



## **Export Council of Australia**

Submission to the Joint Standing Committee on Trade and Investment Growth Inquiry into the trade system and the digital economy

The Export Council of Australia (ECA) welcomes the opportunity to make a submission to the Joint Standing Committee on Trade and Investment Growth's (the Committee) inquiry into the trade system and the digital economy.

The ECA is the peak industry body for Australia's exporters and importers, particularly Small to Medium Enterprises (SMEs). With a membership base of around 1,000 and a reach of over 15,000, the ECA represents companies of all sizes and across a wide range of industries.

The ECA's core activities include research, advocacy, skills development and events. The ECA collaborates with a number of government agencies—Commonwealth, state and territory—to advance the interests of its members and support SMEs. These agencies include the Department of Foreign Affairs and Trade, Austrade, Efic, the Department of Immigration and Border Protection, the Department of Industry, Innovation and Science, and the Department of Agriculture and Water Resources.

### **Summary**

Technological innovation is increasingly changing both what is traded and how things are traded.

Technology is changing how goods and services are traded. Digitising the processes and documentation that underpin how international trade is conducted will make trade more efficient and lower costs. It will lower barriers to entry for exporters and importers. E-commerce is now a well-established channel. Services are becoming digitised, and 3D (even 4D) printing, Industry 4.0 and other emerging technologies will see the same thing happen to goods. As goods and services are digitised, it is essential that governments keep up. They must understand new trading methods and the value traded through those methods.

Technology is also enabling new products and services. Business models that were until recently impossible are now mainstream. But policies and regulations have failed to adapt. International trading rules remain geared towards traditional goods exports, with no effective regime to govern digital trade. Regulators are struggling to find the right balance in response to digital trade: in some instances, they are stifling innovation and competition, in others they are failing to protect consumers.

What is most alarming is how difficult it is for Australian start-ups at the forefront of new technologies to build their businesses here in Australia.

At the same time, people are feeling the disruption that technology is causing, but are blaming the disruption on trade. This has led to growing protectionist sentiment.

### **Recommendations**

The ECA recommends the government:

1. prioritise enabling a digitised trading system for Australia
2. strengthen policymaker's understanding of digital trade and e-commerce
3. make free trade agreements relevant for e-commerce

4. ensure international trading rules support digital trade
5. improve the domestic environment to ensure Australian businesses can compete in a global digital economy, in particular by increasing the training it facilitates and support it provides, as well as striving to lower costs and reduce red tape
6. promote open trade and investment, at home and abroad.

### **A digitised trading system**

The current processes underpinning the international trade value chain have evolved over centuries, and are largely paper-based. These processes are inefficient and require high levels of intermediation. Technology will inevitably disrupt how international trade is conducted.

This disruption is beginning. Participants in the trade value chain are starting to look at how technologies like blockchain could change established processes. Banks are reimagining trade finance. Australian-based start-ups, like AgriDigital and TBSx3, are offering blockchain-based solutions to supply chain security. Some countries, like Singapore and Hong Kong, are looking at how blockchain can streamline their domestic trade processes.

While there will be benefits to exporters as discrete sections of the trade value chain digitise, the major benefits will flow when the full value chain, end-to-end, is digital. This includes exporters and importers, government agencies, logistics providers, trade finance and freight forwarders. The end result will be seamless, lower cost trade. Trade will be simpler, more reliable and allowing greater scope for innovation. Exporters, importers and consumers will all benefit.

While the digitisation of the trade value chain is inevitable, it will not happen uniformly. Different countries, and different sections of the value chain, will digitise at different rates. Countries at the forefront of this process will set the terms and enjoy major competitive advantages.

The Coalition's 2016 election commitment to introduce a single window for trade is an ideal catalyst for Australia to digitise its trade. While the government is only part of the trade value chain (depending on what is traded, it can be a small part), digitising trade must involve collaboration between government, industry and the private sector. But only the government can take the lead in this process. The ECA recommends that the government bring together industry and government to agree on a shared vision for digitising Australia's trade.

### **Strengthen policymakers' understanding of the importance of digital trade and e-commerce**

As Einstein was attributed to have said, not everything that can be counted counts, and not everything that counts can be counted. This is increasingly the case with international trade, where trade statistics lag decades behind business practices.

