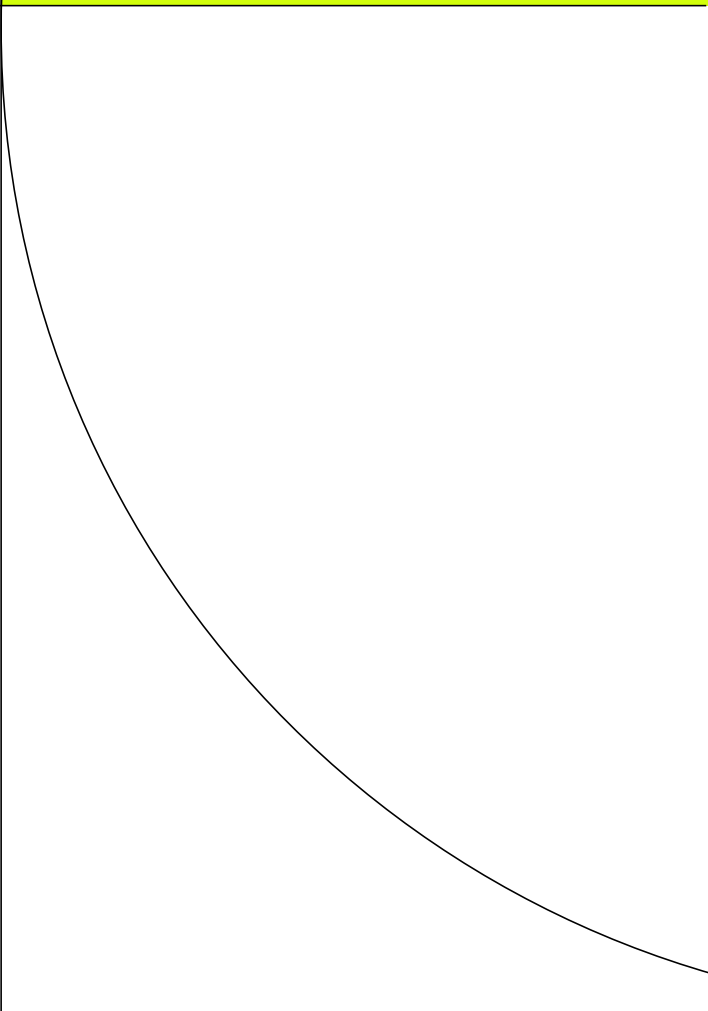


# Simplified Trade System Stakeholder Consultation Paper Submission

January 2022



# Overview

The BCA welcomes the opportunity to provide a submission to the Simplified Trade System (STS) Stakeholder Consultation Paper Submission. The BCA supports the work of the STS Implementation Taskforce, which aims to make cross border trade cheaper, faster and easier.

Australia must effectively engage with other countries across our region and the rest of the world as the strength of our economy is underpinned by our openness. One in five jobs are connected to trade, and 57,000 Australian businesses are exporters, with 10 per cent of those averaging one export a week. We are 1.7 per cent of the world economy and our opportunities lie in accessing the other 98.3 per cent.

Openness to trade and investment helps drive productivity growth and improves living standards by increasing access to markets, enhancing product market competition and provides an important channel for the diffusion of technology across countries. To maximise the opportunities from global engagement, Australia must lift the competitiveness of our domestic firms and markets, and also foster openness and reciprocity on the part of our global partners. The benefits of trade liberalisation since the mid-1980s are significant:

- the economy is more than five per cent larger today, or more than \$100 billion extra income a year<sup>1</sup>
- average household income is more than \$8,000 higher.<sup>2</sup>

The urgency for reform has never been more acute. Global supply chain disruptions are continuing as a result of pandemic-induced changes, pushing up the cost of traded goods and adding to inflationary pressures. Although there are many factors influencing the effectiveness of global supply chains, an efficient cross border trade compliance system plays a role reducing supply chain constraints, ensuring that goods move swiftly across borders at minimum additional cost to consumers.

