SUBMISSION

Productivity Commission Interim Report

Vulnerable Supply Chains

Productivity Commission
Level 8, Two Melbourne Quarter
697 Collins Street
Docklands Vic 3008, Australia

Grain Producers Australia

PO Box 370
Braidwood NSW 2662

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Thank you for the opportunity to put forward the issues and considerations Grain Producers Australia (GPA) believe are relevant to the discussions.

1.0 Overview of GPA submission.

The narrow scope and time frame of the interim report makes it clear the report has not been developed to be an independent analysis holistically examining the actual risks and vulnerabilities facing Australian supply chains. It reads more as an attempt to negate any Federal Government accountability for the increased risks and associated vulnerabilities from decades of deregulation and support the ideological “free trade” at all costs policy setting.

The naïve assumptions and bias regarding the “impact” of the “liberalisation of trade” on international and domestic supplies chains contained throughout the interim report is of particular concern to GPA. There is a worrying lack of analysis of more recent data regarding the concentration of international supply chains and the decision to exclude food supply chains is extremely disappointing.

The inherent risks to and vulnerability of the grains industry and broader agriculture in Australia should not be dismissed simply because we are a food exporting nation and therefore the Productivity Commission believes the likelihood of Australian citizens going hungry is low. The increasing vulnerability of agricultural production in Australia should be investigated holistically with a in depth analysis of the opportunities, employment and economic benefits supported by reducing the vulnerability of the broader Australia production capacity. We are a small nation highly reliant on exports for economic prosperity and highly reliant on the import of essential inputs.

Despite ever-increasing food costs for Australian consumers, the farm gate profitability of Australian agriculture is decreasing. Despite being amongst the most efficient farmers in the world profitability is at risk. Deregulated supply chains have increased costs, input costs and a lack of market power reduces the ability of producers to maintain a proportional share of the profits. Supply chain vulnerability increases risks and imposes additional costs on producers.

2.0 Vulnerabilities

2.1 Essential input importation vulnerabilities

It is important to acknowledge the vulnerabilities, highlighted during 2020. These vulnerabilities exist because of limited sources for key inputs, lack of appropriate regulation in Australia to ensure quality and access and costs and delays of international freight:

- Fuel – decommissioning of Australian based fuel refining capacity left Australia highly vulnerable to diesel price fluctuations, lack of Australian based storage capacity, lack of an emergency stock pile and reliance on small number of exporting countries for supply.

Since 2000, the number of domestic refineries has halved, leaving Australia with only four on shore refineries, two of which have announced they will be closing. Leaving Australian highly dependent on imported fuel.

This is the result of the recent expansion of refining capacity in Asia which has placed increased competitive pressures on refining operations in established markets. (House of Representatives, 2013) Ageing facilities and high operating costs mean Australia’s domestic refineries are uncompetitive in comparison to the mega refineries which are being established across Asia. (House of Representatives, 2013).

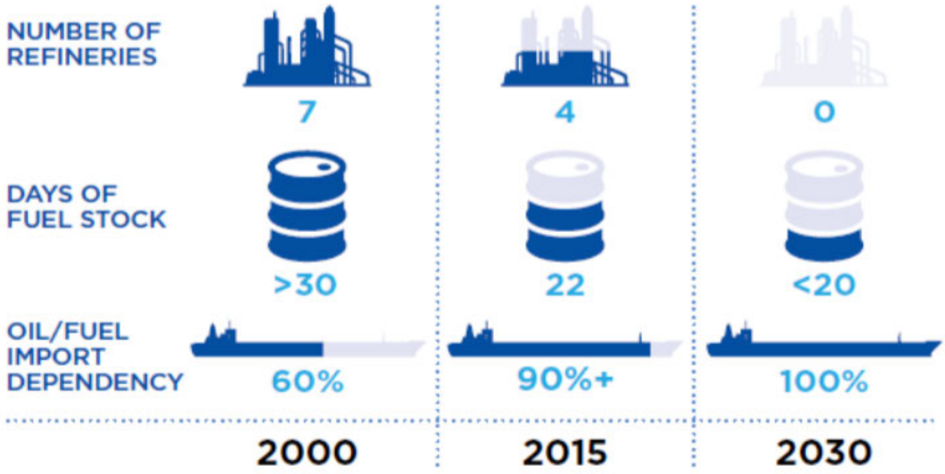

Figure 4: Projected Australian fuel production and stockholding decline

Source: Blackburn, Australia's Liquid Fuel Security Part 2- A Report for NRMA Motoring and Services, 2014

