



IMPERIAL BRANDS AUSTRALASIA

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30 April 2021
Vulnerable Supply Chains Study
Productivity Commission
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RE: VULNERABLE SUPPLY CHAINS

INTRODUCTION

Imperial Brands Australasia (Imperial) welcomes the opportunity to participate in the Commission's vulnerable supply chains study. Imperial participates in a range of government consultations that are relevant to our business. We do this on the basis that our views will be considered in an objective manner and that the evidence and views we provide will be properly evaluated, with due regard given to relevant legal and legislative requirements and the principles of best practice regulation.

BACKGROUND

Imperial is an Australian-based wholly owned subsidiary of Imperial Brands PLC, an international fast-moving consumer goods company specialising in tobacco and non-tobacco products. Imperial entered the Australian market in September 1999 at the request of the ACCC to ensure that competition was maintained following the global merger between British American Tobacco (BAT) and Rothmans International.

For the 2019/20 year, Imperial delivered approximately \$5.7 billion to the Federal Treasury through excise duties on tobacco products (excluding GST). We employ approximately 290 people in Australia and make further contributions to government through corporate taxation, GST, employment taxes and other revenues of approximately \$494 million annually. In totality, the tobacco industry contributes approximately \$15 billion to the Federal Treasury through excise duty.

GLOBAL SUPPLY CHAIN DISRUPTIONS

COVID-19 has presented unique and significant challenges for the Australian business community, and indeed, the wider global community. Restrictions on the movement of people and goods across national and international borders have severely impacted almost all sectors of society, our industry included. Recent events with the blocking of the Suez Canal also highlight the susceptibility of global supply chains to disruption.

Since approximately June 2012, 100% of product distributed in Australia by Imperial is imported. We source our products from a number of factories located in various parts of the globe including Europe, Taiwan and Turkey. A failure in the international supply chain could result in a delay or an inability to supply product to market.

Disruptions to a supplier's ability to manufacture or ship materials has been a key risk during the pandemic with cross border supply chains increasing the complexity and costs involved in product delivery. Imperial operates 38 factories across the globe and has a footprint in over 120 countries. We have been managing global operations, leveraging a diversified supply chain and factory footprint, which has had to respond to rapid changes in demand and operating conditions.

The remainder of this submission will focus on our challenges maintaining continuity of supply during the COVID-19 pandemic and the areas of vulnerability which would benefit from effective risk management strategies.

International Freight

Shipping product from Europe to Australia is a process that would usually take approximately 32 days to complete. Like many other Australian importers, we faced extended delays after the onset of the COVID-19 pandemic. Importing product from Europe, we faced delays between Europe and Australia with a significant bottleneck developing in Singapore. Our product import time blew out from approximately 32 days to just over 60 on average. There were also significant delays in product coming in from Taiwan.

Simultaneous industrial action at Port Botany in Sydney created additional delays and difficulties in managing our supply chain operations. There was, at times, significant risk of being unable to supply the market.

With the considerable delays and pressure on supply chains, Imperial air-freighted stock in to Australia at an additional cost of \$3.6 million. While having to fly in stock is not unprecedented, the cost of air-freight had increased close to six times as a result of the decreased flights and increased demand for service.

Imperial was also impacted by the global shortage of shipping containers which further stressed supply chains and extended transit times. Empty containers have been building up in various ports around the world leading to shortages in other export markets.

Movement of Goods Across Domestic Borders

Once stock has arrived in Australia, usually landing in Sydney or Melbourne, local logistics providers move stock across State and Territory borders. Domestic border closures created additional delays to product delivery with trucks facing extended stoppages and many internal flights being cancelled.

Duty Drawback

We pay duty on tobacco products that have been imported into Australia. Like all fast moving consumer goods operations, we have some stock that is returned from retailers.

We by and large, suffer the business cost of the lost product, but in order to claim a refund on duty paid on stock, we (and other manufacturers who import stock) must re-export that tobacco back to the various points of manufacture.

