

BCA

Business Council of Australia

# Simplified Trade System Consultation Paper 2023

Submission

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# 1. Overview

The Business Council of Australia (BCA) welcomes the opportunity to provide a submission as part of the next iteration of the Simplified Trade System (STS) consultation process. The BCA continues to support the work of the STS Implementation Taskforce, which aims to make cross border trade cheaper, faster, and easier.

The BCA has continued to consult with member companies since the BCA's previous STS submission from January 2022. BCA member companies include many of the largest businesses in Australia that have extensive engagement with cross-border trading processes. This includes companies that export and import goods they produce and sell, as well as companies involved in transport, logistics and freight.

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 around 56,000 Australian businesses are exporters, with 10 per cent of those averaging one export a week. The total value of all trade last year was \$1.2 trillion. 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; and
- average household income is more than \$8,000 higher.<sup>1</sup>

The urgency for reform has never been more acute. Global supply chain disruptions, adverse competition between major trading economies, and pandemic-induced changes have all contributed to 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 in reducing supply chain constraints and 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.

The STS reforms go to the heart of Australia's future prosperity and whether we can reach world's best practice on the global frontier. The cross-border trading system is a piece of critical infrastructure. Australia's economic expansion, growth and prosperity will be governed by our capacity to trade effectively in the world's biggest supply chains. In the context of \$1.2 trillion worth of trade and a cost-of-living crisis, this is a vital action we can take as a country to shore up this national critical piece of infrastructure and help drive down the cost of goods and services.

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

## 2. Key recommendations

- The top priorities for reforms are:
  - Create a digitalised Trade Single Window, representing a single front door for businesses looking to engage in international trade.
  - Remove paper from the cross border trading process, starting with the over one in three regulations that mandate the use of paper and/or other outdated technologies.
- Build on existing trust relationships, such as the Trusted Trader scheme, and focus initial reforms for streamlining compliance processes for those who have strong assurance systems in place and have demonstrated reliability. Companies with a positive track record on compliance could receive greater relief from physical inspections or audits (based on historical data on their performance).
- Allow greater flexibility to use cargo documents for multiple purposes.
- Consider implementation of a self-assessment scheme for calculating duties payable and allow importers to remit duties in a consolidated payment (e.g. on a monthly basis), rather than for every shipment.
- Develop a self-service portal to allow for the automatic and timely extraction of import/export reports from the Australian Border Force.
- Consider providing a minimum number of days for free storage of goods held by government agencies (e.g. three days) to encourage more efficient cargo clearance processes, as well as a shipping line detention clock on the return of empty containers that commences once the cargo hold is removed.
- Prioritise reform of the Privacy Act to allow greater sharing of data between agencies, subject to agreement from businesses and where the sharing is only used for the purpose of simplifying the trade system.
- Work closely with key regional partners such as Singapore and New Zealand to build greater regional consistency in cross border trading processes.
- Eliminate ‘nuisance’ tariffs which attract negligible revenue and impose unnecessary red tape.

## 3. Additional information

### Reform of the cross-border trade system is critical

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 one in four regional jobs rely on trade. The total value of all trade last year was \$1.2 trillion and around 56,000 Australian businesses are exporters, with 10 per cent of those averaging one export a week. This is not just a story of big business. Around 90 per cent of exporters – 50,000 businesses – are small, medium and family run businesses.

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. In 2007 Australia ranked 23<sup>rd</sup> in the world in the World Bank’s ‘Ease of Trading Across Borders’ measure. Over time, other nations have improved their cross border trading system, including by establishing a Trade Single Window. Australia has moved backwards by standing still, with our ‘Ease of Trading Across Borders’ ranking plummeting to 106<sup>th</sup> in 2020.

Australia’s standing will continue to fall over time unless we act now. For example, the European Commission recently proposed comprehensive reform of the EU Customs Union, led by a data-driven vision.<sup>2</sup> The UK is also currently consulting on how customs declarations can be streamlined, including through technology.



Source: World Bank

Extensive work to date shows that our cross-border trading system is unnecessarily complex and fragmented. Many agencies use different systems and do not communicate effectively with one another. Business can be asked to provide the same information multiple times, and often in ways that do not naturally work with their systems. The regulatory framework lacks coordination, is often not fully digitised, relies on manual processing and the technology used can be outdated. These friction points drain on our trade competitiveness.

