

To: Productivity Commission

Re: Vulnerable Supply Chains Interim Report

4 May 2021

Introduction

AMEC appreciates the opportunity to make a submission to the Productivity Commission's Interim Report on Vulnerable Supply Chains. The findings, recommendations and outcomes of this Interim Report, and the Final Report, could influence policy decisions that would have a substantial direct and indirect impact on the mineral exploration and mining industry. It is important that any proposed risk management measures do not inadvertently disadvantage industry, or result in unintended consequences that could threaten its ability to continue driving Australia's economic recovery.

About AMEC

The Association of Mining and Exploration Companies (AMEC) is a national industry association representing over 375 members from all around Australia. Our members are explorers, emerging miners, producers, and a wide range of businesses working in and for the industry. Collectively, AMEC's member companies account for over \$100 billion of the mineral exploration and mining sector's capital value.

The mining and exploration industry make a critical contribution to the Australian economy, employing over 255,000 people, and in 2018/19 collectively paid over \$39 billion in royalties and taxation. In 2019/20 resources companies invested \$35 billion in new capital and generated more than \$176 billion in mineral exports. \$2.8 billion was spent on minerals exploration in 2019/20, representing an 18% increase from the previous year.

Vulnerable Supply Chains Interim Report

General feedback

Recent disasters in 2020, from the summer bushfires and autumn floods across eastern Australia, to the COVID-19 pandemic, have highlighted Australia's supply chains, and potential vulnerabilities which could disrupt the ways in which we typically operate, under normal circumstances. This Review has been exacerbated by the influx of panic buying during COVID, and geopolitical tensions leading to trade tariffs and export restrictions. It is important that the Commonwealth, State and Territory Governments have a current and forward-looking, holistic understanding of our supply chain vulnerabilities, so we can gradually work together to strengthen these potential weaknesses or develop alternate safeguards.

In principle, AMEC agrees on the importance of Governments undertaking periodic reviews to supply chain vulnerabilities and potential disruptions. Based on these findings, an updated list of vulnerable goods, services and industries is important, but equally important is gaining a clear understanding of

what is causing potential vulnerabilities, the impacts of these vulnerabilities, and actions to address them.

It is important this task is carried out methodically, and involves major industries, such as mineral exploration and mining. Any potential risk management frameworks or mitigation strategies need to be consulted on, to ensure there are no implications or unintended consequences as a result.

Primarily, industry needs to be able to keep operating, in line with the latest health advice, without additional costs, regulatory burden, or difficulties in accessing supplies which are vital to the ability to continue operating safely.

Risks to the mineral exploration and mining sector

The mining and mineral exploration Industry makes up a critical part of Australia's supply chain, both as an importer and as an exporter. Australia's resources sector is its largest source of export, accounting for over 58% of Australia's exports, to the value of \$239.3B in 2018-19¹. As such, the web of economic interdependencies formed through these supply chains and nodes, poses different risks to industry, at different levels. Based on the level of exposure a firm has to these risks and their ability to consider alternate options, the outcomes will expectedly vary.

The nature of risks is that they are not always able to be planned for, and often we have to adopt a reactionary stance to them. To be as prepared as possible for the next wave of risks relating to our domestic and international supply chains, whether by continued health crises, geopolitical tensions or natural disasters, a proactive approach to identifying and addressing supply chain vulnerabilities, for all scales of our sector, is imperative but difficult.

As observed by the Productivity Commission, despite an initial disruption to face mask production, which led to a global shortage, Chinese output of face masks expanded by a factor of 10 in the first three months of 2020. In practice this rapid increase in supply to meet surging global demand made an Australian investment in the key "vulnerable" component, non-woven polypropylene which is produced in Wuhan, questionable.

The underlying market dynamics which facilitated the geographic concentration for non-woven polypropylene remain largely unchanged.

Firm-level vs Market-level risks

Given the scope of this inquiry and the countless industries it encompasses, correctly defining actual and perceived risks, and firm-level versus market-level is expectedly, a challenging task. However, this clear distinction is an important factor in the consideration of risk management approaches and strategies, which would have a likely impact on industry's ability to continue operating, and meeting expectations.

For example in the Interim Report, clothing items were identified as a vulnerable import as having a high import concentration, but unlikely to be essential – either directly or as an input into the

¹ <https://www.dfat.gov.au/publications/trade-and-investment/trade-and-investment-glance-2020#exports>

production of essential goods and services. However, industry would disagree. Uniforms are mandatory on all mine sites to correctly identify staff, visitors and contractors, and personal protective equipment (PPE), essential for industry workers to carry out their tasks safely, should be considered essential. It is not only our industry that uses PPE and needs access to stable supplies of it. Healthcare workers would also be competing for this access, and shortages experienced as COVID-19 became a reality in Australia in 2020, need to be avoided. Based on this interpretation, a disruption to the supply chain for these critical items, would have wide-ranging implications across Australia for numerous sectors.

