Submission: Inquiry into the trade system and digital economy

Joint Standing Committee on Trade and Investment Growth

January 2018

Table of Contents

1.   Introduction

The Department of Home Affairs (Home Affairs) welcomes the opportunity to make a submission to the Joint Standing Committee for Trade and Investment Growth's (the Committee's) Inquiry into the Trade System and Digital Economy.

This submission responds to the Committee's Terms of Reference (see Attachment A) and provides an opportunity to draw the Committee's attention to the important work that Home Affairs is leading across government to reform and modernise Australia's international trade supply chain.

2.   Home Affairs role and trade modernisation

2.1   Establishment of Home Affairs portfolio

On 18 July 2017, the Prime Minister announced significant reforms to Australia's national security and intelligence arrangements, including Home Affairs and a Home Affairs Portfolio. These reforms were needed to preserve the operational focus and strengths of frontline agencies engaged in the fight against terrorism, organised crime and other domestic threats.

On 20 December 2017, the Home Affairs Portfolio, including Home Affairs, was formally established. Home Affairs is a central policy agency, providing coordinated strategy and policy leadership for Australia's national and transport security, federal law enforcement, criminal justice, cyber security, border, immigration, multicultural affairs, emergency management and trade related functions.

Home Affairs includes the entirety of the former Department of Immigration and Border Protection. It also includes national security, emergency management and criminal justice functions from the Attorney-General's Department; the Office of Transport Security from the Department of Infrastructure and Regional Development; multicultural affairs from the Department of Social Services; and the counter-terrorism coordination and cyber security policy functions from the Department of the Prime Minister and Cabinet (PM&C).

Home Affairs is responsible for the facilitation of legitimate trade across Australia's border, and securing supply chains against ever-evolving security threats, such as terrorism, organised crime and cyber espionage. Our trade facilitation and security role contributes to Australia's economic prosperity and to ensuring our national security.

2.2   Trade modernisation

Home Affairs is leading the development of an agenda seeking to transform and modernise international trade flows (e.g. imported and exported goods through air cargo, sea cargo and international mail) that cross Australia's border. This agenda will include a multi-phased approach of exploratory work, design and delivery of reform initiatives over the next decade.

Trade modernisation aims to create a future international trade system for Australia that is seamless, digital, automated and user-friendly. This system would be underpinned by a single window for international trade (single window). This future needs to be co-designed, funded and delivered in partnership with the users of the system, including industry and government. Home Affairs is working with other government agencies and industry to develop this agenda and underlying proposals that will be provided to the Government for consideration.

3.   Trade at the border – strategic context

Home Affairs works in a complex and dynamic environment. New technologies and the globalisation of supply chains have fundamentally changed the way goods are traded across the Australian border. Trade volumes are increasing and supply chains are becoming more complex. Over the next four years, we anticipate a 28 per cent increase in air cargo and a 13 per cent increase in sea cargo imports to Australia. Industry continues to adopt new technologies and business models to drive profitability and meet ever-increasing consumer demands. At the same time, Australia, and the world, are facing increasingly sophisticated and sinister threats from trans-national organised criminal and terrorist groups who would seek to harm us.

Digital technology now underpins and enables cross-border trade flows to a point where the boundary between physical and digital products has become blurred. As indicated in the submission to this Committee from the Department of Industry, Innovation and Science (DIIS), globalisation of the Internet is transforming the ability to move data across international borders and, with it, the nature of international trade. Cross-border flows of physical goods have an underlying digital reporting component, since the movements of goods must be recorded in the Australian Border Force's (ABF's) Integrated Cargo System (ICS). Users can only access the ICS through secure digital signatures and software.

Over 40,000 Australian businesses engage in international trade, with the general public also increasingly using e-commerce to buy overseas goods. These transactions are regulated by more than 30 government agencies that administer approximately 200 pieces of legislation.

