



Trade Policy Recommendations 2013/14

**International
competitiveness
begins at home**

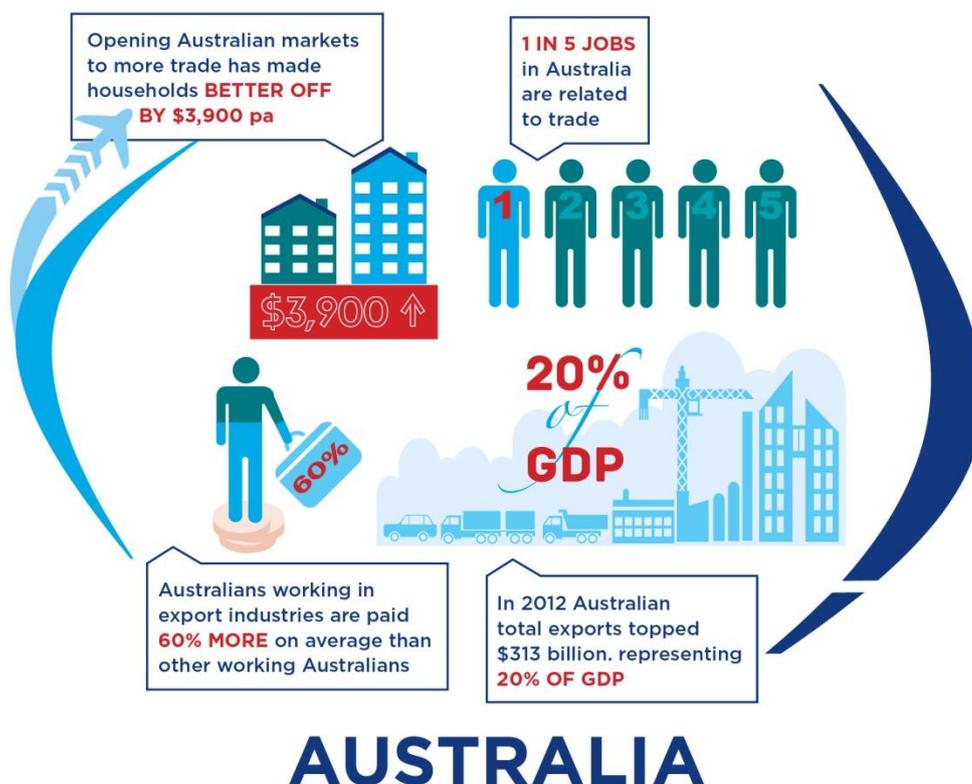


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Trade in goods and services is a key driver of job creation, innovation and long term prosperity.

Why trade matters to



Purpose

The purpose of this statement is to demonstrate that **trade is a key driver of jobs, innovation and long term prosperity for Australia** and, therefore, **trade considerations need to be central in determining Australia's domestic economic policy settings**. This document demonstrates the need for the Government to review its Trade Policy direction in order to reduce the potential for market failure. The following five key issues form the core of this paper:

- **Competitiveness:** Highest on the agenda is the need for Australia to successfully compete in a rapidly evolving global market place – *Being competitive is a must, not an option*
- **Infrastructure:** The need to address Australia's ageing commercial soft and hard infrastructure – *It's time for an innovative approach*
- **Trade Promotion:** The need for significantly greater investment in cohesive trade promotion and research with a nationally driven agenda – *The more we put in, the more we get out*
- **Bipartisan Collaboration:** Ensuring greater bipartisan collaboration between political parties and Government Agencies (especially DFAT, Austrade and EFIC), and between Government and Industry, focusing on long term sustainable strategies - *Team Australia is the only way!*
- **International Engagement:** Maintaining Australia's strong high level multi-lateral participation, strengthening existing bi-lateral trade agreements, expediting new bi-lateral arrangements and importantly instilling a deeper trade culture in DFAT – *If New Zealand can do it why can't we?*

Fundamental to this strategy is the imperative that Trade considerations be central in determining Australia's domestic economic policy settings.

