

The Voice for
Australia's exporters



Trade Policy Recommendations 2014/15

*Investing in trade is
investing to grow*

CONTENTS

Purpose	3
Summary of Recommendations	4
Background.....	7
Recommendations	8
Appendices	19
Appendix 1	19
Contributor Profiles	23
About the Export Council of Australia	27

Increasing international competition means that prioritising and promoting trade and investment in Australia is not optional, it is imperative.

Purpose

The purpose of this paper is three-fold:

- 1) to emphasise the need for a **stronger, more competitive economy that enables growth**, for which trade and investment are crucial.
- 2) to demonstrate **where and how policy makers can leverage the G20 summit** in Brisbane in November 2014 and implement the recommendations.
- 3) to highlight the **policy settings needed to improve efficiencies and promote trade and investment** in Australia.

This document will build on the recommendations outlined in the Export Council of Australia's (ECA) 2013 Trade Policy Recommendations (TPR 2013), as well as address issues critical to the G20 Summit, including those raised by the B20 Trade Taskforce. The recommendations herein are intended to benefit Australian importers and exporters of all sizes and across all industry sectors, with a particular focus on the SME sector. The following six issues will form the core of this paper:

- 1) **Improving competitiveness through regulatory reform and trade facilitation:** Unnecessary regulation needs to be cut so we can improve the movement of goods across borders.
- 2) **Building infrastructure and supply chain efficiencies:** Australia's infrastructure must keep pace with growing demand.
- 3) **Enhancing Investment:** Investment is critical to Australia's growth and we face tough competition.
- 4) **Supporting Innovation:** Innovation is the way of the future for advanced economies. We need to lift our game.
- 5) **Advancing Trade Development:** Australia needs to be stepping on the accelerator, not the brake, in terms of investment in trade.
- 6) **Leveraging Free Trade Agreements:** We have them, now we need to work on utilising them.

Summary of Recommendations

Improving competitiveness through regulatory reform and trade facilitation

- Adopt measures to support trade facilitation advancements and the Trusted Trader Programme (TTP), including the allocation of the appropriate resources necessary to develop and implement TTP within the specified timeframe. This should include an educational outreach campaign to all parties in the supply chain.
- See a multilateral Trade Facilitation Agreement (TFA) as the ultimate objective to which to strive, while simultaneously exploring other avenues through which to advance the aims of the TFA with other trading partners.
- Ensure that changes to regulation that affect trade, investment and the movement of goods at the border be transparent and clearly communicated, as well as being subject to preliminary financial and regulatory impact assessments.
- Consider incorporating the border control aspects of the Department of Agriculture into the Department of Immigration and Border Protection so that those border control aspects of the Department of Agriculture become part of the Australian Border Force.
- Reform coastal shipping regulation, with the review of ownership and access to stevedoring facilities and empty container parks, relief of congestion at those facilities, and the regime of fees charged for container detention being subject to reform as a matter of priority.

Building infrastructure and supply chain efficiencies

- Develop a supply chain strategy and pipeline plan for investment with measurable private investment targets as recommended by the B20.
- Commit to actioning, or undertaking further analysis into, the five key recommendations outlined in the ACIL Allen Report (Allen Report) commissioned by the Australian Logistics Council (ALC) in August 2014, as outlined on page 11 of this document.
- Gain greater input from those within domestic and international supply chains by encouraging a closer working relationship between the agencies responsible for economic and physical infrastructure and those responsible for international trade.
- Create new versions of infrastructure bonds or other investment vehicles, such as taxation incentives, to promote increased investment in and construction of critical infrastructure.
- Develop a dynamic near real-time model of domestic and international freight flows.
- Identify, prioritise and allocate investment to address supply chain bottlenecks.
- Consider the development a national port community system (PCS) in line with European, Asian and other trading partners to increase transparency of supply chain data, reduce red tape, automate transactional information flows and improve efficiency of the import and export supply chains.

Enhancing Investment

- Continue to develop new ways to promote the necessity and benefits of inbound foreign investment to the Australian community.
- Conduct a holistic review of the impediments to foreign investment to ensure Australia's regulatory landscape is as attractive to investors as that of our key competitors.

Supporting Innovation

- Increase the maximum matched funding limit under Accelerating Commercialisation to \$2 million, consistent with the amount specified under the previous program, Commercialisation Australia.
- Provide clarity and certainty for the budget allocation for the Entrepreneurs' Infrastructure Programme (EIP).
- Introduce a scheme as outlined in the AIM Incentive, which incentivises development of Intellectual Property in all its forms.
- Continue the R&D Tax Incentive in its current form with incentive levels maintained or enhanced.

Advancing Trade Development

- Increase the level of engagement and expenditure in the trade and investment agenda to fully secure the benefits of recent initiatives and achievements.
- Maintain or increase funding for the Export Market Development Grants (EMDG) scheme and ensure that during the 2015 EMDG review, the wider economic benefits of the program are taken into account. The Government should also introduce a formal accreditation system for EMDG consultants and include training focused on understanding FTAs as an eligible expense.
- Conduct regular performance reviews of Austrade's key trade promotion programs, making the results publicly available on an annual basis, and assess its resource allocation domestically and internationally.
- Increase Austrade's international representation, especially in established markets where there remains demand for trade support services (for example, the United States and the United Kingdom), as identified in the [2013/2014 Australia's International Business Survey](#).
- Provide additional funding for Austrade to compensate the growth of its portfolio, which now includes Education, Tourism and Investment in addition to Trade Promotion. This funding should be used for the development of new Austrade programs and services that include greater partnership and collaboration with the private sector.

