

Trade Facilitation

- 3.1 The evidence given to this inquiry indicated that trade facilitation activities are of growing importance to APEC member economies. The international financial crisis has, unfortunately, already prompted some sectors to lobby their governments to attack their difficulties by raising protective barriers against imports:
- 3.2 It was disappointing that, despite the G20 stressing the need for continuing progress towards free trade, a number of G20 member governments, including the US and EU, introduced protectionist measures in 2009. There was also an unsuccessful push in Australia to introduce a 20 per cent price advantage for Australian companies in awarding State government contracts.¹
- 3.3 In this climate, it is more difficult for member governments to maintain the pace of trade liberalisation. Consequently, measures to improve efficiency and remove unnecessary barriers to trade offer an attractive alternative.
- 3.4 The Council of Australian Government's Ministerial Council on International Trade acknowledged the threat of protectionism in its 2009 Meeting Communiqué. The Ministers, taking stock of the impact of the Global Economic Crisis, said:

Prospects for trade in the Asia-Pacific region remain positive despite the economic crisis. Ministers agreed Australia must expand its integration with the global economy if it is to continue to generate wealth and safeguard jobs into the future.

1 Hon Simon Crean MP, Minister for Trade, *The Triumph of Trade Liberalisation over Protectionism*, Speech to the Sydney Institute, 5 August 2009, pp.2-3.

They noted the pressure on governments to protect jobs, however they agreed on the need to refrain from introducing protectionist measures and to avoid exposing Australia to retaliation or legal challenge by our trading partners.

They agreed to abide by the pledge taken by the G20 in London in April 2009 to rectify promptly any measures that have raised new barriers to investment or to trade in goods and services.²

- 3.5 Trade facilitation has been an important plank in the APEC agenda from the group's inception. As globalisation of the world economy has progressed, the importance of trade facilitation has increased also:

Trade facilitation has taken on added importance since the early 1990s due to the increasing globalisation of the world economy, which has accompanied the reduction of trade barriers.

The dramatic increase of both the volume and complexity in world trade means that it is necessary to keep trading procedures simple, predictable and transparent to allow commerce to flow as freely as possible.

In practical terms, greater certainty over the time taken to move goods in particular through increased transparency and the reduction of procedural steps involved in import/export tends to mean lower costs for traders.³

- 3.6 APEC defines trade facilitation as:

...the simplification and rationalisation of customs and other administrative procedures that hinder, delay, or increase the cost of moving goods across international borders.

- 3.7 Alternatively, it describes the process as:

... cutting red tape at the border for importers and exporters so that goods are delivered in the most efficient and cost effective manner.⁴

- 3.8 Trade transaction costs can be conveniently divided into direct and indirect costs:

Direct costs include the cost of preparing documentation, and complying with various customs and other regulations. These may

2 Council of Australian Governments Ministerial Council on International Trade, Meeting Communiqué, 7 August 2009, pp. 1-2.

3 *APEC's Second Trade Facilitation Action Plan*, APEC Secretariat, Singapore, 2007, p.1.

4 *APEC's Second Trade Facilitation Action Plan*, APEC Secretariat, Singapore, 2007, p.1.

also include the cost of moving goods from factory to port, handling costs at the port, finance and insurance, and international transport costs. Indirect costs include the opportunity costs associated with time and delays in moving the goods from the buyer to the seller. These have been estimated to account for about 80% of total trade transaction costs.⁵

3.9 Estimates have put total transaction costs at between one per cent and 15 per cent of the value of the goods. For developed countries, the estimates are at the lower end of the scale; for developing nations, costs make up a higher proportion of total value.⁶

3.10 The Chairman of the Australian APEC Study Centre, Alan Oxley, stressed the importance of trade liberalisation in building a platform for sustained growth and development:

APEC was founded on the idea that trade liberalization was key to promoting economic growth and integration of APEC economies. There is an inclination for the measure of success in reaching this goal [to be] the extent to which trade barriers are reduced.

It takes more than that. The key is domestic economic policy which fosters the competitiveness which enables industries in open economies to trade on their comparative advantage. The commitment to reduce the trade barriers is testimony to recognition of that principle. But the implementation depends on sound domestic economic policy.

APEC has recognized this indirectly and implicitly – such as through the trade facilitation programs to reduce the transaction costs of trade and to tackle the ‘beyond the border’ impediments to increased growth. APEC has established an economic structural change program and created a forum for Economic Affairs Ministers to advance it.

What is missing is a statement of the primary goal these activities are to achieve. It is not economic integration itself; it is the condition which achieves it. And that, simply put, is to achieve global competitiveness in each APEC economy.⁷

5 Asian Development Bank and ESCAP, *Designing and Implementing Trade Facilitation in Asia and the Pacific*, Mandaluyong City, The Philippines, November 2009, p. 5.

6 Asian Development Bank and ESCAP, *Designing and Implementing Trade Facilitation in Asia and the Pacific*, Mandaluyong City, The Philippines, November 2009, p. 5.

7 Alan Oxley, Chairman, Australian APEC Study Centre, *Recovery from the Global Recession – Adjusting the APEC Ambition*, Annual Conference of the APEC Study Centre Network, Singapore, 13-15 July 2009, p. 7.

3.11 The Asian Development Bank (ADB) supported these views on the importance of trade facilitation:

Trade facilitation is increasingly recognized as the key to unlocking further gains from international trade. Tariffs are no longer the main obstacle to trade following their substantial reductions over the last 60 years. Since the 1970s, major non-tariff barriers to trade, such as import quotas or voluntary export restraint agreements, have also diminished in significance.

Yet, there remain significant costs to international trade. Trade facilitation covers these remaining trade costs associated with unnecessarily complex customs and at-the-border procedures, or with inefficient transit arrangements.⁸

3.12 In its submission to the inquiry, the South Australian Government commented on the need to extend reform beyond the border to provide a sound basis for trade growth:

More generally, South Australia considers that the Federal Government's approach to trade policy - the 'twin-pillars' approach - whereby trade liberalisation at the border is accompanied by supply-side reforms behind the border is fundamentally sound.

