

Response to the Interim report on the Vulnerability of Supply Chains

Submission to the Productivity Commission

April, 30 2021

ACCI is Australia's largest and most representative business network. Our members are state and territory chambers of commerce, national industry associations and a council of business leaders from individual enterprises. Together, we represent Australian businesses of all shapes and sizes, across all sectors of the economy, and from every corner of our country.

ACCI welcomes the opportunity to comment on the Productivity Commission's Interim report on vulnerable supply chains. Our submission reviews our members' experience throughout the height of the pandemic, to provide support to the Productivity Commission in their understanding of the broader contextual challenges that are affecting the resilience of Australia's supply chains. We offer policy recommendations to the Productivity Commission and Government in general in preparation of the final report.

Analytical framework is too narrow

Overall, we find the Interim report is too narrowly focused, by definition, on the analytical framework. The scope of the inquiry as defined by the terms of reference does include instruction to incorporate in combination the concept of 'essential', 'vulnerable' and 'critical' in the design and development of the analytical framework for identifying supply chain vulnerabilities.

*"develop a framework for identifying supply chains that are vulnerable to the risk of disruption and also critical to the effective functioning of the economy, national security and Australians' wellbeing"*¹

The study could be significantly improved by eliminating and/or broadening the definition of essential to capture a more holistic picture of the supply chain vulnerabilities on Australian industries. A more inclusive analysis of the vulnerability of supply chains on industries is necessary to support the resilience, strength, agility and adaptability of supply chains in the event of future exogenous shocks to the economy.

Work towards a common understanding of 'essential'

The interim report lacks consideration for a common understanding of 'essentials' amongst the international trading community. The disparate patchwork of how essentials are defined between but also within countries has had a disruptive effect on supply chains. ACCI's work with the Business and industry advisory committee (BIAC) to the OECD has found that any efforts to disentangle global value chains into essential and non-essentials will almost inadvertently lead to arbitrary restrictions and disruptions of highly complex supply chains and structural shortages. In light of this,

¹ Productivity Commission, Interim Report, Vulnerability of supply chains (2021) p iii

the Australian Government should work alongside trading partners towards a common understanding of 'essentials', with a view to eventually deliver mutual recognition and harmonisation.

It is important that any definition in this regard takes into consideration the entire supply chain needed to produce, deliver and maintain such essentials, and recognizes the need for flexible travel requirements associated with their production and delivery. In this context, further mutual recognition of professional and trade qualifications should be particularly considered.

The COVID-19 experience

Domestic supply chains have been tested throughout the peaks and troughs of the COVID-19 pandemic. The overall experience tells us that the supply chain issues went far beyond the lack of access to inputs and components to parts and products to much more about the access to and mobility of people and resources around the country and globally. The lived experience suggests that supply chain vulnerabilities were borne from the lack of clarity and access of information across domestic and international markets, the lack of substitutability of transport, markets and places, the inability to find new markets in a timely and cost effective manner, the critically of business relationships and digital capabilities to better track, trace and monitor impacts across the supply chain.

The small business community experienced significant uncertainty and confusion based on some state-level public announcements that in general lacked adaptive responses to factor small business concerns. Small businesses by their very nature are time and resource constrained. They depend on a relative few business suppliers, are generally time poor and bound by talent and resources including a small number of employees and limited cash flow. They also lack sophisticated digital technologies across their supply chains.

Prior to Covid-19, many large multinational firms had already started digitising and diversifying their supply chain operations, for example by shifting some of their production capacity to dual sourcing², domestic sourcing³ and/or increasing real-time visibility⁴. For the vast majority of SMEs that establishes a business relationship with only one supplier, diversification methods such as dual sourcing may be difficult to implement.

We need to do more to support small business

In today's modern, global economy, it is not firms competing against each other, rather a firm's supply chain competing against another firm's supply chain. Small business supply chains are far less sophisticated and much more vulnerable to exogenous shocks than larger businesses. To drive small business firm competitiveness domestically that allows them to grow, innovate and employ more Australians, we need to take seriously government support to strengthen transparency, responsiveness and agility of domestic supply chains. Government should act to support SMEs by encouraging import and export market diversification, accessible digital infrastructure and technology, an on-the-ground mentors and business development managers to help maintain, strengthen and diversify export market suppliers, producers and export market opportunities. The COVID-19 experience has been relatively mild in Australia compared to international markets which has saved lives and improved overall economic outcomes. In the long-term however, domestic small

² Using two suppliers and/or production locations for a given component

³ Sourcing and/or producing a given component, raw material, product or service from local suppliers and/or manufacturing it domestically

⁴ Using technology to increase transparency along the value chain to obtain real time demand and plan production

firms may be laggards in adopting and creating innovative methods of capturing new markets, suppliers and talent. Further support from government and larger intermediaries is required to increase small business supply chain competitiveness and resilience.

Reducing heterogeneity of technical standards and unnecessary non-tariff measures

The proliferation of excessive national standards and regulations can result in duplicative, conflicting and cumbersome regulations that create additional burden for business and prevent easy and timely substitution between alternative suppliers. The Australian Standards organisation recognises the need to harmonise and streamline standards by integrating and adopting international standards for the purposes of recognition and interoperability. Greater effort and resources should be allocated to achieve an outcome that allows businesses to transition to international standards and/or recognise international standards for commercial purposes.

