

CEBRA Report Cover Page

Project Title, ID & Output #	<i>Illegal Logging, CEBRA 1405D, Deliverable 1 – Closure Report</i>			
Project Type				
DAFF Project Sponsor	<i>Wayne Terpstra (at inception Cassandra Kennedy)</i>	DAFF Project Leader/s	<i>Teresa McMaugh (at inception Cindy West, Courtney Bryant)</i>	
CEBRA Project Leader	<i>Andrew Robinson</i>	NZ MPI Collaborator	NA	
Project Objectives	<p>The objective of this project is to provide a robust sampling strategy of the regulated community to understand compliance characteristics, given a fixed sampling budget.</p> <p>The department will use the outcomes of sampling to develop tools and approaches to help the regulated community to comply with due diligence requirements, and to refine the compliance approach.</p>			
Outputs	<p>This report provided a recommended stratified sampling strategy of the regulated community. The other outputs of the project are a collection of tables and statistics that have been used by the Department to guide the design and implementation of a sampling strategy for assessing client compliance to Australia's Illegal Logging Prohibition legislation. Briefly, the outputs were as follows, using data extracted from Customs' Integrated Cargo System (ICS) from years 2011 and 2012:</p> <ol style="list-style-type: none"> 1) a count of active importers by business size, country, and product category (based on tariff); 2) a cut-off to distinguish between small and large importers; 3) a count of one-off importers by year to assess mobility; 4) a time series analysis of regulated imports by year; 5) advice about selecting clients for reporting (specifically considering equal probability sampling or variable probability sampling); 6) an analysis of importer activity from countries that have Country-Specific Guidelines (CSGs); and 7) a list of the top 500 importers based on volume of trade. 			
CEBRA Workplan Budget	Year 2013-14	Year 2014-15	Year 2015-16	Year 2016-17
	<i>\$0,000</i>	<i>\$20,000</i>	<i>TBA \$0,000</i>	<i>TBA \$0,000</i>
Project Changes	<i>Nil</i>			
Research Outcomes	<i>Nil</i>			
Recommendations	That the Department note the deliverables and their use in guiding implementation of the policy. That the Department consider implementing stratified sampling, where the strata are defined by importer size, exporting country, and class of goods where it is consistent with the targeting policy.			
Related Documents	<i>Nil</i>			
Report Complete	<i>Date: 20/5/2015</i>			

Report on uptake of analysis and advice

CEBRA project 1405D

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8 May 2015



Executive Summary

We report on the provision and uptake of analysis and advice for the design and implementation of a due diligence compliance assessment system in relation to the due diligence requirements under the *Illegal Logging Prohibition Act 2012* and the *Illegal Logging Prohibition Regulation 2012* (Regulation).

This report recommends a stratified sampling strategy of the regulated community.

The other outputs of the project are a collection of tables and statistics that have been used by the Department to guide the design and implementation of a sampling strategy for assessing client compliance to Australia's Illegal Logging Prohibition legislation. Briefly, the outputs were as follows, using data extracted from Customs' Integrated Cargo System (ICS) from years 2011 and 2012:

- 1) a count of active importers by business size (assumed to be proportional to the value of imports), country, and product category (based on regulated tariff groups);
- 2) a cut-off to distinguish between small and large volume importers;
- 3) a count of one-off importers by year to assess mobility;
- 4) a time series analysis of regulated imports by year;
- 5) advice about selecting clients for reporting (specifically considering equal probability sampling or variable probability sampling);
- 6) an analysis of importer activity from countries that have Country-Specific Guidelines (CSGs);
and
- 7) a list of the top 500 importers based on volume of trade.

Introduction

This report provides an update on the provision and uptake of analysis and advice for the design and implementation of a due diligence compliance assessment system in relation to the due diligence requirements under the *Illegal Logging Prohibition Act 2012* and the *Illegal Logging Prohibition Regulation 2012* (Regulation).

The Department of Agriculture (the department) is taking a phased approach to assessing compliance with the new requirements. In the first 18 months from commencement of the Regulation in November 2014, the department is focussing on raising awareness, education and undertaking 'dry run' assessments, before considering moving to align the compliance stance with the department's broader position.

As the regulator for this new legislation, the department needed a commencement targeting policy about what or who to approach to assess for compliance with the requirements.

Usually the department relies on a risk-return approach, based on a long history of data collection about compliances. In this project, there was no information about what regulated businesses would be doing after commencement of the requirements, and whether it was likely to be compliant. Thus a range of attributes needed to be explored to ensure that when the department started information gathering, that it was in the most informative way possible.

The outcomes of this project were largely delivered ahead of commencement of the Regulation.

