



Business SA response to Economics & Finance Committee - Inquiry into essential production and supply chain security in the context of emergency circumstances in South Australia

September 2020



Business SA
Chamber of Commerce
and Industry South Australia

Executive Summary

The COVID-19 pandemic has thrown up a wide array of challenges for South Australian businesses and their associated supply chains. There is no doubt that the early days of the pandemic caused more acute issues with international trade, particularly with the early shutdowns in China which fortunately subsided faster than initially forecast. However, these challenges also provided opportunities for South Australian businesses to fill the void, particularly through the manufacture of much needed medical supplies such as face masks and associated products including hand sanitiser. This period has provided renewed confidence in the manufacturing capacity of South Australia and highlighted opportunities which may not have otherwise seemed possible in a pre-COVID world.

The pragmatic approach of the South Australian, Federal and interstate Governments with respect to road freight has enabled most essential goods to continue moving, notwithstanding the challenges of operators dealing with additional requirements and in some cases, abuse levelled at interstate drivers entering South Australia. The State and Federal Governments have also done a good job in facilitating subsidised export flights to enable our key air-freight orientated export sectors to continue operating, particularly perishable food, albeit at freight rates well in excess of pre-COVID levels. Container sea-freight rates have also increased quite substantially. Business SA is mindful of the importance of maintaining key international air routes from Adelaide which may diminish the longer it takes to lift travel restrictions.

As we have continued through the pandemic period, not all goods shortages have been overcome and some have emerged as a result of restrictions which have raised demand in some sectors of the economy to fill unmet demand in others. This has meant Business SA members are still experiencing challenges with delayed imports for a wide range of items from electrical equipment to specialist components, homewares, pet goods, vitamins and many more. Prices have also increased for items in high demand including medical gowns. Delays due to COVID are becoming all too common for local businesses, many of whom are concerned about how ongoing delays are starting to impact the productivity of our economy. Local businesses are also becoming more aware of what economies of scale means in a crisis period, whether that be related to demand for export flights through to leveraging market influence to ensure faster delivery times. Increases in local container handling charges on 1 July 2020 have added to other supply chain concerns.

With a broader focus on moving essential goods, Business SA has been liaising with a range of businesses which might not otherwise fit the mould of essential goods production yet create essential jobs for South Australians through local manufacturing operations. Many of these businesses, including the likes of Steriline and IJF, have been heavily impacted by border closures, particularly within Australia. In some cases, this had led to businesses losing significant contracts while others are worried about the longer-term impacts of not being able to service key clients located either interstate or overseas. In business, you need to be regularly in front of your clients, for example, to ensure your products can maintain prime shelf space in a supermarket. Once those relationships wane due to lack of presence, other providers may step in to fill the void. South Australia has long been a state where successful businesses need to build interstate and international clientele to account for our meagre population growth. Consequently, our economy may suffer irreparable damage the longer borders remain restricted.

The supply chain challenges brought about by COVID-19 should not all be in vain. This is both an opportunity to encourage local manufacturing, and to improve the efficiency of local supply chains to help South Australian businesses to be internationally competitive once market dynamics return to a new normal. In order to achieve a step change in developing South Australia's export competitiveness, we encourage for the State and Federal Governments to consider major road projects including duplications of the Dukes and Augusta Highways, and an East-West link across Adelaide. In all instances, Business SA advocates for the interests of the both the business community and the road freight industry to be taken into account.

South Australia should also continue to be open to all options to fund new infrastructure projects, particularly considering the \$19.5 billion Australian superannuation funds have recently committed to spend on infrastructure over the next three years.

Introduction

Business SA, South Australia's Chamber of Commerce and Industry, was formed in 1839 and has approximately 3,300 members across a wide range of industry sectors, from micro businesses right through to listed companies. We are a not-for-profit business membership organisation which works, not only on behalf of members, but for the broader business community and in pursuit of economic prosperity for both South Australia and the nation. Being primarily funded by our products and services to thousands of local businesses alongside member subscription support, Business SA is independent of the policy agenda of government or political parties.

Throughout the pandemic period, Business SA has been receiving feedback from businesses across all industries on a wide range of issues, including in respect to supply chain challenges. This has come through a variety of means from surveys, industry and regional chamber summits, member reference groups to regular member engagement calls. While the supply chain issues which presented earlier in the pandemic period have mostly eased, particularly on the back of the Chinese economy rebounding quickly, there is still a wide range of challenges in supply chains facing South Australian businesses.