That is, better coordination between trade policies and domestic economic policy makes good sense, and enhances the probability of delivering good export outcomes for the nation and the states.⁹

3.13 The ADB also emphasised the role of trade facilitation in the development of export competitiveness:

A national policy on trade facilitation is a key factor in the development of export competitiveness. Inefficient trade-related procedures and processes can delay the delivery of products to overseas markets. Such inefficiencies can affect the ability of manufacturers and exporters to meet the "just-in-time" needs of their overseas customers, and prevent them from taking part in the growing number of regional and global production networks.¹⁰

8 Asian Development Bank and ESCAP, *Designing and Implementing Trade Facilitation in Asia and the Pacific*, Mandaluyong City, The Philippines, November 2009, p. 1.

9 Government of South Australia, Submission 4, p. 1.

10 Asian Development Bank and ESCAP, *Designing and Implementing Trade Facilitation in Asia and the Pacific*, Mandaluyong City, The Philippines, November 2009, p. 7.

- 3.14 In addition to focussing on the movement of goods, APEC has given attention to facilitating “the international movement of business people”.¹¹ The Chapter on APEC (Chapter 2) discusses the introduction and successful operation of the APEC Business Travel Card.
- 3.15 The APEC group has also given special attention in its operations to the needs of small to medium enterprises, particularly those in developing economies. It acknowledges that their small scale makes them vulnerable to additional costs caused by unnecessary delays or by costly and inefficient government regulation.¹²
- 3.16 Tradegate Australia Limited (Tradegate), in its submission, indicated that the business world sees the issue a little differently:
- These definitions primarily relate to a government view of the world rather than a business view... From a business perspective, trade facilitation involves all of the activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods and services across international borders.¹³
- 3.17 Dr Andrew Elek stressed the importance of trade facilitation in APEC when he noted:
- Most traditional border barriers to trade are low, or gone. Residual border protection is costly, but affects a rapidly shrinking share of international commerce. These days, much more relevant impediments are logistics, security concerns and economic regulations which are not efficient and needlessly different from those of others. These policy weaknesses are compounded by uncertainty about how policies and regulations will work in practice.¹⁴
- 3.18 Dr Elek referred also to a speech by Singapore’s Minister for Trade and Industry, Lim Hng Kiang, in which the Minister spoke of the :
- ...need to complement a world of already low border barriers to trade in most products, with an environment of transparent,

11 APEC’s *Second Trade Facilitation Action Plan*, APEC Secretariat, Singapore, 2007, p.1.

12 APEC’s *Second Trade Facilitation Action Plan*, APEC Secretariat, Singapore, 2007, p.1.

13 Mr Peter Blanchard, CEO, Tradegate Australia Limited, Submission 31, p.7.

14 Andrew Elek, *APEC turns 20: new opportunities*, accessed 16 November 2009, <http://www.eastasiaforum.org/2009/11/09/apec-turns-20-new-opportunities/>

consistent and efficient economic policies and regulations, along with best practice information networks and logistics.¹⁵

3.19 APEC has led the way in some aspects of the development of trade facilitation:

Goods, services, people and capital are moving a lot more freely around the region compared to 1989. Obstacles to trade and investment, including border barriers, have been reduced more rapidly than in any other region. ...intra-APEC merchandise trade has grown five-fold. More efficient customs procedures and other practical arrangements to facilitate trade and investment are saving billions of dollars a year.¹⁶

APEC Trade Facilitation Action Plans

3.20 The APEC Leaders, at their Shanghai meeting in 2001, called for a five per cent reduction in trade transaction costs between 2002 and 2006. The result was the Trade Facilitation Action Plan, which was based on four priority areas: Customs Procedures; Standards and Conformance; Business Mobility; and Electronic Commerce.¹⁷

3.21 The Plan was coordinated by the Committee on Trade and Investment and, at its expiry in 2006, had produced over 1,400 proposed actions, of which about 62 per cent had been completed. The APEC Leaders, at the Hanoi meeting in 2006, acknowledged achievement of the five per cent reduction in costs.¹⁸

3.22 Earlier, however, at the Busan meeting in 2005, the Leaders had called for a further cut of five per cent in trade transaction costs between 2007 and 2010. The result was the development of the Second Trade Facilitation Action Plan (TFAP II).¹⁹

15 Andrew Elek, *APEC turns 20: new opportunities*, accessed 16 November 2009, <http://www.eastasiaforum.org/2009/11/09/apec-turns-20-new-opportunities/>

16 Andrew Elek, *APEC turns 20: new opportunities*, accessed 16 November 2009, <http://www.eastasiaforum.org/2009/11/09/apec-turns-20-new-opportunities/>

17 *APEC's Second Trade Facilitation Action Plan*, APEC Secretariat, Singapore, 2007, pp. 2-3.

18 *APEC's Second Trade Facilitation Action Plan*, APEC Secretariat, Singapore, 2007, p.3.

19 *APEC's Second Trade Facilitation Action Plan*, APEC Secretariat, Singapore, 2007, p.4.

