

Productivity Commission Inquiry into Vulnerable Supply Chains

Australian Trade and Investment Commission Submission

3 May 2021

The Australian Trade and Investment Commission (Austrade) welcomes the opportunity to provide a submission to the Productivity Commission’s inquiry into vulnerable supply chains. Austrade’s submission focuses on the examination of supply chain vulnerabilities from viewpoint of Australia's exporters.

Austrade is the Australian Government agency responsible for international trade promotion and investment attraction. Austrade’s core role is to help Australian businesses commence exporting, and expand and diversify. Austrade helps exporters to access market opportunities and provides specialist advice, market information and tools to inform businesses’ export and expansion strategies. Austrade support for exporters can help reduce the cost, risk and time involved in finding and accessing new markets.

The impact of the COVID-19 pandemic on Australia’s trade in goods and services, as well as growing tensions with China has highlighted the potential for disruptions to global supply chains, noting Australia’s reliance on a small number of key markets. Diversifying markets and supply chains will make an important contribution to Australia’s economic recovery and resilience by expanding opportunities for exporters.

Ultimately, choices about the mix and range of goods and services which Australian businesses trade and where they trade them are a decision for those businesses. The Government plays a facilitating role, but the private sector remains the commercial decision-maker. However, the Government is stepping up efforts to increase access to offshore markets and provide new opportunities for Australian businesses.

## Importance of exports to the Australian economy

International trade is critical to the Australian economy, providing jobs and contributing to our prosperity. Exporting in particular opens up opportunities for Australians to expand their businesses. Exporting is a driver of economic growth and helps the economy remain competitive. According to the Department of Industry, Science, Energy and Resources, ‘on average, exporters are larger than non-exporters in terms of employment, value-added and capital expenditure. Labour productivity and average wages are also higher for exporters.’[[1]](#footnote-1) Trade also benefits Australian consumers through access to an increased range of higher-value goods and services.

Austrade’s assistance to exporters helps them to establish and expand in offshore markets. A [2019 study by Swinburne University](https://www.austrade.gov.au/news/economic-analysis/key-publications) assessed the value-add of Austrade’s advice and services to exporters. The study compared Australian businesses receiving specifically Austrade’s services tailored for particular exporters against similar businesses that did not access Austrade’s services. It also compared businesses which only received Austrade’s general services. The study found that exporters who accessed Austrade’s services increased their export sales much faster than those who didn’t use any Austrade services. The study also found that those that used Austrade’s tailored services increased their sales by 26 per cent more than those that simply received general Austrade advice, although that advice also added value. [[2]](#footnote-2)

## Austrade’s services for exporters

Austrade provides a range of services for exporters which support trade diversification, particularly by helping to identify new market and commercial opportunities, finding new partners, and promoting Australian products in those markets to help drive consumer demand.

Austrade’s support can reduce the risk, time and cost to exporters of doing business internationally. This support helps Australian businesses develop strategies to manage risks to supply chains that are vulnerable to disruption, including helping exporters get perishable products to market on time through the International Freight Assistance Mechanism (IFAM), facilitating key distribution partnerships in market to help ensure products can get to final consumers effectively, and facilitating Australian business engagement in global supply chain networks.

### Supporting exporters with INFORMATION and advice

#### Digital Services

Austrade’s new suite of universal services available online to all businesses allows more Australian businesses to access Austrade expertise and information helping them to achieve their international export goals. These services provide Australian businesses with personalised information, advice, global insights and market knowledge. They include digital services and one to many services delivered through many channels.

#### Trade Information Service

Austrade is implementing and expanding its Digital Exporter Services available at [www.export.business.gov.au](http://www.export.business.gov.au) to meet the Government’s commitment for a Trade Information Service. This service provides exporters with a single source of information on how to export, including regulatory and compliance information and Free Trade Agreement (FTA) tariff rates, and forms part of the Government’s Simplified Trade System reforms. The service will be progressively expanded.