Approximately, 80% of oil was delivered directly from refineries or import terminals to service stations or other end-consumers, with limited storage capacity along the supply chain, with only 3 days' supply of fuel at petrol stations. Whist this may be cost effective, it means there are limited reserves leaving the supply chain highly vulnerable to shocks.
Australia's previous policies relied largely on market forces to ensure a secure supply of fuel, with commonwealth intervention viewed as a last resort.

The Liquid Fuel Emergency Act of 1984 provides the authority to prepare for and manage a national liquid emergency. The Commonwealth Government also has the power to ration the purchase of fuel. While a small list of 'Essential users' may be exempted from rationing during an emergency, it is important to note that agriculture is not included.

GPA recognise the recent federal government fuel security measures. However, it is important to note none of these measures are of any assistance in the short-term and there are questions regarding the long-term efficacy and sensitivity to external politics of some of the measures.

The Federal Government has committed to returning to full compliance with the International Energy Association's 90-day oil stockholding obligation by 2026, through the following measures:

- A minimum stockholding obligation for key transport fuels. The minimum stockholding obligation will require industry to hold a guaranteed minimum level of fuel stocks. The minimum for Australia's jet and gasoline stocks will be held at current levels. However, the intention is to increase the minimum level of diesel stocks by 40% by 2024, reflecting the importance of diesel to the economy. Minimum stockholding obligations are common within the international community, with nations such as Japan and the UK adopting this approach to national fuel security.

- Support for Australia's domestic refinery capability:

The government will pay the remaining major domestic refineries a minimum one cent per litre of primary transport fuel they produce. Payments will begin on 1 January 2021.The government will fund the first 6 months of the production payment. The package is worth $83.5 million. To receive this production payment, refineries must agree to keep operating for the duration of the program.

- Establishing a national oil reserve:

Australia has established its first Government-owned oil reserves for domestic fuel security. This includes a deal with the United States to store Australian Government owned crude oil in the US, with the government purchasing $94 million of crude oil to be stored in the US Strategic Petroleum Reserve for access during a global emergency. It is important to note this would take at least three weeks to ship to Australia in the event of an emergency. Access could potentially be put at risk depending on the political ideology of the government in place in the US during the period of global emergency.

- 'Boosting Australia's Diesel Storage' Program

The Federal Government will provide up to $200 million in competitive grants over three years to support the construction of an additional 780 megalitres of onshore diesel storage. Successful projects will receive grants of up to $33.3 million, with the Government covering up to 50 per cent of total eligible project expenditure. Projects are expected to commence construction from mid-2021 and be completed within three years. The Government seeks to target projects that enhance fuel security by being in a strategic regional location or that are connected to existing fuel infrastructure. The program will also assist industry in meeting the new minimum stockholding obligation by 2024. The obligation will require industry to hold around 40 per cent more diesel than current levels.

- $3.3 million over four years to improve reporting and transparency in the liquid fuel market by modernising the Government's Petroleum Statistics Information Management System.

Other reports which clearly outline the current vulnerabilities due to fuel supply:
ACIL Tasman. (2011). Liquid Fuels vulnerability assessment-a review of liquid fuels vulnerability. Melbourne: ACIL Tasman.
Blackburn, J. (2013). Australia's Liquid Fuel Security- A Report for NRMA Motoring and Services.
Blackburn, J. (2014). Australia's Liquid Fuel Security Part 2- A Report for NRMA Motoring and Services.
Colton, G. (2017, October 6). Fuel security: Why the RAN should prioritise the Indo-Pacific. Retrieved October 26, 2017, from The Lowy Institute:
https://www.lowyinstitute.org/the-interpreter/fuel-security-ran-indo-pacific
House of Representatives, S. C. (2013). Report on Australia's Oil Refinery Industry. Canberra: Commonwealth of Australia.
International Energy Association. (2014). Emergency Response of IEA Countries 2014. Paris: OECD/IEA.
Wesley, M. (2007). Power Plays: Energy and Australia's Security. Canberra: Australian Strategic Policy Institute.