As a function of Business SA's membership, our submission covers a wide scope of perspectives from those businesses directly servicing the logistics market, including freight forwarders and transport operators, to manufacturers and wholesale/retail level businesses. Many of the supply chain issues are a result of Government restrictions which Business SA is not arguing against on health grounds, but we are wanting Governments to understand the ongoing impacts of the decisions made on various types of businesses.

Business SA also operates South Australia's largest trade document certification service and experiences firsthand the ebbs and flows of international trade. From these daily interactions with South Australia's export sector, we are well placed to understand the myriad of practical issues facing exporters.

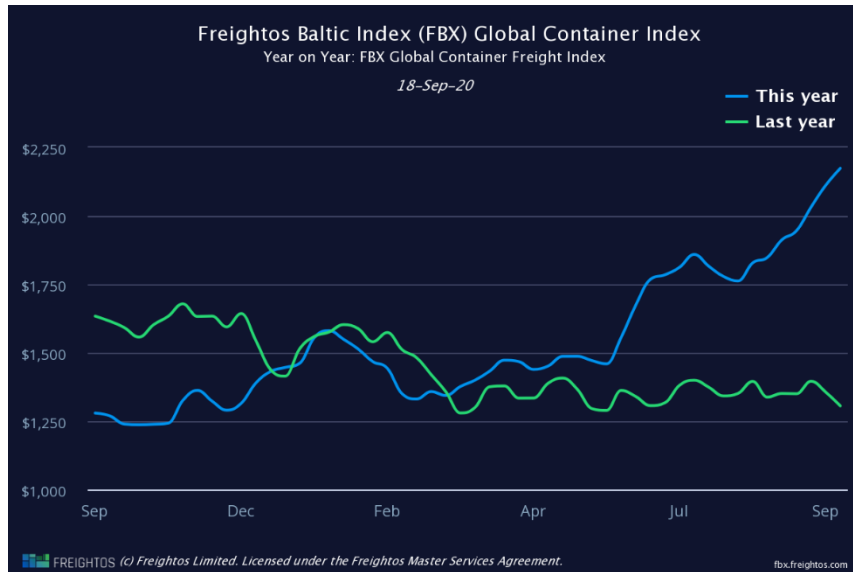
Freight challenges

A myriad of freight related challenges has impacted local businesses throughout the pandemic period, some of which still persist. Road freight has fortunately remained relatively unscathed, despite some cost increases, although there has been a considerable impost on operators, particularly those crossing state borders. Some interstate drivers have also been subject to abuse and other forms of poor treatment in South Australia which Business SA recently called out for what it is, completely unacceptable.

Many Business SA members in sectors eligible for the Federal Government's subsidised air-freight services have benefited from this program, although general feedback has been about the high cost of these services ranging anywhere between 50% and 150% of pre-COVID rates. The regularity of flights has also been a challenge for specific sectors, particularly when dealing with perishable products such as seafood. Business SA has welcomed the State and Federal Government's efforts to facilitate these flights, but we are concerned by the availability and costs which have pushed some local businesses to export via Melbourne. We are also mindful of the somewhat temporary nature of the subsidised flights (to Qatar, Hong Kong and Singapore) which are unlikely to align with the resumption of international travel in mid-2021; a factor impacting the confidence of local exporters. Business SA acknowledges that every effort should be undertaken to retain existing airlines out of Adelaide recognising the time it would take for existing players to return.

While air-freight rate increases have been widely reported, increases in sea-freight rates have also been observed throughout the pandemic period. Rate increases are demonstrated in Figure 1 below, with sea-freight rates for containers up significantly compared to the same time last year. This has been caused by increased demand for sea-freight, with exporters attempting to catch up on orders impacted by earlier lockdowns and delays in sea-freight. Consequently, delays have also caused capacity issues with some exporters reporting orders were being bumped for later shipments.

Figure 1



Local businesses have further commented on delays in dispatching goods both overseas and interstate, which has been very challenging and slow. This is reducing customers' confidence that they will receive their purchases. The longer such delays persist, the more likely South Australian businesses will lose customers who are likely to find local alternatives.

With exporters already facing many issues at present, Business SA has been concerned about rising port charges in Adelaide for container handling. We acknowledge that South Australia's charges are on average less than interstate, which is positive, but we are concerned that Flinders Ports passed on another round of container handling price increases on July 1, 2020. These latest charges have been introduced as part of operating a new vehicle booking system (VBS), but they come on top of other new charges in recent years including a container handling fee and terminal access charge introduced in 2018.