Despite the economic importance of trade to Australia, we may not be realising our full potential. The regulatory framework and administrative infrastructure around cross border trade lacks coordination, is unnecessarily complex and is often not fully digitised or automated. This may deter businesses – particularly small- and medium-sized businesses from exploring their exporting opportunities. For example, it is estimated that in 2018 small and medium-sized enterprises (SMEs) accounted for only 14 per cent of Australia's exports compared with a G7 average of 25 per cent.<sup>3</sup>

In the current environment, ongoing pandemic restrictions and adverse competition between major trading economies are pushing Australian businesses to reconsider their global supply chain strategies. The state of the cross-border trade compliance system is a factor businesses consider when establishing new sources of supply (and export potential), as well as decisions on where to base operations and employ workers.

Australia's cumbersome and slow trade compliance system is a handbrake on both trade and economic growth. This is best illustrated by Australia's cross border trading system consisting of over 200 pieces of legislation/regulation, 28 agencies across government, over 130 government IT systems supporting trade and 20 business facing trade portals.

All this makes the work of the STS Taskforce of vital importance and urgency – or Australia risks falling further behind. A better system must remove duplication, improve harmonisation, and embrace technology to deliver a cross border trading system that is fit for the 21<sup>st</sup> century.

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<sup>1</sup> Centre for International Economics, Australian trade liberalisation, 2017

<sup>2</sup> Ibid.

<sup>3</sup> Export Council of Australia, *2018 Trade Policy Recommendations: Increasing SME participation in international trade*, 2018

# Key recommendations

1. The STS Taskforce should publish and release as much of its analytical work as possible, beginning with a comprehensive review of the regulations and various choke points in trade compliance. This should be accompanied by a vision for a future system and a work agenda to get there. Together they will support business to better understand and support the reforms and ensure critical momentum can be sustained through several years of implementation.
2. The STS reforms could prioritise the flow of import/export data for businesses using the customs system through an opt-in self-service portal. This will reduce the time it takes to obtain data from Australian Border Force, streamline business operations and make it easier for businesses to identify and manage risk in supply chains and develop mitigation plans. Timely provision of data will also support user compliance with more complex regulatory reporting on risks in supply chains.
3. The STS reforms could address the time and cost of administering Australia's biosecurity system by exploring the deployment of technologies, including artificial intelligence, that could speed up cross border processing while ensuring integrity and continued high levels of risk management are observed.
4. Develop and pilot an elementary user-friendly applicant experience to reduce the administrative burden and increase attractiveness to potential trade participants. This could include:
  - a. Develop an online decision tree user guide on how to best navigate trade processes to assist user experience based on specific needs. There are simple examples of this already in practice.<sup>4</sup>
  - b. Develop an initial universal application that covers the data requirements of multiple departments and is disseminated to each relevant department to avoid duplication and improve the user experience.
  - c. Provide an online consolidated trade application status report and expected processing times to provide increased transparency and assist applicants in business planning.
5. Temporary changes to cross border trade introduced in response to COVID should be made permanent.

## Additional information

### What is cross border trade regulation and what is its purpose?

#### Key rules and legislation

The Australian government maintains strict control of its borders and manages cross border trade in accordance with domestic laws and international standards. These regulations promote fair trade between Australia and the world while protecting the safety and welfare of domestic industries, communities and the environment.

The *Customs Act 1901* and related regulations broadly regulate the import and export of goods to and from Australia. There is no general requirement for an importing entity to hold a licence for importation. However, under the *Customs (Prohibited Imports) Regulations 1956* the import of certain goods may be prohibited or restricted. Goods may also be impacted by the *Commerce Trade Descriptions Act 1905*, and *Competition and Consumer Act 2010* regarding the origin and marking of goods. To export goods from Australia, an exporter or its agent must lodge an export declaration.