- 3.23 TFAP II was based on the same priority areas as the first plan but was updated and revised, to reflect the conditions at the time and to remove actions already completed or no longer appropriate.²⁰
- 3.24 The APEC economies recognised the value of cooperative actions by providing for greater use of Collective Actions and Pathfinders:
- Pathfinders allow member economies that are ready to initiate and implement cooperative activities or measures to do so, while those not ready to participate may join at a later date.²¹
- 3.25 The scope of TFAP II was also extended by including other business facilitation activities, such as: domestic regulatory reform; work on business ethics; and secure trade. This extension recognised the concerns of the business sector, which, following the 2005 meeting, were reflected in the Busan Business Agenda. The Agenda included new initiatives in intellectual property rights, anti-corruption, investment and secure trade.²²
- 3.26 Importantly, TFAP II also included provisions for capacity building and technical cooperation, to assist lesser developed countries to implement the Plan. Where new Collective Actions and Pathfinders are introduced, for each one at least one capacity building need must be identified – and a mechanism to address it must be included:
- Such mechanisms may include assistance from individual APEC economies, cooperative activities in APEC and, on occasion, assistance from international and regional institutions.
- 3.27 There was a stock-take of progress in 2009 and a final review of TFAP II to be carried out in 2010.²³
- 3.28 In its 2009 Report to Ministers, the Committee on Trade and Investment reported that the stock-take of progress had revealed that, across APEC, trade transaction costs were estimated to have fallen by 3.2 per cent between 2006 and 2008 – this exceeded the pro-rata rate required to achieve the five per cent reduction by 2010.²⁴

20 APEC's Second Trade Facilitation Action Plan, APEC Secretariat, Singapore, 2007, p.4.

21 APEC's Second Trade Facilitation Action Plan, APEC Secretariat, Singapore, 2007, p.4.

22 APEC's Second Trade Facilitation Action Plan, APEC Secretariat, Singapore, 2007, p.5.

23 APEC's Second Trade Facilitation Action Plan, APEC Secretariat, Singapore, 2007, p.6.

24 APEC Committee on Trade and Investment, *Annual Report to Ministers 2009*, November 2009, Singapore, Appendix 7, p. 91.

3.29 A very important conclusion drawn by the report is that:

Reducing the time that regulation imposes on transactions reduces the transaction costs more than cutting fees.²⁵

3.30 The assessment added:

This indicates the aggregate cost of the time taken is substantially greater than the aggregate costs of fees and charges. Accordingly, measures to facilitate trade should give priority to reducing the time required to comply.²⁶

3.31 One recommendation arising from the Interim assessment process was that the definition of transaction costs for TFAPII should include costs incurred in ports, terminal handling and inland transport. Later research indicated that 60 per cent of estimated costs occur in these sectors.²⁷

3.32 Arising from the work outlined above, APEC has established a comprehensive set of Trade Facilitation Principles – set out in Table 1.

25 APEC Committee on Trade and Investment, *Annual Report to Ministers 2009*, November 2009, Singapore, p. 12.

26 APEC Committee on Trade and Investment, *Annual Report to Ministers 2009*, November 2009, Singapore, Appendix 7, p. 91.

27 APEC Committee on Trade and Investment, *Annual Report to Ministers 2009*, November 2009, Singapore, Appendix 7, p. 92.

Table 1 APEC's Trade Facilitation Principles

APEC's Trade Facilitation Principles	
A Comprehensive Framework	
<i>Principles</i>	<i>Business Impact</i>
Transparency, Communications, Consultants and Cooperation	• Traders become an integral part of developing streamlined procedures and rules; • Reduces corruption due to enhanced transparency; • Increases trade-related security since trade would be based on a model of trust and partnership rather than a model of enforced compliance.
Simplification, Practicality, and Efficiency.	• A transparent and consultative process of developing rules and procedures would result in a simplified, practical, and efficient system that works in the region; • Simplified transaction requirements ensure sustainability since these would reduce compliance costs for traders; • Simplified and practical rules are especially important in reducing compliance costs for Small and Medium Enterprises (SMEs) which have higher barriers to entry.
Non-discrimination, Consistency, Predictability and Due Process	• Non-discriminatory rules allow businesses to maximize profits since investment and export decisions are based on market principles rather than administrative fiat; • Consistency and Predictability have "reputation" impacts for domestic business that benefit from greater foreign investment and enhanced trading opportunities; • Due process ensures stakeholders have access to adequate legal appeal procedures – adding greater certainty to trade transactions.
Harmonization, Standardization, and Recognition	• Reduces product development, marketing, inventory and placement costs of new products since standards across economies are harmonized and recognized; • For products with short shelf lives like IT and food products; harmonization, standardization, and recognition significantly reduces time delays related to multiple products tests in different markets; • Reduces burden on regulatory authorities because need for re-testing and re-certification is reduced.
Modernization and the Use of New Technology	• Shorter clearance time due to paperless trading reduces cost of shipment, time-to-markets, and inventory costs; • Simplified electronic documentation requirements reduces staff time and agents' fees resulting in increased business efficiency; • Ensures greater security for public due to use of high-tech security features like e-signatures, Optical Vehicle Recognition Systems, and vehicle scanning systems.

Source APEC's Second Trade Facilitation Action Plan, APEC Secretariat, Singapore, 2007, page 3.

3.33 A key point of concentration in efforts to reduce transaction costs has been the development of paperless trading. In a report released in June 2010, the APEC Committee on Trade and Investment concluded that:

1. Most APEC economies place high premium on development of paperless trading and are equipped with effective telecommunications infrastructure and legal systems, which accordingly do not constitute obstacles to development of paperless trading.
2. Most APEC economies have adopted electronic declaration systems for Customs, and some economies have achieved substantial results in integration of customs and logistics.
3. Regional cooperation has become stronger in simplifying trading procedures and paperless trading, and significant progress has been made in regional cooperation in paperless trading, thanks to cultural similarity, trading convenience and geographical intimacy.
4. Some economies have started to try to exchange electronic data for cross-border paperless trading. Inter-governmental data exchange and certification has just newly started.
5. Realization of paperless trading is increasingly based on integration of the global supply chain. All the economies have started to revolve around the global supply chain to plan single-window data integration.
6. Dominance in paperless trading has increasingly shifted from government to market and from public sector to private sector; as a result, private and public partnerships have been formed.
7. Some economies have started to build platforms for paperless trading that highlight their regional advantages to promote single-window development of paperless trading. Regional integration is the future development trend.²⁸

3.34 The conclusions set out above and the general recommendation put forward by the Committee, indicate that the benefits of paperless trading could be extended beyond the APEC region and be of benefit in all the economies being examined in this inquiry:

The report suggests that APEC economies deepen their research into benefits that have been brought by paperless trading to

28 APEC Committee on Trade and Investment, APEC Electronic and Commerce Steering Group, *Assessment and Best Practices on Paperless Trading to Facilitate Cross Border Trade in the APEC Region*, APEC secretariat, Singapore, June 2010, p. 9.

international trade, sum up their experience and lessons, reach consensus, and build capacity in the region for the development of paperless trading.

