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Catherine de Fontenay and Jonathan Coppel
Commissioners
Productivity Commission
4 National Circuit
Barton ACT 2600

Via email: supplychains@pc.gov.au

Dear Commissioners

RE: Interim Report on Vulnerable Supply Chains

The MCA welcomes the opportunity to provide comments in response to the Productivity Commission's Interim Report on Vulnerable Supply Chains released on 26 March 2021 (the Interim Report).

Australia's minerals industry is a global leader in providing the essential elements of modern life while growing the nation's economy and sustaining regional communities.

The MCA is the leading advocate for Australia's minerals industry nationally and internationally as well as through its divisions in the Northern Territory and Victoria. The MCA's mandate is to advocate for a world-class Australian minerals industry that is safe, profitable, innovative, environmentally and socially responsible and attuned to community needs and expectations.

Australia's minerals industry is a major contributor to investment, exports and government revenues. It directly employs approximately 240,000 Australians. Australian mining is supported by an extensive mining, equipment, technology and services (METS) sector – a major exporter and economic contributor in its own right. Across mining industry supply chains, mining and METS support a total of 1.1 million direct and indirect jobs – or one in every ten jobs in Australia – as well as thousands of regional businesses.

The Australian mining industry has proved to be resilient and flexible through the COVID-19 pandemic, supporting mining supply chains and regional communities. This has extended to direct financial support for suppliers, industry cooperation for rationing critical inputs, and the provision of health and other services in remote indigenous communities.

The MCA has played a key role in co-ordinating the industry's response to COVID-19, ensuring high health and safety standards have been met, while allowing industry to continue operations. This has complemented government action, supporting jobs and the economy.¹

The MCA recognises there are inherent difficulties in identifying supply chain vulnerabilities in the absence of examining specific scenarios. The disruptive scenarios that might arise vary considerably in whether they are localised, regional or global; and in their magnitude, duration and sectoral effect.

There is no substitute for thorough and effective contingency planning across industry and government to ensure preparedness for major disruptive events, including to address vulnerabilities in supply chains.

¹ Minerals Council of Australia, [Resources sector – National COVID-19 protocols](#), 24 March 2020.

The MCA agrees with the Interim Report's recognition that the analytical framework it develops is best used as a tool to complement existing processes for identifying supply chain risks (whether at the firm level or to manage market level risk).²

In that regard, it is important to bear in mind the acknowledged limitations of the study, including:

- It does not cover defence supply chains
- It does not consider services imports; however, reliance on services imports may be an important element of identifying vulnerable supply chains
- It only identifies potential vulnerabilities from the importing country, whereas the imported product may depend on longer supply chains that extend through multiple economies
- There are challenges with the matching of trade data to production data, impeding the analysis of supply chain vulnerability
- Production data from 2016-17 is used on the assumption that this is a representative year.

Further, the analysis does not capture the supply chain impacts of restrictions on the movement of persons, particularly skilled labour, which can be vital to the functioning of essential industries. For example, in the mining industry, critical maintenance work may rely on a handful of individuals with highly specialised skill-sets.

To guide the Commission and others in the potential use of the study, the MCA offers the following constructive observations informed by the mining industry's experience through the COVID-19 pandemic.

Need for further explanation on the choice of data filter thresholds

The Interim Report's analytical framework begins with trade import data and progressively applies filters to generate a list of imported goods that may rely on vulnerable supply chains. The filters are:

- (1) Whether the main supplying country accounted for over 80 per cent of imports into Australia
- (2) Whether the main supplying country was the source of over 50 per cent of global imports of the product; or scored more than 3100 on the Herfindahl-Hirschman Index
- (3) Whether Australia sourced its supply from the main global supplier (if yes, the assumption is that alternative suppliers would be unable to meet demand in the event of a shock).³

The MCA encourages the Commission to provide a fuller explanation of the reasons for calibrating the data filters (for example, 80 per cent for the first filter and 50 per cent for the second filter).

While the Commission notes that sensitivity testing was undertaken, this only confirms that by adjusting the filters it is possible to increase or reduce the number of imports identified as vulnerable.

Global shocks will cause shortages even where there is little geographic concentration

The Commission's focus on geographic concentration to determine vulnerability, while intended to cast a wide net, may not identify critical imports that become vulnerable when there is a demand shock cause by a global disruption such as a pandemic.