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<sup>4</sup> <https://www.finance.gov.au/government/commonwealth-grants/tools-and-templates/decision-tree-selecting-grant-opportunity-template>

## Key agencies

The Australian Border Force (ABF), located within the Department of Home Affairs, is the primary law enforcement agency responsible for border control compliance and enforcement. The ABF must clear all goods imported into Australia whether they are imported by air, sea or post. It is also responsible for reviewing all export declarations and issuing an Export Declaration Number for each proposed export.

The agency involved in the clearance and licensing process depends on the type of good being shipped. For example, the Department of Agriculture, Water and the Environment (DAWE) provides permits for food and agricultural products, while the Therapeutic Goods Administration approves and licences the trade of medicines and medical devices.

## Australia's trading system is unnecessarily complex and fragmented

Despite the economic importance of trade, the regulatory framework and administrative infrastructure lacks coordination, is unnecessarily complex and is often not fully digitised or automated. To illustrate, Australia's cross border trade system has:

- over 200 pieces of legislation/regulation
- 28 agencies across government
- over 130 government IT systems supporting trade
- 20 business facing trade portals.

In practice, this fragmented and complex regulatory framework means:

- a meat exporter deals with 22 regulatory touchpoints
- an alcohol importer deals with 26 regulatory touchpoints
- a pharmaceutical importer deals with 22 regulatory touchpoints
- a mining and industrial machinery importer deals with 13 regulatory touchpoints.<sup>5</sup>

The impact of this complexity and regulatory burden may be to deter businesses from exploring the opportunities from trade. For example, it is estimated that in 2018 SMEs accounted for only 14 per cent of Australia's exports while the G7 average was 25 per cent.<sup>6</sup>

Issues with Australia's trading system can be relatively granular but the implications can be profound. For example, before the Australian Government announced it would replace the existing paper-based system for food exporters with a new online system, businesses had to wait for a special printer to be mailed to them to print certificates before the goods could leave Australia.<sup>7</sup>

## How does Australia's cross border trading system compare internationally?

Australia's regulatory cross border trade compliance processes are costly and slow relative to comparable countries. In 2019, the World Bank ranked Australia 106<sup>th</sup> out of 190 countries in its annual 'Ease of Trading Across Borders' measure. France and other EU members ranked highest owing largely to free trade arrangements within the EU Customs Union. The UK ranked 33<sup>rd</sup>, the US 39<sup>th</sup> and Canada 51<sup>st</sup>.

Australia's poor ranking is explained in part by our strict biosecurity laws and comparatively high proportion of agricultural exports. To illustrate, agricultural products are found to incur up to 74 per cent higher trade costs

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<sup>5</sup> KPMG, *Domestic Single Window Study* 2016

<sup>6</sup> Export Council of Australia, *2018 Trade Policy Recommendations: Increasing SME participation in international trade*, 2018

<sup>7</sup> Agricultural Export Regulation Review: Final Consultation Report (2016)

relative to manufactured products for high income countries.<sup>8</sup> Maintaining high standards is critical for Australia's reputation as a 'clean, green' exporter of products that have been produced to the highest standards. However, by comparison New Zealand ranks much higher than Australia at 63<sup>rd</sup> despite also being a major exporter of agricultural goods and having similar biosecurity laws.

## What are the main costs incurred by businesses?

The main costs incurred by businesses under Australia's cross border trade system are delay, compliance and opportunity costs. This can result in higher prices, reduced or delayed product choice for consumers, and foregone commercial decisions when companies limit their trade activity because of regulatory obligations. These costs stem from three key regulatory issues:

- Lack of information and transparency
  - The large number of government agency trade requirements make it difficult for businesses – especially SMEs – to readily understand their regulatory requirements via online research.
  - Uncertainty drives up business costs, necessitates increased cash and capital reserves and inflates risks. Without visibility of expected decision times and indicative outcomes, many participants will focus on other markets or opportunities that offer greater predictability and certainty with lower risks for comparable or lower returns.
  - For the agriculture sector, updates to the Manual of Importing Country Requirements are slow to be enacted. Businesses often rely on departmental contacts to ensure they are informed of any updates.<sup>9</sup>
- Delays caused by government
  - Government cargo clearance processes often extend past estimated timeframes, and many agencies do not process clearances outside of regular business hours. This leaves cargo that arrives outside business hours sitting idle.
  - Inspection processes are often delayed by system glitches and data errors, particularly where processes continue to rely on paper forms (e.g. bills of lading). While some aspects of cross border trade are automated, those that are not lead to delays. In turn, this impacts cash flow, competitiveness and makes imports more expensive for Australian consumers.
  - One BCA member noted some DAWE processes can be slow and inefficient. For example, an import vessel received approval but had to restart this process when the rotation of the discharge ports was changed. In addition, the prioritisation of applications appears limited to medical and perishable goods.
- Process duplication and inconsistent interpretation
  - Most government agencies use separate regulatory systems to process trade declarations, licences and permits, which leads to unnecessary process duplication. Some also do not support Excel or CSV files, making data entry a manual task.<sup>10</sup>
  - There are examples of products (e.g. woodchips) being exported from different regions being subject to different rules due to different interpretations of the regulations in each region.<sup>11</sup> One BCA member also noted various ports in one state applying different rules for managing COVID, causing unnecessary confusion and delay.

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<sup>8</sup> OECD and World Trade Organization, *Aid for Trade at a Glance 2015*

<sup>9</sup> Department of Agriculture, Agricultural Export Regulation Review: Final Consultation Report

<sup>10</sup> *Domestic Single Window Study 2016*, KPMG

<sup>11</sup> Department of Agriculture, Agricultural Export Regulation Review: Final Consultation Report

## What does a better system look like?

Australia is not the only country to have developed unnecessary complexity in its cross border regulations. The problem is widespread enough that it has led to the development of a solution in other countries known as 'Single Window Trade'.

Under a Single Window model, a national one-stop-shop digital trade platform becomes the sole touch point with which companies engage for their cross border trade related regulatory requirements. It also acts as a national data harmonisation platform that different government agencies can use to share and obtain information. The one-stop-shop digital trade platform approach promotes simple, streamlined and transparent processes, minimising compliance and delay costs for businesses. It is an investment that delivers long-term cost savings and benefits. For example:

- Singapore's National Trade Platform was estimated to cost more than SG\$100 million (\$105 million) while delivering cost savings of more than SG\$600 million per year (\$630 million) to Singaporean business.<sup>12</sup>
- New Zealand anticipates NZ\$450 million (\$421 million) of cost savings to businesses over ten years thanks to the 2013 launch of its 'Trade Single Window' platform.<sup>13</sup>
- The UK – still prototyping its Single Window systems – values the efficiency gains at £160 million - £190 million a year (\$304 million - \$361 million) for importers and exporters.

The potential cost saving to Australian businesses is around \$400 million per year. This estimate is based on comparable country cost savings and adjusted for relative Australian trade volumes. PwC analysis also finds the gains from widespread supply chain modernisation could increase GDP by 1.4 per cent, or around \$30 billion by 2030.<sup>14</sup>

## How do we drive change and reforms?

Targeted reform efforts in Australia's trade regulation framework demonstrate progress in the right direction. The work of the STS Taskforce is vital now to take the next step of a comprehensive plan for change, followed by implementation. A 'tell us once' and 'digital first' approach should underpin all the STS work to improve cross border trade compliance. The need for reform is urgent – or Australia risks falling further behind.

There are previous positive examples of process improvement, such as the integration of existing regulatory systems (e.g. the Integrated Cargo System (ICS)) and the development of the New Export Documentation System (NEXDOC). However, these systems must remain fit-for-purpose and reflect the changing nature of market dynamics, such as the rise of e-commerce which accelerated even further in response to the COVID-19 pandemic. Another global trend is for improved traceability of products (particularly agricultural products) to help ensure their origin, quality and safety.

