

BORDER MANAGEMENT AND ITS ROLE IN SUPPORTING NATIONAL ECONOMIC COMPETITIVENESS

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Full transcript

Thank you for that kind introduction. It is an honour to be here today at Australia's pre-eminent think tank for international policy.

Today, I wish to discuss the role played by customs and border agencies in the area of international economic and trade policy. Of special interest to me in this regard, as the Chief Executive Officer of the Australian Customs and Border Protection Service, has been the work undertaken over the years by the Lowy Institute on international economic and trade issues. Of late, Mike Callaghan and the Lowy Institute's G20 Studies Centre has brought renewed focus and attention to this area – especially with the Brisbane G20 meeting in 2014, with Australia in the chair, looming ever larger on the horizon.

Now it is true and fair to say that agencies such as the one that I head are more often as not in the news for what might be described as 'hard security' issues, such as maritime people smuggling, drugs, performance and image-enhancing substances, and firearms. That might well be the case, but we also play a crucial economic and trade role, which I wish to highlight today.

Our Service has a long and proud history of both protecting the border and serving Australia's economic and trade interests. We have existed in various guises since Federation, when the Department of Trade and Customs was established in 1901. We perform one of the foundational functions of state – both in terms of securing the border and controlling movement across it, collecting duties as appropriate and otherwise supporting Australian industry within the law of the land, and government policy directions in the areas of trade, industry and revenue. Moreover, our Service has been at the forefront of establishing international standards for customs and trade-related border functions, something to which I will return later in this address.

Managing the integrity of the border is essential to both the protection and prosperity of the community and the economy. The border demarcates our sovereignty and delineates our dominion – where the dominion of the state begins and ends. Borders are no longer these days seen as a barrier; they are

more a space where sovereign political units control the flow of people and goods in to and out of their dominion. A border is, generally speaking, not a wall in the modern world and its global order, which completely seals off nations, states and peoples.

Borders play an important economic role in the global order. How they are managed can foster or impede lawful trade and travel. Border control points, systems and processes sit astride supply chains and travel pathways. The very design of these points, systems and processes can add to economic competitiveness and productivity, by fostering rapid movement and border entry or exit. Conversely, they can detract from competitiveness and productivity by unnecessarily impeding movement, entry and exit, and diminishing the efficiency of national infrastructure.

Fostering legitimate trade and travel, while remaining vigilant for national security, law enforcement and community protection purposes and at the same time using border controls as an extension of trade, revenue and industry policies are not contradictory policy objectives. They are intrinsically integrated and connected functions of state.

It is my contention today that insufficient informed public discussion and debate about the customs and border protection function is taking place within academies and think tanks, certainly as compared with like public agencies such as the armed forces and police services. For my part, I would very much like to see increased serious academic and policy discussion in Australia about the customs and border protection function, and hopefully these remarks today will assist in that process. Mind you, I do not think that we have done a very good job at promoting such public discussion and debate, and today I seek to make amends, to some degree at least.

Australia has an open economy. In 2012 alone our exports exceeded \$300 billion, representing more than 20 per cent of gross domestic product (GDP). Around one in five Australian jobs is connected to trade. As we know, for Australia, international trade of goods and services has been an increasingly important factor underpinning our prosperity over the past 30 years. Australia now has limited tariff and import restrictions on most of our traded goods sector, which in turn has bolstered the strength of our economy by way of opening it up to greater volumes of trade, and increasing productivity, accelerating economic growth and making the economy more flexible and dynamic.

In this context, the effect of a slowdown in border processing and controls cannot be understated. Delays in processing border movement put pressure on airport and port infrastructure, with flow-on effects for integrated logistics and

supply chains. Conversely, the Australian Logistics Council estimates savings of \$1.5 billion would accrue for the economy in associated costs for every one per cent increase in the efficiency of transport and logistics supply chains, including those elements concerned with movement across the border.