#### Free Trade Advantage

The Free Trade Advantage online platform brings together a range of practical advice and resources to help Australian businesses access the benefits of Australia’s FTAs.

#### Trade Facilitation Services

Austrade provides trade facilitation services to Australian exporters to help reduce the time, risks and costs of doing business overseas. These services can include providing market and industry intelligence, assisting with market selection and assessment, making introductions to international contacts and potential customers, and providing advice on market regulations. Services may be delivered through Austrade’s Advisory Team, the TradeStart network, overseas Posts and through digital channels.

#### TradeStart

TradeStart is a network of locally-based advisers across Australia providing practical export advice to businesses, especially in regional and rural areas. TradeStart focusses on small and medium sized exporters and offers exporters the combined resources of Austrade and partner organisations, providing local assistance and a direct link to Austrade’s services and overseas network.

#### Excelerate

Austrade’s Excelerate Services deliver an end-to-end services to businesses which have strong international growth potential. With this invitation-only offering, Austrade identifies businesses most likely to benefit from the service, and contribute to Australia's economic prosperity. If the business chooses to take up the service, they are connected with a global team that offers actionable advice, overseas connections, in-market visit support, and cultural guidance.

#### Services Export Action Plan

The Services Export Action Plan was launched in April 2021 by the Minister for Trade, Tourism and Investment. The plan, developed by jointly by industry and Austrade and the Department of Foreign Affairs and Trade, aims to support Australian businesses to successfully export services, with 72 specific actions under five macro-level outcomes.

### SUPPORTINg EXPORterS WIth Financial Assistance

#### Export Market Development Grants

Export Market Development Grants currently reimburse a proportion of marketing expenses for eligible exporters and is a key Australian Government financial assistance program for exporters. Administered by Austrade, it supports a wide range of industries. Reforms, to begin on 1 July 2021, will streamline and simplify the program. It will be reoriented to a forward-looking, non‑competitive grants program which will provide up-funding certainty through grants agreements with eligible SME exporters over a two of three year period. EMDG will continue to provide financial assistance to help new and existing exporters with marketing expenses as they seek to establish, expand and diversify their markets.

#### SUPPORTING EXPORTERS WITH SUPPLY CHAIN LOGISTICS

#### International Freight Assistance Mechanism

To keep supply chains moving, Austrade is leading the administration of the International Freight Assistance Mechanism (IFAM). The Governmenthas now provided a total of $781.8 million to operate IFAM. The program is supporting international supply chains, assisting agricultural, seafood and other exporters of time-sensitive products to access key global markets, and bringing in vital medical supplies to help Australia fight COVID-19. To date, IFAM has committed to support an estimated $5.7 billion in exports, supporting up to 150,000 Australian jobs that are directly or indirectly reliant on airfreight. While IFAM is a temporary measure, it has recently been extended to 30 September 2021.

*See additional information and statistics on IFAM at* **Appendix A**.

### Sector Specific Support

#### Agribusiness Expansion Initiative

The Agribusiness Expansion Initiative (ABEI) announced in December 2020 provides $42.9 million to Austrade to scale up support to over 2,000 agri-food exporters each year through Austrade’s existing services (Excelerate and digital and distributed services). Austrade will also work with industry bodies to deliver targeted advice and trade missions (where possible) to help exporters expand and diversify in existing and new markets. Austrade has recruited additional agri-export specialists in Australia and priority international markets to put more resources on the ground to assist Australian exporters.

#### International Education

Austrade is responsible for the global marketing and promotion of Australian education, training, research and edtech. Austrade continuously improves its digital services for students, parents and education agents globally, in order to generate demand for studies in (onshore) and with (online) Australia. Using its network, Austrade also supports improved education export capability by providing timely market intelligence, data analysis and direct access to opportunities that align the Australian offering with demand internationally. In order to bolster sector resilience and sustainability, Austrade leads on initiatives that support market diversification and expansion. A key priority, in light of COVID-19 border closures, is the promotion of online and transnational education options providing pathways to studying in Australia when borders reopen.