The STS is already demonstrating incremental progress and the tangible benefits these reforms can deliver. For example, additional funding was announced in MYEFO 2021-22, including for a one-stop digital shop for trade clearances, harmonising traceability standards and data for agricultural producers and exporters, booking and managing biosecurity inspections online and looking to remove paper documents from cross border trade.

Beyond short term changes, the STS Taskforce reforms will likely involve incremental changes over several years, which makes it vital for the Taskforce to publish a clear timetable for implementation. This would instil confidence that progress is being achieved and provide greater investment certainty. The implementation plan should include:

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<sup>12</sup> Singapore Budget 2016

<sup>13</sup> [https://www.parliament.nz/mi/pb/hansard-debates/rhr/document/50HansD\\_20130829\\_00000016/border-processing-trade-single-window-and-duties-bill](https://www.parliament.nz/mi/pb/hansard-debates/rhr/document/50HansD_20130829_00000016/border-processing-trade-single-window-and-duties-bill)

<sup>14</sup> <https://www.pwc.com.au/government/government-matters/supply-chain-digitisation-investment.html>



- **High-level political commitment** to ensure momentum, resources and interagency support that is sustained through implementation. This should include a public timetable for implementation and public release of the STS baseline exercise to ensure momentum can continue, improve accountability and instil confidence that progress is achieved.
- **Mapping out the regulatory landscape** such as through regtech capabilities to map out a snapshot of the existing system and regulatory framework that applies to exporters and importers. This includes transparency of data and information on the annual costs to government from administering regulation and the costs to business of complying with regulations to support informed understanding of the cost-benefit analysis from individual regulations and how they are implemented.
- **A vision for a future system** to put forward an objective and outcome to define what a future environment looks like.
- **A user-centred experience process design** to inform key decisions, focused on reducing or eliminating elements of uncertainty and reducing administrative burdens that discourage trade participation.
- **A phased approach to implementation** with quick wins and pilot programs to show the tangible benefits and test, learn and scale – building to more substantive change over time. This may need to include legislative changes where it is needed to explicitly support electronic transactions, data privacy, enable data sharing across agencies and digital identification.
- **Careful use of technology** as a common pitfall is to become weighed down by overly complex and costly IT systems. Simple web-enabled technologies and use of automation can deliver appropriate solutions. Consultation with industry, consistency of standards for data sharing across agencies and rigorous product testing can help mitigate IT implementation risks. At the same time, a solid foundational system provides a platform from which to build a better system overall.

## What are some features of a better system?

A better system would benefit from greater integration of functions and information through a single focus point. This would help reduce duplication and improve harmonisation across different government agencies. The Taskforce should work with business on a whole-of-government approach, with a 'digital first' and 'tell us once' approach as guiding reform principles. It should also identify best practice methods, including from overseas.

- A single touch point is critical instead of having business provide the same data multiple times to different regulatory touchpoints. Specific IT enhancements would include consolidated case-management systems, eliminating duplication of user portals, and enhanced interoperability across systems. Reforms could also enable voluntary access to real-time data through the customs system and an opt-in self-service portal, while supported by simplification of data requirements. This is critical for businesses to identify any risk areas or disruptions, streamline business operations and work out immediate mitigation plans. For example, knowing an item is about to be cleared enables businesses to better schedule transport to the next step.
  - Any self-service portal should have a systematic data population option to allow populated data through system integrations rather than through manual and inefficient data entry
- Australia's biosecurity system could be improved by reducing the time and costs of administration. This could be through the deployment of technologies, including artificial intelligence, that could help automate risk assessment and decision-making processes and speed up cross border processing while ensuring integrity and continued high levels of risk management are observed. The Australian Trusted Trader program could also include quarantine processes and engagement.
- Data should be in the same format as that used for the general conduct of day-to-day business and allow for common documents such as Excel and CSV files. This should also include foreign currency that is converted by back-end systems rather than by businesses, and consider a reduction or simplification of data requirements on customs declarations.

