated values of percentage increase have been rounded to nearest whole number.
- the time taken for each activity associated with the case studies are standard values. However, this may vary depending upon the complexities associated with each application.

### 6.1.1 Issuing Pattern Approval Certificate

Based on the forecast expenditure and revenue for the 2017-18 financial year, the current fee structure will recover approximately 60 per cent of the costs associated with assessing and issuing PA certificates.

Based on current expenditure and demand, NMI is proposing options to recover 100 per cent of the costs associated with issuing of PA certificates by introducing a 75 per cent fee increase, either:

- as a single increase; or
- proportionally over a 4 year period.

Case studies 1 and 2 provide examples of how these increases would apply to specific instrument categories.

### 6.1.2 Testing by overseas laboratories

Australia already participates in an international system for mutual acceptance of testing results, overseen by OIML. This system is changing, beginning in 2018 and progressing over subsequent years, to facilitate and further harmonize the work of national bodies responsible for pattern approval like the NMI.

From January 2018 Australia will participate in the new OIML Certification System (OIML-CS), which replaces the older OIML Mutual Acceptance Arrangement. Under the OIML-CS, NMI will be an Issuing Authority, able to issue both test reports on measuring instruments against the requirements of relevant OIML Recommendations, and OIML Certificates confirming that instruments conform to these requirements. Laboratories in other economies will similarly be approved to conduct testing.

There will still be a requirement for NMI to issue pattern approval certificates, as OIML Certificates cannot automatically be recognized under Australia's current measurement legislation. However, Australian manufacturers can engage an international laboratory approved under the OIML-CS to conduct testing, and NMI can accept these test results as the basis for pattern approval.

A comparison of current laboratory test fees between Japan and NMI for three different instrument types includes:

- Non-automatic weighing instrument less than 30 kg
  - Japan - \$13 000
  - Australia - \$19 000
- 100 t Load cell
  - Japan - \$12 000
  - Australia - \$23 000
- 3 hose fuel dispenser
  - Japan - \$18 000
  - Australia - \$24 000

Initially Australia will utilise the OIML-CS in relation to non-automatic weighing instruments and load cells (NMI/OIML R 76 and R 60). The OIML-CS will continue to be expanded in the future to include other measuring instruments, and NMI will be engaging with relevant stakeholders regarding these changes in due course.

- How important is it that Australia maintain local laboratory testing capability for PA?
- In the context of this international industry, is cost a significant driver when considering where laboratory testing should be undertaken?
- To what extent does acceptance of PA test results from international laboratories promote Australian production of measuring instruments used for trade?

### 6.1.3 Testing by NMI

Laboratory-based testing by NMI is only required where measuring instruments are submitted without appropriate test results from another recognised laboratory.

Based on the forecast expenditure and revenue for the 2017-18 financial year, the current fee structure recovers 11 per cent of the costs associated with maintaining and delivering laboratory based testing.

In order to recover 100 per cent of the costs associated with PA laboratory based testing, fees would **increase by a multiplier of approximately 9**. The NMI is aware an increase of this magnitude immediately or over a 4 year period up to the completion of the measurement law review may be inefficient or unrealistic and act as a disincentive for innovation or participation.

NMI is proposing options for recovering approximately 50 per cent of the costs of PA laboratory testing by introducing a fee increase multiplier of approximately 4:

- as a single increase; or
- proportionally over a 4 year period.

Case studies 3 and 4 provide examples of how these increases would apply to specific examples.



**Case Study 1:** Issuing of PA certificate for a Level 1 weighing instrument and the fees for tasks as outlined in Models 1.1 (a) and (b). The calculated prices for activities where hourly rates are applicable assume the average number of hours are required. Note that fee increases to Level 2 and 3 testing will be greater than for Level 1, but proportional to the changes included in this table. The calculated values of hourly rates and costs have been rounded to two (2) decimal places.