- Fertiliser – deregulation of import regulations to ensure fertiliser quality, dependence on small number of international suppliers, increasing cost of international freight and vulnerability of the upstream supply chain (fuel costs, truck availability, transport labour),
- Chemicals/chemical actives - dependence on small number of international suppliers, increasing cost of international freight, ability for supply to be restricted as part of trade disagreements, and
- Agricultural machinery components – Consolidation of the world's agricultural machinery manufacturers, exclusions from right to repair legislations, reliance on just in time spare parts delivery and increases in cost and long delays to international freight delivery.

Excerpt from GPA submission to the ACCC Agricultural machinery survey.
Increasingly agricultural equipment is dependent on sensors and the related diagnostic systems to test the serviceability of these parts. This increasing dependency has been increasing where these relatively inexpensive, but critically important parts are often held

nationally in a central distribution system and require specialised software systems or remote data access to the equipment to identify or diagnose faulty sensor parts.

Due to the remoteness and distance of most agricultural regions in Australia from manufacturers in Europe and North America, there needs to be an alternative parts distribution model used. There is a critical need for manufacturers to address remote service obligations in Australia. Remote support capabilities, limited internet, timeliness of parts arriving all need to be undertaken in a way suitable for customers in Australia.

There are potential consequences in the event of disruptions to supply chains or transportation arrangements, such as those experienced in the initial covid-19 measures. The reduction in airfreight servicing, increased pressure on delivery system has generally increased delivery windows. With the grains industry at a peak period for cropping activities in application of pesticides and initiating seeding operations, any delays cause significant stress and uncertainty and can significantly impact productivity.

The lack of regulatory oversight and the lack of a requirement for a service obligation for companies has allowed for the move to just-in-time service provision. Farmers are generally required to pay on an individual basis for parts to be air-freighted into Australia from overseas, rather than the dealership or machinery company importing the products in-bulk to Australia as they would be if there was a service and parts obligation required of them. While parts availability for agricultural equipment less than 10 years old has generally not been presented by producers as a major issue, a common issue is that while the parts are technically available, some parts are not held in stock in Australia resulting in significant airfreight transport costs and delivery and repair delays.

Unlike the automotive industry, agriculture does not have a legislated minimum number of years of service and parts support for agricultural equipment.

2.2 Impact of export opportunities on vulnerability

A broad range of export opportunities, international relationships and market differentiation provides greater security for Australian grain producers. Market diversification reduces the vulnerability of the Australian grains industry should there be a break down in the relationship with any single market. However, market diversification is a long-term complicated aim and there is a lack of transparency when governments are negotiating bilateral agreements, this creates vulnerabilities.

Current export vulnerabilities have been highlighted by the:

- Imposition of considerable tariffs on the sale of barley, wine, seafood, fruit into China,
- Imposition of significant tariffs on the sale of lentils, chickpeas into India,
- Increasingly onerous environmental requirements for the importation of canola into the EU,
- Changing chemical residue requirements (Indonesia, Vietnam)

2.3 Vulnerabilities from over-reliance on foreign investment

The other area of investigation should have been the vulnerability caused by Australia's reliance on foreign investment in Australian infrastructure, businesses and jobs.

Have we enough diversification and oversight of the vulnerabilities of relying too heavily on foreign investment for our scientific research and development capability?

Have we assessed the vulnerabilities of having major infrastructure owned or leased by foreign owned entities?

One of the issues raised within the review of the RDCs was the Government push for a greater level of foreign investment in Australian agricultural research. We raised considerable concerns about the practicality of this expectation and some of the potential risks.

Consideration needs to be given to the negative consequences of focusing on how to encourage increased investment by private and international bodies. Becoming too reliant on international investment would ultimately narrow the research investment to only those areas, technologies or issues of broad importance to the world market in general, or those fields with potential international commercialisation prospects.

A case study to assess the risks to relying on international investment for research could be undertaken by analysing the impact of reliance on private funding on the public hospital system and to understand the way private/public partnerships have in some instance eroded broad research areas and focused medical research on very narrow fields with a focus on commercial outcomes. There is considerable value in assessing the policy failures which have led to this outcome.

a) Losing control of key essential assets as part of the push for foreign investment
b) It is not in the national interest to have essential services providers under majority foreign ownership
c) Based on a furphy that everyone is going to want to invest in Australia because safe investment. Rather than looking at the long-term impact of losing control of valuable national assets and the dividends from those assets over the longer term.
d) Loss of intellectual property where majority foreign ownership of essential services leads to crucial data and personal information about customers being held by international customer management call centres etc not able to be investigated or policed under Australian law.