Summary of Recommendations

Below is a summary of the Export Council of Australia's key Trade Policy recommendations for 2013/14:

1. Regulatory reform should be implemented to improve trade facilitation and increase Australia's competitive position. The ECA recommends:

- *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.*
- *Adopting the Authorised Economic Operator ("AEO") program (see attachment I).*
- *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).*
- *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. (see attachment II)*

2. Develop world class economic and physical infrastructure in order to improve Australia's international competitiveness. The ECA recommends:

- *Gaining greater input from the trade sector by encouraging a closer working relationship between the agencies responsible for economic and physical infrastructure and those responsible for international trade.*
- *Creating new versions of infrastructure bonds or other investment vehicles, such as taxation incentives, to promote increased investment in and construction of critical infrastructure.*

3. Australia should prioritise investment in cohesive trade promotion which is nationally driven. The ECA recommends:

- *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.*
- *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.*
- *Retaining international marketing of education in Austrade where the in-market resources are critical to the efficient marketing of this important export sector.*
- *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.*
- *Undertaking more in-depth research to identify and monitor export trends, with the aim to improve the trade support programs currently provided.*
- *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*

4. Trade in goods and services should be treated as a whole-of-government issue.**The ECA recommends:**

- *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.*
- *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.*

5. Australia should continue supporting WTO initiatives and pursuing a strategic approach to regional and bilateral trade negotiations. The ECA recommends:

- *Maintaining Australia's strong participation in the high level multi-lateral trade agenda.*
- *Strengthening existing relationships with bi-lateral trade partners in the face of increasingly strong international competition.*
- *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.*
- *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.*
- *Preserving the option of including Investor State Dispute Settlement provisions in trade agreements.*

Background

Trade, like industry and commerce, is an income and employment generating portfolio which embraces all aspects of Australian business activity, interacts with all government agencies and is therefore influenced by both domestic and international policy and regulatory decisions.

It is the view of the Export Council of Australia ("ECA") that future Trade Policy be expanded to move beyond focussing primarily on external influences (the World Trade Organisation (WTO) and Free Trade Agreements), to also address and embrace the key domestic economic drivers that influence Australia's ability to successfully compete in international markets.

It has long been recognised by successive Governments, economists, business leaders and academics that a robust and efficient Trade Policy leads to demonstrable benefits to the domestic economy;

- *Since Australia opened its markets to international competition in the early 1980's the nations "trade intensity" (exports plus imports as a share of total economic input) increased from 28 per cent to 40 per cent.*
- *Trade is a pathway to a high-skill, high-wage future for all working Australians. Australians employed in export industries, on average, are paid 60 per cent more than those employed in non-export industries (Pink and Jamieson 2000, page 27).*
- *There is evidence to support the fact that reductions in industry protection lead to significant benefits for everyday Australians. A study conducted by the University of Adelaide's Centre for International Economic Studies revealed that opening up the Australian economy to greater levels of trade has made Australian households better off, on average, by an estimated \$3,900 per annum (Centre for International Economics 2009 page 20). These gains have come in the form of greater income from exports and the reductions in the cost of imported and import-competing goods and services.*

It is therefore critical that trade considerations be central in determining Australia's broader economic policy settings.

Recommendations

In light of the above, the ECA has compiled five Trade Policy Recommendations for Government, to ensure Australia can fulfil its international trade potential.

1. Regulatory reform should be implemented to improve trade facilitation and increase Australia's competitive position.

The ECA believes that the Government's Trade Policy should place significant focus on domestic trade issues, including trade facilitation and eliminating unnecessary regulation, as well as research and development and innovation; in doing so Australia will become more internationally competitive and better able to capitalise on opportunities in international markets, particularly emerging economies.

The IMD's 2012 World Competitiveness Rankings, which measure how well 59 countries manage their economic and human resources to increase their prosperity, placed Australia at 15th in 2012, compared to 9th in 2011 and 5th in 2010. Disappointingly, Hong Kong, the USA, Sweden, Norway, Germany, and Canada all placed ahead of Australia.

Moreover, despite the positive news that Australia is now ranked 10th in the World Bank's Doing Business Review 2013, which measures the ease of doing business in 185 countries, we are still placed behind our major competitors including New Zealand (3rd), the USA (4th) and the UK (7th).