- **Prioritise building export capability in SME businesses. This could be achieved in part through the Industry Skills Development Fund, which should recognise the need to provide funding support to organisations to develop tailored export capability programs.**

Leveraging Free Trade Agreements

- **Maintain Australia’s strong participation in the high-level multilateral trade agenda, with a particular emphasis in advancing discussions regarding the implementation of the TFA.**
- **During the course of negotiation of an FTA or other international agreement, have DFAT engage in more specific consultations, either based on industry sector or chapters of those agreements. These consultations should be initiated by DFAT with the objective of advancing the level of communication and trust between industry and government.**
- **Liberalise the Rules of Origin (ROO) requirements as much as possible in FTAs and other trade agreements and adopt a consistent approach to technical issues to help reduce the level of complexity and regulation, while also avoiding specific provisions of particular countries.**
- **Place greater emphasis and investment in raising the overall awareness of the impact of recent FTAs for particular industries and provide practical, user-friendly information to assist individual businesses, especially SMEs, utilise FTAs. This could be achieved through the creation of an online educational FTA tool, which includes information on where companies can go to access professional advice.**
- **Ensure that trade outcomes become a greater priority of DFAT and that engagement and cooperation between DFAT and Austrade be improved—particularly in the outreach on FTAs—thereby ensuring a stronger trade voice in economic policy setting.**
- **Have ASIC and DFAT develop an implementation policy for Financial Services Chapters of FTAs to help ensure that market access commitments are enacted and FTAs are fully implemented.**
- **In addition to implementing the trade agreements Australia recently secured with Korea and Japan, and concluding negotiations with China and the TPP, the next focus should be on securing FTAs with Indonesia, Hong Kong, India, the GCC and the EU. However, in the case of India and the GCC, Australia should not embark on FTA negotiations until it has secured firm commitments from those nations on the expected outcomes from the negotiations in order to ensure that any agreement reached will deliver real benefits.**

Background

Last year the ECA released its first Trade Policy Recommendations, TPR 2013, to Government. These centred on the need for trade considerations to be central in determining Australia's domestic economic policy settings and that international competitiveness begins at home—the title of the document. The five key areas of focus were:

- **Competitiveness:** The need for Australia to reduce inefficiencies and red and green tape to help businesses compete in a rapidly evolving global market place. *Being competitive is a must, not an option.*
- **Infrastructure:** The need to address Australia's ageing infrastructure. *It's time for an innovative approach.*
- **Trade Promotion:** The need for significantly greater investment in trade promotion *The more we put in, the more we get out.*
- **Bipartisan Collaboration:** The need for both sides of politics and government agencies to focus on long term sustainable strategies, as well as encouraging greater collaboration between government and industry. *Team Australia is the only way!*
- **International Engagement:** Maintaining Australia's support for the World Trade Organisation (WTO), strengthening existing bi-lateral trade agreements and concluding bi-lateral arrangements currently under negotiation. *If New Zealand can do it why can't we?*

The ECA is pleased to note that the Government has been proactive in putting trade back on the agenda and making significant steps to improve conditions for trade in Australia. Since the release of the ECA's TPR 2013, the Government has addressed a number of the issues highlighted in the key recommendations. To see where associated government action has taken place, please refer to Appendix 1.

With the G20 Summit taking place in November, the spotlight is on Australia. Now is the ideal time for the Australian Government to show strong leadership and take decisive action to lift economic growth through domestic structural reforms. In its [report](#) to the G20, the B20 Trade Taskforce called on G20 Leaders, “to remove supply chain barriers through targeted infrastructure investment, streamlined border administration (including reduction of corruption in customs clearance), and domestic regulatory reforms.”

The G20's 'Strategies for Growth' include increasing quality investment in infrastructure, removing barriers to trade and promoting competition—all vital ingredients to a more competitive Australia. The ECA believes that off the back of the G20 Summit in November, strategic reforms can and should be made based on the recommendations of the B20, G20 and the complementary recommendations outlined herein by the ECA.

Recommendations

The ECA has compiled six Trade Policy Recommendations for the Australian Government.

Improving competitiveness through regulatory reform and trade facilitation

Trade facilitation improvements can benefit Australia as they afford both exporters and importers better access to inputs for production and greater participation in the international trading system.

Australia currently ranks 23rd in the World Economic Forum's *Efficiency and Transparency of Border Administration*, behind the UK (7th), Germany (13th), Canada (20th), and the US (21st). In the World Bank's *Trading Across Borders Index*¹, Australia's ranking has dropped from 30th in 2012 to 46th in 2014. In the World Economic Forum's *Global Competitiveness Report 2014/15* Australia ranks 124th out of 144 countries for the burden of government regulation (see Table 1). A recent Boston Consulting Group report on the economics of manufacturing among the top 25 exporting countries lists Australia last in its *Global Manufacturing Cost-Competitiveness Index*.

As was stated in TPR 2013, the Australian Productivity Commission estimates suggest that reducing red tape could add as much as \$12 billion to national output. The ECA congratulates the Government on its commitment and efforts to reduce the regulatory burden in Australia and strongly welcomes further regulatory reform that supports increased industry competitiveness and a lower compliance burden. The ECA is actively contributing to the Government's deregulation agenda through the META/ECA Deregulation Hub. The Hub's research delves into the regulatory and time costs manufacturers' encounter during the export process. The findings from this research, which will include case studies, will form an Agenda for Action, which the ECA will present to government.

Table 1: Regulation and Trade Facilitation International rankings

	Regulatory Burden		Trading Across Borders	
	2012	2014	2012	2014
Singapore	1 st	2 nd	1 st	1 st
UK	83 rd	37 th	13 th	16 th
Canada	48 th	39 th	42 nd	45 th
Germany	88 th	55 th	12 th	14 th
USA	58 th	82 nd	20 th	22 nd
Australia	75 th	124 th	30 th	46 th

Source: The World Bank, World Economic Forum

¹ The Trading Across Borders Index is a part of the World Bank's 'Doing Business' project and measures the time and cost (excluding tariffs) associated with exporting and importing by ocean transport, and the number of documents necessary to complete the transaction.

The 2014 OECD Trade Facilitation report suggests that Australia specifically could benefit from continued improvements in the following areas²:

Information availability:

- Introduce a full time hotline (24/7) for addressing reasonable enquiries to Customs.
- Publish decisions and examples of Customs classification on the Customs website.
- Publish examples of judicial decisions on the Customs website.