2.4 Vulnerabilities due to consolidation of supply chains and supply chain participant ownership.

Deregulation has been responsible for the Australian grain supply chain being dominated by multi-national company investment in critical infrastructure. There is no clear benefit to grain producers from the duplicative investment in infrastructure being undertaken under the guise of “competition”. The current settings utilised by ACCC to determine the level of oversight required for access and utilisation of critical infrastructure is not appropriate and has reduced transparency, increased costs and exposed the significant vulnerabilities.

The long-term lease of Port facilities by State Governments to companies controlled by other countries is a vulnerability that has not been given an appropriate level of consideration as a national issue of significance to both imports and exports. Freemantle Port is now the only Australian port that has not been privatised. The lack of regulatory oversight and competition law exemptions for port operators has enabled significant increases in port terminal access fees. With “commercial in confidence” being used to cover the lack of price transparency and the lack of investigative powers vested with ACCC the vulnerability of Australia’s export system has never been more apparent.

INFRASTRUCTURE SURCHARGES - AS AT 1 MARCH 2021
per full container / excluding GST

STEVEDORE	PORT	EXPORT	IMPORT	EFFECTIVE
Flinders Adelaide Container Terminal	Adelaide	$29.60	$29.60	1-Jul-20
Australian Amalgamated Terminals (AAT)	Brisbane	$39.63	$39.63	1-Jul-20
DP World Australia	Brisbane	$89.50	$124.00	1-May-21
Hutchison Ports	Brisbane	$133.08	$133.08	1-Mar-21
Patrick	Brisbane	$84.90	$113.20	1-Mar-21
DP World Australia	Fremantle	$42.00	$42.00	1-Jan-21
Patrick	Fremantle	$26.92	$53.85	1-Mar-21
DP World Australia	Melbourne	$89.50	$139.20	1-May-21
Patrick	Melbourne	$84.90	$129.50	1-Mar-21
Victoria International Container Terminal (VICT)	Melbourne	$131.03	$131.03	1-Jan-21
DP World Australia	Sydney	$89.50	$126.60	1-May-21
Hutchison Ports	Sydney	$135.65	$135.65	1-Mar-21
Patrick	Sydney	$84.90	$117.85	1-Mar-21

Data collated courtesy of the Australian Peak Shippers Association (APSA), Freight & Trade Alliance (FTA) and the Container Transport Alliance Australia CTAA)

These fees have increased exponentially since mid-2017 as the stevedore companies "re-balance" revenue collection to the landside to recover revenue lost from their stevedore contracts with the foreign shipping lines due to "keener" rates for quayside terminal services (i.e. loading and unloading the ships). These fees are imposed on a "take it or leave it" basis as terminal access for road & rail operators are governed by "standard form" terms & conditions imposed by the stevedores with no negotiation. If you don't accept the access conditions and pay the fees set, then terminal access is denied. ACCC Container Stevedore Monitoring Report outlines the increased costs. The latest report (2019-2020) can be downloaded: **https://www.accc.gov.au/publications/container-stevedoring-monitoring-report**. However, the ACCC has left accountability for regulating ports to State and Territory governments. Most of whom have removed ports from essential services legislation under the guise of red tape reduction, meaning little if any oversight.

The Productivity Commission's interim report also fails to adequately analyse or acknowledge the supply chain vulnerabilities due to consolidation of international container freight companies and the dominance of regional alliances. Ten years ago the 10 biggest companies controlled 70% of global trade. Consolidation within three alliances (consisting of 8 companies) now control 80% of global freight.

Container Transport Alliance Australia
Dedicated. Connected. Better.

