

2022 FEDERAL ELECTION POLICY STATEMENTS

SUPPLY CHAINS

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Key Points

- The Federal Government has a significant role in monitoring access and forward supply of critical inputs.
- Given how closely Australia's economy relies on maritime ports, issues of performance and cost require urgent and swift government action to ensure our supply chains can function productively, competitively and resiliently, now and into the future.
- Further investment into the Simplified Trade System may be required to accelerate implementation and to realise the expected supply chain efficiencies.

Policy Approach

Australian businesses are agile, internationally engaged and resilient. They require reliable supply chain partners to maintain global competitiveness.

Global value chains have become more important in the 21st century. Global trade is no longer characterised by the import/export from one country to another of raw materials and finished manufactured products, but rather vast webs of trade in intermediate products, across different sectors, and often involving numerous countries, business trips and data exchanges. Recent estimates show that 60% of global commerce involves intermediate products, and 30% of the total is conducted between affiliates of the same multinational corporation¹.

The COVID-19 pandemic has exposed weaknesses in the operations of global and domestic supply chains and laid bare many Australian vulnerabilities as an island nation with 98% of trade and most jobs connected to or reliant on sea freight in some way². The increase in global demand for goods, lengthy lockdowns and infections of workers, the global shipping container shortage, reduction in shipping services and port skipping, Australian industrial actions, and rising costs, have been creating supply chain chaos, which is not projected to so much as moderately ease until 2023 and beyond.

These pressures can undermine our economic recovery from the pandemic and ultimately dampen economic growth³.

There is also increasing concern about geostrategic tensions, trade conflicts and their associated unknowns. This creates real risks for businesses reliant on distant suppliers and generates an incentive to change the way they do business and to avoid over-dependency on particular countries or regions (especially those where trade or diplomatic tensions exist).

¹ Gary Hufbauer, Martin Vieiro, John Wilson, "Trade facilitation matters!", VOX CEPR's Policy Portal, available at: <https://voxeu.org/article/trade-facilitation-matters>

² [Value of Ports](#), Ports Australia

³ ['The global supply chain crisis that stole Christmas,'](#) Caleb Scanlon and Vinh Thai, RMIT (November 2021)

Finally, increasingly, damaging weather events linked to climate change are also disrupting production hubs and transport routes.

In such an environment it is tempting to manage risk by reducing our reliance on internationally traded goods. The Federal Government has an important role in assisting Australian companies in adapting to evolving risk through the provision of relevant and proactive information. Supply chain problems should be assessed by how essential the goods are to the wellbeing of Australians, how vulnerable they are, and how critical they are to the production of an essential good or service whether for domestic consumption or for export. For example, while Australia is self-sufficient in food production, we do require essential inputs for the agricultural, food processing and transport industries to maintain supply to consumers. Information on any risks to ongoing supply to these and other items is essential for businesses relying on critical inputs.

Ai Group asked businesses to rank their priorities for improving the reliability and resilience of their supply chains for 2022. While the problem with supply chains may be obvious, the solutions are less so, with 28% of businesses relying on increasing inventories to ensure inputs are available and in stock when needed. Just over one quarter (26%) will not take any action, which is due in part to the longevity of existing contracts, difficulties finding alternative suppliers, no improvement from finding alternative suppliers, existing processes delivering satisfactory results and having not yet reached a level of critical inconvenience. Reports of onshoring may be overstated with only 14% of businesses choosing to find new suppliers within Australia and even less, 12%, conducting a search for suppliers globally. 10% of businesses plan to renegotiate existing supply contracts as their first priority, and for 7%, the first response is to bring production in-house.

This indicates that for many businesses, there are no short term plans to substantially change their global supply chains and raises the importance of trade transaction costs including burdensome border administration which increase the costs of trade, particularly where products must travel through numerous countries before the final good can be sold. Broadly defined, trade facilitation is any measure that contributes to lowering trade transaction costs and creating standard efficiencies. There are numerous costs to inaction on trade facilitation including the:

- direct and administrative costs to traders;
- direct administrative cost to governments;
- time lost, which results in higher working capital needs; and
- costs related to uncertainty.

Among the many ways to enable trade, reforming border administration requires relatively little money and can be done quickly. Unlike tariffs, which do provide revenue for governments, all the resources spent on overcoming administrative barriers are lost. According to estimates halving trade facilitation costs could deliver nearly ten times the benefit of halving tariffs.

As an island nation Australia's economy heavily relies on its maritime ports. Any issue at the ports can significantly impact countrywide supply chains and business activity. As shown by the ACCC's recent container stevedoring monitoring report,⁴ problems with Australia's maritime logistics system have continued to worsen and exacerbated the acute supply chain pressures caused by the COVID-19 pandemic. The current Productivity Commission review could be a significant opportunity to start the process of much needed reform. Ai Group's

⁴ ACCC, [Container stevedoring monitoring report—October 2021](#).

detailed response can be found at this [link](#) .

Given how closely Australia's economy relies on maritime ports, these issues require urgent and swift government action to ensure that our supply chains can function productively, competitively and resiliently, now and into the future.

Supply chain discussions often limit themselves to the movement of goods, however in today's economy, the unfettered movement of data across international borders is essential for Australian companies to remain globally competitive. Significant supply chain efficiencies could be found with a greater use of shared data. 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.