Advance rulings:

- Increase the length of time for which the advance ruling is valid, as it remains lower than the OECD average.

Fees and charges:

- Decrease the number and diversity of total fees and charges collected.

Formalities – Procedures:

- Improve the treatment of perishable goods with respect to the separation of release from final determination and payment of Customs duties.
- Further develop the Post-Clearance Audit program.
- Further develop the Authorised Operators program, as the number of authorised operators to the total number of traders remains low compared to the OECD average.
- Continue overall simplification of procedures in terms of both time and costs.

The ECA notes with disappointment, the recent setback in the failure of parties to adopt the TFA but believes that Australia should continue to push for the agreement to advance through the multilateral system. However, noting the clear challenges of concluding a WTO agreement, a trade facilitation agreement can still be advanced through other channels. This could be through the creation of a plurilateral agreement, similar to the Trade in Services Agreement, where a subset of the WTO Members interested in progressing the TFA can do so in a way that would support and feed back into multilateral trade negotiations. Alternatively, if there is not the support needed for the creation of a plurilateral agreement, an agreement could be advanced on a regional or bilateral basis. Regardless, there are many of the recommended outcomes set out in the TFA that can be advanced through other engagement opportunities. For example:

- a) engaging in further negotiations through APEC, the WCO and similar organisations
- b) nearly all of Australia's FTAs include chapters on customs procedures and trade facilitation that are aimed at enhancing trade facilitation and reducing burdens at the border.

The ECA endorses the adoption of a TTP by the Australian Customs and Border Protection Service (Customs), and other de-regulation initiatives by Customs and by other border agencies. The government's commitment to implement the TTP was again reiterated in its Industry Innovation and Competitiveness Agenda (Agenda) released in October 2014. The implementation

² OECD, OECD Trade Facilitation Indicators – Australia, 2014, <http://www.oecd.org/tad/facilitation/australia-oecd-trade-facilitation-indicators-april-2014.pdf>

of an Authorised Economic Operator model that shifts the impetus in Customs from a control-based approach to a trust-based approach will ultimately help Australian business to compete in the increasing globalised environment—a point well-articulated in a recent report written by Nicholas Humphries, a Fellow at the Lowy Institute. Accordingly, the ECA recommends that the Government provide the funding and assistance required to ensure that these programmes are fully developed and implemented in a complementary manner as soon as practicable, and the ECA, as a member of the Industry Advisory Group, stands willing to assist where possible. The ECA does stress however, that these programmes should not result in additional regulatory burden, should be scalable, and that the benefits of accessing the programmes should outweigh (or at least be equal to) the costs.

When new legislation, procedures or regulation (including Practice Statements and Customs Notices) relating to trade and the movement of goods at the border is implemented, the ECA believes there should be full engagement with all affected parties. Presently, it is not consistent and not guaranteed. For example, last year Customs significantly increased processing charges for Import Declarations and related reports, which was justified as a budgetary/cost recovery issue. However, despite industry regularly seeking transparency over the increased fees and how they are reconciled against the actual costs for which the fees are charged, no clear details have been provided.

The ECA strongly supports the integration of Customs and Immigration into the new Department of Immigration and Border Protection, which will include the Australian Border Force (to be launched on 1 July 2015), and believes the next step could be to undertake a study into the feasibility of incorporating the border control aspects of the Department of Agriculture into the Department of Immigration and Border Protection so that those border control aspects of the Department of Agriculture become part of the Australian Border Force. The ECA believes that government should have a long-term goal to create one single agency at the border—or a one-stop-shop—to administer the border clearance issues of all agencies. The current model with many agencies creates confusion, cost and complexity and does not assist compliance. The new agency could be responsible for compliance with all requirements for import and export of goods at the border and their use in the domestic economy. In 2010, the United States launched a system of this nature, designed to streamline the export control system by creating a single licensing agency, a single list of controlled items, a single information technology platform and a single export enforcement coordination agency. The ECA believes there is value in undertaking further investigation into the merits of adopting a similar system in Australia.

The ECA appreciates that, as outlined in the Agenda, the Government is committed to examine the coastal shipping regime and would hope that a commitment to reform the regime would subsequently ensue. Reforms to the coastal shipping regime would be aimed at dismantling the provisions that largely close the coastal shipping market to overseas vessels, the effect of which has been reduced available capacity and increased costs to many, including exporters. The ECA calls for any reform of shipping regulation to include review of ownership and access to stevedoring facilities and empty container parks, relief of congestion at those facilities and the regime of fees charged for container detention.

The ECA recommends that Government:

- Adopt measures to support trade facilitation advancements and the TTP, including the allocation of the appropriate resources necessary to develop and implement TTP within the specified timeframe. This should include an educational outreach campaign to all parties in the supply chain.
- See a multilateral TFA as the ultimate objective to which to strive, while simultaneously exploring other avenues through which to advance the aims of the TFA with other trading partners.
- Ensure that changes to regulation that affect trade, investment and the movement of goods at the border be transparent and clearly communicated, as well as being subject to preliminary financial and regulatory impact assessments.
- Consider incorporating the border control aspects of the Department of Agriculture into the Department of Immigration and Border Protection so that those border control aspects of the Department of Agriculture become part of the Australian Border Force.
- Reform coastal shipping regulation, with the review of ownership and access to stevedoring facilities and empty container parks, relief of congestion at those facilities, and the regime of fees charged for container detention being subject to reform as a matter of priority.

Building infrastructure and supply chain efficiencies

The ECA fully supports the views outlined by the B20 Trade Taskforce in its report to the G20 with regards to the importance of structural flexibility. The ECA is of the view that the Australian Government should develop a supply chain strategy and address associated supply chain barriers through regulatory reform and infrastructure investment.