Table 1 is a cost comparator to demonstrate the rising cost of containers handled by Flinders Adelaide Container Terminal (FACT). Having already experienced a four-fold increase in average charges up until this year, the slated new charges from July 1 continue a worrying trend in container charge increases for South Australian businesses.

Table 1 - Approximate average cost per container passed onto transport companies utilising FACT¹

Year ending	Cost per container (\$)	Change in average cost per container (%)
June 2017	13.3	-
June 2018	15.5	16.3
June 2019	49.3	218.2
May 2020	56.1	13.7
*July 2020	61.46	9.6

Using member data, Business SA calculated the increase from fixed fees in 2020/21 increases container handling costs by 9.6 per cent this financial year alone. It is important to recognise that the 2020/21 increases do not include fees related to compliance which have increased quite substantially but can be waived by Flinders Ports.

Business SA members operating in the transport sector have raised the fact that these charges are passed on directly to customers and consequently, impact the cost of both exporting and importing for South Australia which ultimately affects both consumers and exporters.

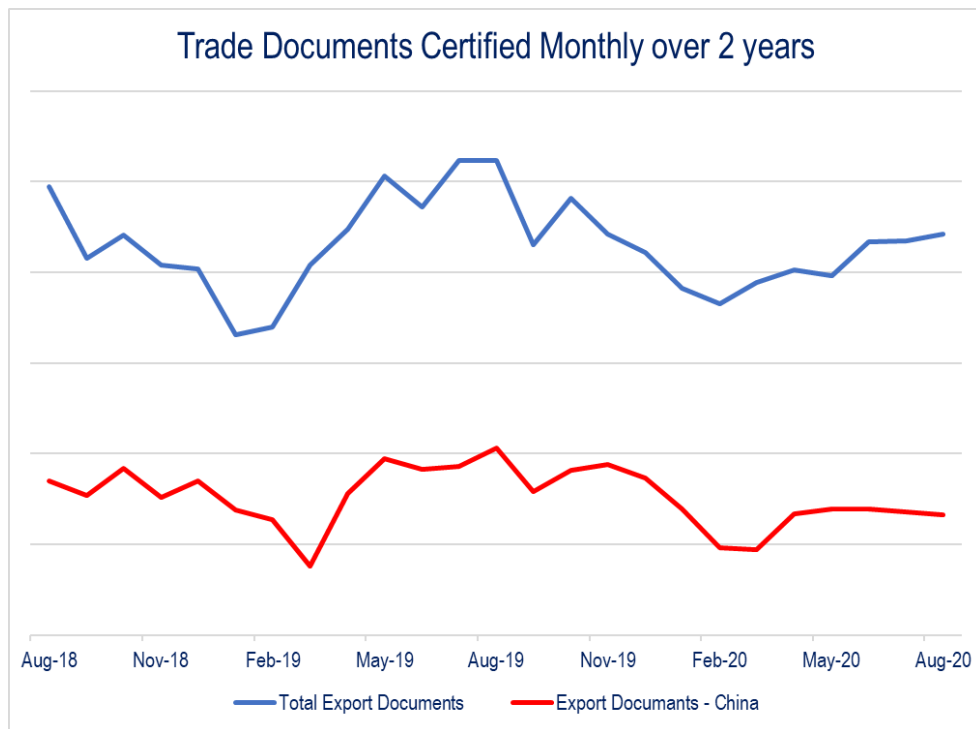
Business SA International Trade team

Business SA's international trade team provides an export documentation service for both members and non-members of Business SA. As a result, Business SA is able to collect real time data on levels of export and receive feedback on exporters' experience.

Figure 1 represents the level of documents certified by the International trade team over the past 2 years. Following a significant decline beginning last November, Business SA has seen a slow return to normal levels of document certification. However, we have begun to observe the effects of tensions between Australia and China with export documents for Chinese shipments starting to decline in recent months.

¹ Data gathered from Business SA member feedback and compared against official FCAT charges

Figure 2



As part of the supply chain for exporters, Business SA has experienced delays in receiving and returning certified international documents. In most cases the delays are attributable to an overstretched Australian Post. Moreover, with the pandemic causing many businesses to move employees to working from home arrangements, this has exasperated the problem with documents having to be returned to employees' home addresses. In some cases, this has caused a strain with exporter's customers overseas as shipments are sent without documents leading to delays in clearing customs.

