



EXPORT COUNCIL OF AUSTRALIA **TRADE POLICY RECOMMENDATIONS 2021**

Diversification requires targeted support of micro, small and medium sized exporters, and new technology-based industries

ABOUT THE EXPORT COUNCIL OF AUSTRALIA

What is the ECA?

The ECA is a not-for-profit, member-driven organisation. Its purpose is to support Australian entrepreneurs and firms in undertaking international business.

What does the ECA do?

The ECA supports its members through various efforts, including:

1. Providing updated information – Members are alerted to news and reports, including on government policies and regulations, as well as market conditions.
2. On-going capacity building – Exporters benefit from tailored training to build on their knowledge and skills, as global rules and practices change, trade patterns shift, and technologies develop.
3. Advisory services – Exporters can get immediate insight on pressing challenges and questions, such as on licensing, clearances, access to finance and trade agreements.
4. Creating ecosystems – Facilitating crucial business relationships help exporters progress opportunities, including with sourcing materials and new ideas, getting things stored and delivered, and channelling financial transactions.
5. Advocating on behalf of members – Members' views and concerns are articulated to government partners. Effective and sustainable solutions are best reached through collaboration with governments and other stakeholders.

Who are ECA's members?

The ECA's membership covers a wide range of industries and sectors. Its members are individuals, small, medium and large enterprises.

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MESSAGE FROM THE ECA BOARD

This document outlines the key issues which the Export Council of Australia (ECA) believes both business and government need to consider in light of the consequential events shaping the global trading landscape. This document follows the path of earlier Trade Policy Recommendations issued by the ECA, and comprises one part of the ECA's engagement with government on trade issues.

This document does not seek to comment on or cover every impediment that an exporter might face. Rather we have sought to highlight what we believe are the overarching priorities that, if addressed, will have a significant impact at large. In doing so, we have focussed in some areas on the position of micro, small and medium enterprises (MSME), a constituency which the ECA has assisted and represented over the years and continues to do so. We recognise that MSMEs tend to face considerable hurdles when seeking to enter or secure the benefits of global markets.

The challenges cannot be solved by business or government alone. Our trading partners are certainly not approaching it that way. Regrettably, there seems to be a certain level of 'nationalism' now pervading competition in global trade.

For Australia to succeed, business and government must work in concert and in a strategic manner. This can be achieved while staying true to our international obligations. Indeed, Australia must continue to take leadership in promoting multilateralism and the global rules of trade.

To both industry and government, we offer this document for your consideration.

A handwritten signature in black ink, appearing to read 'D. Tipping', is positioned above the printed name.

Dianne Tipping
Chair
Board of the Export Council of Australia

HIGHLIGHTS

- Diversification of Australia's exports (as well as imports) will be crucial to Australia's post Covid-19 recovery and sustained growth in an increasingly competitive geo-economic setting and 'decarbonising' global economy
 - *The government must take a pragmatic approach in response to the changing global trading landscape, and work in partnership with business to develop constructive solutions.*
- Digitalisation of trade documentary requirements needs to be expedited, and supply chain costs must be better managed in order for Australia to remain competitive
 - *The government must undertake a regular review of Australia's ports, along the lines of the recent Independent Review of the Victorian Ports System.*
- Resilient global supply chains must be viewed as a national interest and security issue, which will require strategic partnerships with relevant countries and governments
 - *The Australian government must respond expeditiously to the Productivity Commission's inquiry into supply chain vulnerabilities, and assist developing country trade partners implement trade agreement obligations, which strengthen supply chains with Australia.*
- The government must amplify its efforts to boost Australian services exports, especially as growth in trade in services outpace trade in goods, fuelled by advances in technologies
 - *The government must seek from trade partners more favourable visa arrangements and recognition of Australian qualifications.*
- Australia can demonstrate to the world how 'inclusive' trade can work, including by boosting the capabilities and opportunities of Indigenous businesses to export
 - *A more proactive approach can be taken by government to ensure future trade agreements reflect the interests of Indigenous businesses and communities.*
- Climate change deserves serious attention from government and business, as it will have a significant impact on all economic activities, including trade
 - *The government must now take leadership, including by taking action to 'decarbonise' the economy, and to put a price on carbon emissions.*

THE TRADING LANDSCAPE

Exports are crucial to Australia's economy. Around a fifth of what Australia produces in goods and services, in value terms, are exported to the rest of the world.¹ With the right regulatory environment and enhanced provision of information, especially for the 50,000 small and medium sized exporters,² Australian exports can make an even greater contribution to Australia's economic performance.