Improving Australia's economic and physical infrastructure is also crucial to securing long-term economic growth. The recent Allen Report commissioned by the ALC, established that a 1 per cent increase in logistics efficiency would boost GDP by \$2 billion. The ECA endorses the areas where the ALC has called for action based on the Allen Report as set out in its [media release](#) of 19 August 2014. These include:

- Supporting the passing of the asset recycling bill to stimulate investment in productive infrastructure.
- Progressing reforms to how infrastructure is priced and funded.
- Ensuring the right infrastructure projects are selected for funding.
- Ensuring a long-term approach to freight planning.
- Continuing efforts to have more freight transported by rail.

Underlying this call for action is the necessity for Australia's infrastructure must be globally competitive and able to meet demand. Table 2 below shows Australia's rankings in the World Bank's *Logistics Performance Index* and the World Economic Forum's *Enabling Trade* and *Quality of Overall Infrastructure* Indices, against some of our international competitors. The results indicate that, while there have been marginal improvements in some areas, there remains plenty of room to improve Australia's infrastructure and logistics performance.

Table 2: Infrastructure and Logistics International Rankings

	WB Logistics Performance Index		WEF Enabling Trade Index		WEF Quality of Overall Infrastructure	
	2012	2014	2012	2014	2012	2014
Singapore	1 st	5 th	1 st	1 st	2 nd	3 rd
UK	10 th	4 th	11 th	6 th	28 th	27 th
Canada	14 th	12 th	9 th	14 th	15 th	19 th
Germany	4 th	1 st	13 th	10 th	10 th	11 th
USA	9 th	9 th	23 rd	15 th	24 th	16 th
Australia	18 th	16 th	17 th	23 rd	37 th	35 th

Source: The World Bank, World Economic Forum

Creating an independently assessed national infrastructure pipeline and setting measurable investment targets, as recommended by the B20, would help encourage private investment by providing confidence to potential investors. The B20 estimates that this approach, if adopted by all G20 nations, could deliver additional infrastructure capacity worth \$3 trillion by 2030 and roughly \$800 billion in increased economic activity worldwide.

Also of significant importance is improving access to domestic infrastructure, allowing parties to undertake increased trade and investment with confidence. The Government should ensure that any proposed investment in infrastructure is subject to a preliminary cost-benefit analysis that specifically takes into account the costs and benefits as they relate to trade and investment. This approach relates both to when the Government is considering any additional infrastructure spending, and the promotion of programs in conjunction with the private sector to assist infrastructure development. This could be based generally on the approach proposed in the Productivity Commission Inquiry Report into Public Infrastructure (No.71, 27 May 2014).

The ECA believes investment in smarter technology solutions, including data analytics, optimisation, and software systems, would lead to significant improvements in how Australian infrastructure and complex supply chain systems are designed, built and operated. Advanced ICT solutions that allow for more informed decision-making with regards to future infrastructure planning should be developed and deployed as a matter of priority.

The ECA recommends that Government:

- Develop a supply chain strategy and pipeline plan for investment with measurable private investment targets as recommended by the B20.
- Commit to actioning, or undertaking further analysis into, the five key recommendations outlined in the Allen Report commissioned by the ALC in August 2014, as outlined on page 11 of this document.

- Gain greater input from those within domestic and international supply chains by encouraging a closer working relationship between the agencies responsible for economic and physical infrastructure and those responsible for international trade.
- Create new versions of infrastructure bonds or other investment vehicles, such as taxation incentives, to promote increased investment in and construction of critical infrastructure.
- Develop a dynamic near real-time model of domestic and international freight flows.
- Identify, prioritise and allocate investment to address supply chain bottlenecks.
- Consider the development a national PCS in line with European, Asian and other trading partners to increase transparency of supply chain data, reduce red tape, automate transactional information flows and improve efficiency of the import and export supply chains.

Enhancing Investment

Australian industry is reliant on a small number of investment sources. In order to continue growing and meeting demand in export markets, Australian industry will continue to need significant injections of capital. Much of this capital investment will continue to come from overseas investors; a point the Hon Andrew Robb MP, Minister for Trade and Investment, stressed in his inaugural annual Ministerial Statement on Investment on 23 September 2014.

Unfortunately, an aversion to foreign investment still lingers within Australian society. The ECA applauds the Government's efforts thus far to promote the benefits of foreign investment but believes more can be done. For example, the government should develop methods that better communicate the benefits of inbound investment to individual Australians, businesses and the economy more broadly. This should include more attention on the real impact of investment by State Owned Enterprises (SOE) and potentially liberalising investment rules for SOEs as discussed in a recent report entitled *Demystifying SOE Investment in Australia* prepared for the Business Council of Australia by KMPG and the University of Sydney China Studies Centre. The ECA also calls for the Government to undertake a holistic review of impediments to foreign investment as referred to in the Productivity Commission Trade and Assistance Review 2012-13 (Review).

The ECA supports the government's proposed appointment of five Senior Investment Specialists to Austrade from the private sector, as outlined in the Agenda. The Agenda also calls for Austrade to become a nominating entity for the Significant Investor Visa (complementing the current State and Territory governments' role as nominators) and to be the sole nominating entity for the Premium Investor Visa. The ECA agrees with those proposals on the condition that the necessary additional funding is separately allocated for this purpose and not diverted from other Austrade programs. These developments coupled with a commitment to ensure Australia's tax and regulatory environment is 'investment friendly', will help position Australia as an ideal destination for foreign investment. This is crucial given the Government's plan to develop Northern Australia for large-scale agricultural production and other economic development as outlined in the 'Pivot North' report by the Joint Select Committee on Northern Australia.

The ECA recommends that Government:

- Continue to develop new ways to promote the necessity and benefits of inbound foreign investment to the Australian community.

- Conduct a holistic review of the impediments to foreign investment to ensure Australia's regulatory landscape is as attractive to investors as that of our key competitors.

Supporting Innovation

There are many factors that affect Australia's international competitiveness. One such factor is our ability to not only innovate but also turn that innovation into cutting-edge products or services that are in demand internationally. Australia is seen internationally as an innovation leader; our innovation input (such as research and human capital) is ranked 10th in the 2014 Global Innovation Index, while we rank 22nd in innovation output. Australia's Innovation efficiency ratio ranking, however, sits at 81st—essentially meaning we are not fulfilling our innovation potential.