While borders remain closed, Australia continues to market itself as a high quality and welcoming destination for international students and the Government has announced a range of visa measures to support international students. While the measures are temporary, the Government has said that they will continue for as long as necessary.

#### Tourism

Austrade has policy responsibility within the Australian Government for tourism and provides services that support tourism in Australia. This includes tourism grants, data provision for tourism research and services which encourage international audiences to buy from, invest in, and study in Australia. Due to the impact on the tourism industry of the COVID-19 pandemic, Austrade is working closely with the sector on to support its recovery through: temporary and targeted short-term measures; medium-term measures to allow the sector to reopen and return to growth; and planning for the sector’s long-term transformation to ensure it can adapt, innovate, and achieve sustainable growth. In the longer term, the Government will support the visitor economy to innovate, diversify and return to sustainable growth.

#### Landing Pads

Austrade’s Landing Pads provide market-ready Australian tech start-ups and scale-ups with access to world-leading entrepreneurial expertise and business networks to help them expand globally.

### Supporting exporters with marketing and promotion

Austrade’s marketing and promotion activities portray Australia internationally as a reliable and safe trading partner and promote Australia’s clean, green image leveraging the nation brand and driving demand for Australian goods and services.

#### Nation Brand

Austrade has facilitated the introduction of Australia’s new nation brand. The nation brand provides a toolkit of assets for Australian organisations to promote their ‘Australian-ness’ internationally in a consistent, recognisable, quintessentially Australian way. Broad adoption of the nation brand consistently across sectors will help strengthen Australia’s reputation, attracting more people to invest, study and visit here, and to buy our products and services.

## The role of investment in supply chains

Austrade suggests the Productivity Commission also considers the role that Foreign Direct Investment (FDI) plays in the vulnerability of supply chains. In some circumstances, FDI strengthens Australian linkages to global supply chains and, at times, means that international trade is intra-company rather than inter-company. Insight on whether these two phenomenon have any demonstrable impact on supply chain vulnerability would be welcome, particularly in key sectors such as critical minerals.

The role that exports play in a collaborative strategy for managing high-priority supply chain risks could also usefully be examined. Australia is a ‘trusted vendor’ for sensitive technologies and services and a demonstrably ‘rules-oriented’ international actor. There are opportunities to cement the place of key Australian industries or exporters in global supply chains to distribute and manage risk in identified (common with key partners and allies) critical and vulnerable items or products for Australia. This approach is reflected in the government’s focus and initiatives on critical minerals, critical technologies (including 5G) and some medical and pharmaceutical supply chains, and could become more systemic in key industries.

## Next steps

Austrade has been using big data to track key industries impacted by trade disruptions and would welcome further discussions with the Productivity Commission on the use of this data.

The framework outlined by the Productivity Commission in the interim report would be most useful if used to forecast vulnerable exports and sectors including the impacts on regions.

Austrade’s specialists who focus on advising exporters would be happy to discuss with the Productivity Commission any areas of particular interest. Austrade could assist the Productivity Commission to engage with exporters in Australia and with representatives from peak industry bodies, if there are further opportunities in the future to engage industry players as the Productivity Commission develops its final report and recommendations.

## Appendix A

## International Freight Assistance Mechanism

### SUPPORTING EXPORTERS WITH SUPPLY CHAIN LOGISTICS AND AIR TRANSPORT

In response to the COVID-19 pandemic Austrade is leading the administration of the $781.8 million International Freight Assistance Mechanism (IFAM). This targeted, temporary measure has helped reconnect crucial global supply chains and has supported the export of high-value and time-sensitive perishable products to established markets, ensuring they continue to meet supply contracts with international customers. It has also supported the import of critical medical supplies, equipment and other goods of national importance. While IFAM is a temporary measure, it has recently been extended to 30 September 2021, providing more time for businesses to adjust to the new trading environment.

IFAM maintains global air connections and protects hard fought market share, while targeting support where it is needed most and buying Australian businesses time to align their operating models to ‘new-look’ supply chains.