The operation of the duty drawback system is an example of unnecessary and economically inefficient regulation. The redundancy of the re-export requirement has been raised with successive Governments and in May 2007, following a public review, the Howard Government announced its intentions to rectify the matter. The measure was to have effect from the later of 1

January 2008, or the date of Royal Assent. Unfortunately, this legislation did not take effect as it was not dealt with prior to an election.

We also respectfully wish to bring to your attention a recommendation of the recent Senate Select Committee on Red Tape (*Effect of red tape on tobacco retail*) Interim report, June 2017;

Recommendation 3

2.65 The committee recommends that the Department of Immigration and Border Protection provide an explanation to justify the requirement for re-exportation of tobacco products on which drawback is claimed, failing which the requirement should be eliminated in a timely fashion.

The regulatory amendment set out in *the Customs Amendment Regulation 2012 (No. 8)* allowed for duty paid stock to be destroyed locally and a subsequent Duty Drawback refund. This was an interim measure which came into effect on 9 November 2012, until 30 April 2013. This trial was undertaken to assist with the implementation of plain packaging and the high volume of stock destruction as a result. It was extremely successful and praised by all stakeholders (including government officials), proving that the process can be easily implemented.

Recent changes to the *Customs Amendment (Collecting Duties at the Border) Act 2018* which require payment of import duties and taxes on imported tobacco immediately on arrival in Australia highlights the opportunity to streamline the process and align with the allowance of local destruction and excise refund. We understand that the Government is establishing a facility to deal with illicit tobacco product destructions, further strengthening the merit of the request to allow for a change to the duty drawback process for industry.

In many instances, product must be moved across Australia back to Sydney before re-exporting to the country of manufacture. We respectfully request that the local destruction of stock and drawback of duty be implemented in light of the recent unprecedented events.

Onshore Manufacturing

We are currently investigating options to determine the viability of onshore manufacturing of tobacco products in Australia.



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The unprecedented events of 2020 have highlighted the potential impacts of interruptions to global supply chains and the potential to create stock shortages for both the New Zealand and Australian tobacco market. There is a high likelihood that adult smokers and retailers will make every effort to continue to access these products in the event that legitimate supply is interrupted. Where there are supply issues within legitimate channels, this may lead to attempts to obtain these products within the community – notably, through illicit channels.

The potential return of manufacturing operations to Australia will create hundreds of new jobs directly linked to factory operations and many more additional jobs associated with the logistics and supply chain operations.

As part of our current and ongoing research into the viability of Australian manufacturing operations, Imperial is analysing the sustainability of the industry in Australia which encompasses the impacts of excise and illicit trade and also the legalisation and regulation of next generation products.

CONCLUSION

Imperial would like to take this opportunity to commend the Government for their COVID19 response and are encouraged by the commitment to examine the nature and source of risks to the effective functioning of the Australian economy and Australians' wellbeing associated with disruptions to global supply chains.

As a business, we have prioritised health and safety throughout the pandemic, always strictly adhering to guidance from governments and public health authorities. Our manufacturing and supply teams have been able to manage our factory operations throughout the crisis and ensure continued supply to customers around the world. Our operations benefit from a diversified supply chain and factory footprint, which has had to respond to rapid changes in demand and operating conditions.

The challenging environment was made more complex with concurrent industrial action taking place at Australian ports. The risks involved with a breakdown of supply at a critical time, such as



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during a pandemic, warrant a strong Federal Government response and potential emergency measures to prevent additional delays and freight costs during a crisis.

Imperial's experience with the movement of goods across State and Territory borders suggests there are opportunities to improve coordination on internal borders and better manage air freight demand. As intimated earlier in this submission, we faced significant difficulties in moving stock interstate with reduced flights and space resulting in excessive increases in freight costs. During times of crisis, a more solutions based approach between different jurisdictions that supports the movement of goods across the country will undoubtedly improve outcomes. The COVID-19 pandemic brought attention to the importance of Government working with transport providers to maintain uninterrupted movement of freight across the country.