Increasingly, trade and customs policy is beginning to focus on those areas of cost and regulation that have a significant material impact on economic activity, beyond the traditional areas of import tariffs and non-tariff trade barriers. The efficiency of customs and border protection activities, the quality of transport and logistics chains and nodes, as well as regulatory imposts associated with agricultural, transport, aviation and border security requirements have become the focus in recent years of considerable academic and policy attention.

This is becoming especially evident as customs and border protection authorities around the world face the challenge of increasingly complex international supply chains. We recognise that the growing integration of the global economy through the reduction of trade barriers, coupled with the fragmentation of the global production process, means that global supply chains are becoming more complex. As firms increasingly seek to exploit the differentiated comparative advantages of different economies with regard to sourcing the individual parts and components that are used in the manufacturing process, the very concept of the 'country of origin' for goods is gradually starting to break down. This is a heartland issue for the head of any customs administration, as rules of origin determine what goods are eligible for free or preferential rates of duty under free trade agreements (FTAs) and trade preference schemes. Such rules of origin exist for all FTAs and preference schemes in order to distinguish the eligible 'originating goods' of preference countries from the ineligible produce of that country and goods from other, ineligible, countries.

In this context, I would like to recognise the work done in this area by the Lowy Institute in recent years, especially in the area of global value chains, and the concept of 'global manufacturing', and what this might mean for international trade policy. Policy makers will increasingly have to turn their attention to what the Lowy Institute and other bodies have termed a 'whole of supply chain' approach which spans trade policy issues in a range of sectors and regulatory areas such as transport and infrastructure policy, customs and border protection, public health and safety, biosecurity, and immigration, particularly as regards the movement of business travellers and others associated with trade in services and goods.

Against this background, the function of modern customs and border protection is becoming increasingly borderless, or rather transgovernmental, at

least amongst like-minded states. We see this in the strengthened level of cross-border collaboration amongst such agencies. Transgovernmental networks of customs and border agencies are progressively exchanging information and collaborating, either in joint mission-specific task forces, or by way of more enduring arrangements. The inter-connected and cross-border character of the modern customs and border protection function is especially evident as like agencies seek better ways to work together to both expedite trade and travel through the border space. At the same time preserving, and wherever possible enhancing, border protection as well as aviation, maritime and transport security. I will return to what this challenge might mean for customs and border protection in a moment, but first I have to touch on the challenge of volume.

Growth in trade will bring its own challenges in terms of customs and border protection. Ten years ago, we cleared 4.2 million air cargo consignments. In 2011-12, we cleared more than 18 million air cargo consignments. In 2000-2001, we processed around 18 million people through airports and seaports. Ten years on, this has risen to over 29 million passengers. The amount of duty we collect has nearly doubled in ten years. Predictions about future volume growth indicate the trend is still rising. By 2017 alone, we are facing an 85 per cent increase in air cargo, a 20 per cent increase in containerised sea cargo and a 25 per cent increase in international traveller numbers.

With these increased volumes and increasing complexities will come a 'big data' challenge: how can we best make sense of the increased volume of data we collect, to gain insights to help us protect the community and to also better facilitate trade. This data is not only essential for border protection; it is used to produce vital trade statistics, without which the Government would be missing a fundamental part of the evidence base it needs to steer the economy.

'Big data' will become increasingly relevant as trade patterns become less predictable as goods are sourced and delivered through the more complex supply chains, of which I have already spoken. Less predictable patterns mean we need new capabilities to assess and mitigate the risks to trade. These new and emerging complexities can obscure, as I said earlier, the true point of origin of goods, and make determining the intent behind cross-border movements a much more challenging task. The true value of goods can also be more difficult to determine, posing a risk to the competitiveness of Australian industry, and a risk to the revenue.

Indeed as we face these increasing volumes and complexity we are increasingly recognising the potential for trade-related economic risk, including revenue leakage. Our role is to ensure compliance with the rules of trade in a way that is consistent with the Government's economic objectives, domestic laws and

international obligations, and to minimise fraud and monitor fairness while supporting Australia's long-term economic growth and prosperity.