It is advisable that various economies communicate and share with each other, and learn from each other to bridge the digital divide of paperless trading between developed and developing countries.²⁹

3.35 The APEC Committee concluded that the benefits from the introduction of paperless trading would be felt by many businesses. It would, the Committee concluded:

- Minimize the constraints of time and space in import and export procedures
- Reduce the cost of carrying out formalities and improve the efficiency
- Achieve online shipping space booking, online insurance, online payment, etc; a variety of declaration procedures can be conducted online
- Improve the level of supply chain integration for enterprises to gain opportunities for competition
- Obtain transparent and relatively stable services. If paperless, all formalities associated with customs declaration and clearance can be carried out on the internet with a more transparent process... With [an electronic] customs clearance process, many of the rules will become more stabilised and be fixed during a relatively longer period
- Get easier to acquire trade-related financing services. The emergence of electronic bills of lading makes it more convenient for companies' financing. On one hand, electronic bills of lading facilitate supervision; on the other hand, the efficiency of processing documents will also be further enhanced
- Collect real-time information on the location of goods in transit, tariff rates and so on
- Reduce the errors in data entry and re-keying times.³⁰

3.36 Although the reduction of tariffs between the member economies of APEC has gained most publicity, many of the group's greatest successes have been in trade facilitation:

29 APEC Committee on Trade and Investment, APEC Electronic and Commerce Steering Group, *Assessment and Best Practices on Paperless Trading to Facilitate Cross Border Trade in the APEC Region*, APEC secretariat, Singapore, June 2010, p. 9.

30 APEC Committee on Trade and Investment, APEC Electronic and Commerce Steering Group, *Assessment and Best Practices on Paperless Trading to Facilitate Cross Border Trade in the APEC Region*, APEC secretariat, Singapore, June 2010, pp. 63-4.

...member economies have the freedom to implement agreed measures and actions ... most suitable to their own circumstances, with capacity building assistance being a key ingredient to help bridge the gap in a forum made up of members at different stages of economic development.

... Once the menu was agreed, member economies could choose to implement actions and measures either individually or as a group, on a voluntary basis.³¹

- 3.37 In fact, APEC has proved to be a very effective forum for this type of cooperative exercise:

As a non-rules-based forum founded on the principle of cooperation, APEC is well suited to this work. It provides a non-threatening environment for member economies to consider new and innovative ways to address similar problems. It also recognises the reality that on issues such as trade facilitation, one size does not necessarily fit all. ...³²

APEC Business Advisory Council

- 3.38 The APEC Business Advisory Council (ABAC) consists of 63 members, three from each member economy. It is a regular source of advice to APEC Leaders and ministers on the best ways to achieve the APEC goals. It provides a cross-section of opinion from the APEC business sectors.³³

- 3.39 Trade Facilitation is one of the most important issues being considered by ABAC. The group's aim is to eliminate impediments to business growth and development. It has a double-pronged approach and seeks to overcome:

- barriers at the border – for example: onerous conditions on foreign investors and limitations on the capacity of foreign investors to compete effectively, and
- barriers behind the border – for example: trade restricting practices or the promotion of monopolies in an economy.³⁴

- 3.40 ABAC also recognises the need for special attention to the needs of small and medium-sized enterprises (SMEs). It has identified a range of
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31 *APEC's Second Trade Facilitation Action Plan*, APEC Secretariat, Singapore, 2007, pp. 2-3.

32 *APEC's Second Trade Facilitation Action Plan*, APEC Secretariat, Singapore, 2007, p. 2.

33 Mr Ken Waller, Director of the Australian APEC Study Centre, Submission 34, p. 3.

34 Mr Ken Waller, Director of the Australian APEC Study Centre, Submission 34, p. 6.

practices that act as impediments to business growth –particularly for SMEs.

- 3.41 The Director of the Australian APEC Study Centre noted that the list of these practices is quite long. He indicated, however, that the most important issues are: excessive regulatory burdens; discriminatory treatment against foreign investors; complexities in establishing a business or in exiting where a business failure occurs; access to finance and information; and access to efficient and inexpensive communications.³⁵
- 3.42 In support of ABAC's comments, he concluded that trade facilitation is of vital importance and that:

The APEC agenda ... is about opening markets in the region to access to trade in commodities, manufactures and services and to opening opportunities for the flow of investments in all regional economies.³⁶

Further Support for ABAC's Views

- 3.43 Evidence given by the Chief Executive of Tradegate supported the importance of trade facilitation. Tradegate is an industry-based, not-for-profit organisation working for the international trade and transport community. It represents a variety of organisations, including: shipping lines, stevedores, consolidators, airlines, customs brokers, freight forwarders, depots, container parks, transport companies, importers and exporters. Several leading associations representing these groups are also in its membership.³⁷
- 3.44 Tradegate was established in 1989 and, since then, one of its main projects has been "...the use of electronic commerce technologies to streamline supply chain processes in the international trade and transport logistics industry". The result of this activity has been to give Tradegate a clear idea of what is needed in the area of trade facilitation:

As a trading nation, it is in Australia's interests that the export of goods and services be achieved in the most cost effective and timely manner as possible. To achieve this, it is imperative that Australia develop a focused national approach to trade facilitation.