Take, for example, global value chains (GVCs), where components can come from some countries, parts can be assembled in other countries, and final products can be assembled in yet other countries. In these instances, trade statistics are magnified because they show a widget worth \$100 being imported, and a transformed widget worth \$110 being exported. The statistics show total trade as \$210, when in terms of value added it is only a \$10 export. GVCs started to transform international trade in the 1990s, but it wasn't until 2013 that the World Bank and OECD started compiling statistics on trade in value added. (Additional problems with statistics on GVCs are shown in [this paper](#).)

Unlike trade in most goods, where statistics based on customs documentation are of a very high quality, there are poor quality statistics on digital trade. Services that are exported digitally go through no

gateway by which to collect statistics. Consignments under \$2000 (most e-commerce exports) are not included in some ABS statistics. As a result, these exports are likely to be undervalued. The type of business structures an exporter uses also distort statistics. If it sells directly from Australia, the sale should (in theory) be captured in export statistics. If it sells via an overseas sales office—common practice with firms in the digital economy—the sale does not appear in the statistics.

While it would be wrong to impose additional regulations for the purposes of statistical collection, this poor quality of statistics represents a threat to good policy. When setting policy for export sectors, policymakers will inevitably (and in many cases, only) look to the statistics to get a sense of the importance of the sector. When the statistics are misleading, or plain wrong, policy will suffer. This is especially the case for policies where there are trade-offs, like in FTA negotiations or prioritising industry assistance or support.

Along with digital trade, this problem will grow exponentially. With 3D printing, which is quickly becoming mainstream, industry 4.0 and other emerging technologies (including 4D printing, where printed material changes over time), trade in physical goods will increasingly be displaced by digital trade. The shift from DVDs to Netflix is a recent example, but the coming disruption will be far more significant. While currently synonymous with advanced manufacturing, makers of consumer goods are increasingly exploring its viability for their production and distribution. ING's head of international trade analysis estimates 3D printing could cut goods trade by as much as 40%. This would lead to significant consequences for manufacturing supply chains, international freight, logistics and even tariff policies.

It is therefore essential to ensure that policymakers better understand the importance of digital trade to Australia and the Australian economy. In particular, it is essential that Australia's export statistics accurately reflect modern business practices.

### **Ensure international trading rules support digital trade**

As shown by the relatively recent attempts by the World Bank and OECD to develop statistics that account for GVCs, multilateral institutions have been slow to adapt to contemporary trade practices. This includes the body setting and enforcing the global rules for trade, the World Trade Organisation (WTO).

It is essential that rules are put in place to ensure Australian digital economy businesses can operate in an international environment characterised by certainty and openness. Two areas are particularly important: making permanent the WTO moratorium on charging duties on electronic transmissions, and ensuring the right balance between protecting data and allowing it to flow between borders.

WTO member countries, by agreement, do not impose customs duties on electronic transmissions. But this agreement expires every two years, then members must agree to renew it. Given the increasing importance of digital trade to the world economy, this is inadequate. It is essential that WTO members make this agreement permanent, and do it sooner rather than later. As technological advancement brings about greater disruption, pressures may mount to swim against this tide by taxing digital trade. But the disruption to the global economy of such a policy would be far worse than the disruptions it is trying to protect against.

Governments must also agree a framework that strikes the right balance between protecting data and allowing it to flow freely between borders. Currently many governments use privacy as an excuse to require data to be held within their jurisdiction. This is fig leaf for protectionism. The Trans Pacific Partnership (TPP) is the gold standard for international trade agreements, striking the right balance. The TPP commits member governments to ensuring that as long as businesses meet high-quality cyber-security standards, then data can flow freely between these countries. Finalising and implementing the

TPP-11, even without the United States, would be a major step towards making this the global standard for data flows.

### **Make free trade agreements relevant for e-commerce**

Business-to-consumer (B2C) e-commerce is opening up new markets for Australian SMEs. But with low-value, high-volume sales, e-commerce businesses are unable to leverage many of Australia's free trade agreements (FTAs).

