



# **SUBMISSION TO THE PRODUCTIVITY COMMISSION**

## **VULNERABLE SUPPLY CHAINS**

30 April 2021

The Export Council of Australia

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## Introduction

The Export Council of Australia is pleased to make this submission. The views covered in this document focus on the key concerns and interests of small and medium sized exporters.

Australian exporters (who are often importers as well) are being buffeted by considerable headwinds. These include Covid-19 related restrictions, trade tensions, and cost rises in logistics. They are responding appropriately, including by diversifying their exports and recasting their supply chain strategies.

However, they can be usefully assisted by government, especially by streamlining regulatory requirements and correcting market failures so as to reduce trade costs. Trade costs at Australia's ports deserve particular mention, as various ad hoc charges and price increases reflect weaknesses in the supply chain that will leave many worse off.

Authorities need to consider and address these issues in an expeditious manner. Administrative and cost increases are weighing down exporters to such an extent, many are fearing closure or considering steps to move their operations to markets overseas. So, while national aggregate figures show continuing increases in the value and volumes of trade, it does not capture what trade might otherwise have occurred.

The loss of operations here in Australia, especially for manufactured goods, will exacerbate trade imbalances, which are already manifesting in the shortages and rising costs of shipping containers. These will have further flow-on effects on the availability of jobs and on prices of goods that consumers pay.

## Impacts of Covid-19

Covid-19 and the responses by governments around the world have led to significant disruptions in supply chains, such as lockdowns of both supplier and customer businesses, border constraints (due mostly to limited customs and operating staff at ports), and reduced transportation services (especially air freight).

Among many of Australia's trading partners, the economic impact of Covid, especially on demand and jobs, was almost immediate. This meant loss of contracts. This was exacerbated by the halting of flights, which particularly made the exporting of food extremely challenging. On flights to and from Australia, air passenger services dropped by a staggering 98 per cent, while international air freight volumes decreased by 23 per cent from June 2019 to June 2020.<sup>1</sup>

The government's International Freight Assistance Mechanism (IFAM) initiative provided some exporters with a means to adjust to the changing conditions.<sup>2</sup> However some exporters expressed frustration of IFAM's limited focus, and the difficulty of accessing it. Australian exporters also noted that they were unsure of whether they were getting all the necessary information about available air and sea freight services and prices, including from their freight forwarders.

## Trade tensions

Without question, the ban imposed on various Australian goods entering China has had an impact on Australian exporters. Goods, such as wine, beef, and barley, have been targeted for restrictions.

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<sup>1</sup> <https://www.freightaustralia.gov.au/annual-report/the-year-that-was/covid-19-impacts-on-freight>

<sup>2</sup> <https://www.austrade.gov.au/news/news/international-freight-assistance-mechanism>

The impact of those restrictions seems lost in recent aggregate trade figures, where Australia's trade seems to have grown, including exports to China.<sup>3</sup>

But many believe the restrictions will expand to other goods and services. There is currently much uncertainty, especially as bilateral relations seem to get worse by the day. Many Australian exporters and their Chinese importing partners have thus decided to cease transactions, at least in the short-term.

Consultations with Australian exporters suggest trade tensions have become a significant influencing factor in their decisions to look to alternative or additional markets. Their efforts to pivot seem to be paying off. For example, Australian seafood products that would have been destined for China, have found new homes in Malaysia and Vietnam. A refocusing on domestic markets also seems to be taking place. Quantities and prices are however not matching the high levels previously achieved from sales in China.

Ongoing territorial disputes in the South China sea, including questions about the future of Taiwan are causing further apprehension about the security of supply chains, whether it be imports or exports. We have seen already the kind of impact that an event, such as Covid-19, could do to air and sea logistics (discussed further below). Therefore, many expect that any potential hostilities in the region, especially with blockages of key trade routes, would lead to a similar, if not worse, kind of disruption.