Trade facilitation requires a long term perspective to be successful as changes to trading environments and government decision

35 Mr Ken Waller, Director of the Australian APEC Study Centre, Submission 34, p. 6.

36 Mr Ken Waller, Director of the Australian APEC Study Centre, Submission 34, p. 6.

37 Mr Peter Blanchard, CEO, Tradegate Australia Limited, Submission 31, p. 3.

making can take several years to implement. While Australia has done much to improve its access regime for trade – reduced tariff barriers, improved processing at the barrier – there is still much to be done.³⁸

3.45 In support of these comments, Tradegate noted that, in ratings established by the World Bank, Australia ranks only 34th among economies considered to have the easiest trade access. It commented that: “This provides significant opportunities for a whole of government trade facilitation approach to improve importers’ access to international markets”.³⁹

3.46 Tradegate’s submission to the inquiry included an example of an area where there is considerable scope for simplification – and where that simplification could make a useful reduction in the costs of international trade. Referring to a study carried out by the Australian Customs Service in 2008, Tradegate noted:

...there are 41 Commonwealth and State government agencies involved in international trade, collecting over 7,640 different pieces of data. A lot of this data is required on paper forms – some 275 of them. Forms do not allow fast and efficient processing as data from a form has to be re-keyed into a computer.

Of these 7,640 data items, when harmonised across all agencies only 637 core data items were needed. That is, less than 10 per cent of the data was unique, a massive 90 per cent of duplication.⁴⁰

3.47 Quoting from an OECD study made in 2003, *Quantitative Assessment of the Benefits of Trade Facilitation*, Tradegate also reported that the study estimated that transaction costs ranged from 1 to 15 per cent of the value of traded goods. The OECD found that each transaction passed, on average, through 27 to 30 parties, such as: brokers, vendors, banks, carriers and freight forwarders. Each transaction required at least 40 documents and over 200 data elements were typically requested. At least 60 to 70 per cent of these were re-keyed at least once and about 15 per cent of them re-typed up to 30 times.⁴¹

3.48 Tradegate supported ABAC’s concerns about small to medium enterprises (SMEs). It reported:

38 Mr Peter Blanchard, CEO, Tradegate Australia Limited, Submission 31, p. 3.

39 Mr Peter Blanchard, CEO, Tradegate Australia Limited, Submission 31, p. 3. The 2011 figures by the World Bank place Australia 29th on the list.

40 Mr Peter Blanchard, CEO, Tradegate Australia Limited, Submission 31, p. 3.

41 Mr Peter Blanchard, CEO, Tradegate Australia Limited, Submission 31, p. 7.

...a late 1980s study concluded that SMEs, that is firms with fewer than 250 employees in the European Union, incur trade transaction costs 30-45 per cent higher per consignment than those falling on larger firms.

The Department of Foreign Affairs and Trade (DFAT) calculated that savings are "highest for smaller shipments rather than bulk shipments. This is due to the high fixed cost of completing paperwork requirements manually. ...costs ...estimated by traders at between US\$75-US\$125 per transaction, irrespective of the size of the transaction".⁴²

3.49 To put these comments in an Australian context, Tradegate added:

Assuming DFAT's numbers to be reasonably accurate then Australian exporters face paper trade transaction costs of well over \$100 million per annum.

Just two agencies of the Federal Government cost importers and exporters in excess of \$300 million per annum. Importers or their agents pay \$50 per import declaration to Australian Customs, a cost of \$165 million per annum, while AQIS currently charges \$33 per import declaration.⁴³

Improving the Logistics Chain

3.50 An area that shows significant promise for trade facilitation is the improvement and greater integration of the transport and logistics networks in the region.

3.51 Australia has made great efforts in the last few years to overcome deficiencies in its transport and logistics network. Billions of dollars have been allocated to the improvement of existing infrastructure, building new infrastructure, and reducing impediments to the rapid and efficient movement of goods.

3.52 APEC has also made the improvement of the supply chain network a priority. In April 2010, APEC commented on a program that had been established to develop an APEC Supply Chain Framework.⁴⁴

42 Mr Peter Blanchard, CEO, Tradegate Australia Limited, Submission 31, p. 9.

43 Mr Peter Blanchard, CEO, Tradegate Australia Limited, Submission 31, p. 9.

44 APEC at Work, *APEC's Supply Chain Framework: A Boon for Business*, Singapore, 29 April 2010, http://www.apec.org/apec/news_media/apec_at_work/20100430_supply_chain.html, accessed 13 May 2010.

- 3.53 In its submission to this inquiry, DFAT noted that the APEC program is seeking to:
- identify chokepoints impeding trade logistics in the Asia-Pacific region;
 - assess measures currently in place to ameliorate those chokepoints ;
 - recommend further action to remove impediments to trade logistics.⁴⁵
- 3.54 The APEC announcement said that “efficiency gains in an interconnected network for transport (and trade) would lead to more than just easier movement of goods; overall it would result in higher growth and greater prosperity “.⁴⁶
- 3.55 APEC reported that an increase of one percentage point in the ratio of trade to GDP would produce a two or three per cent increase in income per head. A 10 per cent efficiency gain in the supply chain it estimated would “lift APEC’s real GDP by US\$21 billion per year and generate thousands of jobs”.⁴⁷
- 3.56 The Australian Federation of International Forwarders said, in evidence to the Sub-Committee, that the major problems facing Australia’s importers and exporters are the interfaces at port and airport and the compliance functions for Customs and quarantine clearance.⁴⁸
- 3.57 The Federation claimed that there are serious shortcomings in the transport infrastructure around the ports; this mainly affects Sydney and Melbourne at present, but Brisbane will also have problems as its growth proceeds.⁴⁹
- 3.58 The efficiency of cargo movement through the ports and the distribution of imports to final destinations are under close scrutiny. The Federation gave as an example the present situation in Sydney:

45 DFAT, Submission 40, p. 9.

46 APEC at Work, *APEC’s Supply Chain Framework: A Boon for Business*, Singapore, 29 April 2010, http://www.apec.org/apec/news_media/apec_at_work/20100430_supply_chain.html , accessed 13 May 2010.

47 APEC at Work, *APEC’s Supply Chain Framework: A Boon for Business*, Singapore, 29 April 2010, http://www.apec.org/apec/news_media/apec_at_work/20100430_supply_chain.html , accessed 13 May 2010.