The Australian Government offers a commercialisation support program that provides business with advice, connections, support and grant funding to aid the commercialisation process. Australia's flagship commercialisation support program has recently been restructured; the new program, Accelerating Commercialisation sits within the EIP announced as part of the 2014/15 Budget, and replaces Commercialisation Australia. Under Accelerating Commercialisation, the maximum grant amount is \$250,000 for Commercialisation Offices and Eligible Partner Entities, and \$1 million for all other applicants. The ECA believes that this amount is too low and that the limit should remain as it was under Commercialising Australia, at \$2 million. The ECA would also like to see more clarity and certainty around the budget allocation for the EIP programs.

The ECA believes consideration should be given to measures to encourage the exploitation of intellectual property in all its forms by those holding Australian rights in a manner generally consistent to the AIM Proposal (referred to in TPR 2013 and as further detailed in the [AIM Incentive](#)). The ECA holds qualified support for the AIM Incentive and supports the implementation of a suitable program with new and sustained funding allocations. Policies to encourage higher levels of investment in innovation and aimed at ensuring domestic companies achieve the benchmark figure of 15 per cent of revenue spent on innovation, as set out in the recent 2014 *Global Manufacturing Outlook* published by KPMG, should also be encouraged.

The Federal Government's R&D Tax Incentive is Australia's flagship innovation program and has had an enviable record in supporting private sector R&D for the past 30 years. The R&D Tax Incentive replaced the R&D Tax Concession in 2011 and was the result of a protracted review process associated with the Cutler Report into the Australian innovation system. The ECA believes the program should be continued in its current form with a combination of refundable tax offsets for SMEs and enhanced tax deductions for eligible entities, and that the current incentives should be maintained or enhanced given this programs ongoing success.

The ECA recommends that Government:

- Increase the maximum matched funding limit under Accelerating Commercialisation to \$2 million, consistent with the amount specified under the previous program, Commercialisation Australia.
- Provide clarity and certainty for the budget allocation for the EIP programs.
- Introduce a scheme as outlined in the AIM Incentive which incentivises development of Intellectual Property in all its forms.
- Continue the R&D Tax Incentive in its current form with incentive levels maintained or enhanced.

Enhancing Trade Development

As was stated in TPR 2013, the ECA strongly believes the best outcomes for trade and investment will come through the practical application of a whole-of-Government approach to enhancing trade development. Greater collaboration between DFAT and Austrade, as well as the state trade promotion agencies on issues such as trade promotion and economic diplomacy are vital.

The ECA believes that continued and increased investment in terms of expenditure and resources is the only way to leverage and improve existing trade and investment, and is necessary to keep pace with international competitors. This would include an increase in the existing levels of material and administrative support to Austrade, Efic and the EMDG Program, as well as an increase in the level of investment in the TradeStart Program. In this area, the ECA feels that the recommendations contained in the Report (Report) of the National Commission of Audit should be rejected insofar as they recommend the closure of trade and investment agencies, such as Austrade and Efic, and the closure of the EMDG Program. The ECA welcomes the recent changes to Efic's lending ability, which will now allow it to better support SME exporters.

The findings of a benchmarking study conducted by the ECA, which analyses trade promotion programs and strategies across 11 different countries, including Australia, is scheduled to be released in late November 2014. The report entitled *Advancing Trade Development: A Study into International Trade Promotion*, contains detailed recommendations on how Australia can improve its trade promotion activities. The report will demonstrate why there is a need for greater government investment into trade support in Australia. The ECA believes Austrade should have export focused staff in both established and emerging markets, provide more sector specific support to companies, partner more with the private sector in the delivery of some services and ensure that program performance is regularly measured with the results made publically available.

A full review of the EMDG scheme is taking place in 2015, which the ECA supports and is eager to participate in. The ECA has already provided specific recommendations to Minister Robb as to the EMDG Scheme and without limiting the generality of those recommendations, the ECA believes that the EMDG Scheme could benefit from the following:

- a) adoption of a formal system of accreditation for EMDG consultants.
- b) the review of the EMDG Scheme to capture and quantify benefits from innovation and related flow on into other areas, rather than merely focus on actual exports.
- c) that the cost of training and understanding of FTAs should be an eligible expense.
that any increase in investment in EMDG should not be at the expense of the TradeStart Program.

The ECA recommends that Government:

- Increase the level of engagement and expenditure in the trade and investment agenda to fully secure the benefits of recent initiatives and achievements.
- Maintain or increase funding for the EMDG scheme and ensure that during the 2015 review, the wider economic benefits of the program are taken into account. The Government should also introduce a formal accreditation system for EMDG consultants and include training focused on understanding FTAs as an eligible expense.

- Conduct regular performance reviews of Austrade's key trade promotion programs, making the results publicly available on an annual basis, and assess its resource allocation domestically and internationally.
- Increase Austrade's international representation, especially in established markets where there remains demand for trade support services (for example, the United States and the United Kingdom), as identified in the 2013/2014 Australia's International Business Survey.
- Provide additional funding for Austrade to compensate the growth of its portfolio, which now includes Education, Tourism and Investment in addition to Trade Promotion. This funding should be used for the development of new Austrade programs and services that include greater partnership and collaboration with the private sector.
- Prioritise building export capability in SME businesses. This could be achieved in part through the Industry Skills Development Fund, which would recognise the need to provide funding support to organisations to develop tailored export capability programs.

Leveraging Free Trade Agreements

FTAs and their utilisation is currently a topic of popular debate. Recent [research](#) conducted by the Economist Intelligence Unit for HSBC Bank shows that less than 20 per cent of Australian companies on average are currently taking advantage of each of the FTAs that Australia has signed—this compares to an average of 26 per cent among Asian exporters using their respective markets' FTAs. However, of the Australian companies who do use an FTA, 75 per cent have experienced export growth with the main competitive advantages being access to new markets (nominated by 40 per cent), access to a wider client base (39 per cent) and the creation of new business opportunities (37 per cent)³.