At the same time, another departmental project was underway to develop ICT support for the Illegal Logging Compliance Assessment (ILCA) program, which needed to be in place for commencement of the regulatory requirements, passing through testing and production stages of the project by 30 November 2014. The 'client selection tool' that this CEBRA project was informing needed to be layered into the ICT solution and build.

Subsequent to the analysis, the government undertook a review of the regulation that commenced in December 2014 to consider the impact on small business. This review has led to the definition of a small business being defined, and then recently redefined in the 2015 Budget. At the time that the CEBRA analysis was undertaken, only a proxy of business size could be used, and this has since been superseded in definition. Access to true business size is currently only available through access to Australian Taxation Office protected data, which could not be incorporated into this project.

Also simultaneously, the staffing and policy around targeting changed substantially following commencement of the Regulation, so that some of the earlier work undertaken by CEBRA in this project rapidly became less applicable. This was unavoidable.

Nonetheless, the analyses provided valuable insight into the trade in 2012 that will continue to provide comparative value as live data is collected with the new ILCA ICT system.

The recommendations about uptake may be useful in future should the targeting policy align with the analysis.

Project deliverables

The structure of this report is as follows: each substantial request from the Department to CEBRA is represented as a section, with a description of the analysis needed for the request, its purpose, the outcomes, and the uptake.

1: Sampling Strategy

Based on discussions with the Department, CEBRA recommends a stratified sampling design. Strata should be defined by the following factors: category of goods, importer business size, and country of origin of goods. The sampling units should be importers. A complication is that importers can be in more than one stratum. However, the due diligence requirements vary by the category of goods and the country of origin.

2: Importer count by class

The Department asked for CEBRA's assistance in counting the number of importers that were active in 2012, in particular classes (strata). The classes were business (import value) size, country of origin, and product category (importers could appear in more than one category). Businesses were divided into two classes based on size, which was defined as the total declared value of non-exempt timber products for 2012 (cVal); the chosen cut off was \$100,000. Product category was defined based on the imported tariff classification numbers for the imported regulated goods as given in Appendix 1.

Four tables of stratified counts were provided, as follows: (i) all strata, (ii) only non-zero strata, (iii) all non-zero strata with more than 3 importers, (iv) all non-zero strata with more than 3 importers with 'Australia' removed. Each table included, for each stratum, the total cVal, the number of lines, the number of transactions, the number of importers, whether or not the stratum was associated with a Country Specific Guideline (CSG) and whether or not a country of origin was on a priority list for engaging on a CSG (refer to deliverable Item 6 below).

Purpose - Targeting policy development:

1. To scope how many strata existed in 2012.
2. To determine if any had no trade.
3. To determine which strata had at least four importers so that at least repeat samples were possible.

Findings - The range of strata with different conditions were provided.

Uptake - The results were presented in a paper to the ILP Board and used to develop the targeting and prioritisation policy for illegal logging compliance assessment.

2: Importer Size Definition

The Department asked for CEBRA's assistance in determining a suitable cutoff to distinguish between *small* and *large* importers, based on the data provided for the previous section.

Purpose - To inform how to divide business into meaningful categories of size proxy as a potential targeting attribute.

Findings - While importers can be sorted into groups, say of above and below \$100K of imports per year, there is no data to genuinely link to business size.

Uptake - The definition has been used for stratification of importer counts and activities.

3: One-off Importers

The Department asked CEBRA to provide a count of importers that imported one or fewer consignments a year across each of 2011 and 2012, to indicate the mobility of the industry.

Purpose - To understand how many importers bring in a single consignment, across years and examining the effect of the value exemption, as possible potential targeting or exclusion attributes.

Findings - The analysis shows there is no consistency between years in the number of consignments brought in per client. Many brought one consignment over the two years (656), or one in either year (over 4000). It shows that of importers who brought in one in 2012 many brought in many in 2011 (over 700), and vice versa.

Uptake - This informed policy (shared with Forestry Branch) that the concept of one free pass as a conceptual exemption would not be valuable for importers.

4: Time series analysis

The Department asked CEBRA to provide statistical and graphical summaries of time series of imports in 2011 and 2012.

Purpose - To identify if there are temporal variations in traded goods that should be taken into account in the sampling.

Findings - The analysis shows that there are dips in imports around the end of financial year and Christmas, but the variation is relatively insubstantial.

Uptake - The time of year does not need to be taken into account temporally in the sampling.

5: Advice on Reporting

The Department asked CEBRA to provide comments on ICT Reporting Requirements, including the client–case selection report.

Purpose - Review how the sampling policy would be applied by the proposed departmental ICT system.