In significantly worse shape is Australia's 'Trading across Borders' ranking, which looks at the time and cost (excluding tariffs) associated with exporting and importing by ocean transport, and the number of documents necessary to complete the transaction. Here Australia ranks 44th, behind Hong Kong (2nd), the UK (14th), the USA (22nd) and New Zealand (25th), as well as the regional average for OECD high income nations which is 33. There is therefore significant opportunity for Australia to improve our competitive position.

Recent studies, including the OECD Report on Trade Facilitation (May 2013), the Enabling Trade: Valuing Growth Opportunities Report by the World Economic Forum in Collaboration with Bain & Co and the World Bank (WEF 2013), as well as reports published by APEC (April 2013) and the Asian Development Bank and ADB Institute (May 2013), all endorse the need for improvements in trade facilitation and the significant and demonstrable benefits which can accrue from improvements in trade facilitation and reductions in supply chain barriers. Indeed, the research suggests that streamlining customs procedures and concluding the WTO Trade Facilitation Agreement could add 2.8 per cent to the US' GDP and \$200 billion to their exports— six times the benefit of eliminating all world tariffs. It can be reasonably assumed that similar benefits, namely increased GDP and export growth, would accrue to Australia under the same circumstances.

The OECD Trade Facilitation report suggests that Australia specifically would benefit from continued improvements in the following areas:

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. Interestingly, in the recent budget announcement the Government announced they will be restructuring the Import Processing Charge (IPC) in order to recover the costs of all import related cargo and trade functions undertaken by Customs, which is obviously in contrast to the above OECD recommendation.

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.
- Develop an Authorised Economic Operator (AEO) program.
- Continue overall simplification of procedures in terms of both time and costs.

The ECA believe there are some areas where an immediate policy change could deliver significant benefits. For example, Australia is the only developed nation that does not have an Authorised Economic Operator ("AEO") program. This places Australian exporters at a disadvantage when exporting overseas to countries where priority and preference is given to those in an AEO program. The adoption of an AEO program in Australia would provide current and future benefits and would also be in line with the recommendations outlined in the OECD Trade Facilitation Report.

As highlighted in the Australian Government's *Australia in the Asian Century White Paper*, a "whole-of-Australia" approach, with input from industry participants, is required to improve trade facilitation in Australia. The USA, UK, France, Germany and Canada all have cohesive whole-of-government approaches to trade and regulatory reform. In the US, for example, the Department of

Commerce recently integrated their National Export Initiative with the Trade Promotion Coordinating Committee Secretariat, bringing together representatives from trade agencies as well as a range of government departments whose activities impact, or are impacted by trade policy to create a forum where regulatory and commercial challenges can be identified and addressed (2012 US National Export Strategy). The whole-of-government approach to trade has proven highly successful in the USA and elsewhere around the world, thus the ECA believe, if Australia is to remain competitive, we need to take the creation of a whole-of-government approach to trade seriously and act now.

The ECA believes that a vigorous recommitment by Government to microeconomic reform is essential to restoring confidence and health to Australia's trade sector. It strongly endorses the need to review and deregulate "red" and "green" tape associated with investment, competition and trade. Indeed, the Productivity Commission estimates that reducing red tape could add as much as \$12 billion to national output.

Sound fiscal and monetary policies should be supported by domestic regulatory policies and government programs that do not seek to insulate and protect Australian industry. Rather, the ECA recommends that economic policies focus on boosting efficiency and productivity and encouraging innovation and the outward orientation of Australian industry.

One sector that requires special consideration in terms of competitiveness is manufacturing, which employs nearly one million people and is one of the key investors in R&D and sources of innovation in Australia. The ECA in conjunction with Cook Medical have developed a program (the Australian Innovation and Manufacturing Incentive – AIM) which does not involve handouts to industry, but would see government provide tax relief based on the retention of Intellectual Property (IP) and manufacturing in Australia (see details of the program in attachment II).

In this regard, the ECA stresses that domestic economic policy decisions by Government must take into account the subsequent impact on the international competitiveness of Australian industry.