|                         | <b>Current Costing<br/>(57% of costs<br/>recovered)</b> | <b>Costing to recover<br/>100% of the costs<br/>Single fee increase</b> | <b>Proportional fee increase<br/>per year for 4 years</b>         |
|-------------------------|---|---|---|
| Application processing  | \$355   | \$623<br>(\$268 increase)   | \$67 increase /year<br>(\$268 over the 4 years)                   |
| Application assessment  | \$711   | \$1,243<br>(\$532 increase)   | \$133 increase /year<br>(\$532 over the 4 years)                  |
| Checklist               | \$948   | \$1,660<br>(\$712 increase)   | \$178 increase /year<br>(\$712 over the 4 years)                  |
| Summary report          | \$711   | \$1,243<br>(\$532 increase)   | \$133 increase/year<br>(\$532 over the 4 years)                   |
| Certificate preparation | \$593   | \$1,037<br>(\$444 increase)   | \$111 increase/year<br>(\$444 over the 4 years)                   |
| <b>TOTAL</b>            | <b>\$3,318</b>  | <b>\$5,806<br/>(\$2488 increase)</b>                                    | <b>\$622 increase/ year<br/>\$2488 increase over 4<br/>years)</b> |

**Case Study 2:** Issuing of PA certificate for a Level 1 volume measuring instrument and fees for tasks as outlined in Models 1.1 (a) and (b). The calculated prices for activities where hourly rates are applicable assume the average number of hours are required. Note that fee increases to Level 2 and 3 testing will be greater than for Level 1, but proportional to the changes included in this table. The calculated values of hourly rates and costs have been rounded to two (2) decimal places.

|                         | <b>Current Costing<br/>57% of costs<br/>recovered</b> | <b>Costing to recover<br/>100% of the costs<br/>Single fee increase</b> | <b>Proportional fee increase<br/>per year for 4 years</b> |
|-------------------------|---|---|---|
| Application processing  | \$355   | \$623<br>(\$268 increase)   | \$67 increase/year<br>(\$268 over the 4 years)            |
| Application assessment  | \$1,185   | \$2,074<br>(\$889 increase)   | \$222.25 increase/year<br>(\$889 over the 4 years)        |
| Checklist               | \$948   | \$1,660<br>(\$712 increase)   | \$178 increase/year<br>(\$712 over the 4 years)           |
| Summary report          | \$711   | \$1,243<br>(\$532 increase)   | \$133 increase/year<br>(\$532 over the 4 years)           |
| Certificate preparation | \$593   | \$1,037<br>(\$444 increase)   | \$111 increase/year<br>(\$444 over the 4 years)           |
| <b>TOTAL</b>            | <b>\$3,792</b>  | <b>\$6,635<br/>(\$2843 increase)</b>                                    | <b>\$711 increase/year<br/>(\$2843 over the 4 years)</b>  |

**Case Study 3:** Laboratory-based assessment of a Level 1 weighing instrument and fees for assessment tasks as outlined in Models 1.2 (a), (b) and (c). The calculated prices for activities where hourly rates are applicable assume the average number of hours are required. Note that fee increases to Level 2 and 3 testing will be greater than for Level 1, but proportional to the changes included in this table.

The costs associated with issuing of PA certificates will be additional to the costs detailed below.

|   | <b>Current costing<br/>11% costs recovered</b> | <b>Costing to recover<br/>50% of the costs<br/>Single fee increase</b> | <b>Proportional fee increase<br/>per year for 4 years</b>             |
|---|--|--|---|
| Instrument performance (9.5 hours)                          | \$2,252  | \$9,974<br>(\$7,722 increase)  | \$1,930.50 increase/year<br>(\$7,722 increase over 4 years)           |
| Temperature test  | \$2,092  | \$9,268<br>(\$7,176 increase)  | \$1,794 increase/year<br>(\$7,176 increase over 4 years)              |
| Humidity test   | \$1,153  | \$5,108<br>(\$3,955 increase)  | \$988.75 increase/year<br>(\$3,955 increase over 4 years)             |
| Cyclic humidity test  | \$3,504  | \$15,523<br>(\$12,019 increase)  | \$3,004.75 increase/year<br>(\$12,019 increase over 4 years)          |
| Voltage test  | \$863  | \$3,823<br>(\$2,960 increase)  | \$740 increase/year<br>(\$2,960 increase over 4 years)                |
| Line-borne interference test                                | \$787  | \$3,486<br>(\$2,699 increase)  | \$674.75 increase/year<br>(\$2,699 increase over 4 years)             |
| Surges  | \$787  | \$3,486<br>(\$2,699 increase)  | \$674.75 increase/year<br>(\$2,699 increase over 4 years)             |
| Static discharge test                                       | \$863  | \$3,823<br>(\$2,960 increase)  | \$740 increase/year<br>(\$2,960 increase over 4 years)                |
| Electromagnetic susceptibility tests                        | \$3,850  | \$17,056<br>(\$13,206 increase)  | \$3,301.50 increase/year<br>(\$13,206 increase over 4 years)          |
| Electromagnetic susceptibility tests for higher frequencies | \$1,919  | \$8,501<br>(\$6,582 increase)  | \$1,645.50 increase/year<br>(\$6,582 increase over 4 years)           |
| Endurance tests   | \$906  | \$4,014<br>(\$3,108 increase)  | \$777 increase/year<br>(\$3,108 increase over 4 years)                |
| <b>TOTAL</b>  | <b>\$18,976</b>                                | <b>\$84,062<br/>(\$65,086 increase)</b>                                | <b>\$16,271.50 increase/year<br/>(\$65,086 increase over 4 years)</b> |