- A move to digital and removing paper from the trading system could deliver significant benefits, and this could be expanded further through a move to a blockchain/distributed ledger ecosystem that could be applied to all forms of trade documentation. For example, there is currently a bill before Parliament to allow companies to distribute electronic documents and electronically execute documents. These reforms alone are estimated to deliver deregulatory savings of around \$400 million a year.<sup>15</sup>
  - Companies may experience delays with documentation, particularly Certificates of Origin (COO) relating to Free Trade Agreements. They are often slow to be produced by the origin countries and may contain discrepancies/errors in the tariff code. As a result, this causes more work for brokers to follow up with the shipper and often an extra entry to clear the goods without the COO – after which they can apply for a refund of the duty once the COO is supplied.
- An early focus on products that are impacted by multiple regulators which may have greater duplication around reporting requirements e.g. agricultural and pharmaceutical goods. This could be further extended to focus on circumstances where regulators have duplicate or similar requirements.
- There is a disparity where some payments are made on a shipment-by-shipment basis (e.g. duties, taxes and levies), but other taxes can be collected monthly or even weekly. Some of these payments can also be made in bulk while a shipment-by-shipment declaration amendment is required to obtain refunds of customs duty.
- Recognise that all authorities involved in cross border trade compliance are regulators. Therefore, they must be accountable by meeting consistent and reportable regulatory performance standards such as through the Regulator Performance Guide.
- Following implementation of reforms, whole-of-system trade compliance regulation should be comprehensively reviewed every five years to ensure regulation keeps pace with technological change, changing patterns of trade and optimal user experiences.

## Temporary COVID changes

At the onset of the COVID-19 pandemic, some of the first rules to be relaxed were the artificial constraints on delivering goods, keeping workers connected to their employers and held back the day-to-day operation of business. These temporary changes were introduced by all levels of government to allow individuals and businesses to respond and adapt. Within the trade space they included:

- DAWE is temporarily accepting certain electronic certificates for produce and plant-based goods, imported animals and animal-based goods. This temporary change has been extended three times and is now due to expire 30 June 2022.<sup>16</sup>
- Under the Organic Exports Program, certifiers are permitted to use electronic signatures for Organic Produce Certificates.<sup>17</sup>
- Australia and New Zealand jointly proposed to agree to temporarily accept COOs and commercial documents in electronic (including scanned) format.<sup>18</sup>
  - Other countries introduced similar arrangements, including Brunei, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

<sup>15</sup> Corporations Amendment (Meetings and Documents) Bill 2021

<sup>16</sup> <https://www.awe.gov.au/biosecurity-trade/import/industry-advice/2021/134-2021>; <https://www.awe.gov.au/biosecurity-trade/import/industry-advice/2021/133-2021>

<sup>17</sup> <https://www.awe.gov.au/biosecurity-trade/export/controlled-goods/organic-bio-dynamic/organic-notice/2020/2020-03>

<sup>18</sup> <https://www.dfat.gov.au/trade/agreements/in-force/aanzfta/for-business/aanzfta-certificate-origin-form-aanz-temporary-covid-19-measures>



- The European Commission temporarily accepted scanned copies of export certificates where it was not possible to present the original certificate with the consignment. This applied to commodities such as meat, meat by-products, hides and skins, dairy, seafood, eggs and non-prescribed goods.<sup>19</sup>

COVID-19 and the related disruptions and changes to the way we live and work will endure for some time. All governments should review the temporary changes made and consider making them permanent on an 'if not, why not' basis – particularly where they deliver net benefits. The changes listed above are examples of reforms that could be readily implemented through this process.

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<sup>19</sup> <https://www.awe.gov.au/biosecurity-trade/export/controlled-goods/dairy/din/2021-42>

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