The ECA recommends that Government:

- *Implement 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.*
- *Adopt the Authorised Economic Operator ("AEO") program.*
- *Investigate the appropriateness of establishing a body with representatives from all border protection and trade agencies to oversee trade competitiveness issues (a model not dissimilar to the one introduced by the USA).*
- *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 (see attachment II).*

2. Develop world class economic and physical infrastructure in order to improve Australia's international competitiveness

As stipulated in the Government's *Australia in the Asian Century White Paper*, one of Australia's most pressing challenges, and one which represents a significant barrier to future economic growth, is the limitation imposed by Australia's existing economic and physical infrastructure.

At the March 2013 Australian Logistics Council ("ALC") Forum, the need to address Australia's commercial infrastructure needs was deemed the highest priority for the freight and logistics industry. These sentiments have been supported in other forums and reports including the ACCC's 14th Annual Container Stevedoring Monitoring Report (October 2012) which highlighted that while Australian stevedores have improved their performance since the 1990s, increased competition can provide the basis for higher levels of efficiency and service. Similarly, the Productivity Commission's Review into the National Asset Regime (May 2013) recommended changes to legislation governing

regulated access to third party infrastructure to improve access where this is a natural monopoly and a there is a lack of competition.

The ECA believes that the lack of available Government funding could be redressed from increased investment by Australian superannuation funds and from foreign investors. This could be by way of direct investment or by public private partnerships to quell concerns regarding the perceived threat to Australia's sovereignty. However, in order to do so, the Government needs to adopt policies to encourage different forms of long-term investment options that would be attractive both to superannuation funds and to foreign investors.

The ECA recommends that Government:

- *Gain greater input from the trade sector 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.*

3. Australia should prioritise investment in cohesive trade promotion which is nationally driven

The State and Federal trade agencies need to continue to communicate and work together, collaborating where possible, to provide nationally driven, cohesive trade promotion solutions. The ECA believe that trade support should be provided to Australian exporters regardless of whether they are doing business with established or emerging markets. Despite the rhetoric regarding the importance of Asia, established markets remain important export destinations for Australia's exporters. The 2011/12 Austrade Annual Report states that 55 per cent of EMDG recipients targeted the USA and 54 per cent targeted the UK & Germany. The 2013 DHL Export Barometer indicates that the USA is the second most popular market for Australian exporters, following New Zealand. Moreover, the US economy, which is also the world's largest, is regaining momentum and the Australian dollar is beginning to weaken. Therefore, trade promotion and other support mechanisms must be unilateral and respond to exporter demand.

The ECA would like to see a greater commitment by ministerial and diplomatic representatives to provide physical support on trade missions and for Australian companies involved in tendering for major, often Government funded projects overseas. This level of support is provided by other Governments and has proven to be of great benefit to the companies they assist. The quote below from Paul Henry, Principal of Populous, one of Australia's leading architectural firms, highlights the issue;

As an Australian consultant exporting specialist design services on major high profile government projects throughout Asia, we rely on Australian Government trade organisations, relationships and linkages to provide credibility and value to our Bids. Our major competitors from France and Germany enjoy significant whole of government support on their bids from their respective governments. We have lost bids to such companies on the basis of value add from their whole of government approach such as complimentary trade and defence MOU/deals, senior minister visits, and ambassadorial support. Prospects for Australian companies would benefit from such an approach.

Paul Henry, Principal, Populous

The ECA believe there is much benefit to be gained from a greater level of industry engagement when it comes to determining Australia's trade policy and promotion agenda. More meaningful engagement with industry could be achieved through the establishment of a Trade and Investment Advisory Council to leverage the knowledge of business leaders in the formulation and implementation of trade policy and promotion initiatives.

In order to ensure Australia's trade promotion agencies are internationally competitive, the ECA believe that Government should review the level of funding provided with the aim of ensuring that adequate resources and capital are available, whilst eliminating any unnecessary duplication. To help facilitate this undertaking, the resources of Federal and State Government, as well as industry associations, should be utilised to undertake research that will provide robust data from which insights into Australia's trade capabilities, the performance of Australia's exporters and importers and the areas requiring improvement can be drawn.

Access to trade finance has historically been difficult, particularly in the SME sector, and the recent changes to EFIC's resources and mandate are not likely to improve the situation. EFIC's mandate has recently been restricted yet amended to incorporate more risk, while their capital base has been simultaneously reduced by a third, thus significantly limiting their ability to provide effective financial solutions to meet the evolving needs of exporters –both big and small.