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.
  - Small- and medium-sized businesses in particular find it difficult to understand their regulatory requirements. When they cannot easily find an explanation, expected decision time, or an expected outcome, they will focus on more predictable markets and opportunities.
- Delays caused by government.
  - Government cargo clearance processes often extend past estimated timeframes. Many agencies do not process clearances outside of regular business hours, which leaves cargo that arrives outside business hours sitting idle.
  - Inspections can be delayed by system glitches and data errors, particularly where processes continue to rely on paper forms. Some aspects of cross border trade are automated – but those that are not lead to significant delays. In turn, this impacts cash flow, competitiveness and makes imports more expensive for consumers.
- Duplicability of processes and inconsistent interpretations.
  - We have a system which is a quagmire of duplicative regulations and a sea of red tape. Most government agencies use separate regulatory systems to process trade declarations, licences and

<sup>2</sup> [https://taxation-customs.ec.europa.eu/customs-4/eu-customs-reform\\_en](https://taxation-customs.ec.europa.eu/customs-4/eu-customs-reform_en)

permits. In a country where our aim is to be a top digital economy, we have agencies that have processes that do not support basic files like Excel. There are others where data needs to be manually entered.

- Other nations have developed a solution to this unnecessary complexity by establishing a Trade Single Window. Unfortunately, Australia has stood still while other countries such as Singapore, Sweden, the USA, and New Zealand have moved ahead. As with other matters of our competitiveness, by standing still we move backwards.

## What does a better cross border trading system look like?

A 'user first', 'tell us once' and 'digital first' approach should underpin all the STS work to improve cross border trade compliance. Key features of a better system include:

- A **single-entry point** to government for individuals and businesses. Businesses can do everything they need to – from lodging forms for export certificates to paying customs – in one digital location. For companies it becomes a single touch point for all their trade-related regulatory requirements and the one place they can go online to get all the information they need. This enables a common experience, can help improve accessibility, provides a single point for information, and can remove the need for business to provide the same data multiple times to different regulatory touchpoints.
- A **whole-of-government** approach to reform that recognises changes must be end-to-end across the entire trade process – from the exporter's warehouse to the importer's warehouse. The digitalisation of existing processes will be insufficient – regulatory change will inevitably be required to enable the full benefits to be unlocked. Other features of this approach include the streamlining of regulatory processes, removal of duplication, the consolidation of case-management systems and user portals, and enhanced interoperability across systems.
- A **national data harmonisation platform** that different government agencies can use to share and obtain information. Current constraints may require legislative changes, and consideration should be given to enable data sharing while ensuring privacy safeguards. This could also help business access real-time data through the customs system – giving them a bird's eye view of any risks and disruptions. This can help them to streamline their operations and put in place mitigation plans i.e. if a business knows when a shipment is about to be cleared through customs, they can better schedule transport for the next route of the journey.
- **Paperless trade** can deliver significant benefits, but changes must be made end-to-end i.e. paper cannot be removed from one part of the trading process but still required further up/down the supply chain. Businesses often experience delays in getting the right documentation – particularly Certificates of Origin relating to Free Trade Agreements. These are often slow to be produced by the origin countries and may contain discrepancies or errors in the tariff code – causing more work for brokers to follow up with the shipper. Paperless trading alone could lift GDP up to \$1.7 billion a year – equal to the projected benefits from the China, Japan and South Korea free trade agreements (FTAs) combined.
- **Common data formats** should be the standard i.e. those 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.
- **Align with business processes** as much as possible, which can also help streamline and consolidate reporting. For example, 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 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. An alternative may be for frequent traders to self-assessment and remit of duty liabilities with one bulk declaration or a single point in time (e.g. end of period).

- One BCA member company notes that processing charges for their imports are triple the duties levied.
- Australian Border Force (ABF) currently has a paid service through which it sends businesses their import/export reports. Businesses use these reports to monitor all cross-border activities and as a means for reconciliation, but it is only provided upon request and only once every two months. Greater frequency for business could ensure operational efficiency, while the process for requesting this data is inefficient, with businesses needing to manually email ABF their request for the data. These data should be made available on the ABF portal through a self-service. This will enhance the ability of each business to monitor all activities under their ABN. It will also help businesses to monitor when/if shipments they have not imported (“piggy-backed” shipments) are lodged under their ABN.
- A **trust-based model** that goes beyond transactional approaches at the border. If companies have invested in good compliance assurance outcomes at the border, this should be recognised in terms of lower costs and lower levels of intervention. That is, companies with a positive track record on compliance could receive greater relief from physical inspections or audits (based on historical data on their performance). This model should also present a return for businesses i.e. reforms should deliver tangible benefits from the start.
  - Audits can be particularly onerous for businesses importing high volumes and can cause significant delays. Fewer inspections/audits would decrease delays with less shipments being held at the border, reduce compliance costs, make stock available quicker for customers and provide businesses with certainty for their planning and stock ordering. It can also ensure a more efficient allocation of government’s limited resources through a more risk-based approach to compliance and enforcement.
  - One example includes a reduction in the number of inspections of containers for which businesses have valid fumigation certificates issued by Department of Agriculture, Fisheries and Forestry authorised fumigators. During brown marmorated stink bug season, authorities will still inspect a certain share of shipments even if there is a valid fumigation certificate. To improve efficiencies, this share could be reduced for businesses that provide a valid fumigation certificate, especially when that business has a proven track record of strong compliance.
- Apply the **Regulator Performance Guide** to all authorities involved in cross border trade compliance, recognising all are regulators. Therefore, they must be accountable by meeting consistent and reportable regulatory performance standards (such as through the Regulator Performance Guide).

