



**ANZ Submission to the Joint Standing Committee on Trade's Inquiry into
the Trade System and the Digital Economy**

November 2017

A. SUMMARY

1. ANZ welcomes this timely review of Australia's digital trade policy agenda. This submission outlines an opportunity for Australia to support trade facilitation through the regional digitisation of trade and in doing so strengthen one of the Committee's themes: private sector cyber resilience.
2. International trade involves a raft of documents with most of these still issued in paper form - bills of lading, customs clearance, invoices, packing lists, inspection certificates, and government documentation. Trade infrastructure technology is less digitised than processes and systems for many industries, raising costs and increasing the risk of fraud.
3. Various regional and global initiatives are underway focussing on digitising different elements of international trade including documentation standards, bills of lading, trade financing, and government documentation (G2G cooperation to link this data).
4. There is an extensive body of work through APEC, the WTO and elsewhere on making it easier to trade through reforms at-the-border (using technology to improve customs procedures) and behind-the-border (reforming physical and market infrastructure such as roads and ports services).
5. Amongst the many projects, two trade facilitation initiatives stand out as worthy of Australia's support and are likely to soon emerge as presenting a regional standard for transacting trade online:
 - a. The Monetary Authority of Singapore's (MAS) National Trade Platform (NTP) is a trade and logistics IT 'ecosystem' connecting businesses and government systems.
 - b. The Hong Kong Monetary Authority's (HKMA) Hong Kong Trade Platform allows corporates to track transaction flows, reconcile transactions through invoice or purchase order matching, and reduces the risk of duplicate financing for the participating banks.
6. MAS and HKMA are working to connect their digital trade facilitation projects. There is momentum here: Singapore and Hong Kong aim to have parties transacting on these platforms in 2018. HKMA is also working to connect with China. Together these jurisdictions have sufficient weight to draw in ASEAN at a future date.
7. These projects will bring benefits for importing and exporting businesses and service providers that facilitate trade, regulators and law enforcement authorities, banks and providers of trade finance including fintech. For Australia there is an added impetus of ensuring local businesses remain competitive and keep up with the pace set by two of Asia's leading financial centres.
8. Work in Australia towards a single window should be expedited to allow all parties to trade transactions in Australia to exchange information digitally.

B. DIGITISING TRADE PROCESSES

Advancing trade facilitation

9. International trade involves a raft of documents including bills of lading, customs clearance, invoices, packing lists, inspection certificates, and government documentation. Trade infrastructure technology is less digitised than processes and systems for many industries; most documents are issued in paper form creating inefficiencies for importers, exporters and service providers facilitating trade.
10. To date, progress in trade digitisation has been slowed by the large number of participants in trade transactions across multiple jurisdictions: shippers, freight forwarders, banks, government departments. These parties need to agree to a digital standard as well as find the commercial benefit sufficiently motivating to take action. If one party remains paper-based, the benefits of digitising are undermined.
11. These inefficiencies have four key implications for Australian exporters and importers:
 - a. There is a cost to moving and processing paper documents for every participant in the supply chain. For example, a company which processes around 1,000 export shipments per year saved close to USD250,000 by moving to a digital trade solution.¹
 - b. Slower processing and cash flow. A digital trade platform can send a bill of lading through an entire supply chain in three minutes. Traditional processing requires physically checking documents, couriering the documents overseas and then the receiving company or bank inspecting the documents.
 - c. Paper-based documentation is susceptible to forgery, or documents being altered to circumvent internal controls or sanctions and money laundering checks.
 - d. The risk of fraud and lack of transparency associated with paper based open account processes reduces the availability of financing to industry. In open account trade, suppliers send the physical trade documents directly to an end buyer, rather than using the banking system. Banks, regulators and law enforcement authorities have less visibility of the transaction. Open account trade now represents 80 per cent of trade flows.² Small and medium-sized businesses which lack quality trade data find it harder to access trade finance.³

¹ essDOCS case study, https://www.essdocs.com/sites/default/files/imce-files/CargoDocs_Refinery_One_Case_Study.pdf

² ICC, 2017 Rethinking Trade Finance, <https://iccwbo.org/publication/2017-rethinking-trade-finance/>

³ A University of Technology Sydney survey of 1,000 businesses with turnover less than \$20m found that 32% of respondents were unsuccessful with their applications for more trade financing, 16% of respondents believed they would be unsuccessful in obtaining finance, and 10% indicated the balance sheet was not strong enough to source more debt.