The problem with the above situation is threefold:

- **It is out of step with what is occurring overseas** - According to the Export-Import Bank of the United States' Competitiveness Report to Congress (June 2013), signings by export credit agencies in the OECD and the major non-OECD export credit agencies (China, India, Russia, Brazil) was around US\$300 billion in 2012. The report suggests that China, Korea, Japan and the US particularly, have significantly ramped up their level of support. For example, signings by China's export credit agency was estimated to be up to US\$70 billion in 2012 and signings by Korea's export credit agency increased to US\$64 billion. Meanwhile, the US Export-Import Bank's signings have more than doubled over the past five years to \$US36 billion. In sharp contrast, according to its latest annual report, EFIC's total Commercial Account exposure was AUD\$1.4 billion at June 2012.
- The reduction in **EFIC's Capital appears inconsistent with EFIC targeting SMEs and exports to emerging and frontier markets** - that is, to take on more risk.
- Despite Australia's robust banking sector, **SMEs in particular continue to battle with access to finance**, thus placing them at a competitive disadvantage, without finance and unable to grow their business internationally.

The ECA are of the belief that EFIC's capital resources should accurately reflect the demand for export finance and the agency's level of risk exposure, and that their mandate should be expanded, not restricted, to ensure the needs to the export community are adequately met.

While all sectors are important, SME businesses remain the primary target for export growth in goods and particularly services. This sector is the largest employer group in Australia and the incubator of a diverse range of innovation. The policy of supporting R&D to the under \$AUD20 million SME sector needs to be matched with programs that will encourage global commercialisation. Export assistance (the EMDG scheme, TradeStart and trade finance) must be a high priority for review and reform (see attachment III).

The ECA recommends that Government:

- *Encourage a greater commitment by ministerial and diplomatic representatives to provide physical support by leading trade missions and support Australian companies involved in tendering for major, often Government funded projects.*
- *Ensure 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.*
- *Retain international marketing of education in Austrade where the in-market resources are critical to the efficient marketing of this important export sector.*

- *Gain 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.*
- *Undertake more in-depth research to identify and monitor export trends, with the aim to improve the trade support programs currently provided.*
- *Ensure 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.*

4. Trade should be a whole-of-government issue

Trade policy is not merely concerned with maintaining and improving market access for Australian exporters but is also fundamental to all policies impacting the productivity and competitive position of Australian industries.

A key concern of the ECA is the need to improve the degree of collaboration between government agencies, especially those whose policies directly impact on the trade community, and the level of engagement with government and industry. In this regard the ECA recommends that DFAT should play an increased role in inter-agency economic policy deliberations.

DFAT's role could be further enhanced through the development of closer engagement and cooperation between the Department and Austrade. The ECA appreciates that there is an existing working relationship between DFAT and Austrade both in Australia and in overseas posts. The ECA believes, however, that this relationship between the direct policy, promotion and commercial aspects of trade could be strengthened in ways that would enhance Australia's trade policy development and implementation and, importantly, help ensure a strong trade voice in economic policy setting.

The ECA also recommends that consideration be given to the establishment of a Trade Committee of Cabinet. In a globalised world, trade considerations are vital when assessing issues which impact on the productivity, efficiency and competitiveness of Australian industry. Where productivity and investment is concerned, this stretches across the full range of industry sectors and issues, including innovation policy, workforce and business skills, business migration, industrial relations and infrastructure. A strategic recognition of this through the Cabinet processes will ensure the policy deliberations of the Government will take account of the international context in which virtually all sectors of the Australian economy now operate.

The ECA stands ready to provide further details on the way in which these outcomes could be facilitated.

The ECA recommends that Government:

- *Establish a Trade 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.*
- *See that trade outcomes become a greater priority of DFAT and that engagement and cooperation between DFAT and Austrade be improved, thereby ensuring a stronger trade voice in economic policy setting.*

5. Australia should continue supporting WTO initiatives and pursuing a strategic approach to regional and bilateral trade negotiations.

The ECA supports the WTO and recognises that the rules based multilateral trading system is of vital importance to Australia's export interests. The ECA remains disappointed that the Doha Round continues to stagnate but supports the WTO's separate initiatives on the Trade in Services Agreement and the Trade Facilitation Agreement.