### Supply chain and logistics costs

According to the World Bank, it takes Australian exporters 7 hours to satisfy documentary requirements, compared to the OECD average of just over 2 hours. In terms of costs for such compliance, Australian exporters have to pay \$264, while the OECD average cost is just \$33. As a consequence, Australia ranks poorly at 106th in the World Bank's Trading Across Border index.<sup>4</sup>

For certain goods, such as fruits and vegetables, exporters can face up to 12 audits per year from the Department of Agriculture, Water and Environment, as well as other regulatory bodies. These regular audits relate to maintaining registration as a food exporter. The individual audits cover the same ground and could therefore be rationalised and reduced in frequency, including through an adoption of a risk-based approach by the Department of Agriculture and more reliance on industry audits. While charges for individual audits are not excessive, the time spent for preparations and disruption of core business become burdensome, especially for smaller exporters.

Apart from government-related processes and imposts, various service providers at ports and shipping lines are regularly adding charges and/or hiking prices on existing charges. This is leading to spiralling costs of moving goods across borders. For example, shipping lines impose equipment handling charges, freight rates (which include the cost for containers), port congestion surcharge, and penalties such as demurrage. Port authorities and stevedores impose 'terminal handling charges' and 'terminal access charges', as well as infrastructure fees.

From an exporter's or importer's perspective, there are just too many of these. Altogether they add up to thousands of dollars. Freight costs alone have increased by nearly three hundred per cent on certain routes.<sup>5</sup> And many shippers get caught out with penalties – receiving a big shock when they receive their final invoice. Small and medium traders are particularly finding these rising costs burdensome. They are now questioning whether it is worthwhile continuing their business, or to change how and where they might operate.

<sup>3</sup> <https://www.abs.gov.au/statistics/economy/international-trade/international-merchandise-trade-preliminary-australia/latest-release>

<sup>4</sup> [www.doingbusiness.org/en/data/exploreconomies/australia#DB\\_tab](http://www.doingbusiness.org/en/data/exploreconomies/australia#DB_tab)

<sup>5</sup> <https://www.print21.com.au/industry/rising-shipping-costs-may-hit-paper-board-and-consumables>

The rising costs are being driven by demand outstripping supply. Due to the decline in economic activity during the early days of Covid – which is continuing in many countries – shipping lines decided to reduce services. But as economic activity started to fire up again, and as air freight collapsed, demand for sea freight dramatically increased.

Unfortunately, shipping lines have not decided to increase services to match that growing demand. In part, they point to the problems of congestion at ports. In addition, there is a shortage of containers.<sup>6</sup> This shortage is primarily due to the mismatch of economic recovery between trading partners (in particular China surging ahead of the developed markets of Europe and America, as well as Australia). There are many empty containers sitting in docks of the US and Europe, as well as in Australia. This has been a long-time problem for Australia. We import products in containers more than we export. There are some 50,000 containers stuck in Australia.<sup>7</sup>

At the ports, the congestion and consequent demands on workers and facilities have compelled the various service providers there to increase charges also. These increases are real. The ACCC has found on many occasions that the increases have been substantial,<sup>8</sup> but despite its efforts or government reviews<sup>9</sup> there has been little meaningful change.

We believe these spiralling costs represent fundamental faults in Australia's supply chain. At some point in the future, it will take its toll. So, even if the government negotiates ambitious trade agreements, such as those with the UK and the EU, these could prove ineffective if exporters can't ship their products to those markets, because of prohibitive transportation and logistics costs.

Australian exporters are beginning to think that producing in the countries they are selling to would make more sense than producing here in Australia and then shipping their products to those markets. If such a trend eventuates, there may be an impact on Australian jobs and income.

We highlight these issues because international trade is going to get harder, and the way it is being played by each country is evolving. Australian exporters need every competitive advantage we can muster. We must be able to compete on price and quality. Therefore, a 'Team Australia' approach must be taken by every player in Australia's supply chain.

## Recommendations

Australia is a trading nation, and trade is a major contributor to Australia's economic performance. Almost a fifth of what Australia produces in goods and services, in value terms, are exported to the rest of the world.<sup>10</sup>

If we are to recover strongly from Covid-19 and to succeed with our efforts to diversify our exports, then we need to make sure our supply chain is efficient and that trade costs are reduced. For Australian small and medium sized exporters in particular, any additional cost to doing trade undermines their international competitiveness.