Findings - CEBRA provided advice about the nature of the randomisation element *inter alia*. The specific consideration was whether the importers should be selected with equal probability, or with probability proportional to the number of ICS lines, as a proxy for the volume and variation of activity.

Uptake - The comments were taken into account in defining the sampling strategy, including record of the randomisation seed.

6: Analyses concerning CSGs

The Department asked CEBRA to count the number of clients importing from countries from which the Australian Government had negotiated CSG's with, that explain what legal product exported from that country looks like. The analysis examined the proportion of importers sourcing from 'CSG countries' and other countries, using the data already provided.

Purpose - Analysis to inform educational policy:

1. To understand how many clients may be assisted by CSG's being available.
2. To understand which other countries could be engaged to develop a CSG that would benefit the most clients.

Findings - The analysis showed that the CSGs currently prioritised mostly reflected the number of clients. There were new countries that could also be prioritised that had not been considered on a value of trade basis, such as Taiwan.

Uptake - This analysis was advised to the Illegal Logging Project Board and Forestry Branch to assist in policy decision making about prioritisation of further CSGs.

7: Top Importers

The Department asked CEBRA to provide a list of details of top 500 importers based on value of imported trade to inform the educational policy.

Purpose - To determine who were the large importers in 2012, in order to create a priority list to consider approaching as part of communications and outreach activities.

Findings - A list of the top 500 importers ranked by value of non-exempt trade was provided.

Uptake - Provided to Forestry Branch as per their request. They considered an educational mailout.

Appendix 1: Product Categories

Category number	Name	Tariff	Product description
1	4403	440310	Wood in the rough, treated with paint, stains, creosote or other preservatives
1	4403	440320	Wood in the rough, other, coniferous
1	4403	440341	Wood in the rough, of tropical wood, dark red meranti, light red meranti and meranti bakau
1	4403	440349	Wood in the rough, of tropical wood, other
1	4403	440391	Wood in the rough, of oak
1	4403	440392	Wood in the rough, of beech
1	4403	440399	Wood in the rough, other
2	4407	440710	Sawnwood, coniferous
2	4407	440721	Sawnwood, of tropical wood, mahogany
2	4407	440722	Sawnwood, of tropical wood, virola, imbuia and balsa
2	4407	440725	Sawnwood, of tropical wood, dark or light red meranti and meranti bakau
2	4407	440726	Sawnwood, of tropical wood, white lauan, white meranti, white seraya, yellow meranti, alan
2	4407	440727	Sawnwood, of tropical wood, sapelli
2	4407	440728	Sawnwood, of tropical wood, iroko
2	4407	440729	Sawnwood, of tropical wood, merbau
2	4407	440791	Sawnwood, oak
2	4407	440792	Sawnwood, beech
2	4407	440793	Sawnwood, maple
2	4407	440794	Sawnwood, cherry
2	4407	440795	Sawnwood, ash
2	4407	440799	Sawnwood, other including ebony
3	4408	440810	Sheets for veneering, coniferous
3	4408	440831	Sheets for veneering, of tropical wood, Dark or Light Red Meranti or Meranti Bakau
3	4408	440839	Sheets for veneering, of tropical wood, other
3	4408	440890	Sheets for veneering, other
4	4409	440910	Continuously shaped wood, coniferous
4	4409	440929	Continuously shaped wood, other
5	4410-11	441011	Boards, of wood, particleboard
5	4410-11	441012	Boards, of wood, oriented strand board
5	4410-11	441019	Boards, of wood, other
5	4410-11	441090	Boards, other
5	4410-11	441112	Fibreboard, medium density fibreboard, not exceeding 5 mm
5	4410-11	441113	Fibreboard, medium density fibreboard, exceeding 5 mm
5	4410-11	441114	Fibreboard, medium density fibreboard, exceeding 9 mm
5	4410-11	441192	Fibreboard, other, exceeding 0.8 g/cubic centimetre
5	4410-11	441193	Fibreboard, other, 0.5 to 0.8 g/cubic centimetre
5	4410-11	441194	Fibreboard, other, less than 0.5 cubic centimetre
6	4412	441210	Plywood or laminated wood, of bamboo
6	4412	441231	Plywood or laminated wood, at least one outer ply of tropical wood
6	4412	441232	Plywood or laminated wood, other, with at least one outer ply of non-coniferous wood
6	4412	441239	Plywood or laminated wood, other
6	4412	441294	Blockboard, laminboard and battenboard
6	4412	441299	Plywood, veneered panels etc, with at least one layer of particleboard
14	4413	441300	Densified wood, in blocks, plates, strips or profile shapes