It is the belief of the ECA that Australia should proactively work to deliver a package which harvests the progress that has been made in the Doha negotiations, especially on trade facilitation and the elimination of agricultural export subsidies.

Moreover, the ECA believes that Australia's participation in the WTO can and should be complemented by the active pursuit of bilateral and regional trade agreements. The ECA strongly supports the Trans Pacific Partnership (TPP) and the Regional Comprehensive Economic Package (RCEP) negotiations, as well as supporting the Pacific Agreement on Closer Economic Relations (PACER). Such regional Agreements can be important in enhancing the prospects for the deep economic integration that is becoming increasingly important in the global economy.

With regard to bilateral free trade agreements, the ECA urges the Government to expedite the agreements with Korea, Japan and China in order to regain Australia's competitive position in these markets, particularly in the agribusiness sector.

The ECA also believes that the position of the Australian Government in opposing the inclusion of Investor State Dispute Settlement (ISDS) provisions in trade agreements requires review. Commitments on investment are a vital element of bilateral and regional trade agreements and Australia benefits from these commitments. The ECA considers that Australian policy should preserve the option of including ISDS provisions in such agreements.

The ECA recommends that Government:

- *Maintain Australia's strong participation in the high level multi-lateral trade agenda.*
- *Strengthen existing relationships with bi-lateral trade partners in the face of increasingly strong international competition.*
- *Expedite 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.*
- *Maintain vigorous participation in the current free trade agenda with special emphasis on TTP, PACER, and the Indonesian and Indian Comprehensive Economic Agreements.*
- *Preserve the option of including Investor State Dispute Settlement provisions in trade agreements.*

Authorised Economic Operator Program Attachment I

Issue

In 2005, 166 members of the World Customs Organization (WCO), including Australia, agreed to implement internationally consistent measures to support customs security functions and facilitate legitimate trade. Australia alone has since announced its decision not to introduce such arrangements, and its failure to do so is likely to erode the global competitiveness of Australian exporters.

Problem

Following the 9/11 terrorist attacks, the WCO introduced an international framework (the SAFE Framework) that establishes standards and principles to secure the international supply chain in a way that facilitates trade. Two key elements of the SAFE Framework are the concepts of Authorised Economic Operator (AEO) and Mutual Recognition.

An AEO is essentially a compliant member of the international trading community that is deemed to represent a low risk to Customs. AEO's are accorded greater levels of facilitation, and where two countries have Mutual Recognition Agreements in place, the AEO status of a company is recognised by the customs administrations of both economies. Importantly, assessment against the AEO criteria is voluntary.

Australia's decision has been raised as a concern at recent conferences held by the ECA, Shipping Australia and the Customs Brokers and Forwarders Council of Australia (CBFCA). It was purportedly based on the results of two Australian Customs and Border Protection Service (ACBPS) surveys, the validity of which are highly questionable. The ECA strongly rejects the conclusion that, "industry believes the cost of implementing an AEO program will outweigh the associated benefits."

The ACBPS decision ignores the associated regulatory benefits, including the potential to achieve a higher level of visibility into, and control over, the supply chain. It also ignores the APEC Ministers' call for the introduction of AEO programs across the APEC economies.

A WCO conference on the topic that attracted over 800 delegates from over 90 countries (Australian Government representation being notably absent) concluded that AEO is a key enabler to facilitate international trade and that Mutual Recognition is likely to emerge as a component of future FTA negotiations (DFAT is already encountering this in the context of the TPP trade negotiations).

Global implementation is well underway, with the EU, US and Japan in the process of finalising Mutual Recognition arrangements to enable their AEO's to be regarded as 'low risk' across the three economic powerhouses.

Solution

The ACBPS response to this international initiative should be urgently reassessed to avoid erosion of Australian exporters' competitive position in the global marketplace. The ECA and other interested parties are currently working with the new management of ACBPS to achieve this.

The introduction of a voluntary AEO program will ensure that Australian exporters are able to compete on an equal footing with their overseas competitors, particularly when trading with countries that have AEO and Mutual Recognition arrangements in place.

Australian Innovation and Manufacturing Incentive (AIM) Attachment II

Nearly one million Australians are employed in manufacturing, contributing more than \$106 billion to the economy per year.