48 Australian Federation of International Forwarders Ltd, Committee Hansard, 14 April 2010, p. 16.

49 Australian Federation of International Forwarders Ltd, Committee Hansard, 14 April 2010, p. 16.

...the New South Wales ports minister has become very involved, as did his predecessor, in trying to improve the efficiency. One of the solutions ... brought forward was to impose penalties and fees, because if the ports would not work efficiently by evolution or by organic methods then perhaps they needed to be forced to do so.

Some solutions that were brought forward were penalty rates for picking up containers from the wharf during peak hours. Of course, we are talking about peak hours as daylight business hours that impact upon other users of the roads – consumers, but also business. Therefore, by imposing penalties on the transport operators, could we shift their hours of working to night time and evening and how would we do that?

The penalty proposal was brought forward, which is called peak period pricing, PPP. I would not say that has been shelved, but it is still there in the background as a threat.

In the meantime, the ports minister for New South Wales is trying to encourage Sydney Ports, who operate the ports on his behalf, to bring forward these productivity and efficiency initiatives, some of which relate to internal target setting by the CTOs themselves; in other words, setting their own targets for which if they do not achieve them then maybe they impose on themselves some internal penalties on staff and operations.

I envisage all of that will come to a head within the next six months, because if this does not work and we still have inefficiencies at the ports with long truck queues and congested roads around the port, then something has to be done.⁵⁰

- 3.59 The Federation commented that among the problems adding to the cost of freight transport is the application of storage charges, or demurrage, for cargo that cannot be immediately moved to the port, or from the port to its final destination, and must be staged through a storage depot. There are also similar charges, detention charges, applied to empty containers that are not returned within a specified time (usually ten days) after they have been emptied. A third factor is the cost of repositioning empty containers and the cost of their storage in empty container depots while awaiting cargoes or repositioning.⁵¹

50 Australian Federation of International Forwarders Ltd, Committee Hansard, 14 April 2010, pp. 16-17.

51 Australian Federation of International Forwarders Ltd, Committee Hansard, 14 April 2010, pp. 16 and 18.

- 3.60 One of the problems that increases the incidence of these charges is the mismatch between the hours worked by ports and freight forwarders – which can be 24 hours a day and seven days a week – and importers and exporters who have shorter hours and limited to five or six days a week.⁵²
- 3.61 One of the suggestion put forward to help reduce road congestion around the ports, is to apply either an incentive or a penalty to encourage transport companies to have their trucks bring an empty container back to the port when collecting cargo – so that single movements are discouraged.⁵³
- 3.62 An additional cost that has emerged in recent years is the cost of antiterrorist programs. The security issues that have emerged in recent years has steeply increased the cost of safeguarding cargoes:

If we go back probably 15 years there were no structured air cargo or sea cargo antiterrorist programs. That is quite a recent introduction. Things have moved very quickly and are still moving. I think it is a very large factor in relation to our activities, so I might speak about those briefly.

The security issues relate to compliance costs, compliance for our members in terms of regulation for the development of efficient and effective programs to ensure the integrity of the cargo from the supplier through to the carrier that takes the goods out of the country. To do that there must be training in place, a system in place to monitor the cargo through its movement and there is audit and compliance. With those two items come costs as well.⁵⁴

- 3.63 The Federation explained some of the additional programs and technology, with accompanying costs, that are being introduced to deal with security problems:

Just recently you would be aware that the government announced \$54 million to assist industry to implement and enhance the air cargo security program. ... Part of that money will be developing a regulated shipper program. You talked about our role as freight forwarders. We are getting closer to the shipper because at the moment the shipper is unregulated in air cargo security in that all

52 Australian Federation of International Forwarders Ltd, Committee Hansard, 14 April 2010, pp. 16 and 18.

53 Australian Federation of International Forwarders Ltd, Committee Hansard, 14 April 2010, p. 20.

54 Australian Federation of International Forwarders Ltd, Committee Hansard, 14 April 2010, p. 22.

they have to do is identify themselves and show that they have a driver's licence or whatever and they can give the cargo to the party in the chain that takes it to the airport. That is not satisfactory.

We need to know more about the individuals working at shippers' premises, as much as we have to regulate our own industry. Part of this money will go towards a new regulated shipper program.

Part of the money will also go to improving the technical examination of cargo. By this I mean cargo x-ray and explosive trace detection technology, which is available in some form already. These technological improvements we will see continuing on forever and at the moment I cannot guarantee that they are foolproof. I can guarantee that they are putting hurdles in the way of would-be terrorists and therefore making the supply chain a lot more secure than it would be without them.

We are looking to work together with the government to develop these new systems to improve cargo security. At the same time it should be noted that the freight forwarder is going to have to pay more to work with this technology, not just in the purchase of equipment but also in the training required to operate the equipment effectively.⁵⁵

Wider Recognition of the Importance of Trade Facilitation

- 3.64 The Asian Development Bank (ADB), quoting the Economic Commission for Europe, noted that:

The main objective of trade facilitation is to simplify the process and minimise transaction costs in international trade, while maintaining effective levels of government control.⁵⁶

- 3.65 The World Trade Organization (WTO) has also recognised the importance of trade facilitation. It was added to the WTO agenda at the 1st Ministerial Conference in Singapore in 1996. The Ministerial Declaration that launched the DOHA Round included specific provision for consideration of the needs and priorities of members in this area.⁵⁷

55 Australian Federation of International Forwarders Ltd, Committee Hansard, 14 April 2010, p. 22.

56 Asian Development Bank and ESCAP, *Designing and Implementing Trade Facilitation in Asia and the Pacific*, Mandaluyong City, The Philippines, November 2009, p. 3.

57 Dr Carolin Eve Bolhöfer, *Trade Facilitation – WTO Law and its Revision to Facilitate Global Trade in Goods*, World Customs Journal, Vol. 2, No.1, April 2008, p.34.

3.66 In part, the Ministerial Declaration said:

Recognizing the case for further expediting the movement, release and clearance of goods, including goods in transit, and the need for enhanced technical assistance and capacity building in this area we agree that negotiations will take place after the Fifth Session of the Ministerial Conference...