The demand for N95 respirators and face masks during the COVID-19 pandemic is a case in point. Although there was geographic clustering of mask production in China, the main driver of shortages was the magnitude of the demand shock. According to the OECD, global demand in the early stages of the pandemic exceeded the global capacity to produce masks by a factor of ten.⁴ This situation was exacerbated by export restrictions simultaneously imposed by multiple national governments.

This highlights that global disruptions have different dynamics to localised disruptions. Different products will become vulnerable depending on the type of disruption experienced.

² Interim Report, p. 43.

³ Interim Report, pp. 31, 48.

⁴ OECD, '[The face mask global value chain in the COVID-19 outbreak: Evidence and policy lessons](#)', 4 May 2020.

Substitutability can have both negative and positive effects where there is a demand shock

The Commission points to the substitutability of inputs as a factor that tends to make supply chains less likely to be critical to an essential economic output.⁵ The MCA notes that the opposite can also occur – demand spikes can lead to the procurement of products that are critical to other industries.

The Australian coal industry experienced such a situation when high grade N95 masks and respirators meeting specifications suitable for underground mining began to be procured for health purposes (Box 1).

Box 1: Industry cooperation and regulatory flexibility are key responses to major disruptions

Strict health and safety requirements apply for underground coal mining in Australia. This includes a requirement for coal miners to use high grade, correctly specified P2 and N95 masks to minimise the risk of exposure to harmful substances in the course of their work.

The COVID-19 pandemic generated a demand for all types of respirators and masks across health and other industries, which led to a supply shortage of approximately 50,000 masks per month for the Australian coal mining industry.⁶

The minerals industry was willing to cooperate to ration supplies of masks, ensuring operations could continue through the pandemic; however, competition laws potentially prevented such cooperation from occurring.

The MCA sought authorisation from the Australian Competition and Consumer Commission (ACCC) on behalf of the Australian mining industry to enable limited industry cooperation for a range of identified critical inputs. Importantly, this included the flexibility to include other inputs that might be identified as critical as the crisis unfolded.

Interim authorisation was granted within a short time frame after application was made and the industry set up a working group that managed supply shortfalls through the crisis.⁷

Industry cooperation in combination with the speed and flexibility of regulators was the key element in ensuring operations were not compromised and long term economic damage to regions, jobs and livelihoods were avoided.

Strong supplier-customer relationships lead to supply chain resilience

The Commission correctly identifies that robust supplier relationships are important to ensuring that supply chains are resilient. The commission cites the well-studied example of Toyota and 200 of its suppliers in 1997, who worked to overcome a disruption caused by a major fire that made a critical brake-related part unavailable.⁸

The MCA notes that it is also important to recognise that large businesses such as major mining companies become supporters of their suppliers during disruptions. The economic incentive for doing so lies in the mutual benefit of preserving long term business partnerships that ensure the mining industry can remain adaptive and competitive.

Examples of such support include Newcrest Mining's *Beyond the Curve* community grants program and BHP's \$50 million *Vital Resources Fund*, which aimed to keep businesses and communities operating through the pandemic.^{9,10}

⁵ Interim Report, p. 27.

⁶ ACCC, '[Determination in respect of cooperation between mining companies for the purpose of safe and efficient operation during the COVID-19 pandemic](#)', Authorisation number: AA1000504, 27 August 2020, p. 5.

⁷ ACCC, '[Application for authorisation AA1000504, Interim authorisation decision](#)', 24 April 2020.

⁸ Interim report p. 82

⁹ Minerals Council of Australia, '[Australian mining still backing small business in COVID-19 recovery](#)', Media Release, 12 April 2021.

¹⁰ BHP, '[BHP establishes \\$50 million \(AUD\) Vital Resources Fund to help support regional communities](#)', Media Release, 25 March 2020.

The Australian mining industry's role in supporting small businesses and communities reflects the industry's increasing focus on strategic investments in communities to support local priorities and aspirations even when this support is not directly related to their operations.

The industry's emphasis on long term partnerships should be regarded as a contributor to supply chain resilience, balancing out the asymmetry between larger and smaller firms who are not resourced to undertake detailed contingency planning for major disruptions.

Some 'just-in-time' (JIT) supply chains are designed for resilience – not just cost minimisation

The Commission notes that 'if firms choose to operate with JIT processes, there is a lack of redundancy which increases vulnerability' because 'cost minimisation does not leave much room for error, such as if a supplier misses a shipment, transport is disrupted, or if the firm experiences a surge in demand'.¹¹

The MCA encourages the Commission to consider that some supply chains which operate on a 'just-in-time' basis may be designed in this way not for cost minimisation, but for safety reasons. The Commission touches on the explosives supply chain, citing the example of Orica's Kooragang Island ammonia plant, which uses JIT inventory system. Explosives are an essential input to the minerals industry. The design of the supply chain for explosives is to ensure volatile precursors are not stored for long periods of time creating safety risks.