These statistics reinforce the ECA's long held belief in the benefits of FTAs but starkly highlights the need for better outreach and education around how to access these benefits, as well as clarity on the responsibility for their implementation. The B20 Policy Recommendations to G20, released in August 2014, echo these sentiments, stressing that preferential trade agreements are not always fully utilised due to unnecessary internal complexity and external inconsistency.

In order to address these issues, the ECA feels that the government should provide information on FTA outcomes based on industry sectors, as opposed to general outcomes, so that companies can more easily access relevant information. Moreover, the ECA strongly supports the creation of an online tool that contains practical, user-friendly information to assist companies, especially SMEs, understand and utilise FTAs. The ECA is currently in the process of investigating options to address this issue in collaboration with DFAT. Bringing together Commonwealth and State Government agencies, chambers of commerce, peak industry bodies, export service providers, and exporters to discuss the opportunities presented under an FTA after its conclusion would also be a worthwhile pursuit.

The ECA continues to endorse the view that multilateral advances in trade through the auspices of the WTO are preferable, while recognising the difficulties in securing such advances. The ECA fully endorses and supports the steps taken by the Government to complete FTAs on a bilateral and

³ FTAs in South-East Asia: The Next Generation, The Economist Intelligence Unit, 2014, <http://www.slideshare.net/Management-Thinking/ftas-in-southeast-asia-towards-the-next-generation>

regional basis and to ensure that demonstrable benefits accrue from those FTAs. The ECA also appreciates that not all FTAs are perfect but they represent useful advantages now and for the future.

While still supporting the current negotiations including the TPP and the RCEP, the ECA believes that the Government should then turn its focus to countries and areas where there could be more rapid and more practical benefits to parties rather than engaging in lengthy negotiations with new parties where there is little prospect of immediate benefit. Such an approach would require focus on economies where there is an existing high level of trade, the potential for significant increases in trade in the near future and where Australia experiences a competitive advantage in trade opportunities.

By applying these principles, and assuming that an FTA with China is secured shortly, the ECA believes that the next immediate focus should be on securing FTAs with Indonesia, Hong Kong, India, the GCC and the EU. However, in the case of India and the GCC, Australia should not embark on FTA negotiations until it has secured firm commitments from those nations on the expected outcomes from the negotiations in order to ensure that any agreement reached will deliver real benefits.

At the same time, the ECA recommends that Australia should focus on advancing existing FTA arrangements and benefits with developing nations in the ASEAN region with whom Australia already has an FTA (such as Vietnam and Myanmar).

The ECA believes that improvements in the markets for financial services should receive special attention for engagement under FTAs. The ECA refers to the interim report of the Murray Inquiry, which found that, "co-ordination of Australia's international financial integration could be improved". The ECA also endorses the recommendations of the Financial Services Council in its second submission to the Murray Inquiry, which states that:

- a) There should be whole-of-government implementation of market access commitments contained in financial services Chapters of FTAs.
- b) DFAT and ASIC should develop an implementation policy for the financial services Chapters of FTAs and Mutual Recognition Agreements.

The ECA recommends that Government:

- Maintain Australia's strong participation in the high-level multilateral trade agenda, with a particular emphasis on advancing discussions regarding the implementation of the TFA.
- During the course of negotiation of an FTA or other international agreement, have DFAT engage in more specific consultations, either based on industry sectors or chapters of those agreements. These consultations should be initiated by DFAT with the objective of advancing the level of communication and trust between industry and government.
- Liberalise the ROO requirements as much as possible in FTAs and other trade agreements and adopt a consistent approach to technical issues to help reduce the level of complexity and regulation, while also avoiding specific provisions of particular countries.
- Place greater emphasis and investment in raising the overall awareness of the impact of recent FTAs for particular industries and provide practical, user friendly information to assist individual businesses, especially SMEs, utilise FTAs. This could be achieved through the

creation of an online educational FTA tool, which includes information on where companies can go to access professional advice.

- Ensure that trade outcomes become a greater priority for DFAT and that engagement and cooperation between DFAT and Austrade be improved—particularly in the outreach on FTAs—thereby ensuring a stronger trade voice in economic policy setting.
- Have ASIC and DFAT develop an implementation policy for Financial Services Chapters of FTAs to help ensure that market access commitments are enacted and FTAs are fully implemented.
- In addition to implementing the trade agreements Australia recently secured with Korea and Japan, and concluding negotiations with China and the TPP, the next focus should be on securing FTAs with Indonesia, Hong Kong, India, the GCC and the EU. However, in the case of India and the GCC, Australia should not embark on FTA negotiations until it has secured firm commitments from those nations on the expected outcomes from the negotiations in order to ensure that any agreement reached will deliver real benefits.

Appendices

Appendix 1

TP Recommendation 2013	Government Action
<p>Implementing a whole-of-government approach to develop and prioritise policies that will result in a reduction of red and green tape, eliminate unnecessary duplication and lower the facilitation costs associated with trade.</p>	<p>The Government has a stated commitment to reduce the regulatory burden by \$1 billion per year. In order to achieve that, Josh Frydenberg was appointed as Parliamentary Secretary to the Prime Minister with responsibility for the Abbott Government's deregulation agenda.</p>
<p><i>Adopting the Authorised Economic Operator ("AEO") program</i></p>	<p>Customs is implementing an exports-focused Trusted Trader Programme by July 2015, with an imports focused programme to follow shortly after.</p>
<p>Investigating the appropriateness of establishing a body with representatives from all border protection, trade and key regulatory agencies (incl. DAFF) to oversee trade competitiveness issues (a model not dissimilar to the one introduced by the USA).</p>	<p>While the ECA understands that no official investigation into this matter has occurred, it is pleased that greater communication and collaboration appears to be taking place.</p>
<p>Consideration be given to a program that addresses the potential for market failure in manufacturing via an incentive that encourages capitalisation of IP through greater commercialisation.</p>	<p>The ECA understands that this scheme is on the Government's radar and the merits of such an initiative are currently being discussed.</p>
<p>A greater commitment by ministerial and diplomatic representatives to provide physical support by leading trade missions and supporting Australian companies involved in tendering for major, often Government funded projects.</p>	<p>The ECA understands that a commitment has been made by government to provide stronger support for leading trade missions (for example, China-Australia Business Week and the 2015 Australia Business Week in India).</p>