In the period until the Fifth Session, the Council for Trade in Goods shall review and, as appropriate, clarify and improve relevant aspects...and identify the trade facilitation needs and priorities of members, in particular developing and least-developed countries. We commit ourselves to ensuring adequate technical assistance and support for capacity building in this area.⁵⁸

3.67 In August 2004, "...Members took note of the trade facilitation work done so far and agreed to start negotiations..." by adopting the so-called 'July Package'. Under this agreement the Members:

Besides committing themselves to clarifying and improving the relevant GATT Articles, ...recognised that the principle of special and differential treatment for developing and least-developed countries should extend beyond granting traditional transition periods for the implementation of commitments and that the extent and timing of entering into commitments should be related to the implementation capacities of such countries.⁵⁹

3.68 Later in 2004 a Negotiating Group on Trade Facilitation was established and commenced negotiations. Discussions were suspended in 2006 because they seemed to be heading for agreement well in advance of the main negotiations.⁶⁰

3.69 The Group now has a wide range of proposals from Members to consider and will have to decide which of them will be included in any agreement. This will involve the delicate task of balancing the different interests of all WTO Members so that a consensus can be reached. However, as the paper quoted above notes:

58 Dr Carolin Eve Bolhöfer, *Trade Facilitation – WTO Law and its Revision to Facilitate Global Trade in Goods*, World Customs Journal, Vol. 2, No.1, April 2008, p.34.

59 Dr Carolin Eve Bolhöfer, *Trade Facilitation – WTO Law and its Revision to Facilitate Global Trade in Goods*, World Customs Journal, Vol. 2, No.1, April 2008, p.34.

60 Dr Carolin Eve Bolhöfer, *Trade Facilitation – WTO Law and its Revision to Facilitate Global Trade in Goods*, World Customs Journal, Vol. 2, No.1, April 2008, p.34.

It is certain that technical assistance and capacity building for less developed countries are the keys to reform of WTO law. Looking at the potential that trade facilitation presents, especially for the developing world, it is more than desirable that Members manage to agree on an ambitious set of disciplines.⁶¹

3.70 The ADB, commenting on this aspect of the Doha negotiations, said:

The global trade talks on the Doha Development Agenda include negotiations of a trade facilitation agreement, focusing on freedom of transit, fees and formalities for import and export, as well as publication and administration of trade regulations (transparency). Trade facilitation provisions are also included in a growing number of free trade agreements in Asia and the Pacific.⁶²

3.71 Another international organisation with a crucial role to play in the process of improving trade facilitation is the World Customs Organization (WCO). The WCO represents 176 Customs administrations that, collectively, process about 98 per cent of the world's trade. Through this organisation, based in Brussels, Customs authorities from around the world co-operate on issues such as: development of global standards; simplification and harmonisation of Customs procedures; trade supply chain security; facilitation of international trade; enhancement of Customs enforcement and compliance activities; anti-counterfeiting and anti-piracy; public private partnerships; integrity promotion; and sustainable Customs capacity building programs.⁶³

3.72 The WCO also maintains the international Harmonized System of goods nomenclature and administers the technical areas of the WTO Agreements on Customs Valuation and Rules of Origin.⁶⁴

3.73 Australia has a very active organisation that is co-operating closely with the WCO in training international Customs officers – the Centre for Customs and Excise Studies at the University of Canberra. This program is regarded as an international centre of excellence; it offers comprehensive courses in customs, excise, revenue management, border management and

61 Dr Carolin Eve Bolhöfer, *Trade Facilitation – WTO Law and its Revision to Facilitate Global Trade in Goods*, World Customs Journal, Vol. 2, No.1, April 2008, p.38.

62 Asian Development Bank and ESCAP, *Designing and Implementing Trade Facilitation in Asia and the Pacific*, Mandaluyong City, The Philippines, November 2009, Preface, p. iv.

63 World Customs Organization, http://www.wcoomd.org/home_about_us.htm, and http://www.wcoomd.org/home_about_us_our_profile.htm, accessed 15 April 2010.

64 World Customs Organization, http://www.wcoomd.org/home_about_us.htm, accessed 15 April 2010.

related areas. It is also very active in research and has an extensive program of consultancy projects.⁶⁵

3.74 One of the main aims, for both the WCO and the Australian Centre for Customs and Excise studies, is to lower international transaction costs through the streamlining and harmonisation of customs procedures throughout the world.

3.75 The Asian Development Bank commented that although there is wide recognition of the benefits of trade facilitation, some countries are reluctant to commit to the implementation costs:

Some developing countries may view costs associated with implementing trade facilitation measures as prohibitive, but evidence suggests otherwise.

The introduction and implementation of trade facilitation measures do entail start-up costs for government agencies; however, these reforms eventually reduce government expenditures by enhancing transaction efficiency and transparency, eliminating duplicative functions, and allowing a more economical and efficient use of administrative resources. In practice, some of the initial costs are also transferred to traders through charges for services provided.

Overall, savings from implementing trade facilitation measures, such as those being negotiated under the WTO, are expected to far outweigh any setup and operating costs involved in implementing them. ...[T]his is particularly true for some of the more advanced and far-reaching trade facilitation measures such as electronic single window, risk management, and post-clearance audit mechanisms.⁶⁶

3.76 The ADB added that there were several different types of cost involved in trade facilitation measures:

- Institutional costs, such as the restructuring of existing institutions or establishing new ones
- Regulatory and legislative costs, such as amendment of existing regulatory and legal systems
- Equipment and training costs, such as setting up electronic data systems and training the staff members

65 Centre for Customs and Excise Studies, University of Canberra, <http://www.customscentre.canberra.edu.au/>, accessed 15 April 2010.

66 Asian Development Bank and ESCAP, *Designing and Implementing Trade Facilitation in Asia and the Pacific*, Mandaluyong City, The Philippines, November 2009, p. 8.