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<sup>6</sup> <https://www.dhl.com/content/dam/dhl/global/dhl-global-forwarding/documents/pdf/glo-dgf-ocean-market-update.pdf>

<sup>7</sup> <https://www.icecargo.com.au/shipping-industry-chaos-2021/>

<sup>8</sup> <https://www.accc.gov.au/media-release/stevedores-revenues-grow-despite-largest-drop-in-container-volumes-in-a-decade>

<sup>9</sup> <https://transport.vic.gov.au/ports-and-freight/commercial-ports#review>

<sup>10</sup> <https://wits.worldbank.org/#>

We therefore recommend that:

- (i) the government continues to support Australian exporters' efforts to diversify including by providing up-to-date information about (alternative) markets, and to continue to promote the profile of Australian products and services in overseas markets.
- (ii) the government expedites implementation of its commitments on simplified trade, including development of a single window for trade, and adoption of new technologies (such as blockchain) to streamline processes.
- (iii) the government initiates discussions with shipping lines, in an effort to encourage them to ramp up their services, including collecting empty containers, and developing new shipping routes. The government must also think of new bold initiatives, as the International Freight Assistance Mechanism will expire in September 2021.
- (iv) governments, at Federal and State levels, must assess whether the market structures operating at ports create efficiencies or otherwise. Among other things, authorities need to consider whether the interaction of parties or agents provide sufficient communication of each other's interests. Because right now every additional cost charged by shipping lines and port operators simply flows to the importer or exporter, who do not have much say in the transaction.
- (v) with a view towards reform, further assessment of ports be undertaken, including examination of the economic structures of port communities and contracting arrangements between parties. We acknowledge that there have been many enquiries over the years, but not much has been achieved.
- (vi) an independent body be established with responsibility for monitoring and arbitrating price hikes (of port charges). That independent body must consider the interest of all parties, especially of shippers, the efficiency of the services provided, and requirements of updating port facilities. That independent body must have some enforcement powers.
- (vii) in the immediate term, the government convenes a dialogue with the various members of port communities to urge them to revisit their processes, as well as consider what additional infrastructure investments may be required, so as to boost efficiency.
- (viii) governments (at Federal and State levels) consider further investments in infrastructure and facilities that reduce transport and storage costs, extend funding assistance to small and medium sized traders (specifically for supply chain related activities), as well as increase assistance for relevant R&D, including in production and logistics technologies.
- (ix) relevant aspects of current and future trade agreements (including on standards and conformance, rules of origin, investment and services) must be updated to support the transformation of supply chains.
- (x) the government convenes strategic dialogues with allies and trade partners in determining ways to work together to achieve resilient supply chains, as well as increase international development assistance or 'aid for trade' targeted at securing supply chains, including for the implementation of rules of origin commitments under trade agreements.
- (xi) governments at all levels, as well as agencies across government(s) must improve their coordination of policies and programs to ensure efforts are complementary and that there are no gaps in responsibilities. A strong 'Team Australia' approach is required in order for Australia to succeed in the evolving trading landscape.

## About the Export Council of Australia

### *What is the ECA?*

The ECA is a not-for-profit, member-driven organisation. Its purpose is to support Australian entrepreneurs and firms in undertaking international business.

### *What does the ECA do?*

The ECA supports its members through various efforts, including:

1. Providing updated information – Members are alerted to news and reports, including on government policies and regulations, as well as market conditions.
2. On-going capacity building – Exporters benefit from tailored training to build on their knowledge and skills, as global rules and practices change, trade patterns shift, and technologies develop.
3. Advisory services – Exporters can get immediate insight on pressing challenges and questions, such as on licensing, clearances, access to finance and trade agreements.
4. Creating ecosystems – Facilitating crucial business relationships help exporters progress opportunities, including with sourcing materials and new ideas, getting things stored and delivered, and channelling financial transactions.
5. Advocating on behalf of members – Members' views and concerns are articulated to government partners. Effective and sustainable solutions are best reached through collaboration with governments and other stakeholders.

### *Who are ECA's members?*

The ECA's membership covers a wide range of industries and sectors. Its members are individuals, small, medium and large enterprises.

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