A broader definition of essential goods and services better reflects how governments have approached the COVID-19 crisis

The Interim Report adopts a narrow concept of 'essential goods and services' that includes goods and services which meet the basic needs of Australians, including food, water, health, communications, energy, transport, finance and government. The Commission recognises the identification of essential supply chains involves a subjective component.¹²

The MCA encourages the Commission to adopt a broad view of essential goods and services. The objective of maintaining jobs was a pre-eminent focus of Australian governments as they have navigated the current pandemic and in weighing up whether industries should be regarded as essential.

This is based on the recognition that large scale job losses carry risks of deeper recession, social dislocation, government services being overwhelmed, mental health impacts and other widespread adverse effects on the wellbeing of Australians.

Disruptions to exports

The Commission notes that its final report will analyse disruptions to supply chains that can affect exports, including risk management strategies to deal with upstream and downstream disruptions. Given the importance of exports to the Australian economy, it is unfortunate that industry will have no opportunity to comment on a draft report.

The Australian mining industry is the largest exporter of minerals and metals in the world.¹³ In 2020 Australia's mineral, metal and energy commodity exports generated \$270 billion and accounted for 62 per cent of Australia's total exports, delivering the largest trade surplus in Australia's history.

These exports bolster consumer demand in Australia and represent a significant part of Australia's economic activity. In 2019-20 the mining industry, including oil and gas, accounted for 10.4 per cent of Australia's GDP, making it the largest sector in Australia.

In Australia's export based economy a substantial disruption to the Australian mining industry's ability to export could have significant economic consequences.

¹¹ Interim Report, p. 27.

¹² Interim Report, p. 34

¹³ MCA calculations based on 2019 data from the United Nations Conference on Trade and Development, UNCTADSTAT, viewed 23 April 2021.

Australian mining exports are highly resilient to most disruptions. Market fundamentals ensure that Australia's minerals resources exports such as iron ore and coal, regarded as high quality, are in high demand in diverse markets across the Asia-Pacific to meet their growing energy, infrastructure and development needs.

Having said this, the MCA encourages the Commission to further study how a better understanding of potential pinch points such as access to refined fuel, disruption at ports or trade restrictions might inform contingency planning for minerals industry participants.

The MCA further notes that the Commission's exclusion of services exports in its analysis would exclude much of the Australian METS sector, which is service based.

The Commission's framework for government intervention

The Commission provides a framework for examining when government should intervene to addressing vulnerable supply chains (p. 102-3).

While the framework focuses on identifying where government intervention is warranted, the MCA encourages the Commission focus to how regulatory design can be improved to provide flexibility and certainty during a crisis, especially in the crucial early phases.

Regulatory flexibility and certainty are important factors in creating options when supply chain risks materialise. Positive examples of where speedy regulatory responses enabled supply chains to continue functioning include:

- The ACCC's grant of interim authorisation to the minerals industry to enable limited cooperation and rationing of critical inputs (see Box 1 above)
- Decisions of states and National Cabinet to suspend local government truck curfews, enabling supermarket shelves to continue being stocked.¹⁴

By contrast, during the pandemic, snap state-border closures contributed to a high degree of uncertainty, imposing business costs and impacting some supply chains. Following this experience, an appropriate focus of government would be to undertake more coordinated scenario planning, including coordinated communication and messaging.

There is also a clear role for government and industry in ensuring contingency planning remains up to date, stress tested and effective. This must include coordination between government and industry to properly demarcate the responsibilities of each during particular scenarios, avoiding potential gaps and overlaps.

Finally, the role of the Australian Government in maintaining and promoting access to a rules based international trading and investment system cannot be understated. This includes leveraging Australia's involvement in multilateral and regional trade agreements such as the Comprehensive and Progressive Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership and other frameworks to develop regional contingency planning with a view to preserving trade and investment flows during disruptions.

The MCA would welcome the opportunity to provide further input to this study. Should you have any questions, please do not hesitate to contact Harry Theophanous, Manager – Workplace Relations, Trade and Investment.

Yours sincerely

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¹⁴ Australian Logistics Council, '[ALC Applauds NSW Move on Curfews](#)', Media Release, 20 March 2020.