7	4414	441400	Wooden frames for paintings, photographs, mirrors or similar objects
8	4416	441600	Casks, barrels, vats, tubs and other coopers□ products and parts thereof
9	4418	441810	Wooden windows, French-windows and their frames
9	4418	441820	Wooden louvre doors
9	4418	441840	Wooden shuttering for concrete constructional work
9	4418	441850	Wooden shingles and shakes
9	4418	441860	Builders□ wooden posts and beams
9	4418	441871	Assembled wooden flooring panels for mosaic floors
9	4418	441872	Assembled wooden multilayer parquet flooring panels
9	4418	441879	Assembled wooden parquet flooring panels (excl. panels for mosaic floors)
9	4418	441890	Builders□ joinery and carpentry of wood, including cellular wood panels
10	47	470100	Mechanical wood pulp
10	47	470200	Chemical wood pulp, dissolving grades
10	47	470311	Chemical wood pulp, soda or sulphate, unbleached, coniferous
10	47	470319	Chemical wood pulp, soda or sulphate, unbleached, non-coniferous
10	47	470321	Chemical wood pulp, soda or sulphate, semi-bleached or bleached, coniferous
10	47	470329	Chemical wood pulp, soda or sulphate, semi-bleached or bleached, non-coniferous
10	47	470411	Chemical wood pulp, sulphite, unbleached, coniferous
10	47	470419	Chemical wood pulp, sulphite, unbleached, non-coniferous
10	47	470421	Chemical wood pulp, sulphite, semi-bleached or bleached, coniferous
10	47	470429	Chemical wood pulp, sulphite, semi-bleached or bleached, non-coniferous
10	47	470500	Semi-chemical wood pulp
11	48	480210	Writing paper uncoated, handmade
11	48	480220	Writing paper uncoated, paper used as a base for phot/heat/electro sensitive
11	48	480240	Writing paper uncoated, wallpaper base
11	48	480254	Writing paper uncoated, not mech/chem fibres, weighing < 40 g/m2
11	48	480255	Writing paper uncoated, not mech/chem fibres, weighing 40 g/m3 to 150 g/m2
11	48	480256	Writing paper uncoated, not mech/chem fibres, < 435 mm and 297 mm sides
11	48	480257	Writing paper uncoated, > 29.7 cm or one side > 43.5 cm
11	48	480258	Writing paper uncoated, weighing > 150 g/m2
11	48	480261	Writing paper uncoated, weighing < 150 g/m2
11	48	480262	Writing paper uncoated, with one side _ 435 cm and the other _ 297 mm
11	48	480269	Writing paper uncoated, with one side _ 435 cm and the other _ 297 mm
11	48	480300	Toilet tissue
11	48	480411	Uncoated kraft paper and paperboard, unbleached kraftliner
11	48	480419	Uncoated kraft paper and paperboard, bleached kraftliner
11	48	480421	Uncoated kraft paper and paperboard, unbleached sack kraft paper
11	48	480429	Uncoated kraft paper and paperboard, bleached sack kraft paper
11	48	480431	Uncoated kraft paper and paperboard, unbleached weighing 150 g/m2 or less
11	48	480439	Uncoated kraft paper and paperboard, bleached weighing 150 g/m2 or less
11	48	480441	Uncoated kraft paper and paperboard, unbleached weighing more than 150 g/m2
11	48	480442	Uncoated kraft paper and paperboard, bleached uniformly
11	48	480449	Uncoated kraft paper and paperboard, not bleached uniformly
11	48	480451	Uncoated kraft paper and paperboard, unbleached weighing 225 g/m2 or more
11	48	480452	Uncoated kraft paper and paperboard, bleached uniformly throughout the mass
11	48	480459	Uncoated kraft paper and paperboard, not bleached uniformly throughout the mass
11	48	480511	Uncoated kraft paper and paperboard other, semi-chemical fluting paper
11	48	480512	Uncoated kraft paper and paperboard other, straw fluting paper