Manufacturing is one of the main sources of innovation in Australia. While the sector makes up just 8% of the economy, it is responsible for a quarter of all investment in R&D.

Patent development and manufacturing are different sides of the same coin. A constant push-pull operates, whereby innovation in product design (R&D) encourages innovation in manufacturing processes, and innovation in processes encourages innovation in product design.

Once production is sent offshore, company engineers and scientists no longer engage with the manufacturing process, during which potential improvements to a product are identified. Designs cannot be amended correspondingly, and as a result they may be under-designing compared to the competition.

For this reason, the Harvard Business School advises against the separation of R&D and manufacturing.

Whilst the current R&D tax incentive undoubtedly promotes the development of Intellectual Property (IP), it does little to encourage the capitalisation of this IP through the commercialisation and manufacturing processes, thus inadvertently stifling the potential for innovation and employment creation.

The AIM incentive, designed to support manufacturers, is the logical next step to maintaining our competitiveness and cultivating innovation.

Rather than a direct subsidy, the incentive would see the government provide tax relief based on the retention of IP and manufacturing in Australia. One possibility is for Australian companies to receive an incentive equivalent to 2% of sales on locally manufactured products, for which they hold patents/licenses. The incentive would be offset against a company's tax bill, thereby linking it directly to commercial success and resulting in no upfront government outlay.

The AIM incentive also has the potential to attract new investment from overseas, as well as keeping 'home-grown' manufacturing within the country.

An excellent example of this kind of model working in practice is provided by the UK. GlaxoSmithKline has recently invested over \$800m in new operations there. By the company's own admission, this was due to the fact that the UK government introduced "Patent Box" legislation, which came into effect in April 2013.

Developed in conjunction with Cook Medical Pty Ltd

SME Integrated Export Development Program Attachment III

State Government &
Business Associations

Austrade/EFIC

**Integrated Program**

Australia requires a fully integrated SME Export Development Program, which provides a pathway from “Getting into Export” programs conducted by State Governments and Business/Industry Associations through Austrade’s TradeStart program, to the Export Market Development Program (EMDG). It is recommended that companies prior to entering TradeStart be assessed against uniform criteria and that those exhibiting strong export potential be encouraged to invest in Export Training, the preparation of an Export Marketing Plan and be prepared to visit international markets or an approved Trade Mission before being considered as a TradeStart participant. A special EMDG provision is recommended for these activities.

Getting Export Ready

There are a range of programs that already exist to evaluate a company’s capability to export and to provide the basic tools for getting export ready. The ECA recommends that this responsibility be directed to State Government and Business/Industry Associations who already have a strong interface with a large number to SME companies. Once a company is deemed to have the potential to export it should be referred to the appropriate TradeStart provider who will undertake a process to assess the company’s true capability. Subject to meeting the criteria the company will be admitted to the TradeStart program.

TradeStart

The current TradeStart contracts expire on 30 June 2014. It is strongly recommended that the program continues in a revised form which focuses on:

- *Export Ready businesses to both maximize the return from the scheme and on building a more sustainable export capability.*
- *Building capability and commitment by having participants commit to:*
 - *Undertaking education and training programs appropriate to their business sector.*
 - *Having prepared or preparing an Export Marketing Plan*
 - *Undertaking an overseas market visit or approved Trade Mission*

It is also recommended that a special element be established in EMDG to allow participants to claim a proportion of the cost of these undertakings.

Export Market Development Grants Scheme

The ECA strongly supports the policy for retention of a direct open access incentive program to encourage emerging SME enterprises to seek out and develop global market opportunities.

The SME sector is Australia's largest employer group and the incubator for innovation across a very diverse range of business enterprise. A local market of a mere 22 million people creates a market base too small for full commercialisation. Current incentives for Research & Development need to be matched by support for commercialisation such as an Export development incentive.

The EMDG program, introduced in 1974, has proven on each occasion to be the most effective industry stimulus initiative ever introduced by the Federal Government. The tenure of this program with bipartisan support is underpinned by the principle that the program is open access and performance based. The ECA recommends this program is a cornerstone initiative of trade policy that needs to retain these fundamental principles and should be reviewed as a priority with a view to expanding its application to the SME sector.