Today, trade moves quickly, often through many intermediaries – and government regulation and systems must keep pace. The composition of goods reaching Australia's border is becoming more diverse. The time available to clear goods before they reach the border is lessening in line with improvements in transportation technology. There has been an exponential growth, for example, in the volume of online purchased goods crossing the border and the speed of their delivery.

These trends place unsustainable pressure on our regulatory environment, legacy systems and processes that facilitate trade and control our border. A secure and modern end-to-end supply chain is fundamental to Australia's security, growth and prosperity.

4.   Modernising trade at the border

4.1   Trade modernisation agenda

Over the next decade, Home Affairs is proposing a whole-of-government approach to modernise trade process ensuring an international trade future is one where:

- government has visibility of end-to-end supply chains and access to real-time intelligence information on goods traded and the entities behind the transactions;

- the majority of traders are trusted and interact in a secure and transparent supply chain;

- intelligence and risk assessment capabilities, and revenue collection are improved by new and emerging technologies, such as blockchain, that would improve the veracity, validation and analysis of intelligence and trade data;

- border examination processes are integrated, automated and outsourced;

- Australia's international trade is enabled by a single window – one data touch point for all regulatory information and transactional requirements, underpinned by advanced information sharing between government agencies and system interoperability;

- Government agencies responsible for regulating international trade operate under a more harmonised and aligned legislative and regulatory framework - making them user-friendly for industry and efficient for government;

- commercial data holdings and government systems interact seamlessly to carry out all international trade regulatory requirements; and

- international trade end-to-end processes managed by government are digitised and automated.

The importance of digital processes in this agenda is fundamental. Modernisation of our trade environment will be underpinned by a single digital window. Reforms to the cross-border regulatory system must enable trade processes to be digitised, streamlined and efficient. Digitisation is, in itself, not always the solution unless underlying inefficiencies in government's interaction with business are identified and eliminated. Home Affairs proposes to use digitisation and automation to streamline and harmonise all cross-border trade processes, and to identify and eliminate those that are a burden for industry and government.

Trade modernisation initiatives will require significant investment in advanced systems and technological solutions. Investments in trade modernisation initiatives must be a shared responsibility across government and industry as shared beneficiaries of this reform agenda.

4.2   Single window

A key component of a trade modernisation agenda is a single window. A single window would create a secure digital interface between government and industry, and provide a single data touch point for Australian businesses to meet all international trade regulatory requirements. More than 70 global economies have developed and implemented single window systems, but they vary considerably in their scope, complexity and sophistication.

A single window would transform the Australian international trade environment and allow for seamless and integrated interaction between government and business. At its most advanced, a single window may remove the need for reporting to government at all: the required information could be 'pulled' from commercial data holdings at pre-defined points along the supply chain.

A single window would enable earlier identification of border threats through improved knowledge of the supply chain (as more information about imports and exports would become available at an earlier stage); and provide better access to trade information for industry and government. This would also reduce red tape and duplicated industry engagement across multiple government agencies.

Developing a single window would require reform of the legislative, regulatory, technical and operational processes that currently enable cross-border trade. Home Affairs is working with other government agencies to develop options for an Australian single window.

4.3   E-commerce and international mail

Globally, the growth of e-commerce volumes is changing the traditional ways of trading. Trade is no longer just large, containerised consignments shipped over predictable routes by large, identified companies. Increasingly, digital 'micro-transactions' lead to cross-border movement, generally as air cargo and international mail, of millions of small parcels consigned by small companies to individuals, and often directly between individuals.

E-commerce also introduces a much larger cohort of individuals into the trading environment, most of whom are not familiar with trade requirements (such as customs duty and tax obligations, accreditation and documentation requirements, anti-dumping and countervailing measures and valuation rules), and some of whom will deliberately seek to evade border controls. The extraordinary new ease of international

communication means small businesses are no longer trading through brokers or banks, and an importer and an exporter can have a direct relationship.