Over the past year, the Service has renewed its focus on economic risk. We have initiated a suite of projects to develop and embed a dedicated trade analysis capability within the Service. Currently, the Service relies heavily on industry referrals to gain an understanding of when trade rules and related measures are being circumvented. However, our focus during the first phase of this work has been to leverage trade data to validate industry referrals of dumping, foreign subsidisation and circumvention of measures, and develop the capability to actively identify these areas of risk to Australian industry. While the initial focus is on anti-dumping, this capability will apply to other areas of trade including tariff concessions. This capability will continue to expand our understanding of economic risk and will allow better identification and management of the risks associated with international trade in goods.

As if law enforcement and national security challenges are not enough to contend with in terms of future challenges, economic and trade issues are going to also pose some significant challenges to the Service. I can say to you candidly today that the way we currently operate will not be enough to protect the border and Australia's prosperity in the future. Earlier this year, I launched the Australian Customs and Border Protection Service Blueprint for Reform 2013-2018, which is a five year blueprint that provides the roadmap for our root-and-branch reform to transform the way we operate and the way we work with industry, and our international partners. We cannot hope to meet the challenges of the future by simply scaling operations to meet demand; that is not a viable or efficient solution. We need to develop innovative ways of meeting future challenges.

For the purposes of today's address, we want to use this Reform process to provide the best possible support to legitimate traders. This means our future border systems and processes will need to be highly efficient and sophisticated, and geared to the reality of the modern global trading system. To provide focus and leadership in this area, I will soon establish, under the banner of Reform, a new Trade and Customs Division within the Service and will fill the leadership of that Division on the basis of generally applicable merit as well as broad strategic-level expertise across a number of public policy areas: trade, customs administration, industry policy, revenue, infrastructure, transport and logistics. I have also established a Specialised Reform Taskforce which will be focussed on reforming how we do business with our customers and the channels through which we do business.

The focus of this new team will be on fostering legitimate trade and travel, thereby supporting the economic success and competitiveness of Australia. Our

aim is for legitimate traders to partner with us to experience an easily understood and simplified border clearance process. We want the trader experience to be fast and seamless, making business easier and contributing to greater economic growth. We will work with industry to provide trusted traders with expedited border clearance, where they have strong security and integrity practices and a history of compliance.

We will also increase our work ahead of the border, focussing on Mutual Recognition Agreements with trading partners to acknowledge authorised economic operator and trusted trader schemes that reduce risk to our border. This will allow the Service and partner agencies to redirect resources to areas of high risk.

The trusted trade programme that we are considering will focus on how best to manage risks in the supply chain. We want to leverage data and industry information and complementary programmes which are focussed on supply chain risk management. The trusted trade programme will also take into account existing global standards such as the World Customs Organization's Framework of Standards to Secure and Facilitate Global Trade, which was adopted in 2005, and which promotes common supply chain security and trade facilitation standards for goods being traded internationally. We are focussed on how to create trusted relationships with traders and with operators in the supply chain – where the only override is intelligence-led alerts, and risk-based interventions. At the heart of this approach is a paradigm shift, where our relationship with traders is not simply governed by control-based regulation and we begin to move to a differentiated, trust-based regulatory framework.

Outcomes for trusted, compliant traders may include expedited clearance, priority service and reduced intervention as well as increased certainty, enabling better supply chain management and cost savings. Trusted traders may be able to access international recognition of trusted status and improved international market access including a reduction in the need for multiple assessments by other Customs administrations, depending on where their supply chains take them.

The Service is currently assessing the value of a range of trusted trade arrangements, including arrangements utilising trusted technologies, such as 'track & trace', secure revenue and tariff classification seals, and 'smart containers'. The range of approaches under assessment includes Public-to-Private (P2P) partnership approaches based on trust, clear accountabilities, shared responsibilities and, where appropriate, trusted technology. Our hypothesis is that such schemes, and in particular trusted technologies, such as 'track and trace', could provide significant benefits to consumers, business, and the economy at large. The use of 'track and trace' technology is an innovation

for the international customs environment. A paradigm shift from control to trust-based regulation and shared responsibility will be required and may be applicable to all import streams. This shift will need to be supported by regulatory and business process reform from both government and industry.