**Case Study 4:** Laboratory-based assessment of a Level 1 volume measuring instrument and fees for assessment tasks as outlined in Models 1.2 (a), (b) and (c). The calculated prices for activities where hourly rates are applicable assume the average number of hours are required. Note that fee increases to Level 2 and 3 testing will be greater than for Level 1, but proportional to the changes included in this table.

The costs associated with issuing of PA certificate will be additional to the costs detailed below.

|                                      | <b>Current costing 11% costs recovered</b> | <b>Costing to recover 50% of the costs<br/>Single fee increase</b> | <b>Proportional fee increase per year for 4 years</b>              |
|--------------------------------------|--|--|--|
| Instrument performance               | \$1,778                                    | \$7,874<br>(\$6,097 increase)                                      | \$1,524.25 increase/year<br>(\$6,097 increase over 4 years)        |
| Temperature test                     | \$1,424                                    | \$6,308<br>(\$4,884 increase)                                      | \$1,221 increase/year<br>(\$4,884 increase over 4 years)           |
| Humidity test                        | \$1,627                                    | \$7,208<br>(\$5,581 increase)                                      | \$1,395.25 increase/year<br>(\$5,581 increase over 4 years)        |
| Voltage test                         | \$701                                      | \$3,105<br>(\$2,404 increase)                                      | \$601.25 increase/year<br>(\$2,404 increase over 4 years)          |
| Line-borne interference test         | \$1,693                                    | \$7,500<br>(\$5,807 increase)                                      | \$1,451.75 increase/year<br>(\$5,807 increase over 4 years)        |
| Static discharge test                | \$1,142                                    | \$5,059<br>(\$3,917 increase)                                      | \$979.25 increase/year<br>(\$3,917 increase over 4 years)          |
| Electromagnetic susceptibility tests | \$3,796                                    | \$16,816<br>(\$13,020 increase)                                    | \$3,255 increase/year<br>(\$13,020 increase over 4 years)          |
| Endurance tests                      | \$691                                      | \$3,061<br>(\$2,370 increase)                                      | \$592.50 increase/year<br>(\$2,370 increase over 4 years)          |
| <b>TOTAL</b>                         | <b>\$12,852</b>                            | <b>\$56,931<br/>(\$44,080 increase)</b>                            | <b>\$11,020 increase/year<br/>(\$44,080 increase over 4 years)</b> |

## 6.2 Licensing

All the core functions performed by the Licensing team are regulatory in nature. Consistent with the Charging Framework, all the tasks performed in relation to carrying out these core functions have been considered for calculating the associated costs.

In each of the models detailed below, servicing licences are typically granted for a period of three years and are subject to renewal. Licence fees cover the following:

- an application fee to assess suitability to hold a licence, which includes:
  - national police checks
  - reviewing licensee compliance history
  - validating the quality management system content
  - validating and updating application details in NMI's business systems.
- a fee based on the number of verifiers (within specified ranges) registered under the licence, to:
  - assess the competency of nominated verifiers
  - assess the compliance history of individual verifiers.
- a fee based on the type of instruments that the licensee is licensed to verify, to ensure the licensee:
  - has appropriate access to the required equipment and reference standards for each nominated instrument class
  - has a competent verifier authorised for each instrument class nominated on the licence.

A fee is charged for the renewal of public weighbridge licences, determined by the number of years the licence is being renewed for. New applicants pay an additional fee.