To address these shifts, governments are increasingly placing a very high premium on data and intelligence-based risk assessments and technologies, such as predictive analysis, to better facilitate trade and ensure border security (for air and sea ports and international mail centres) while providing greater means to target criminal entities exploiting the system.

Home Affairs is working to further reduce the risks of prohibited and restricted items entering Australia by mail through its work with Australia Post to develop a capability to receive and use international mail data for risk assessment and targeting purposes. In September 2017, Australia and New Zealand tested the exchange of international mail data through the e-commerce 'Green Lane' Trial. The trial indicated that introducing data-based risk assessment into the international mail stream has merit for trade facilitation and border management purposes.

The trial is an example of best practice to connect countries though mail data exchange and is laying the foundations for future data exchange opportunities with New Zealand and other countries. This trial is consistent with the future work programs of international fora such as the Universal Postal Union (UPU) and the World Customs Organization (WCO).

Potential future benefits enabled by access to, and the use of, mail item data may include the ability to provide border clearance for low-risk mail items before their actual arrival, and without physical intervention, allowing ABF resources to be re-directed towards items of higher identified risk.

4.4   Proof-of-Concept (PoC) Trial of Secure Trade Lane (STL)

The potential for greater exchange of data to streamline trade was successfully tested in the PoC trial of a trans-Tasman STL for containerised sea freight (within Australia's and New Zealand's trusted trader programs – Australia's Trusted Trader (ATT) program and New Zealand's Secure Exports Scheme). These programs are Authorised Economic Operator programs that provide trade facilitation benefits to accredited businesses with secure supply chains.

The STL trial was announced by the Australian and New Zealand Prime Ministers in February 2017 with a focus on advancing cooperation under the Single Economic Market agenda. The PoC trial involved the use of digital information sent by an exporter to make both export and import clearance processes quicker and more efficient.

An STL is expected to result in cost savings and a reduced administrative burden for Trusted Traders. Home Affairs is looking to continue working with New Zealand to take the STL work forward through a possible pilot.

4.5   Use of emerging technology

The increasing volume, velocity and variability of trade flows create a challenging environment for government. Home Affairs is committed to exploring new and innovative ways digital technology can be used to facilitate legitimate trade in this environment. We are continually assessing the applicability of new technologies as they mature.

Emerging technologies need to be considered in a wider ecosystem. Increasingly, technology development builds upon existing and more mature fundamental building blocks including: the Internet of Things (IoT), cloud computing, data analytics, and artificial intelligence (AI). This set of technologies forms an ecosystem in which each technology both exploits and fosters the development of the others.

A specific example of an emerging technology that could be integrated into a trade ecosystem is blockchain. It is an emerging technology that is a form of 'distributed ledger'.

Industry is looking to adopt blockchain as part of its modernisation activities. Trade information required by governments for border clearance purposes is created by industry operators in the international supply chain, and Home Affairs is assessing how it could leverage information that might be held on a trade blockchain. We may not need to develop discrete new border management / import / export systems, but rather leverage the pertinent information captured by industry. Home Affairs would use the information in conjunction with other processes (e.g. risk assessment) to manage the clearance of goods.

In the international trade context:

- Blockchain can help reduce trade documentation (e.g. licenses, permits and payment evidence) and processing costs, and reduce delays associated with errors in the physical movement of paperwork. It will also provide visibility of goods as they advance through the supply chain.

- Blockchain is intended to give real time visibility, significantly improving the information available for risk analysis and targeting, which may eventually lead to increased safety and security as well as greater efficiency in border inspection clearance procedures.

Additionally, blockchain could make it faster to process transactions, and support the formation of new transactional relationships. It may also reduce risks associated with reliance on third-party intermediaries. Blockchain may affect a wide range of industries and create new markets and companies providing services in this new commercial ecosystem.