11	48	480519	Uncoated kraft paper and paperboard other, fluting paper
11	48	480524	Uncoated kraft paper and paperboard other, testliner < 150 g/m2
11	48	480525	Uncoated kraft paper and paperboard other, testliner > 150 g/m2
11	48	480530	Uncoated kraft paper and paperboard other, sulphite wrapping paper
11	48	480540	Uncoated kraft paper and paperboard other, filter paper and paperboard
11	48	480550	Uncoated kraft paper and paperboard other, felt paper and paperboard
11	48	480591	Uncoated kraft paper and paperboard other, multi-ply paper, < 150 g/m2
11	48	480592	Uncoated kraft paper and paperboard other, multi-ply paper, 150 to 225 g/m2
11	48	480593	Uncoated kraft paper and paperboard other, multi-ply paper, > 225 g/m2
11	48	480620	Greaseproof papers
11	48	480630	Tracing papers
11	48	480640	Glassine and other glazed transparent or translucent papers
11	48	480700	Composite paper and paperboard
11	48	480810	Paper and paperboard, corrugated
11	48	480840	Paper and paperboard, kraft paper, creped or crinkled
11	48	480890	Paper and paperboard, embossed or printed white printing and writing paper
11	48	480920	Carbon paper, self-copy paper
11	48	480990	Carbon paper, sublimation transfer printing paper
11	48	481013	Coated paper and paperboard, in rolls
11	48	481014	Coated paper and paperboard, cast coated
11	48	481019	Coated paper and paperboard, cast coated _ 10% of fibre mechanically or chemi-mech processed
11	48	481022	Coated paper and paperboard, light-weight coated paper
11	48	481029	Coated paper and paperboard, Cast coated paper > 10% of fibre mechanically or chemi-mech processed
11	48	481031	Coated paper and paperboard, kraft bleached uniformly
11	48	481032	Coated paper and paperboard, kraft bleached uniformly
11	48	481039	Coated paper and paperboard, kraft not bleached uniformly
11	48	481092	Coated paper and paperboard, multi-ply
11	48	481099	Coated paper and paperboard, other
11	48	481110	Paper product, tarred, bituminised or asphalted floor coverings
11	48	481141	Paper product, self-adhesive
11	48	481149	Paper product, gummed or adhesive (excl. self-adhesive)
11	48	481151	Paper product, floor coverings on a base of paper or of paperboard
11	48	481159	Paper product, coated or covered with plastics (excl. adhesives)
11	48	481160	Paper product, floor coverings on a base of paper or of paperboard, coated
11	48	481190	Paper product, floor coverings on a base of paper or of paperboard, whether or not cut to size
11	48	481310	Cigarette paper in the form of booklets
11	48	481320	Cigarette paper in rolls of a width not exc 5 cm
11	48	481390	Cigarette paper (excl. in the form of booklets or tubes)
11	48	481710	Envelopes of paper or paperboard
11	48	481720	Letter cards, plain postcards and correspondence cards
11	48	481730	Boxes, pouches, wallets and writing compendiums, of paper or paperboard
11	48	481810	Sanitary paper, toilet paper
11	48	481820	Sanitary paper, handkerchiefs, cleansing or facial tissues and towels, of paper
11	48	481830	Tablecloths and serviettes, of paper, paper pulp, cellulose wadding or webs of cellulose fibre
11	48	481850	Articles of apparel and clothing accessories of paper pulp, paper, cellulose wadding
11	48	481890	Other household sanitary or hospital articles of paper pulp, paper, cellulose wadding
11	48	481910	Cartons, boxes and cases, of corrugated paper or paperboard
11	48	481920	Folding cartons, boxes and cases, of non-corrugated paper or paperboard

11	48	481930	Sacks and bags, of paper, paperboard, cellulose wadding or webs of cellulose fibre
11	48	481940	Sacks and bags
11	48	481950	Packing containers (incl. record sleeves but excl. cartons, boxes and cases)
11	48	481960	Box files, letter trays, storage boxes and similar articles
11	48	482010	Diaries of paper or paperboard
11	48	482020	Exercise work books of paper or paperboard
11	48	482030	Binders, folders and file covers, of paper or paperboard
11	48	482040	Manifold business forms and interleaved carbon sets, of paper or paperboard
11	48	482050	Albums for samples or for collections, of paper or paperboard
11	48	482090	Other articles of stationery, of paper or paperboard
11	48	482110	Paper or paperboard labels of all kinds, printed
11	48	482190	Paper or paperboard labels of all kinds (excl. printed)
11	48	482320	Filter paper and paperboard subject to calendaring, super-calendaring, glazing
11	48	482340	Paper and paper board in rolls, sheets and dials, printed for self-recording
11	48	482369	Trays, dishes, plates, cups and the like, of paper or paperboard
11	48	482370	Moulded or pressed articles of paper pulp
11	48	482390	Other paper
12	9401-03	940161	Seats with wooden frames upholstered
12	9401-03	940169	Seats with wooden frames other
12	9401-03	940330	Wooden furniture of a kind used in offices
12	9401-03	940340	Wooden kitchen furniture
12	9401-03	940350	Wooden bedroom furniture
12	9401-03	940360	Other wooden furniture
12	9401-03	940390	Furniture parts
13	9406	940600	Prefabricated buildings