This example was a very-real supply chain vulnerability experienced by a number of companies during COVID-19, when stockpiling prevented some companies from accessing PPE for their workers. Additionally, they were hampered by transport / logistical issues prevented the timely movement of PPE and uniforms from site to laundry facilities, or the delivery of new stock. Without PPE and uniforms, industry cannot operate safely, and realistically, Australian manufacturers are not able to compete cost-wise, with foreign counterparts. This element of our supply chain poses a significant risk, not just to firms, but at market-level. Companies have different risk appetites, and will not always be in a financial position where they could pay significantly more, to access a limited range of local suppliers, potentially resulting in a divergence, requiring Government intervention.

The trade-off between the costs of this real disruption to industry's operational capacity, with the opportunity cost of potential risk management measures, will be of concern to industry.

While it is noted the Interim Report lists risk management mitigations to be undertaken by firms as stockpiling, no action, supplier diversification, contingent contracting and developing domestic capability, there will ultimately be a trade-off, which will typically come at a cost, borne by industry. Proactive Government intervention in the form of information about risks and maintaining domestic production capacity, once demonstrated to industry that the case for intervention outweighs its cost, would be conditionally welcomed.

Other relevant supply chain vulnerabilities

In addition to the PPE and hand sanitiser challenges faced by all sectors during the onset of COVID-19 in early 2020, our industry has also experienced shortages in access to imported components for manufacturing, vehicles and accommodation.

AMEC members have reported that the lead times for imported components required to do all levels of work across industry, has doubled, if not more. This includes parts such as hydraulic vales and dials, and ranges to large items including MAN trucks, with the lead-time for a Toyota now well over 8-months. This is concerning, as while Industry could source some (but not all) equipment from alternate suppliers within Australia, these resources are being depleted faster than they can be replaced. For example, in the event the popular truck tyre sizes that are already in limited supply cease, contingency plans have to be made, but it is currently unclear what these plans will entail.

During lockdowns 2-seater utes were only permitted to allow 1-person, 5-seater vehicles were restricted to two people, and 7-seater MAN 4x4 trucks were only permitted three people per vehicle. As such, companies had to hire additional vehicles, but the limited availability drove costs up. As we are still experiencing challenges in getting new vehicles to Australia, have limited (if any) local

manufacturers, and people have more discretionary expenditure due to the inability to travel, these shortages continue to increase costs and burdens requiring extra resourcing to address, for the industry.

Accommodation was another significant challenge highlighted during this period. As interstate FIFO had to almost entirely halt for several months, with the exception of highly specialised skillsets, the majority of our industry had to hire short-term accommodation for their workforce. Finding suitable accommodation that met strict COVID-19 requirements was no easy feat in Western Australia, and heightened demand for limited availability, significantly increased the cost to businesses. While these companies understood the importance of keeping their workers safe, it came at a notable financial burden. As the housing shortage in Western Australia continues, and with borders prone to frequent changes, Industry questions how this particular vulnerability will be addressed, and what measures can be adopted in the interim, to cushion the effects passed on to businesses?

Regulatory stability

Often in our submissions to all levels of Government, AMEC highlights the importance of regulatory stability not only for project proponents, but for potential investors, who place high value on regulatory stability. Also pertinent to this discussion, is that regulatory stability not only affects investment attraction, but the ability of Australian firms to plan and respond to market disruptions via diversifying suppliers and finding suitable alternatives.

Australian firms need to remain competitive. We have premium mineral offerings, and while we are able to remain operational, we need to capitalise on this competitive advantage, and others, to strengthen our trading stance as the rest of the world begins to emerge from COVID-19 lockdowns.

The ability for firms to remain competitive, is reliant on a responsive regulatory framework, in which companies can seek immediate access to regulators and receive reasonable, sound feedback in a timely manner. Should companies need to seek foreign supplies, the restrictions around trade tariffs and trade relationships, need to be considered when engaging in geopolitical discussions. As many sectors are now experiencing, the ongoing tensions with China are causing much uncertainty across the Australian economy and presenting significant potential risks to the broader Australian economy.

Free market

Trade is an integral part of Australia's economic activity and underpins Australia's mining and mineral exploration industry. AMEC cautions against the introduction of regulation that would increase costs for business or hamper investment.

Final comment

The supply chain vulnerabilities and risks identified in this Interim Report reflect the concerns amongst Australia's mineral exploration and mining industry, about supply chain diversification. Arguably, the minerals industry is Australia's most lucrative industry, but the contributing factors to these potential risks, are often outside of our control. It is imperative to the financial stability of the nation, that our supply chains are cushioned from vulnerabilities that could impact our ability to remain operational and meet high domestic and foreign demand.

The mineral exploration and mining industry provides long-term, wide-ranging benefits to the communities in which projects are located, and the broader Australian community. These projects create jobs, inject local communities with money and business opportunities, upskill our workforce, and provide economic resilience, as demonstrated in the cushioning of our economy from the COVID-19 induced global recession. It is important that Industry is able to continue providing these benefits, and that the Final Report fully considers the scenarios unique to our industry, when forming its final recommendations.

AMEC requests to remain engaged with the Commonwealth Government as the Report's findings and recommendations are developed, to ensure Industry is adequately consulted and represented.

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