

SUBMISSION

PRODUCTIVITY COMMISSION INQUIRY INTO VULNERABLE SUPPLY CHAINS

COMMITTEE FOR THE HUNTER

SUBMISSION: Productivity Commission Inquiry into Vulnerable Supply Chains

30 April 2021

Dear Commissioners

Thank you for the opportunity to make a submission to the Productivity Inquiry into Australia's resilience to global supply chain disruptions.

About the Committee for the Hunter

The Committee is an independent and inclusive champion for the people of the Greater Hunter and their enterprises. Representing over 60 organisations including some of our largest employers and institutions in the region, we provide a unified voice for the Hunter. Our members are drawn from the private and community sectors and all three levels of government. We come together with a shared commitment to build a sustainable and prosperous future for the Hunter region. The Committee delivers on that promise through advocacy, thought leadership and providing a platform for collaborative action.

Summary

The Committee has consulted some of the region's major exporters, manufacturers and freight and supply chain facilitators to inform this submission. This feedback has identified consistencies in the supply chain risks experienced by Hunter businesses, risk management strategies and the impacts of disruptions on business and the regional economy.

There are also shared views on how government can best partner with Hunter businesses to help manage and minimise these risks and ensure Australia's supply chains remain resilient and competitive. These include:

- Investments in international gateways and land transport infrastructure
- Supporting the growth of onshore manufacturing capabilities
- Responsive regulatory frameworks and competition reforms
- Maintaining a rule based and open trading system, fostering strong relations with our current and future trading partners
- Innovative public private partnerships capable of responding to shortages in essential goods and services when disruptions do occur.

The Greater Hunter region

With a population of 750,000, the Hunter is Australia's largest regional economy generating \$60 billion in Gross Regional Product. A nationally significant international gateway, our region links Australian firms and consumers with global supply chains and markets. The Hunter's supply chain assets, capabilities and functions are vital to a strong regional and national economy. These include:

- The [Port of Newcastle](#), the largest port on the east coast, and Australia's third largest port by trade volume. It is well placed to support the projected doubling of Australian freight over the next 20 years and beyond. The Port provides import and export services including the shipment of agri-bulk, machinery and vehicles, steel and metals, liquid fuels and coal. The Port of Newcastle is the world's largest coal export port boasting one of the world's most complex and efficient coal supply chains and is considered an exemplar of collaborative management.

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- [Newcastle Airport](#) provides direct passenger connections throughout Australia and New Zealand, with plans to expand into other international destinations and capacity to carry high value airborne freight.
- The Hunter's supply chains link directly into the major centres on the Eastern seaboard and regional NSW through the **National Land Transport Network** including the Australian Rail Track Corporation-led **Inland Rail** and the national highway network.

Given the Hunter's role as an international gateway and domestic freight and logistics hub complemented by our strong local manufacturing sector, the region is well positioned to help build Australia's resilience to global supply chain disruptions and step in to respond when disruptions do occur.

Supply chain risks and vulnerabilities

With both import and export functions, Hunter businesses are exposed to supply chain risk factors outlined in the Productivity Commission [Interim report](#). These include geopolitical, environmental, economic, societal and infrastructure-related shocks, all with the potential to destabilise the regional economy and increase costs to businesses and consumers.

These include:

- Geopolitical risks, with a live example in the recent tariffs imposed by China on Australian coal and wine exports – two of the most significant sectors in the regional economy. These tariffs have directly impacted Hunter producers in these sectors and business in their associated supply chains.
- Infrastructure risks and the efficient and predictable operation of freight and logistics networks. These include: barriers to the development of a container terminal at the Port of Newcastle; disruptions to rail and road transport networks; competitive access regimes that promote the economically efficient operation, use and investment in key infrastructure that provides supply chain services; customs delays at Australian and international ports; products and materials lost in transit or the receipt of damaged goods; and access to estimated freight release dates, challenging the ability to set and meet contractual deadlines.
- Economic risks, including: foreign exchange risk and the dynamic and rapid nature of currency changes and implications for long-term contractual arrangements; the rising and unpredictable costs of freight and import charges particularly during COVID-19 disruptions; and the higher costs of transporting goods from Sydney ports to Newcastle putting regional Hunter businesses at a cost disadvantage.

Our region's vulnerability to these risks is exacerbated by the reliance of manufacturing businesses on imported materials, particularly value-added inputs not currently produced in Australia.