Reconnecting back into almost 70 international destinations and maintaining global air connections not only supports the estimated 150,000 jobs currently directly or indirectly reliant on airfreight, it also helps secure our long term prosperity. As an island nation, it is essential that Australia maintains air connectivity to key markets. IFAM ensures the aviation sector is supported until the COVID-19 vaccine rollout is well underway; retaining Australia’s reputation as a reliable global trading partner.

Through accessing IFAM-supported flights and grants, Australian businesses have been able to fulfil contracts with existing customers, protecting market share. In the words of Mahen Prasad from the United Lychee Marketing Association: “*It’s about helping producers and exporters defend existing markets that they’ve fought hard to win. If we can’t supply demand then somebody else will. That’s why the scheme matters to farmers, freight forwarders and the workers they employ*.”

### **Background and statistics**

* Since April 2020, IFAM has supported rebuilding global airfreight routes in the wake of COVID-19 containment measures that saw commercial passenger flights drop by more than 90 per cent almost overnight. (Source: Internal Paper prepared for the Department of Infrastructure, Transport, Regional Development and Communications, Boston Consulting Group, 2020).
* This had an immediate and devastating effect on Australia’s ability to airfreight goods. As an island nation, Australia is heavily reliant on passenger flights for time-sensitive freight, with 80 per cent of Australia’s airfreight typically carried in the bellies of passenger flights. (Source: pg.8 International Airfreight Indicator 2019, Infrastructure Partnerships Australia and Oxford Economics).
* Airfreight prices increased to approximately 3.6 – 13 times pre-COVID-19 rates, depending on route and product. Current airfreight rates are 1.8 to 6 times higher than pre-COVID rates.

#### National interest/imports

* IFAM has supported the import by airfreight of personal protection equipment (PPE), pharmaceuticals and consumables, medical equipment (including ventilators) and consumables, inputs to health industries, components essential to the operation of key infrastructure assets, non-medical personal protective equipment and agricultural chemicals.

#### Exports

* IFAM eligible products include Australian made or produced, high-value, time sensitive, reliant on airfreight. For example products that could not be sent by an alternative to airfreight without losing their essential product characteristics or value, goods that have a limited shelf life or are required to meet a sudden or immediate need.

#### Impact on jobs

* Around 35,000 jobs directly and over 120,000 jobs indirectly in the agriculture, seafood, and aviation and logistics sectors are at risk if airfreight supply chains fail – many of these in regional communities. (Source: Internal Paper prepared for the Department of Infrastructure, Transport, Regional Development and Communications, Boston Consulting Group, 2020).

#### Australian transport infrastructure impacts/concentration of Sydney airport

* Since COVID-19 started to affect international travel, Sydney has increased its dominance as the main Australian port for international airlines as warehouses supporting imports and national distribution are based in there. Marginally cheaper airfreight rates out of Sydney are continuing to attract exports from other states (via road), decreasing volumes through airports such as Brisbane, Adelaide and Melbourne.

#### New government supply chain assets as a result of COVID/IFAM

* Critical supply chain lessons, capabilities, assets and policies have been developed during IFAM (data, skills, processes, governance, budgets, public-private engagement approach etc.) and analysis is being conducted to assess the potential opportunity for continued value delivery across the Commonwealth.
1. Department of Industry Innovation and Science (now Department of Industry, Science, Energy and Resources), 2017, Research Paper 7/2016 *Export behaviour and business performance: Evidence from Australian microdata p. 3 accessed 22 April 2021 https://www.industry.gov.au/sites/default/files/June%202018/document/other/export\_behaviour\_and\_business\_performance\_-\_evidence\_from\_australian\_microdata\_research.docx?acsf\_files\_redirect* [↑](#footnote-ref-1)
2. Swinburne University of Technology 2019, *Impact of Austrade Tailored Services 2012-16* accessed 22 April 2021 https://www.austrade.gov.au/ArticleDocuments/5729/Swinburne%20Austrade%20Report.pdf.aspx [↑](#footnote-ref-2)