The impact of the Covid-19 pandemic and associated adverse economic conditions will continue at least in the short term. The movement of goods and people will be constrained, some border restrictions will linger, and international transport will remain limited. Economic recovery around the world will be patchy. Unemployment and thus global demand, as well as private sector investment, will be subdued in the immediate term. That said, there is now “light at the end of the tunnel”, especially as vaccination programs in various countries begin in earnest and congestion in international supply chains begin to ease.

Beyond Covid, however, ‘cold’ trade wars and the intensifying multipolar geo-economic competition have brought a new dimension to the global trading landscape. This is occurring in parallel to the weakening of the multilateral trading system and the rules-based order under the World Trade Organization (WTO). The slow pace of any meaningful reform in the WTO means there will be less predictability and transparency, and potential loss of a level playing field for many economies, including Australia.

Australian exporters are recognising the challenges before them, and are taking appropriate action, including revisiting their strategies, reassessing risks and pivoting to new markets. 'Diversification' has quickly become an essential element of traders' vocabulary, if not their strategy, whether in terms of products, services or markets. It is also encouraging to see signals from the government in support of such diversification.

From an enterprise's perspective, diversification broadly means two things:

- (i) being able to sell to various markets/countries; and/or
- (ii) having a range of products or services adapted to different markets.

From a national interest perspective, diversification of trade has a slightly different meaning, but is certainly connected to enterprise level objectives. As a trading economy, Australian exports must:

- (i) be relatively well distributed across a range of partner countries;
- (ii) be driven by a range of industries and sectors; and/or
- (iii) incorporate significant value-adding.

If the government is serious about diversification, it must target its efforts and resources towards MSMEs, including overlooked groups such as Indigenous businesses. They will provide the best return for the government's investment. The government must also put focus on industries where there is strong potential in the future, such as services and environment related technologies. These are where significant growth can occur in the short term, and set the basis for consistent growth well into the future.

RED TAPE AND CHARGES

E-commerce will continue its astonishing growth. In the Asia-Pacific region, e-commerce (especially B2B) is expected to reach US\$1.3 trillion by 2023. In addition, around 57 per cent of online shoppers are now purchasing beyond their borders. If Australia's internal trade processes and costs continue to lag behind competitor countries, Australian SME exporters will find it difficult to capitalise on this (e-commerce) opportunity.³



Context

Australian exporters, especially MSMEs, continue to face a heavy administrative burden and creeping costs in support services, especially costs in moving goods through the supply chain. Before an Australian exporter could even think of shipping its product past its shores, or to import inputs for manufacture, it needs to deal with multiple agencies to secure the necessary clearances. The paperwork involved is neither small in number nor straightforward.

According to the World Bank, it takes Australian exporters 7 hours to satisfy documentary requirements, compared to the OECD average of just over 2 hours. In terms of costs for such compliance, Australian exporters have to pay \$264, while the OECD average cost is just \$33. As a consequence, Australia ranks poorly at 106th in the World Bank's Trading Across Border index.⁴

For certain goods, such as fruits and vegetables, exporters can face up to 12 audits per year from the Department of Agriculture, Water and Environment, as well as other regulatory bodies. These regular audits relate to maintaining registration as a food exporter. The individual audits cover the same ground and could therefore be rationalised and reduced in frequency, including through an adoption of a risk-based approach by the Department of Agriculture and more reliance on industry audits. While charges for individual audits are not excessive, the time spent for preparations and disruption of core business become burdensome, especially for smaller exporters.

As part of the 2020-21 Budget, the government announced in October an allocation of “\$28.6 million to implement a simplified trade system”. Part of this is meant to go towards development of a Trade Single Window.⁵ This package is welcomed, but any further delay in implementation of digitalisation or streamlining of trade documentary requirements will undermine Australia’s competitiveness.

