

## Productivity Commission Interim Report – Vulnerable Supply Chains.

InfraBuild welcomes the opportunity to comment on the Productivity Commission’s (Commission) Interim Report – Vulnerable Supply Chains that was commissioned by the Hon Josh Frydenberg.

InfraBuild is Australia’s largest and only integrated manufacturer of steel long products employing over 4,500 people. InfraBuild’s primary business involves; the collection, processing and trading of ferrous and non-ferrous scrap metals, the conversion of ferrous scrap metal into billet and then billet into steel long products and steel distribution.

The purpose of the Commission’s report is set out as follows:

*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, identifying any significant vulnerabilities and possible approaches to managing them.*

InfraBuild agrees with the Commission’s observations that:

- Supply chains are complex, and less transparent and becoming more so.
- Supply chains are subject to many types of risks that include; geopolitical, environmental, economic, societal and infrastructure related.
- Supply chains that rely on overseas inputs are often highly dependent on a small number of ports, which increases vulnerability.
- Key mitigation strategies used to prepare for supply chain risks include: no action, stockpiling, supplier diversification, contingent contracting, and developing domestic capability.
- The ABS application of confidentiality restrictions to data on imports of certain products and this extends to suppressing the identity of some supplying economies.
- The coarseness of product classifications may lead to groupings of vulnerable and non-vulnerable products and as such imports are unable to be ascertained to the level of detail required to permit meaningful analysis.
- The Australian Government also has responsibility for maintaining and promoting a respected and rules based international trading system.

InfraBuild Steel notes that the Commission has based its framework initially on using trade data even though the data is compromised by confidentiality restrictions. Unfortunately, the number and range of goods impacted by the Australian Bureau of Statistic’s (ABS) suppression of trade data is wider than that assumed by the Commission. The highest level of confidentiality restriction for which even high level aggregated data is unavailable i.e. ‘No Commodity Details’ is increasingly commonly applied to tariff codes applicable to imports of steel products despite multiple export sources of these goods. This appears to compromise both the Commission’s and (other government Departments’) ability to make informed policy decisions, as well as market participants’ (including domestic industries’) capacity to make informed investment decisions.

The other significant limitation of the trade data acknowledged by the Commission is the coarseness of the product classifications that may lead to groupings of vulnerable and non-vulnerable products. This means that even when broad trade flows are able to be observed, the identification of vulnerable versus non-vulnerable imports are unable to be ascertained to the level of detail required to permit meaningful analysis.

### **An alternative approach**

Given the broad nature of the risks identified to international and domestic supply chains, an alternative approach to the Commission's analysis would be to engage a panel of experts to first identify which industries are considered critical to the effective functioning of the Australian economy and Australians' wellbeing. Having identified these industries, additional industry-specific experts could then assist in identifying the critical goods or services required for those industries to function. A detailed (unsuppressed) data assessment of trade flows applicable to these critical goods (particularly during the 2020 COVID-19 affected period) is necessary to make informed recommendations about the strategies needed to address these key supply chain vulnerabilities in the future.

InfraBuild agrees with the Commission that by investing in strategies to manage supply chain risk, such as diversifying supply, stockpiling or bringing manufacturing onshore is likely to involve costs. While different options are more suitable for some vulnerable products than others, developing policies that encourage onshore manufacturing not only de-risks reliance on international supply chains, creates jobs and attracts investment (by deepening markets and strengthening domestic distribution networks), they undoubtedly improve Australia's sovereign capability and self-reliance. Investment in more on-shore value-added product development and manufacturing for export markets to reduce Australia's economic reliance on exports of raw materials should also be actively encouraged.

Australian manufacturers are predominantly trade exposed and have successfully operated in the most competitive manufacturing market region in the world for decades. InfraBuild does not advocate for the reintroduction of broad-based tariffs and is disappointed that the Commission continues to infer that this is what is being sought by Australian manufacturers and producers. Support for domestic onshoring however must consider a suite of options that include lowering energy costs, competitively based local content requirements, taxation and labour reform and maintaining and strengthening the checks and balances associated with international trade rules.

Lowest cost alternatives should not necessarily be the economic fundamental driver of trade. Goods that are sustainably sourced, produced using practices free from modern slavery, have appropriate compliance to standards and traceability, meet requisite sustainability criteria (including social, economic and environmental), adhere to bio security standards and are traded within international trade rules should be the benchmark that Australian industries compete against.

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