The key features of the future EMDG program include:

- A performance based taxable rebate (at 50%) of export development expense
- Limit the number of applications to 8 years (no differentiation of target markets)
- New Applicants in first two years to be granted a waiver of performance restrictions
- Funding for New Applicants to be under modulated annual limit
- Rebates for all other applicants and Approved Bodies to be fully funded (being subject to performance test)
- Maximum annual rebate per applicant set at \$200K

Export Market Development Grants program Review

The timing for review under the current legislation (expiring 30 June 2015) should be brought forward to address vital issues that need early attention to enhance and improve delivery of this stimulus. The terms of reference for the review should include:

- *Consider means to increase the effectiveness of the program*
- *Consider changes required to develop successful exporters who will achieve sustainable exports in the long term*
- *Consider changes to encourage exporters in emerging industries*
- *Consider changes to re-engage businesses previously excluded from the program due to ownership changes*
- *Consider means to ensure businesses are export ready before being eligible to receive EMDG support*
- *Consider means to ensure that the demand for grants is satisfied in a fully funded program*
- *Consider measures that will improve the administration of the program with a focus on increasing the number of exporters*

In addition to the operating content of the program, the overall administration has never been reviewed since Austrade took over this role in 1985. There is a strong case for providing some industry representation in the administration process (similar to the R&D Board) to provide more balance between commercial intuition and administrative integrity.

Export Finance

In 2009 as a result of an EFIC review in 2006, it was deemed appropriate to introduce legislation which would expand the role of EFIC in order to allow it to provide financial support to a wider range of transactions for Australia's SME's exporting or investing overseas, including those establishing global

supply chains. Although receiving bipartisan support this legislation has never been put through Parliament. At the time ECA fully supported this change to the EFIC charter.

ECA is of the firmly of the view that EFIC needs to have the resources and capital to deliver a wider SME mandate, which is flexible enough to address the evolving needs of exporters and the challenges presented by competition from overseas Export Credit Agencies.

ECA Industry & Government and Trade Policy Committee



Chair, Andrew Hudson – Partner, Hunt and Hunt Lawyers

Andrew is a partner at Hunt & Hunt 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 agencies. He provides 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, together with all related litigation.

Andrew also has been extensively involvement in policy and law reform issues in Customs and trade matters. This has included leadership roles with the Law Institute of Victoria, the Law Council of Australia, the Australian Services Round Table and the Food & Beverage Importers Association as well as close working relationships with industry associations such as the Customs Brokers & Forwarders Council of Australia and the Australian Gift and Homewares Association.

Andrew has been involved in the review of Federal Government Legislative reforms on various Committees and has been a member of the Advisory Committee to the ALRC and has been requested to provide submissions with proposed legislation. Most recently this has included work with the Brumby Review of the Australian Anti-Dumping Regime.

Andrew provides training, seminars and is an extensive writer of articles and other commentaries for various newspapers, magazines, industry journals and other media outlets on relevant areas of the law.



Stephen Deady PSM – Director, Export Council of Australia

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.



Professor David Widdowson – Director & CEO of the Centre for Customs and Excise Studies

Professor David Widdowson is the CEO of the Centre for Customs and Excise Studies. He is the President of the International Network of Customs Universities; Editor-in-Chief of the World Customs Journal; an Advisory Group member of the World Customs Organization's Partnership in Customs Academic Research and Development; and a Director of the Trusted Trade Alliance.

David holds a PhD in Customs Management, and has over 30 years experience in his field of expertise, including 21 years with the Australian Customs Service. His research areas include Trade Facilitation, Regulatory Compliance Management, Risk Management and Supply Chain Security.



Ian Murray AM – Executive Chairman, Export Council of Australia

Ian Murray is Executive Chairman of the Export Council of Australia. 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.

Ian's key role at the Export Council of Australia is advocacy.

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 – 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 both the private and public sector and has gained experience in the fields of economics, policy and international trade. She has held positions with PricewaterhouseCoopers, where she worked in their Economics and Policy team, and more recently with Trade and Investment Queensland. During her time at Trade and Investment Queensland Stacey spent 5 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 (AIEx), 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*

Think global trade. Think ECA www.export.org.au

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