Management of risks

Hunter firms are by necessity experienced in understanding and managing these risks given the costs of disruptions to business, consumers/clients and our reputation as a stable, secure region to do business with.

The management of risks also imposes additional costs. Some of the strategies adopted by organisations include:

- [Quarry Mining](#) and [Yancoal](#) actively stockpile product to manage risk but at a considerable expense and impact on cashflows.
- Quarry Mining and [Energy Renaissance](#) look to alternative suppliers to manage short term disruptions; however, this has can lead to issues with the reliability of secondary suppliers, stock quality and availability, and higher costs for inputs. Quarry Mining has in the past managed these issues through visits to overseas factories for assurance however COVID-19 has prevented this type of travel. Quarry Mining has purchased part-ownership in an overseas factory to better manage these risks.

- Yancoal has diversified their contracted service providers and ensured that these providers account for and have plans for the management of risks.
- [Ampcontrol](#) has necessarily incorporated long lead times as contingency for disruptions to schedules.
- Energy Renaissance has plans to source critical inputs domestically in the short to medium term. This will rely on local supply chains to grow and mature particularly to support the production of value-added inputs currently produced overseas.

Impacts on businesses and regions

The costs of disruptions to supply chains and the management of these risks are experienced directly by businesses, their communities and consumers, and the regional economy. These include:

- Quarry Mining currently has between \$0.5 million to \$0.7 million value of redundant stock due to stockpiling over a period of five years.
- Coal exports are a significant contributor to the regional economy. Yancoal estimates that a one week outage of the entire supply chain network would result in a revenue loss of between \$50-100 million.
- Barriers to the development of industry and employment that support the growth and diversification of the regional economy. For example, Energy Renaissance are building Australia's first lithium-ion battery factory in the Hunter region that will create over 1,700 direct jobs and 6,500 indirect jobs. Operations will initially be reliant on inputs from China. The geo-political tensions between Australia and China are a major concern for the organisation's planned growth and development and any disruption to the supply chain for key components could have a catastrophic impact on development plans, growth and jobs.
- The tariffs imposed by China on wine exports have significantly impacted the viticulture industry and affiliated businesses in the regional economy. These also have the potential to damage the strong reputation of the Hunter wine industry including with alternative markets.

Opportunities emerge in responding to disruptions

Health has been identified in the Interim Report as an essential industry with reliance on vulnerable imports.

The COVID-19 pandemic resulted in global shortages in vital health equipment. Entities in the Hunter took the lead in responding to the NSW Government's 'call to arms' to develop a low-cost, back-up ventilator solution.

Local engineering firm Ampcontrol led a team of engineers, health specialists from [Hunter New England Local Health District](#), the [University of Newcastle](#), Safearth and NewieVentures and other NSW Health specialists to develop a prototype for a functional emergency ventilator in just 18 days. The Ventasys is now set to be manufactured on a larger scale for use in the NSW health system.

This example demonstrates that the Hunter region is well positioned to play a critical role in improving Australia's resilience and response to future global supply chain disruptions particularly for essential goods and services.

Role for government

Our submission has outlined that Hunter businesses involved in global supply chains understand the risks of disruptions and are actively managing these, noting the additional costs this imposes.

Governments at all levels have an important role to play to complement the investments of businesses in managing and responding to risk. Priorities include:

- Investments in supply chain infrastructure including upgrades of the shared road and rail infrastructure and the Hunter's international gateways to create efficiencies, productivity improvements and keep us competitive:
 - o Newcastle Airport Code E runway upgrade
 - o expediting Inland Rail and upgrades to freight rail between the Hunter's ports, western and northern NSW and Sydney
 - o upgrades to the national road network including the M1 extension to Raymond Terrace, the Newcastle inner city bypass and Singleton bypass.
- Responsive regulation and competition reforms including removing restrictions that impede the development of container terminal facilities at the Port of Newcastle, coastal shipping reforms, and access regimes that promote the economically efficient operation, use and investment in the infrastructure by which supply chain services are provided.
- Boost domestic production capabilities and the onshoring of raw and value-added inputs – including targeted programs that support manufacturers to invest and grow, investment in R&D, and positive procurement policy and incentives to source locally.
- Maintaining a rules-based and open trading system, fostering strong and enduring relations with our trading partners.

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