Digital trade platforms

12. Many groups are working on digitising trade. For example:
 - a. the International Chamber of Commerce is focusing on standards and legal issues related to using digitised documentation
 - b. Maersk is working on a proof of concept to digitise their Bills of Lading using Distributed Ledger Technology (blockchain)⁴
 - c. Banks are establishing multi-bank platforms for the exchange of data for open account trade financing
 - d. Financial clearing houses and funds are working on a standardised investment instrument based on trade assets
 - e. Governments are focusing on creating a single digital window for government documentation. There is also G2G cooperation to link these data bases through distributed ledger or other arrangements for data exchange or linkage to overseas branches of banks.
13. Two major financial centres in the Asian region, Singapore and Hong Kong, have trade facilitation projects and are collaborating on blockchain infrastructure (based on distributed ledger technology) that could become the standard for digital trade.⁵ The joint project has been launched as the joint Global Trade Connectivity Network.
14. The Singapore Monetary Authority's National Trade Platform (NTP) will be a single window for all government trade related services. It allows government systems to connect with businesses, community systems and platforms, and government systems. It will replace two existing platforms: TradeNet (the current National Single Window for permit declaration) and TradeeXchange (a platform connecting trade and logistics).
15. The Hong Kong Monetary Authority's Hong Kong Trade Platform which will allow corporates to track transaction flows, reconcile transactions through invoice or purchase order matching, and reduces the risk of duplicate financing for the participating banks.
16. HKMA is also working to increase links to trade in China. These three jurisdictions – Singapore, Hong Kong and China – collectively have sufficient weight to draw ASEAN in at a future date. MAS and HKMA will start bringing shipping companies and freight forwarders into the project given that sector's key role in trade digitisation.
17. ANZ is engaged in both projects and is also making use of 'machine learning' (analysis of unstructured data to provide insights) and Robotic Process Automation (which automates rule-based decision making) for a range of trade

⁴ I Allison, 'Shipping giant Maersk tests blockchain-powered bill of lading', *International Business Times*, 14 October 2016, <http://www.ibtimes.co.uk/shipping-giant-maersk-tests-blockchain-powered-bills-lading-1585929>

⁵ P Shadbolt, 'Hong Kong and Singapore to build blockchain trade finance highway', *The Corporate Treasurer*, 16 November 2017, <http://www.thecorporatetreasurer.com/article/hong-kong-and-singapore-to-build-blockchain-trade-finance-highway/441055> (behind paywall)

finance activities such as sanctions screening, export collections and to examine documents. And we are collaborating with other Westpac, IBM and Scentre Group to explore how blockchain can be used to digitise bank guarantees used in commercial property transactions.

Benefits of digitising trade processes

18. Eliminating paper-based trade processes can increase the speed of trade and reduces the cost of trade transactions. Digitisation using encrypted data also provides parties with greater certainty about the authenticity of trade.
19. Even e-mailed PDF invoices and purchase orders today create downstream inefficiencies for companies as they require manual reconciliation prior to entering the information to their enterprise resource planning (ERP) systems. A digitised solution would allow customers to directly move the data in and out of their ERP system.
20. The Singapore and Hong Kong projects will generate data which can also be used by regulators and law enforcement agencies. Moving "off paper" increases the scope for using advanced systems to identify financial crime. Trade finance reliance on paper-based processes can be burdensome for businesses. Some businesses eschew trade finance in favour of direct open account arrangements with their customers. This shifts trade outside the banking system and makes identification of illegal transactions more difficult.
21. Greater use of digital trade platforms and trade finance will also simplify monitoring for money laundering activity and ensuring compliance with international sanctions regulation.
22. Certainty about authenticity reduces risk for finance providers and will encourage them to increase risk appetite. It will increase competition by encouraging new entrants to offer trade finance.
23. More efficient transacting of trade and an increasingly competitive trade finance market could offer greater opportunities for small and medium-size companies to access trade finance.
24. These Asian financial centres are also expecting the digital trade 'ecosystem' to attract fintechs. MAS has committed S\$225 million over the next five years to attract financial institutions to set up 'innovation labs' in Singapore and is providing regulatory concessions to fintechs as part of an Industry Transformation Map for financial services. Under the plan Singapore expects to create 4,000 financial services and fintech jobs per annum until 2020.⁶

Conclusion: the opportunity

25. Digitisation of trade requires standardisation. Government plays an important role in driving this given the central role of customs and other at-the-border agencies, export credit agencies and regulators.

⁶ T. Weizhen, Online Today, 31 October, 2017 <http://www.todayonline.com/singapore/4000-jobs-be-created-financial-services-and-fintech-under-mas-blueprint>

26. In Australia it will benefit our businesses, regulators and law enforcement agencies by:
- attracting a broader group of financiers and investors with a greater risk appetite, increasing liquidity to support businesses
 - reducing costs for our exporters and help build stronger trade and investment links throughout the region, particularly to the important centres in Singapore and Hong Kong
 - allowing overseas buyers using new digital trade platforms to more easily interact with Australian businesses, and
 - using encrypted data to more easily monitor digital trade and identify fraud and other crime.
27. Work in Australia towards a single window should be expedited to allow all parties to trade transactions in Australia to exchange information digitally.