TP Recommendation 2013	Government Action
<p>Ensuring Australia’s trade agencies (Austrade & Efic) are internationally competitive in terms of services and funding, that SME export entry and development programs (TradeStart and EMDG) are integrated and both fully funded (see attachment III) and that any unnecessary and wasteful duplication is removed.</p>	<p>The EMDG Amendment Bill was lodged in 2013 and was passed in 2014. The passing of the Bill means that the funding available under the scheme will increase by \$50 million over four years. This is after the total amount available under the scheme increased by \$50 million to \$200 million a year in 2008, was brought back to just over \$150 million a year 2010 and was further reduced in 2012 to \$125.4 million a year. A review of the EMDG scheme is scheduled for 2015 and the ECA has provided some assistance to government in the lead up to the review.</p>
<p>Retaining international marketing of education in Austrade where the in-market resources are critical to the efficient marketing of this important export sector.</p>	<p>The international marketing of education has remained within Austrade.</p>
<p>Gaining industry input into the policies and promotion of export and investment via the establishment of an industry lead Trade and Investment Advisory Council to government.</p>	<p>The Minister for Trade and investment created a Trade and Investment Policy Advisory Council in May 2014.</p>
<p>Undertaking more in-depth research to identify and monitor export trends, with the aim to improve the trade support programs currently provided.</p>	<p>The ECA, Austrade, Efic and The University of Sydney developed the <i>Australia’s International Business Survey</i> - a longitudinal research study into the behaviours and patterns of Australian exporters. The results from the first survey have been released and the second survey was launched in October 2014.</p>
<p>Ensuring Efic has the resources and the capital to achieve its mandate, which should be flexible enough to address the evolving needs of exporters and the challenges presented by competition from overseas Export Credit Agencies</p>	<p>In October 2014 the government amended Efic’s lending ability to allow it to better support SME exporters. In TPR 2013, the ECA called for Efic’s capital resources to accurately reflect the demand for export finance and the agency’s level of risk exposure. The Recommendations also called for Efic’s mandate to be amended to ensure the needs to the SME export community are adequately met.</p>

TP Recommendation 2013	Government Action
<p>The establishment of a Trade & Investment Committee of Cabinet, which will ensure that Government policies will take account of the international context in which virtually all sectors of the Australian economy now operate.</p>	<p>On the 30 May 2014 the Minister for Trade and Investment, Andrew Robb announced the membership of a high-calibre Trade and Investment Policy Advisory Council (TIPAC).</p> <p>Mr Robb has established the 20-member TIPAC as an important source of advice on the challenges and opportunities involved in advancing the Abbott Government’s ambitious trade and investment agenda.</p>
<p>That trade outcomes become a greater priority of the Department of Foreign Affairs and Trade (DFAT) and that engagement and cooperation between DFAT and Austrade be improved, thereby ensuring a stronger trade voice in economic policy setting.</p>	<p>The ECA believes that the level of cooperation between DFAT and Austrade has improved. One area where the two departments are currently cooperating is in the implementation and outreach of FTAs.</p>
<p>Maintaining Australia’s strong participation in the high-level multilateral trade agenda.</p>	<p>Australia was actively involved in the WTO Trade Facilitation Agreement negotiations and remains committed to advancing multilateral trade under the auspices of the WTO.</p>
<p>Strengthening existing relationships with bi-lateral trade partners in the face of increasingly strong international competition.</p>	<p>Australia’s political leaders, including the Minister for Trade and Investment, Andrew Robb, have spent a significant amount of time traveling to meet with the leaders of our trade partners. These visits have helped to strengthen relationships with new and old trading partners.</p>
<p>Expediting the bi-lateral agreements with Korea, Japan and China in order to regain Australia’s competitive position in these markets, particularly in the agribusiness sector.</p>	<p>The government has concluded trade liberalising agreements with both Japan and Korea in 2014 and is progressing talks with China.</p>

TP Recommendation 2013	Government Action
<p>Maintaining vigorous participation in the current free trade agenda with special emphasis on the Trans-Pacific Partnership Agreement, the Pacific Agreement on Closer Economic Relations, and the Indonesian and Indian Comprehensive Economic Agreements.</p>	<p>The Government has shown a continued commitment to advancing other trade agreements such as TPP.</p>
<p>Preserving the option of including Investor State Dispute Settlement provisions in trade agreements.</p>	<p>ISDS provisions were included in the Korea-Australia FTA.</p>

Contributor Profiles



Andrew Hudson – Partner, Gadens and Director and Trade Policy Committee Chair, Export Council of Australia

Andrew is a Partner in the Corporate Advisory & Tax team at Gadens in Melbourne, specialising in International Trade & Customs. Andrew is a regular presenter at industry forums on legal and trade developments and media commentator on such legal and trade developments.

Andrew practices in the area of commercial law with a focus on customs and international trade. He has provided legal services to all parties involved with industry, including importers, exporters, customs brokers, freight forwarders, shipper and trade financiers. This has involved advice and actions seeking judicial and administrative review of the actions of various government departments including the Australian Customs and Border Protection Service (Customs), the Department of Agriculture, the Department of Export Controls and the Australian Taxation Office (ATO).

He has provided advice covering all aspects of trade ranging from international trade conventions, arbitrations to resolve disputes, trade financing options, commodity and freight contracts to dealing with inquiries and prosecutions by Customs and other Government agencies in such matters as dumping and alleged underpayments of customs duty, alleged breaches of licence conditions by service providers such as licensed customs brokers together with all related litigation.