Through Home Affairs ATT scheme, companies that can demonstrate a secure supply chain, for example through the use of blockchain or smart contracts coupled with traditional measures, can access trade facilitation benefits. Home Affairs Known Consignor scheme (applying to United States exports) enables companies who can demonstrate high quality security arrangements to secure their cargo at its source without requiring further security screening. Both schemes deliver a reduction in red tape, which increases business productivity, freeing both government and business to focus on areas of higher risk. AI, and associated capabilities such as 'augmented' intelligence, also support trade modernisation by enabling large volumes of decisions (for instance, risk assessments of cargo consignments) to be managed without the need for commensurate increases in resources. AI might be used by Customs administrations around the world to automate decision-making at different stages in the movement of goods across the border, for instance some decisions about classification in the Harmonised Commodity Description and Coding System. This could reduce the administrative overhead and costs of compliance for traders, and the costs of monitoring and auditing by governments.

Legislative, regulatory, technical and operational process reforms will need to be considered to ensure that the adoption of emerging technologies is effective and supports improved outcomes for the Australian Government.

4.6   Advances in technology and responding to threats

Advances in technology offer opportunities to improve how Home Affairs enables and facilitates cross-border movement. We have made great progress in recent years in using functionality, such as biometrics, for securely establishing travellers' identity and expanding the use of 'smartgates' that automate entry for passengers. Similar advances are being progressed in the trade environment. We also recognise that new and emerging technologies can be exploited by criminal networks and terrorist groups to compromise the security of the border and endanger the Australian community. Home Affairs is actively engaged in exploring, understanding and using these new technologies – to ensure we can better facilitate trade and strengthen border security, but also as we recognise their potential threats.

5. International engagement

Australia's openness to foreign trade has underpinned our national economy and ensured our place as a successful global power, ensuring high living standards for Australians. Home Affairs works closely with the Department of the Prime Minister and Cabinet; and the Department of Foreign Affairs and Trade to pursue Australia's interests in the open, rules-based international trading system that has contributed to our economic prosperity through a number of fora. We continue to work with our international customs counterparts to ensure that Australia's border management is efficient and effective.

5.1 Trade Facilitation Agreement (TFA)

The World Trade Organization's (WTO) TFA entered into force on 22 February 2017. Australia accepted the TFA in June 2015. The TFA focuses on, among others, the reduction of excessive customs regulation and red tape, requiring TFA Members to publish import and export information online, harmonising domestic customs processes and standards, and leveraging automation and e-services to enhance the trading environment.

The TFA also requires that WTO Members establish a National Committee on Trade Facilitation (NCTF). Australia's NCTF is the peak strategic advisory forum for industry and government stakeholders to discuss Australia's future trade-facilitation landscape. The NCTF is chaired by the Home Affairs Deputy Comptroller General. Within the scope of the TFA, Australia's NCTF focuses on improving the international trade environment, including exploring opportunities to realise efficiencies and deregulation at the border.

Australia's NCTF also works with stakeholders to examine, explore and, where possible, implement best practices that can enhance Australia's agility and responsiveness to changes, challenges and opportunities within the international trade facilitation.

5.2 Asia-Pacific Economic Cooperation (APEC) forum

Australia, represented by Home Affairs, is an active member of APEC's Sub-Committee on Customs Procedures (SCCP). SCCP is focussed on simplifying and harmonising regional customs procedures to ensure that goods and service move efficiently, effectively and safely through the region. There is a particular focus at the moment on implementing the TFA, expanding the use of single windows in the region, growing partnerships with the business community and promoting experience sharing and capacity building on cross-border e-commerce.

Home Affairs leads Australia's engagement with the WCO, the global peak body for customs administrations.

Further to our bilateral and domestic focus on e-commerce set out in section 4.3, Australia held the co-chair of the WCO Working Group on e-commerce in 2017. This was the working group's inception year. During Australia's co-chairmanship, the group identified four priority areas for intersessional work: trade facilitation and simplification of procedures; safety and security; revenue collection; and measurement and analysis.