On the related topic of connected cargo systems, we will work with industry to examine earlier reporting and more effective data sharing. This will include how we can integrate with trusted trader's logistics systems to enable direct access, as the sharing of intelligence and other information will enable closer partnering with traders to better facilitate trade and combat illicit activity in the supply chain.

Along with other Australian Government agencies, we will be moving to a digital by default approach. We will be working towards enabling full digital interaction for stakeholders to conduct their border-related activities. This will mean that all forms, application processes and related decisions will be available online. Again partnerships will be important here. We will work, as an example with Australia Post and other stakeholders to implement this approach as currently border processing in the international mail environment, including revenue collection, is largely manual. Our approach will link to our new enterprise case management solution to automate workflows, provide single entity views and manage queries more efficiently and speedily. Our system options to achieve this will be scalable to handle the expected increases in trade.

We will improve trade assistance processes and technologies to make interactions between the Service and all stakeholders seamless and integrated. Stakeholders trying to move goods (such as importers, exporters, customs brokers, freight forwarders, carriers and port authorities) will have a single window to manage all of their transactions that is simple, intuitive and can be accessed through the tools, including a wide variety of fixed and mobile technology platforms. To improve trade assistance technologies and tools we will work with our industry partners to improve compliance. This will include developing intuitive, user-friendly portals and other interactive tools, such as mobile applications. These self-service tools will help small to medium traders manage their own clearance arrangements. We will also use social media to help individuals and infrequent traders understand their obligations. This approach will simplify the path to trading internationally, while enhanced information systems will allow our officers to provide advice on complex matters through online mediums. As part of this approach we will also help businesses lower the burden of compliance by moving to a 'tell us once' approach to providing us with information.

For all of this effort and innovation within the domestic economy, the real gains in border-related trade facilitation are likely to be made if we work with other customs and border protection administrations, under the auspices of multilateral, regional and bilateral cooperation.

As I said earlier, our Service has traditionally been at the forefront of establishing international standards for customs and trade-related border functions, and this provides a platform for what we should be looking to achieve in the future. I said earlier that I intend to soon establish a Trade and Customs Division and function within the Service, to grapple with and develop solutions to the challenges that I have outlined. One of the most important areas of focus for this new Division and its new leadership will be to reinvigorate our approach to international customs and border protection diplomacy. Regrettably, we have let this area slip in recent years, and I am determined to turn things around.

An early priority will be to provide all assistance to our colleagues in the Department of Foreign Affairs and Trade as they work to conclude a WTO Trade Facilitation Agreement by the end of the year, in time for the ninth WTO Ministerial Conference in Bali in December. Such an Agreement would set minimum standards in terms of how customs and border protection administrations deal with matters such as advance rulings, electronic payment systems, and streamlined documentation and appeal procedures. This is a dry and technical matter – but let me tell you as a practitioner that nothing frustrates importing and exporting firms alike – large, medium or small – more than government red-tape, especially where it is inconsistent and lacking sometimes in rhyme or reason.

I recognise that for such an agreement to be arrived at, customs and border protection agencies in advanced economies will need to commit providing partner agencies in less developed economies with the technical assistance and support that they will need to make the Agreement work. The Service is committed to doing this (for example we continue to support our partner customs agencies in the Pacific region) as we recognise that a WTO Agreement will advance the cause of harmonising global customs and border protection systems, to the benefit of all.

Beyond the WTO, APEC has been a powerhouse since the early 1990s in the area of improving the efficiency of regional supply chains. Australia has long worked through the APEC Committee on Trade and Investment to tackle the challenge of globalised supply chains. This is especially true in relation to Rules of Origin, where we have agreed to work towards harmonisation of Rules of Origin among APEC member economies and to reduce the administrative burdens and costs associated with navigating complex rules of origin

documentation and procedures when utilising FTAs. The APEC Sub-Committee on Customs Procedures (SCCP) supports this work and provides a forum for more detailed technical work to take place.