ACCI supports the abolition of non-tariff measures that impose quasi-protectionist barriers that limit the shaping of trade and investment flows into Australia. This requires close engagement between governments and industry in facilitating sector-based abolition of trade barriers. The Government's move to legislate automatic mutual recognition of trade professionals is a step in the right direction but much more can be done to allow people and resources to move and flow through borders more fluidly.

There is also a requirement to refine and define a nationally consistent approach to border closures, and lockdowns of large metropolitan areas in the event of further shocks to the economy.

The ACCI is further concerned with the implications for carbon tariff measures imposed by international governments that may inadvertently discriminate against Australian exports at the border.

Geopolitics, security and the digital economy

There are broader contextual factors at play that are rapidly transforming the landscape, Governments are moving towards greener and more sustainable supply chains, they are adding transparency across the supply chain and moving towards the adoption of digital technologies to help support SMEs. Government is also considering further diversification of trade strategies that may have a material impact on existing trade relationships of and amongst Australian businesses. Australian government leadership is required at international fora in continuing to support trust in the international trading system. Increasing protectionism and discrimination at the Australian border will affect businesses and consumers. Business requires the certainty and security that they can depend on international governments to respect and support international trade rules and relationships. Greater influence and negotiation are required to win further support in trade relationships of Australian businesses.

Facilitating producers and ensuring transparency across domestic and international border

Well-functioning and predictable procedures are critical for business to facilitate the movement of goods that should be entering the country and state, and those that should not. Governments should work closely to review transport, logistics and border process regulations and access points to keep cargo and transport moving efficiently in case of further shocks, and ensure that logistics providers

such as truck haulage, air cargo and shipping facilities and services that support them remain operational. In times of a crisis, governments and transport infrastructure freight carriers may consider prioritising shipments of essential goods. This also requires clear, coherent and timely guidance regarding border-measures and producers and transparency for business are particularly important in a rapidly evolving environment.

To support supply chain resilience, governments can deploy digital technologies and standardised paperless procedures to help protect people during pandemics and similar exogenous shocks to the economy by avoiding the need for physical contact, but also to help alleviate the potential staffing shortages. ACCI has previously undertaken the development of a proof of concept in this field – see www.tradecommunitysystem.com.au

Government should continue to pursue “free trade” via the WTO.

The COVID-19 pandemic shows how quickly international government enact export restrictions, which disrupt local production and access to resources. This is often exacerbated by demand pressures elsewhere, and fundamentally erodes trust in the international trade and investment system. In this context, it is recommended that further consideration be given to the vulnerability of supply agreements, particularly with like-minded governments. The WTO is the appropriate place to undertake such efforts and ensure that “free trade” supports the efforts to overcome global and regional issues such as health crises, climate change, etc.

Investment in trade infrastructure

Governments should work together to review ageing trade infrastructure. There are vast benefits of strengthening and supporting investment in transport infrastructure and telecommunication networks including the application of new technologies such as Blockchain as this can have substantial benefits on supply chain resilience. Our previous work in this field identifies at least \$1 Billion annually in efficiency across the Australian economy from improved management of our border crossing systems alone.

Safeguarding the efficient movement of people and services

As critical inputs to maintain supply chains, the movement of international and domestic business persons and services should remain as free and predictable as possible within necessary safeguards. Where evidence-based travel restrictions are required in times of crisis, a coordinated, coherent and cooperative approach is needed. This will help avoid a myriad of regional, national and sub-national travel restrictions such as entry restrictions, and quarantine regulations which can lead to mutual blockage of travel activities and present significant bureaucratic hurdles, particularly for business operations that cannot be completed remotely.

ACCI has been in support of clear, coherent, and timely guidance regarding the implementation of movement of people across borders. As efforts to enable the international movement of essential persons may be helpful, clear, coordinated and coherent definitions are needed. Businesses are currently experiencing skills shortages in several industries as Australia has imposed limited and discriminatory caps on international arrivals at the border. This requires rectification to allow industries to gain access to people and resources at the border and get back to full capacity.

Conclusion

In conclusion, the analytical framework used to study supply chain vulnerabilities is too narrowly focused and is not in keeping of the scope in the terms of reference. Expanding and/or eliminating the use of the term 'essential' will provide a more holistic picture of the supply chain vulnerabilities across 'critical' industries in the economy. There is a further need to work towards a common understanding of the term 'essential' with international governments.

The report should also analyse:

- further ageing trade infrastructure,
- safeguarding the efficient movement of people and services,
- exploring the security of supply agreements,
- facilitating procedures and ensuring further transparency across domestic and international borders,
- consideration for broader contextual factors in more detail such as the impact of geopolitical tensions and security and the digital economy, and
- placing further emphasis on reducing heterogeneity of technical standards and unnecessary non-tariff measures.

Overall there needs to be further consideration for working closely with industry to better support small business as they are least capable and prepared to manage further exogenous shocks.