Through the WCO, and with the UPU, Australia and Korea hosted a joint Customs-Postal Workshop in Sydney in 2017 for the Asia-Pacific Region. The workshop considered the challenges for Customs and postal administrations as a result of the growth in e-commerce. The workshop provided the opportunity to share experiences, hear from experts and develop solutions to build capacity in aspects of Customs-Postal cooperation in less developed countries in the region. It was also an opportunity for Australia to influence regional and global developments in the area of electronic advanced data.

Through our participation in the WCO's Technology and Innovation Forum, Home Affairs discusses technological innovations and emerging issues such as the impact of disruptive technology, the increasing use of geospatial data by customs administrations, and the utilisation of 'big data' analytics with our trading

partners. The most recent Forum, hosted by Japan Customs, took place in October 2017 and featured recognition that the adaptation of new technologies is highly important for facilitating international trade.

6. Cyber security

The increase use of digital technology and data at the border can give rise to concerns over cyber security – both to government, and to industry. Cyber Security is as intrinsically linked to innovation as it is to national security. In addition to traditional concerns of government to government attacks, we need to be ready for cyber-attacks and breaches by non-state actors

PM&C represented by the Office of the Cyber Security Special Adviser, appeared before and gave evidence, to the Joint Standing Committee on Trade and Investment Growth on 14 September 2017. PM&C subsequently provided a submission to the Committee outlining Australia's efforts to improve the cyber resilience of the business and trade sectors (Attachment B refers). The Office of the Cyber Security Special Adviser became part of Home Affairs in December 2017.

The information in that submission remains current and relevant to the Committee's inquiry. The submission refers to work being undertaken by PM&C's Cyber Resilience Taskforce to strengthen Australia's national cyber incident response capability and resilience in the event of a significant cyber incident. The Taskforce has now concluded its investigations and is finalising a report for the Prime Minister's consideration. Home Affairs supports measures to improve the cyber resilience of Australia's trade-focused business sector.

7. Conclusion

As the diversity and volume of goods crossing the border increase, Home Affairs is at the forefront of work to find innovative and resourceful ways to manage these changes and maintain its ability to facilitate legitimate trade while protecting Australia's border and the Australian community.

A whole-of-government trade modernisation agenda is a complex process involving legislative, regulatory, systems and process reform. No single reform effort will achieve trade modernisation, rather, all planned initiatives must be strategically prioritised to achieve the necessary security and facilitation outcomes, align across government, return on investment and meet industry needs. Trade modernisation initiatives must also be co-designed with industry to ensure reforms address user-needs.

As they emerge, we will use new technologies to better analyse and assess trade data to ensure a more secure border. We will do this while ensuring the threat of cyber incursion of Australian business, as well as government, and of organised crime is managed.

Home Affairs is committed to harnessing new technology in this process. We recognise that the strategic use of technology will allow us to put in place more efficient business processes, as well as enhancing our capabilities in the important areas of intelligence collection and risk assessment. Above all, we recognise that effective facilitation of trade through digitisation is essential if Australian businesses are to seize the opportunities that globalisation provides and mitigate the associated threats.

The Australian economy is at high risk of computer intrusion and the spread of malicious code by organised crime. An increase in the scale, sophistication and perpetration of cybercrime has made it increasingly difficult to identify and defeat. Home Affairs will be adaptive and proactive in the face of future cyber security challenges and will, along with Australian business and individuals, play a critical role in protecting the community from the threats inherent in a digital trading economy.

Home Affairs looks forward to the Committee's report.

Attachment A – Terms of Reference

The Joint Standing Committee on Trade and Investment Growth shall inquire into and report on:

1.   *The responsiveness of Australia's trade architecture and regulatory system to the contemporary needs of the digital economy and disruptive technology; and*

2.   *Measures to improve the cyber resilience of Australia's trade-focused business sector.*