A good starting point may be to focus on products, such as agricultural and pharmaceutical goods, impacted by multiple regulators which may have greater duplication around reporting requirements.

## How do we drive the 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. The need for reform is urgent. The alternative is that Australia risks falling further behind.

This is the best opportunity in 20 years to get this right. This does not have to be a ‘big bang’ reform and given the complexity and scope of changes, it is going to take some time. There are four key steps needed to drive these reforms.

1. A **comprehensive review** of the system today, the system we want to get to, and a plan to get there.
2. **High-level and bipartisan political commitment** to ensure momentum, resources, and interagency support so that we can sustain that throughout implementation.
3. A **phased approach to implementation** with continuous investment, quick wins and pilot programs to show the tangible benefits and test, learn and scale – building to more substantive change over time.
4. A **governance structure** led by an overarching agency such as the STS Taskforce as a permanent body in government and that involves industry.

This can help show tangible benefits along the way, ensure momentum can continue, hold agencies to account, receive continuous feedback from business, and instil confidence to show that progress is being made.

A permanent and continuous structure is vital. After lots of stop-start approaches, we need to get one government structure, keep going with it and make incremental change along the way. All of this must be underpinned with a philosophy of 'user first', 'tell us once' and 'digital first' This involves leaning into existing business systems to deliver a better experience for business and better assurance for government. This can also address areas such as the improved traceability of products to help ensure their origin and quality.

The benefits of reforms will be experienced by businesses, consumers and governments. For consumers, modernising, digitising and streamlining our cross-border trade system means:

- Convenience – they will be able to get the goods they've ordered sooner.
- Lower costs – which has become more important than ever in an era of high inflation.

Cost savings for business mean they can invest more in their employees through higher wages and improved conditions, investing in their equipment and machinery growing innovation, growing their operations, and being more productive.

## STS reforms are the next step in the trade journey

Our economy is five per cent larger today thanks to trade liberalisation we undertook in the 1980s. Reducing those regulatory bottlenecks in our current system is a certain way of increasing Australia's disastrous productivity rate – the last decade was the worst for productivity growth in 60 years.

If we can export and import more effectively – adopting new ways of doing things through technology – this will translate into material gains for every Australian. Increasing productivity is the principal ticket to driving higher wages and improving living standards.

Our existing FTAs and those under negotiation cover almost 90 per cent of trade. The STS reforms are a vital accompaniment of the hard work of many people in getting Australia its enviable network of FTAs.

There is also the nuisance cost of tariffs that arise from the complexity of the system, leading to higher prices for consumers. Every dollar of tariff revenue collected costs the economy around \$1.60.

In a sense, the STS reforms is a free trade agreement with ourselves. We need to remove the self-imposed roadblocks that make trading with, and within, Australia harder than it should be. The reforms should seek to learn from what has worked elsewhere and copy these models as much as possible, rather than seeking to reinvent the wheel and create a bespoke Australian model. The reforms are 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 (\$112 million) while delivering cost savings of more than SG\$600 million per year (\$670 million) to Singaporean business.<sup>3</sup>
- New Zealand anticipated NZ\$450 million (\$413 million) of cost savings to businesses over ten years thanks to the 2013 launch of its 'Trade Single Window' platform.<sup>4</sup>
- The UK valued the efficiency gains of prototyped Single Window systems at £160 million - £190 million a year (\$306 million - \$363 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. Analysis also finds the gains from widespread supply chain modernisation could increase GDP by 1.4 per cent, or around \$35 billion by 2030.<sup>5</sup>

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<sup>3</sup> Singapore Budget 2016

<sup>4</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>5</sup> <https://www.pwc.com.au/government/government-matters/supply-chain-digitisation-investment.html>



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