Stephen Deady PSM –Trade Policy Committee Member, Export Council of Australia

Mr Stephen Deady was previously a Director of the ECA and is highly experienced in the field of international trade and government policy development. Stephen worked for the Australian Government for over thirty years in a range of trade policy positions. He retired from the Department of Foreign Affairs and Trade (DFAT) in October 2008. In the mid 1990's Stephen headed the Trade Branch of the Australian Embassy in Washington and between 2001 and 2004 he led the negotiating teams on both the Australia/United States Free Trade Agreement and the Singapore/Australia Free Trade Agreement. Earlier in his career Stephen was involved in the Uruguay Round agriculture negotiations.

Following his retirement from DFAT Stephen was Director, Industry Economics and Taxation with the Minerals Council of Australia (MCA). He was responsible for trade and investment policy issues at the MCA. He retired from the MCA in March 2010.

Stephen was awarded a Public Service Medal in the Australia Day 2006 Honours List for his outstanding work in developing and promoting Australia's trade policy, and particularly as Chief Negotiator for Australia on the Australia/United States Free Trade Agreement.



Peter O'Byrne – Independent Director

Mr Peter O'Byrne is an independent Director involved with governance and advisory boards for Macquarie University, Australian India Business Chamber and International Governance and Performance Research Centre. He has held board and senior positions at Austrade, Australian Hearing Services, the Export Finance and Insurance Corporation, and the Cooperative Research Centre for Cochlear Implants and Hearing Aids. Peter O'Byrne's public policy experience includes Australia's Trade Policy Advisory Committee, Asian Trade Promotion Forum, Australian International Cultural Council, Council for Australian-Arab Relations and Council on Australia Latin American Relations.



Rod Campbell – Director, Export Council of Australia

Rod Campbell is the principal of Rod Campbell & Associates, an established boutique consulting practice specialising in Government grant funding to industry. He spent his early years in Canberra working on international trade policy with the Department of Trade and more poignantly, several years as policy advisor on the Export Market Development Grants legislation. After leaving Government, he headed up a Government Grant division within Duesburys Chartered Accountants for 10 years before establishing his own practice based in Sydney and a branch office in Melbourne. Government assistance programs typically allow businesses across a huge range of commerce to access funding. There is hardly a sector of business that Rod has not dealt with over his career with a client portfolio that touches every corner of the country and includes many businesses that have grown from modest beginnings to global success. Rod had been a Director and active member of many industry committees and an author and contributor to many submissions to Government on trade and industry policy. He has been an industry delegate on the EMDG Code of Practice Committee since its foundation. Rod's is qualified as an Accountant and Chartered Secretary and has presented at numerous conferences and seminars around Australia over the years on the topic of Government grant funding.



Paul Cooper – Director, Export Council of Australia

Paul is Chairman of the Finance Committee. Paul is an owner and the Director of an industrial electronics manufacturing company called Rinstrum. Rinstrum is based in Brisbane and has subsidiaries in the United States, Germany and Sri Lanka. Rinstrum exports to most parts of the world, either through its subsidiary operations or via its distributors in key markets. Rinstrum manufactures components for industrial weighing applications, such as weighbridges, concrete batching equipment and for the packaging industries. Paul is a qualified accountant and worked in private practice for more than 20 years. Paul serves on a number of boards including West Moreton-Oxley Medicare Local Ltd, Children's Health Queensland and is chairman of its Audit and Risk Committee.



Ian Murray AM – Trade and Advocacy Counsel and Trade Policy Committee Member, Export Council of Australia

Mr Ian Murray was previously the Executive Chairman and a Director of the ECA and is currently Trade & Advocacy Counsel with a specific emphasis on government relations. Ian has held senior general management positions with private sector companies including Johnson & Johnson, and has lived and worked in Indonesia, Malaysia, Singapore and Pakistan. During 25 years of service with Johnson & Johnson, Ian was Marketing Director of J & J Indonesia and Group Marketing Manager of Johnson & Johnson Pacific.

In 2007 Ian was appointed to the Australian Governments Trade Advisory Council. He is Deputy Chairman & Treasurer of the Australian Logistics Council, Treasurer of the European Australian Business Council, Director of the International Trade Development Fund and a member of the University of Sydney Master of International Business Advisory Board.

In 2008 Ian was appointed a Member of the Order of Australia for his services to International Trade.



Lisa McAuley – Chief Operating Officer, Export Council of Australia

Lisa has worked in marketing, business development, events and sponsorships for over 10 years. Prior to joining the ECA she was employed as the Events and Marketing Manager for a Sydney based company. As a graduate in Economics (Social Sciences) from the University of Sydney, she has since returned to her roots at the ECA, managing the business development opportunities, industry and national advisory groups, international trade research projects, as well as the National events program and NSW Export awards. Lisa is currently undertaking her Masters in Commerce, majoring in International Business at the UNSW.



Stacey Mills-Smith – Trade Policy and Business Development Manager, Export Council of Australia

Stacey holds a Bachelor of Economics and a Bachelor of Arts, with majors in International Trade and Finance, International Relations and Spanish from the University of Queensland. Stacey has worked in private, public and not-for-profit organisations and has broad ranging skills and experience in the areas of economics, trade policy, research & analysis, and business development. She has held positions with PricewaterhouseCoopers, where she worked in their Economics and Policy team, and with Trade and Investment Queensland. During her time at Trade and Investment Queensland Stacey spent five months working in Queensland's trade office in Santiago, Chile in 2012. Stacey joined the Export Council of Australia in February 2013.

About the Export Council of Australia

The Export Council of Australia (ECA) is the peak industry body for the Australian export community. The next exciting step in the evolution of the Australian Institute of Export (AIEEx), the ECA represents the interests of Australian exporters at all levels. Whether it is advancing the export cause in the halls of Government, or providing education and events of the highest calibre, the ECA is the voice for Australia's exporters.

The Export Council has been established to:

- Lead Trade Policy Research
- Develop International Trade Skills
- Break down Barriers to Trade
- Build Global networks
- Amplify Global Trade success
- Advocate for Australian exporters

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