Dominant Alliances

Global market share controlled by the three dominant shipping alliances

Alliance	Carriers	Global market share	Aggregate Share
2M	Maersk	17.9%	
	MSC	15.6%	33.5%
Ocean Alliance	COSCO – OOCL	12.7%	
	CMA CGM	11.5%	
	Evergreen	5.6%	29.8%
THE Alliance	Hapag-Lloyd	7.2%	
	ONE	6.8%	
	Yang Ming	2.7%	16.7%

Container Transport Alliance Australia (CTAA)

Container trade is crucial to a competitive Australian export supply chain. However, berth congestion, consolidated operations, vulnerabilities because reliant on movement of other trade, pandemic restrictions, accessibility restrictions, higher terminal access fees, staffing availability and lack of regulatory oversight are all creating significant vulnerabilities.

The Grains industry is particularly vulnerable to receival restrictions caused by a lack of transparency. Grain exports are not being given support or priority by shipping lines, instead there has been a dramatic increase in export of empty containers being shipped. Empty containers are being loaded and given preference to waiting to fill the containers with Australian products. These containers are then used to transport products into higher value markets no longer available to Australian grain or agricultural exporters.

US regulate shipping through a national statutory authority this ensures greater transparency and therefore efficiency, less collusion, fairer access contracts and less supply chain manipulation. Aust/Asia pacific need a similar authority to reduce the power of the 8 companies dominating regional trade routes.

Container Transport Alliance Australia (CTAA)

2.5 Vulnerabilities due to biosecurity risks.
Biosecurity requirements and the competitive efficiency of the Australian grain industry reduce the capacity for imported grains to be profitable except under circumstances of extreme/Australian wide short supply caused by drought.

In the instance of grain imports GPA was deeply appreciative of the respect shown by Department of Agriculture, Water and the Environment (DAWE) for industry concerns the high level of consultation undertaken and the strength of the biosecurity measures undertaken to reduce biosecurity risk to our industry.

However, biosecurity risks remain a real and considerable threat to Australian agriculture and create vulnerabilities that should be addressed.

For example: Increased pressure to allow increased importation of non-essential recreational products such as cut flowers and foliage. Imports have continued without the necessary or appropriate level of biosecurity considerations for the risk they pose to the broader Australian plant industries (grains, horticulture, nursery sectors). DAWE have used the potential sensitivity of trading partners as an excuse to support their lack of accountability and transparency of information regarding consistent and ongoing biosecurity non-compliance from cut flower and foliage imports.

Actions required include the imposition of a levy on all containers entering Australia to ensure that importers are contributing towards the costs of biosecurity such as surveillance, inspection and incident management.

2.6 Vulnerabilities caused by labour shortages

Greater consideration and further analysis should be undertaken given labour shortages are creating vulnerabilities for the grain producers and Australian agriculture in general. The National Agricultural Workforce strategy provides an important insight into the impact and vulnerabilities created by lack of access to skilled labour. https://www.agriculture.gov.au/ag-farm-food/agricultural-workforce.

Yours sincerely,

Andrew Weidemann
Chairman
Grain Producers Australia

Background: Grain Producers Australia

Grain Producers Australia (GPA) represents Australia's broadacre, grain, pulse and oilseed producers at the national level. Grain Producers Australia works to foster a strong, innovative, profitable, globally competitive and environmentally sustainable Australian grains industry. Representing 5200 farm businesses, it strives to represent Australian grain farmers nationally and internationally in their contribution to sustainable development and society.

Working with its members – state farm organisations and farmers across the grain production area of Australia - GPA advocates for sound outcomes that deliver a positive commercial result. GPA is a not-for-profit company limited by guarantee. It is governed by a board, elected by its members.

The objectives of GPA are to:

- Provide a strong, independent, national advocate for grain producers based on a rigorous and transparent policy development process.
- Engage all sectors of the Australian grains industry to ensure operation of the most efficient and profitable grain supply chain.
- Facilitate a strategic approach to research, development and extension intended to deliver sound commercial outcomes from industry research.

The GPA policy council, is strategically focused on three pillars of economic development, social responsibility and environmental management.

Our policy council includes representatives from State Farm Organisations including:

- Agforce Grains
- Grain Producers SA
- NSW Farmers Association
- Victorian Farmers' Federation Grains Group
- Tasmanian Farmers and Graziers Association
- WA Farmers
- WA Grains Group

GPA manages the biosecurity program for the grains industry through Plant Health Australia, trade confidence through the National Residue Survey (NRS) and is a joint Representative Organisation (RO) responsible for overseeing the performance of the Grains Research and Development Corporation (GRDC).