Recommendation

Progress will require action from both government and industry:

- (i) Industry must continue to stress the need for increased efficiencies in border processes, including through digitalisation, and must press ahead in adopting innovative technologies of its own.
- (ii) The Australian Government must expedite implementation of their 2020 budget commitments on simplified trade, including development of a single window for trade.
 - Funding allocation for the simplified trade system is (also) meant to include support for an industry-led ‘blockchain’ solution, as referred to in the Budget. The terms of reference for this endeavour has yet to be released and should be expedited.
 - Whatever technology or system the government adopts must be fit for purpose well into the future. It must be able to ‘speak’ with systems across different agencies, with those of the private sector, and with trading partners.

For both government and business, digitalisation must be accompanied by a reduction in tasks, such as reduction in the number and complexity of forms, as well as reduction in charges. These are necessary to create efficiencies and to lower the costs of doing business internationally, especially for resource-constrained small and medium sized exporters.

In November 2020, Infrastructure and Transport Ministers of the Commonwealth, States and Territories supported the development of voluntary national guidelines on the levying of charges at container ports.⁶ This is a good start, and should be complemented with an independent body that will monitor and act as an arbitrator should price hikes (e.g. detention and landside access charges) become excessive. Moreover, a more regular review of Australia’s ports is encouraged, and should look to the recent Independent Review of the Victorian Ports System as best practice.⁷

RESILIENT SUPPLY CHAINS

Every year more than 56 per cent of businesses across the world experience significant supply chain disruption. These may occur for various reasons, including natural disasters as well as human imposed restrictions (such as in response to Covid-19). Evidence suggests that between 40 to 60 per cent of small businesses do not reopen following a major disruption.⁸ As risks of supply chain disruptions increase, industry needs to revisit their supply chain approaches, and government needs to think ‘out of the box’ in creating conditions that promote supply chain security and resilience.



Context

Covid-19 and the responses by governments around the world have led to significant disruptions in supply chains, including as a result of:

- ‘lockdowns’, supplier factories had to close (at least temporarily); and
- constrained transportations (especially air freight); and
- border restrictions.

These have been exacerbated by dramatic increases in the cost of shipping, in particular due to the shortages of containers. In certain routes, the cost has jumped as high as 300 per cent. This shortage has been due to the mismatch of economic recovery between trading partners (in particular China surging ahead of the developed markets of Europe and America), space limitations on ships, and limited air freight capacity.⁹

In addition, continuing geo-economic competition between economic superpowers is likely to have a detrimental effect on access to future production facilities and inputs.

As a consequence of these events, Australian firms are now reassessing their risks and intending to revisit their supply chain strategies. Australia is not alone, a global survey of supply chain professionals revealed that 73 per cent intend to make large-scale changes to their supply chains:

- 34 per cent intends to shift from foreign to local suppliers
- 21 per cent plans to increase inventory levels.¹⁰

This issue (of supply chain resilience) is not only a concern at the firm level or that of consumers, it should also be seen as one of national security. In this regard, the Productivity Commission's inquiry into vulnerabilities in Australia's supply chain is sensible and timely.¹¹ However, finding the points of weakness may not prove as challenging as seeking to determine and implement effective solutions. The Productivity Commission must consider recommendations that may not sit well with a purely market-driven predisposition and government must be ready to adopt those recommendations.

The new US Administration is undertaking a similar investigation. US President Biden recently issued an Executive Order calling for a review of vulnerabilities in the supply chain of critical goods comprising pharmaceutical ingredients, minerals for defence and high-tech products, semi-conductors, and large capacity batteries.¹²

Recommendation

So what, if any, changes could be made? At the firm level, these might include:

- (i) Blending supply chain strategies to find a compromise between cost efficiency and resilience (such as allowing for increased inventory). This may be influenced by a recalculation of risk weightings and redefining of product life cycle.
- (ii) Building better systems for information flow, disruption alert warnings and coordinated response to disruptions.
- (iii) Exploring alternative inputs or ingredients if there is no immediate alternative to the current supplier(s). This is a longer-term solution, and may potentially require increased R&D investment.
- (iv) Revisiting the value of investments in vertical integration, which can strengthen supply chains, including investing in infrastructure such as warehousing in third countries.