The G20 of course, as one of the most influential economic forums, can influence international trade policy settings, especially to enhance harmonisation and cross-border trade facilitation. We have a positive opportunity next year as G20 Chair to continue to pursue Australia's agenda of boosting global economic growth and jobs, pressing for further trade liberalisation and achieving global sustainable development. Working with relevant Australian colleagues and, as appropriate, G20 counterparts I will pursue whatever opportunities that might present to advance the agenda that I have set out in today's address.

Finally, we have had a strong engagement with the World Customs Organization (WCO) which has a focus on simplifying and harmonising customs and border protection practices at the global level. Australia has been a member of the WCO since 1961 and is a contracting party to a number of the WCO trade conventions, standards and programmes, which are focussed on building modern and efficient customs and border protection systems and procedures around the world. We are currently the Vice-Chair of the Asia/Pacific region of the WCO until July 2014, and are charged as such with engendering the development and modernisation of Customs administrations throughout the Asia/Pacific region. In May next year, we will host the Asia-Pacific Heads of Customs Administrations meeting, which will provide an opportunity for a regional dialogue and exchange on regional trade and border management issues. As Chair, I intend to fully utilise this opportunity for creative Australian middle power diplomacy to advance the agenda that I have set out today.

Beyond this critical work at the global and regional level, in the Service we will over the next year reinvigorate and intensify engagement, both with traditional partners such as the United States, the United Kingdom, New Zealand (which represents our closest customs relationship) and Canada, as well as the European Union, Japan and the Republic of Korea. As you know, the Prime Minister recently announced a renewed emphasis on concluding a Free Trade Agreement with China, which we will support, as we also focus on other emerging customs and border protection partners such as Indonesia and India. In due course we will have to turn our attention to other globally significant trading nations such as Brazil.

I contended earlier that insufficient informed public discussion and debate about the customs and border protection function is taking place within academies and think tanks, as compared with like public agencies such as the

armed forces and police services. Well, I do not get paid to over-analyse problems and indulge in angst sessions. Agency heads are paid to solve problems and take action. So I have decided that we need to stimulate academic and policy discussion in Australia about the customs and border protection function. I am delighted to be able to announce today a new collaborative venture between the Australian Customs and Border Protection Service and the Lowy Institute. We will establish an Australian Customs and Border Protection Fellowship. The Fellow will work with the Lowy Institute to research and develop policy strategies for future border management. A specific focus area for the inaugural Fellow will be in the area of trade and customs policy and practice, which I have addressed today. The Executive Director and I have agreed that the Service and the Lowy Institute will co-design the research topic and oversee the work. The Institute, I am delighted to be able to announce, will provide professional guidance to the Fellow, and review the research paper that will be the key deliverable of the Fellowship. We will soon seek expressions of interest from qualified Customs and Border Protection Officers, one of whom will be appointed as the inaugural Fellow for a period of up to six months. They will be based in Sydney, but will have a roaming commission to engage across the country with business, other Government agencies and academics.

This will be a significant professional development opportunity for my officers, and will promote academic discourse within the Service. This is a personal initiative of mine, which has the strong backing of my Executive team, and the support of the Lowy Institute, for which I am very grateful.

I would hope that by this initiative and by the fresh thinking that our Reform programme is engendering, I have been able to demonstrate to this audience that we are serious about breaking new ground in what is a profession as historic as our nation. The global order is changing, as new power relationships and new economic structures emerge from the fragmentation of the old order that was established after the end of the Second World War. Australia has always been an engaged international actor, whether in trade, economic or strategic affairs. In the years ahead, we have an excellent opportunity to leverage our standing, talent and accomplishments for the betterment of not only ourselves as a nation, but also those who want to trade and engage with us. Getting our mutual border arrangements right for the times and fit for future purpose is what is energising and driving us in the Australian Customs and Border Protection Service.