NMI is proposing options for recovering 100 per cent of the costs of issuing servicing and public weighbridge licenses by introducing a 50 per cent fee increase across the existing fee structure:

- as a single increase; or
- proportionally over a 4 year period.

A comparison of costs associated with each model is included in Table 3. Case studies 5, 6 and 7 provide more information on each of the cost models on existing small, medium and large sized servicing licensees. Case study 8 provides more information on each of the cost models on an existing public weighbridge licensee.

The calculated values for costs associated with licensing have been rounded to the nearest dollar.

The feedback from the consultation is expected to inform the quantification of economic impact of the proposed models.

**Table 3:** Fee structures for servicing and public weighbridge licences proposed under current pricing and proposed models.

|                                   | Current Pricing Model |                              | 50% Fee increase to achieve full cost recovery |                              |
|-----------------------------------|-----------------------|------------------------------|--|------------------------------|
|                                   | Servicing licensees   | Public weighbridge licensees | Servicing licensees                            | Public weighbridge licensees |
| Application fee for new licensees | \$500                 | \$500                        | \$750  | \$750                        |
| Annual renewal fee                | \$0                   | \$350                        | \$0  | \$525                        |
| 1                                 | \$550                 | N/A                          | \$825  | N/A                          |
| 2 - 10                            | \$850                 | N/A                          | \$1,275  | N/A                          |
| 11 - 50                           | \$2,050               | N/A                          | \$3,075  | N/A                          |
| 51 - 100                          | \$3,550               | N/A                          | \$5,325  | N/A                          |
| > 101                             | \$5,800               | N/A                          | \$8,700  | N/A                          |
| Fee per instrument class          | \$125                 | N/A                          | \$188  | N/A                          |

**Case Study 5:** Sole trader servicing licensee

A small verification business in a regional centre is a sole trader with one nominated verifier and three subclasses under one licence class applying for a 1 year renewal. Existing licensee hence new application fee is not applicable.

|                                   | Current Pricing            | Single 50% fee increase to achieve Full Cost Recovery | 50% Fee increase proportionally introduced over 4 years              |
|-----------------------------------|----------------------------|---|--|
| Application fee for new licensees | n/a                        | n/a   | n/a  |
|                                   |                            |   |  |
| 1 verifier                        | \$550                      | \$825<br>(\$275 increase)                             | \$68.75 increase/year<br>(\$275 increase over 4 years)               |
| Fee per instrument class          | \$125<br>(1 class x \$125) | \$188<br>(1 class x \$188)<br>(\$63 increase)         | \$15.75 increase/application<br>(\$63 increase over 4 years)         |
| <b>Total</b>                      | <b>\$675</b>               | <b>\$1,013</b><br><b>(\$338 increase)</b>             | <b>\$84.50 increase/year</b><br><b>(\$338 increase over 4 years)</b> |

**Case Study 6: Medium sized servicing licensee**

A medium-sized verification business in a capital city has seven nominated verifiers. There are two classes under the licence and four subclasses, applying for a 1 year renewal. Existing licensee hence new application fee is not applicable.

|                                   | <b>Current Pricing</b>     | <b>Single 50% fee increase to achieve Full Cost Recovery</b> | <b>50% Fee increase proportionally introduced over 4 years</b>        |
|-----------------------------------|----------------------------|--|---|
| Application fee for new licensees | n/a                        | n/a  | n/a   |
|                                   |                            |  |   |
| 2 to 10 verifiers                 | \$850                      | \$1,275<br>(\$425 increase)                                  | \$106.25 increase/year<br>(\$425 increase over 4 years)               |
| Fee per instrument class          | \$250<br>(2 class x \$125) | \$376<br>(2 class x \$188)<br>(\$126 increase)               | \$31.50 increase/year<br>(\$126 increase over 4 years)                |
| <b>Total</b>                      | <b>\$1,100</b>             | <b>\$1,651</b><br><b>(\$551 increase)</b>                    | <b>\$137.75 increase/year</b><br><b>(\$551 increase over 4 years)</b> |



**Case Study 7: Large servicing licensee**

A large nation-wide verification business has 27 nominated verifiers. They have two classes under their licence and five subclasses, applying for a 1 year renewal. Existing licensee hence new application fee is not applicable.