The Australian Government must consider resilient supply chains as a strategic priority, and must act in line with such intent. While supply chain decisions are made by private enterprises, government can assist by creating the conditions that facilitate change by firms.

On the domestic front, government initiatives should include:

- (i) Serious consideration and immediate implementation of the recommendations from the Productivity Commission's inquiry into supply chain vulnerabilities.
- (ii) Increasing investments in facilities that reduce transport and storage costs.

- (iii) Extending funding assistance to MSME traders (specifically for supply chain related activities).
- (iv) Increasing assistance for relevant R&D, including in production and logistics technologies.
- (v) Adopting mechanisms which will properly regulate cost increases in the supply chain so that they are neither unreasonable nor unexpected.

At the international level, the government should:

- (i) Ensure relevant aspects of current and future trade agreements (including on standards and conformance, rules of origin, investment and services) support the transformation of supply chains.
- (ii) Increase international development assistance or 'aid for trade' targeted at securing supply chains, including implementation of rules of origin commitments under trade agreements.
- (iii) Determine intersections between the recommendations of the Productivity Commission's inquiry with that of the US' own inquiry, with a view for potential strategic collaboration.
- (iv) Convene strategic dialogue with allies and trade partners in determining ways to work together to achieve resilient supply chains.
- (v) Ensure that trade agreements of all types support the position and specific needs of MSMEs.

SERVICES

Cross-border trade in services is expected to rise to US\$8 trillion by 2025. Digitalisation and new technologies are helping fuel this growth. Opportunities will be in professional services and support of digital infrastructure.¹³ With enhanced policies and assistance programs, Australian exporters can take a much greater share of the global trade-in-services market.



Context

Globally, trade in services has been growing faster than trade in goods.¹⁴ This has been aided by advances in information and communications technologies. While advanced economies are net importers of goods, they are net exporters of trade in services.¹⁵

Australia's services exports have increased from 18 percent (in the 1970s) to 20 percent (today) of total exports. The increase has mostly been driven by education and tourism. Professional services and ITC (information, telecommunications and computing) services have not done as well.¹⁶ However, their performance will need to be amplified, as tourism and education take a big hit due to Covid-19 and troubles with China.

There are persistent challenges to enhancing Australia's services exports. These include:

- (i) Lack of international trade and entrepreneurial knowledge of small services firms/ individuals;
- (ii) Limited recognition of Australian qualifications in overseas markets;
- (iii) Gaps in visa permissions in certain countries;

- (iv) Complexity of cross jurisdictional tax systems; and
- (v) Challenges in accessing foreign talent to Australia.

These constrain individuals and small firms from growing their business, and achieving economies of scale to expand services in larger and more sophisticated markets overseas.

Recommendation

As services represent around 70 percent of Australia's Gross Domestic Product, but only make up around 20 percent of Australia's total exports, there is room for services to increase its contribution to Australia's trade performance.¹⁷ If we are to boost Australia's trade in services, further action from government will be necessary.

The government must:

- (i) take further action in key areas such as 'accessing overseas talent' and 'reviewing visa arrangements'. If we do not take appropriate steps in these areas, then it would be unreasonable to expect trade partners to lift their own barriers.
- (ii) negotiate favourable arrangements from trading partners on mutual recognition of standards and qualifications, as well as on freer movement of people under simpler longer-term visa permits.
- (iii) provide targeted assistance and strategic support of key services industries or areas, such as consulting services in environmental technologies and alternative energy, artificial intelligence and cyber-security, as well as in design and the creative arts.
- (iv) extend funding support towards building the fundamental knowledge and skills of services entrepreneurs to tackle international markets.

