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Dear Commissioners

Thank you for the opportunity to contribute to this study into the nature and source of risks to global supply chains.

While many of the perceived and actual vulnerabilities around global supply chains are grouped together under the catch all “Supply Chain Problems”, the problems being experienced by Ai Group members began as a demand shock for specific products, exacerbated by closed borders here and overseas, and are currently caused by the transport shock being felt around the world. Potential supply chain troubles emerged before the global impact of COVID when in 2019 USA and China engaged restrictive trade practices, many Australian companies were caught in the crossfire as many access products and technology from both markets. However, these shocks have not necessarily been negative for all members, with some members attributing increased demand for their products to the tightening of supply from their competitors.

Transport and Border Issues:

Members are concerned with the increased cost of international shipping. According to the Drewry world container index, average container prices in April 2019 were US\$1200 for a 40 foot container, today that same container carrying the same goods will cost around US\$5000. Australia can't control those prices, however we can work on improving the efficiency of our ports and border processes. We have attached to this letter a report of some of the issues that our members have reported in using international sea freight in Australia. Shipping as a derived demand, limiting its elasticity, and shippers have very little market power to drive efficiency or price competitiveness. The structure of the Australian sea freight industry does not appear encourage cooperation and Australian importers have little say in which stevedore or shipping line they use.

The delays and increased costs of shipping have driven some counterproductive behaviour including excess stock holdings, which is starting to cause cash flow issues, which in turn will start to impact business investment and recruitment. Meat, dairy and horticulture exporters are reporting that the continued shortage of food-grade shipping containers is continuing to delay exports and shorten shelf life of products. It is expected that citrus exports will be hard hit in coming months and there is further concern that, when IFAM ceases in September, the problem will increase.



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Insurance Issues

An essential building block of participation in most supply chains is business insurance. Evidence of adequate issuance coverage for professional indemnity or product liability is often a bid requirement. We also attach to this letter a report outlining the problems identified by members in accessing insurance.

One issue that requires more exploration is the role of Regulators and planning departments who should consider risk factors and insurance implications when granting permissions for new sites which may negatively impact the insurance options of those around them. We are getting reports from members that their insurance options are being limited by the presence of unrelated companies in their industrial estate that the insurance industry deems too high risk.

Additionally, the expectations around insurance in government funded infrastructure and transport projects appear to be distorting the market and limiting the number of potential suppliers. This too deserves great attention.

Digital trade rules

Supply chain discussions often limit themselves to the movement of goods, however in today's economy, the unfettered movement across international borders is essential for Australian companies to remain globally competitive. While the Australian Government has taken a leading role in the WTO, APEC and in bilateral agreements such as with Singapore, there is more work to be done and we should be alert to the risks that any move to limit this progress will have on Australian companies.

Sincerely yours,

Louise McGrath
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