There are two reasons for this. Firstly, a certificate of origin (which many FTAs require as a prerequisite for accessing a preferential tariff) from an authorised issuer in Australia typically costs anywhere from \$30 to \$50 and is usually in hard copy (which takes at least a day to receive via post). For low value e-commerce goods (where delivery times are important), this is too expensive and too long. Secondly, even if the exporter did include a certificate of origin, as the importer (the consumer) does not complete a customs import declaration, there is no mechanism to claim that preferential tariff.

Take, for example, an exporter of men's swimwear to China. The base rate for these imports into China is 16%, and as of 1 January 2018, tariffs under CHAFTA will be 3.2% (going to 0% on 1 January 2019). China's *de minimis* rate (the rate below which no tariff is applied) is around \$10. This means Australian e-commerce businesses exporting swimwear to China over \$10 should be currently eligible for a 12.8% advantage over their international competitors. But they cannot realise that advantage because of the certificate of origin requirements—and lose sales as a result.

The government should examine ways to make FTAs more relevant to Australian e-commerce exporters. This could include:

- allowing self-certification of the origin of goods in more FTAs
- working with FTA partners to develop new mechanisms for claiming preferential tariffs
- securing *de minimis* rates with FTA partners that are higher than the partners' standard rates.

### **Improve the domestic environment to ensure Australian business can compete in a global digital economy**

It is essential the government puts in place domestic policy settings that ensure Australian digital businesses can start, grow and survive internationally.

Education is key to enabling businesses to start on the right path. But all too often, businesses rely on trial and error to work out what they need for international success. The government should fund education and training programs for start-ups in the digital economy to help them go global.

The government must strengthen its support for Australian digital businesses to succeed internationally. Too often Australian businesses are not alert to the opportunities offshore or not willing to take the risk to realise those opportunities. Adequately funding the Export Market Development Grant (EMDG) scheme, and increasing resources for Austrade, are essential. The EMDG scheme is designed to give businesses confidence and certainty in pursuing international marketing activity. For a business, not knowing how much of its expenditure will be rebated creates risk and undermines those objectives.

Australian governments (Commonwealth, state and territory) should also be more willing to procure from Australian businesses. While not in any way endorsing policies to preference Australian businesses, governments should not preference overseas firms either. Many businesses report that they only succeed in government procurement in Australia after they have succeeded internationally. It should be

more common for Australian digital businesses to use their domestic success as an international springboard, rather than the other way around.

The government must also put in place policy settings to sustain businesses in Australia. This includes continually striving for the lowest possible costs to do business, as well as ensuring Australian businesses can access the right international talent when those skill sets are not available domestically.

There is a long list of countries trying to poach Australia's most innovative and fastest-growing companies. The Australian Government must work harder to retain them.

### **Promote open trade and investment, at home and abroad**

For centuries, economists have understood the benefits of open trade and investment. Periods of global protectionism have led to recession and depression, while periods of openness have led to prosperity. Despite this, there are always strong voices against trade. While Australia maintains a pro-trade consensus, other countries—even those which have previously been champions of open trade—have recently slid towards protectionist policies.

Australia's policy settings must remain geared towards making its citizens richer through open trade, rather than poorer through protectionism. To do this, the government must constantly advocate for trade and must be disciplined to ensure it does not forsake pro-trade principles for political expediency. To maintain global momentum for trade, the government must continuously pursue trade agreements that increase openness—at the multilateral, plurilateral and bilateral levels. Where necessary, it must be prepared to defend global trade rules by launching international legal action when these rules are violated, even by key allies.

To successfully defend and promote the principles of open trade, the government must:

- develop a long-term campaign directed at the general community, highlighting that trade can benefit both consumers and workers, and the worse-off benefit from trade far more from trade than the rich
  - this should not just focus on exports, but also include advocacy for the importance of imports, emphasising they increase the competitiveness of Australian businesses and the buying-power of consumers
  - this should also provide resources to schools that enable student involvement and learning about the nature, benefits and processes of trade and investment
- expand programs to showcase those who are building Australia's economic future, and inspire young people to imagine new services, products and industries
- show the Australian public the international trading system is not rigged by more actively asserting its rights when other countries violate trade agreements to the detriment of Australia.