PEOPLE AND PLANET

Driven by growing environmental concerns, the global renewable energy market is projected to reach US\$2 trillion by 2025. If Australia is to join the ranks of the top renewable energy suppliers, the government must set a clear and ambitious agenda that would send the right signals to industry and encourage investments.¹⁸



Context

Globalisation is good for economic growth, but its impact on inequality is not entirely positive. There is evidence to suggest that in advanced economies, globalisation has little positive impact on the poor.¹⁹ There is a need for more 'inclusive' trade – whereby disadvantaged groups, including micro and small businesses, are able to participate and benefit from international trade.²⁰ Australia's Indigenous communities and businesses would greatly benefit from more inclusive trade settings.

It is estimated that there are around 12,000 Indigenous businesses (a conservative estimate), that contribute as much as 0.4 per cent of Australia's total GDP (or \$6.6 billion in 2016).²¹ Both the number of businesses and their economic contribution are increasing, but there is significant room for improvement. If Australian Indigenous businesses could grow further through international expansion, their impact on the economy and on global trade could prove to be more significant.

Climate change is a pressing global concern that will have an impact on international trade, both in terms of its physical impact and its impact on government policy settings. These impacts will be felt across the board, but in the immediate term will have a significant effect on sectors such as agriculture, tourism, trade infrastructure and carbon intensive industries (as well as trade routes).²² These changes provide opportunities as well as risks, with Australia well placed, assuming the right policy settings, to take advantage of the transition to a low carbon economy.

Consumers and investors are increasingly taking substantial climate related action, including demanding enterprises to do their utmost to mitigate climate change and redirecting capital investment to low carbon industries. Institutional investors face pressure on various fronts, including to satisfy their fiduciary duty, customer demands, and regulatory requirements.²³

Key trading partners, such as the European Union and United States, plan to enact rules and standards that will ensure the price of greenhouse gas emissions are consistent across jurisdictions. For example, the European Green Deal includes a ‘carbon border adjustment mechanism’. Depending on a given price of CO₂ emissions, it could significantly impact a producer’s profit.²⁴ But if such initiatives help address climate change and level the global playing field, then Australia should welcome it. It could help Australia compete against (higher) polluting producers, and open new opportunities in areas such as environmental technologies, renewable energy, green hydrogen and green steel.

Australia should constructively engage in the global effort to decarbonise economies and trade, and this requires appropriately pricing environmental costs into economic outputs. This provides opportunities to enhance our international reputation and competitiveness. On the flip-side, inaction carries substantial economic risks, especially if Australia misses out on emerging opportunities and is required to undertake unplanned and more costly changes under conditions forced upon us by trading partners and competitors.²⁵

Recommendation

For all those involved in international trade – both government and business – we can and must do more for people and the planet. We encourage the government to:

- (i) establish a dedicated program to help build the capacity of Indigenous businesses to engage in international trade.
- (ii) champion Indigenous interests in trade negotiations, such as pursue ‘inclusive’ provisions and geographical indications for Indigenous ingredients/products, which may help attract foreign direct investment and boost Indigenous business’ competitiveness.
- (iii) undertake a comprehensive review on the implications of proposed carbon border taxes on trade, including the benefits and opportunities, and take responsive action with industry based on the findings.
- (iv) develop a national initiative to begin pricing greenhouse gas emissions in line with foreign jurisdictions, in particular our major trading partners.
- (v) provide support mechanisms to relevant industries, such environmental technologies, renewable energy, green hydrogen and green steel, that could take advantage of the changed regime.

CONCLUSION

Australian exporters are facing challenges that are unprecedented in scale and coming from multiple fronts. The government must therefore fast-track recently announced initiatives, including on streamlining trade and promoting services.

If the government is serious about diversifying Australian exports, it must immediately put in place systems that ease and reduce the costs of doing trade by small and medium sized exporters, as well as support greater participation of Indigenous businesses in international trade. It must step up its efforts in support of services exports.

We encourage the government to apply foresight and explore additional measures in anticipation of imminent challenges, such as in securing supply chains and dealing with foreign imposed carbon taxes. The private sector is willing and able to work constructively with government to advance a forward-looking and inclusive agenda.

The opportunities are before us. However, we must take appropriate and decisive action. If business and government can work in a concerted and strategic manner, as we have recently seen in aspects of response to Covid-19, then Australia will be in the right path to a competitive and sustainable recovery.

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