- Other costs, such as the potential loss of customs revenue — however, a loss of revenue can be offset, to some extent, by increased trade volumes and by a reduction in the revenue lost through corruption, as procedures become more transparent.⁶⁷

3.77 The Bank commented that it was not necessary for every country to implement radical changes and employ very expensive technology:

...cost concerns should not deter countries from pursuing trade facilitation. Trade facilitation can often be significantly achieved without investing in a fully automated and computerised system.

Merely simplifying rules, procedures, and regulatory processes, and investing in port and border crossing infrastructure and equipment, such as container scanners, can considerably expedite control and clearance of goods at borders. As such, optimising the use of the existing infrastructure, equipment, and human resources can yield early and significant efficiency gains.⁶⁸

Export Market Development Grants

3.78 The Export Market Development Grants (EMDG) scheme was described in the report of the Mortimer Review of Export Policies and Programs as “the Australian Government’s principal financial assistance program for aspiring and developing exporters”. The report set out the aims of the scheme as:

To encourage businesses to promote their products and services overseas and to become established exporters whose exporting persists as a sustained activity after assistance under the scheme ceases.⁶⁹

3.79 The EMDG scheme has operated since 1974 and the Mortimer Review found that the:

Scheme has been helpful in introducing smaller Australian businesses and new exporters to the global market and can be considered both effective and efficient in supporting the

67 Asian Development Bank and ESCAP, *Designing and Implementing Trade Facilitation in Asia and the Pacific*, Mandaluyong City, The Philippines, November 2009, pp. 9-10.

68 Asian Development Bank and ESCAP, *Designing and Implementing Trade Facilitation in Asia and the Pacific*, Mandaluyong City, The Philippines, November 2009, p. 9.

69 David Mortimer AO, *Winning in World Markets: Meeting the competitive challenge of the new global economy: Review of the Export Market Development Grants Scheme*, Report to the Minister for Trade, Canberra, 1 September 2008, p. 1.

development of Australia's exports. The scheme should be continued.⁷⁰

- 3.80 The Australian Institute of Export told the Sub-Committee that the scheme is "vital infrastructure for exporters". The Institute pointed out that reviews have shown that EMD Grants increase productivity and they do not increase inflation because most of the funds are spent offshore.⁷¹
- 3.81 There was considerable distress among exporters when Austrade had insufficient funds in 2007-08 to meet the EMDG claims lodged. Austrade estimated the shortfall at A\$28 million and about 900 firms had their claims substantially reduced for that year. Austrade reduced the initial payout from \$70,000 to \$40,000 and could pay only 24.4 per cent of the second stage entitlements. In effect, this reduced the statutory maximum grant from \$150,000 to \$89,533.⁷²
- 3.82 The Government responded by increasing funding for the scheme in 2008-09 by \$50 million and adding another \$50 million in 2009-10, providing a total budget of \$200,400,000 in each year. It also proposed amendments to the scheme in the Export Market Development Grants Amendment Bill 2010, which was introduced in the House of Representatives on 26 May 2010.⁷³
- 3.83 The Minister for Foreign Affairs said the amendments were designed to focus the grants "on those SME exporters who can benefit most". The changes proposed: reduction of the maximum number of grants for an individual exporter from eight to seven; retention of the maximum grant of \$150,000; an increase in the minimum level of expenditure required from \$10,000 to \$20,000; and a cap on the maximum amount claimable for intellectual property expenses at \$50,000. It also proposed an extension of the life of the scheme by five years – to 2015-16.⁷⁴
- 3.84 The total budget allocation for each year from 2010-11 to 2013-14 is \$150,400,000. The legislation provides for a further review to be provided

70 David Mortimer AO, *Winning in World Markets: Meeting the competitive challenge of the new global economy: Review of the Export Market Development Grants Scheme*, Report to the Minister for Trade, Canberra, 1 September 2008, p. 1.

71 Australian Institute of Export, Submission 32, p. 2.

72 Australian Institute of Export, Submission 32, p. 1.

73 House of Representatives, *Export Market Development Grants Amendment Bill 2010*, Second Reading Speech by the Minister for Foreign Affairs, Hansard, 26 May 2010, p. 7.

74 House of Representatives, *Export Market Development Grants Amendment Bill 2010*, Second Reading Speech by the Minister for Foreign Affairs, Hansard, 26 May 2010, p. 8.

to the Minister by 30 June 2015, to determine whether there will be a further extension of the scheme beyond 2015-16.⁷⁵

- 3.85 The Australian Institute of Export strongly advocated the provision of full funding for the scheme on a regular basis. The Institute noted that what exporters need is the ability to be able to calculate the ultimate cost to them of activities such as: trade fairs; provision of free samples; advertising; engagement of marketing assistance; trips to prospective markets and setting up promotional office overseas. The Institute added:

If exporters don't know how much these activities will cost them, they won't undertake these additional activities that would otherwise lead to extra export revenue for Australia.⁷⁶

Recommendation 4

That the Australian Government commit itself to a concerted effort to lift Australia into the top 20 countries in the World Bank's list of economies having the easiest trade access.

Recommendation 5

That Australia work towards the complete introduction of paperless trading as soon as possible and that it encourage and, where necessary, assist its trading partners to achieve the same outcome.

Recommendation 6

That Australia should strongly encourage the complete acceptance of the APEC Business Travel Card by the remaining members of APEC; and also explore the possibility of establishing a similar arrangement with other trading partners, e.g. non-APEC economies in Latin America, the EU and India.

75 Parliamentary Library, Bills Digest No.170 (2009-10), *Export Market Development Grants Amendment Bill 2010*, Michael Priestley, Economics Section, 11 June 2010, pp. 3-4.

76 Australian Institute of Export, Submission 32, p. 3.

Recommendation 7

That Australia should take a leading role in working towards the improvement of supply-chain processes in APEC and in encouraging other trading partners to undertake a similar program.

Recommendation 8

That, in view of the benefits arising from the Export Market Development Grants Scheme, it should continue indefinitely and be fully funded to provide certainty for exporters seeking to widen their overseas market focus.