|                                   | <b>Current Pricing</b>     | <b>Single 50% fee increase to achieve Full Cost Recovery</b> | <b>50% Fee increase proportionally introduced over 4 years</b>          |
|-----------------------------------|----------------------------|--|---|
| Application fee for new licensees | n/a                        | n/a  | n/a   |
| 11 to 50 verifiers                | \$2,050                    | \$3,075<br>(\$1,025 increase)                                | \$256.25 increase/year<br>(\$1,025 increase over 4 years)               |
| Fee per instrument class          | \$250<br>(2 class x \$125) | \$376<br>(2 class x \$188)<br>(\$126 increase)               | \$31.50 increase/year<br>(\$126 increase over 4 years)                  |
| <b>Total</b>                      | <b>\$2,300</b>             | <b>\$3,451</b><br><b>(\$1,151 increase)</b>                  | <b>\$287.75 increase/year</b><br><b>(\$1,151 increase over 4 years)</b> |

**Case Study 8: Existing Public Weighbridge licensee.** Existing licensee hence new application fee is not applicable.

|                                   | <b>Current Pricing</b> | <b>Single 50% fee increase to achieve Full Cost Recovery</b> | <b>50% Fee increase proportionally introduced over 4 years</b> |
|-----------------------------------|------------------------|--|--|
| Application fee for new licensees | n/a                    | n/a  | n/a  |
| Annual renewal fee                | \$350                  | \$525<br>(increase \$175)                                    | \$43.75 increase/year<br>(\$175 increase over 4 years)         |
| <b>Total</b>                      | <b>\$350</b>           | <b>\$525</b><br><b>(\$175 increase)</b>                      | <b>\$43.75 increase/year</b><br><b>(\$175 over 4 years)</b>    |

### 6.3 Legal Metrology Authority Appointments

All the core functions performed by the Legal Metrology Authority Appointments team are regulatory in nature. All the tasks performed in relation to carrying out these core functions have been considered for calculating the associated costs. The feedback from the consultation is expected to inform the quantification of economic impact of the proposed model.

The fee is currently set at \$1,100 per appointment, irrespective of the time period of the appointment. The fee increase of nearly 300% was calculated based on an appointment valid for a period of 3 years, which is more indicative of the actual scenario. `

NMI is proposing options for recovering 100 per cent of the costs of associated with appointments by introducing a 300 per cent fee increase across the existing fee structure:

- as a single increase; or
- proportionally over a 4 year period.

**Table 4:** Appointment fees for legal metrology authority appointments to achieve full cost recovery.

|                 | Appointment classification |                     |                     |                        |
|-----------------|----------------------------|---------------------|---------------------|------------------------|
| Appointment Fee | Certifying authority       | Verifying authority | Approving authority | Utility meter verifier |
| 3 years         | \$4,203                    | \$4,203             | \$4,203             | \$4,203                |

#### Case Study 9: Utility meter verifier

Existing utility meter verifier applying for a 3 year renewal.

|   | Current Pricing | Single fee increase           | Fee increase proportionally introduced over 4 years       |
|---|-----------------|-------------------------------|---|
| Application fee 3 years appointment as utility meter verifier | \$1,100         | \$4,203<br>(\$3,103 increase) | \$775.75 increase/year<br>(\$3,103 increase over 4 years) |

## 7A FINANCIAL PERFORMANCE

Tables 6 and 7 illustrate the historic financial performance of the Pattern Approval, Licensing and Appointments activity groups.

### Pattern Approval

Table 6

|                        | 2012-13             | 2013-14             | 2014-15             | 2015-16             | 2016-17             |
|------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Expenses = X           | \$1,650,000         | \$1,750,000         | \$1,660,000         | \$1,750,000         | \$1,600,000         |
| Revenue = Y            | \$570,000           | \$530,000           | \$600,000           | \$520,000           | \$510,000           |
| <b>Balance = Y – X</b> | <b>-\$1,080,000</b> | <b>-\$1,220,000</b> | <b>-\$1,060,000</b> | <b>-\$1,230,000</b> | <b>-\$1,100,000</b> |
| Cumulative balance     | <b>-\$1,080,000</b> | <b>-\$2,300,000</b> | <b>-\$3,360,000</b> | <b>-\$4,590,000</b> | <b>-\$5,690,000</b> |

