

The argument for freeports

Freeports can offer tremendous benefits in terms of efficiencies and cost savings. But there are challenges that come along with them, **Sal Milici** writes

AUSTRALIA, LIKE MANY NATIONS,

is a country of contrasts, including in the field of innovation. On the one hand, there are inventions like Wi-Fi and Google Maps and of course the (orange) black box flight recorder. On the other hand, Australia ranks 60th in terms of internet connection speeds. Which of the two categories will Australia fall into when it comes to freeports? And, more importantly, what exactly is a freeport.

To quote the UK Institute for Government, a freeport is “a special kind of port where normal tax and customs rules do not apply. These can be airports as well as maritime ports. At a freeport, imports can enter with simplified customs documentation and without paying tariffs. Businesses operating inside designated areas in and around the port can manufacture goods using the imports and add value, before exporting again without ever facing the full tariffs or procedures”.

In other words, raw materials can be imported at a lower cost and used as inputs in the manufacture process of goods that are destined for export; in industry parlance, the goods never enter home consumption.

IN AUSTRALIA

In November 2020, I attended the Department of Home Affairs Industry Summit. Many subjects were discussed, including trade simplification, streamlining border clearance, delivering frontline services and, of course, the much-vaunted single window. An area that was not explored was freeports.

One area of innovation the Australian Border Force is eager to expand is that of its authorised economic operator program Australian Trusted Trader, which is “a partnership with ABF and Australian businesses to streamline legitimate trade”. An expanded ATT model where parties demonstrate a trusted supply chain could be used to facilitate movement of cargoes from international ports to a freeport.

FREEPORTS AND RESILIENCE

The world has changed seismically and permanently since the pandemic began. Areas that previously functioned imperceptibly to the wider community had a bright light shone on them.

Supply-chain resilience is an issue that is often raised and mentioned. The global changes and the need for more robust supply chains may create the environment where Australian freeports become a solution for problems that did not previously exist.

Add to these ongoing issues globally around port congestion, sky-high freight rates and the desire to support a renaissance of Australian manufacturing and the idea of freeports appears to be a logical progression.

Freeports also tie in well with Australia’s membership in two major multilateral trade agreements: the Regional Comprehensive Economic Partnership and the Trans-Pacific Partnership. Both agreements encourage Australia’s participation in regional supply chains. Australia’s management of the pandemic – together with the ease of manufacturing within freeports – may help capitalise on the potential of these free trade agreements.

Understandably and expectedly, grand reform comes with challenges. As outlined in an EU report from 2020, “Legal businesses owned by criminals remain key to money-laundering activities. Freeports are perceived as facilities that protect their clients’ identity and financial dealings, much as private banks used to”.

“Freeports are conducive to secrecy,” the report added. “With their preferential treatment, they resemble offshore financial centres, offering a high degree of security and discretion, and permitting transactions without attracting the attention of regulators or direct tax authorities.”

Another report from the European parliament last year noted that a growing

demand for freeports could, in part, be explained by a recent crackdown on tax evasion around the world.

IN DARWIN

Closer to home, Darwin was the location of a Trade Development Zone. It was set up in 1985 but failed to achieve its goals and by 2003 was closed. As presented to a parliamentary enquiry, “evidence suggests it was not successful in achieving what it set out to do. If the aim was to attract new Asian businesses and a more advanced manufacturing industry it failed dismally. By 1990, almost five years after its opening, only four companies and 300 staff called the TDZ home. Five years later the zone employed only 97 staff”.

Of most concern a later investigation by the Federal Department of Industrial Relations revealed how one employee had received \$42.69 net pay for a 77-hour week.

Its apparent the challenges to such a bold reform are many, but equally are the opportunities. Exploring international trade facilitation advancements as presented at the Department of Home Affairs Industry Summit as well as exciting ideas such as freeports with a blank sheet of paper – especially with the exciting advancements in what I like to call Triple A (automation, artificial intelligence, and algorithms), Australia can emerge into a post-pandemic world in an even more enviable position.

As we approach the fork in the road that is a post-pandemic world, which path will Australia take: bold innovation or more of the same? ■



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