### Licensing and Appointments

Table 7

|                        | 2012-13          | 2013-14           | 2014-15           | 2015-16           | 2016-17           |
|------------------------|------------------|-------------------|-------------------|-------------------|-------------------|
| Expenses = X           | \$550,000        | \$500,000         | \$520,000         | \$540,000         | \$640,000         |
| Revenue = Y            | \$460,000        | \$470,000         | \$450,000         | \$400,000         | \$430,000         |
| <b>Balance = Y – X</b> | <b>-\$90,000</b> | <b>-\$30,000</b>  | <b>-\$70,000</b>  | <b>-\$140,000</b> | <b>-\$210,000</b> |
| Cumulative balance     | <b>-\$90,000</b> | <b>-\$120,000</b> | <b>-\$190,000</b> | <b>-\$330,000</b> | <b>-\$540,000</b> |

## 7B NON-FINANCIAL PERFORMANCE

### Pattern Approval

The number of certificates prepared varies with demand. Between 200 and 300 certificates were prepared in each of the last three years.

Laboratory accreditation through the National Association of Testing Laboratories has been maintained.

Suitable bilateral and multilateral arrangements are in place to support mutual recognition of testing performed within the scope of agreements with international partners and to enhance alignment with international specifications, where possible.

### Licensing and Appointments

There are over 600 licensees and over 50 legal metrology authorities. Servicing licensees employ around 1200 verifiers.

## 8. Key Dates and Events

| Date             | Event  |
|------------------|--|
| 1 December 2017  | Draft CRIS Consultation document signed off by Chief Metrologist |
| 14 December 2017 | Public consultation on draft CRIS Consultation document begins   |
| 8 February 2018  | Public consultation on draft CRIS Consultation document closes   |
| 15 February 2018 | CRIS signed off by Chief Metrologist                             |
| TBC              | Consultation response paper                                      |
| TBC              | CRIS signed off by Portfolio Minister                            |

## 9. CRIS APPROVAL AND CHANGE REGISTER

| Date of CRIS Change | Approver | CRIS Change                 |
|---------------------|----------|-----------------------------|
| 14/12/2017          |          | Draft CRIS for consultation |
|                     |          |                             |
|                     |          |                             |

## Providing Your Feedback

NMI invites stakeholders to take part in consultation on the proposed changes to fee structure to recover costs associated with the delivery of regulatory services under the Act.

Stakeholders are specifically invited to provide feedback and comment on the following:

### Questions

- 1) *What are the potential impacts of full cost recovery on the operation of your business? Please provide details.*
- 2) *What do you consider are the potential impacts of full cost recovery on your clients? Please provide details.*
- 3) *Would implementation of full cost recovery cause you to withdraw from the market? If so, which market(s) and why?*
- 4) *Would implementation of any of these models cause you to reduce your level of service to the market? If so, which market(s) and why? Which service(s) would you eliminate?*
- 5) *Please indicate your level of support if NMI were to introduce full cost recovery for PA laboratory based testing.*

Stakeholders may also provide comment on other fee structures and cost recovery related issues.

The public consultation process will commence on **14 December 2017**, with the closing date for submissions and comments being **8 February 2018**.

Key questions have been provided in this paper and are replicated in the online submission form to facilitate and focus submissions. Attachments providing supporting evidence may also be included.

Your submission must reach NMI by 11:59 PM AEST on 8 February 2018.

The Department prefers responses to the consultation paper are submitted online through the Department's consultation hub.

Alternatively, submissions can be made by downloading a form from the Department's consultation hub and:

- emailing to [NMICostRecovery@measurement.gov.au](mailto:NMICostRecovery@measurement.gov.au) with the subject heading 'Cost Recovery Consultation' and your company or individual name; or
- posting to Legal Metrology Branch, National Measurement Institute, GPO Box 2013, Canberra ACT 2601, marked Attention: 'Cost Recovery Consultation'

All information (including name and address) contained in formal submissions may be made available to the public on the Department's consultation hub following the close of submissions, unless you request for your submission to be treated confidentially.

For this purpose, automatically generated confidentiality statements in emails will not be viewed as a request to consider your submission as confidential.

### Providing a confidential submission

If you wish to make a confidential submission, please complete the commercial-in-confidence submission form that is available on the Department's consultation hub.

A request made under the *Freedom of Information Act 1982 (Cth)* for a submission marked 'confidential' to be made available will be determined in accordance with this Act.