Goods specific challenges

There have been a wide range of impacts on South Australian businesses being able to access goods or inputs for their operations over the pandemic period. Many of the challenges businesses faced in the early period of the pandemic when South Australia was largely shut down have since abated, although issues remain in both sourcing stock and associated cost, including common delays. Businesses are also reporting that COVID-19 is beginning to be used as an excuse for any delays which potentially has productivity concerns for the broader economy if this trend persists.

At present, delays are probably the most common form of complaint from local businesses as opposed to an outright shortage of stock. Where there are still stock shortages, this is typically not for key inputs or goods that cannot be otherwise substituted. Goods delays are dependent on stock origin but export supply chains have been particularly impacted with regular re-routing and cancellation of ships and ongoing challenges with air-freight.

With Business SA's membership spanning the breadth of industry, we have provided several examples of goods related supply chain issues:

- Issues reported by health stores access specific vitamins and other health related supplements
- Challenges sourcing various electrical goods, including printers and air-conditioning units
- Delays in sourcing specialist components which has significant flow on impact for local manufacturers

- Increase in the cost of PPE which has persisted beyond the height of the pandemic impact in South Australia, for example items including specialist medical gowns and masks required in health practice which are trading around three times pre-COVID prices.
- Cleaning products being sold as COVID-safe which are not deemed to be compliant
- A range of local manufacturers and wholesale businesses have been impacted by Victorian factories being closed, for example sourcing speciality windows or 4WD components
- Nursery businesses running short on a range of plants and compost, and noticing general price rises due to increased demand
- Pet industry has reported range of supply chain issues related to stock coming out of China
- Farm machinery parts and agricultural chemicals
- Homewares

Other businesses have commented that their supply chains have held up with importers carrying sufficient stock on hand. Some companies have also been building up their own stocks in anticipation of further uncertainty in supply chains which is proving an effective mitigation strategy. Utilising local supplies has increased to some degree, despite a recognition that this may not always be the cheapest option but in the current times is providing more certainty of supply.

Businesses have also reported some issues with delays in getting containers of certain goods inspected by AQIS, in some cases taking several weeks. While Business SA does not believe this issue is widespread, we are mindful that the Government takes all reasonable steps not to cause any additional delays in what are already quite compromised supply chains.

Border and other jurisdictional restrictions

Governments around Australia, including the South Australian Government, have generally taken a reasonable approach to allowing the movement of road freight across State and Territory borders. In the main, this has enabled the movement of essential and non-essential goods but played a strong role in restricting demand in the wider economy which is otherwise curtailed due to social distancing restrictions.

The ability to move goods between jurisdictions is important, but it is only one element necessary to enable the free flow of commerce. Business SA has been provided with many examples of businesses which are finding it very difficult to service interstate and overseas clients with border restrictions in place. We recognise there are some exemptions for essential workers, but this does not extend to cover the broader need of many South Australian businesses which rely on interstate or export markets.

Case study – Steriline Racing & Engineering

Steriline is a leading South Australian manufacturer of a variety of equipment, most notably starting gates for the horse racing industry. Based in Mt Barker, Steriline has also diversified to services sectors including meat processing with a successful downward hide-puller product. Steriline has faced many supply chain related challenges since the beginning of the pandemic period, including delays in accessing key components from overseas to difficulties in servicing key customers interstate and overseas. Steriline has also experienced frequent delays with freight distribution within South Australia, putting some of this down to the size of the South Australian market and local businesses not having enough leverage with major logistics companies. In one case, the business had an interstate job delayed by four months through a delay in accessing a specialist steering system from Korea. In another instance, the business was told there would be a 6 month wait on a specialist valve from the United States. In the latter example, Steriline had to redesign their whole system around an alternative part which is just one way in which they've had to adapt to supply chain issues.

Having equipment installed around Australia and the world, Steriline has face many issues getting staff into both service and install equipment. For example, the business has been unable to get service staff into Victoria and recently had to install a racing gate for the Kentucky Derby over WhatsApp which took three times as long as having a person on the ground. While companies like Steriline are doing everything they possibly can to support their customers, the sooner border restrictions ease, the sooner they can get back to doing and growing their business. They are also quite concerned about losing customers from not being able to get staff in directly to service equipment for their clients. The longer this goes on, the more likely their clients will find other alternatives which can be a hard situation to reverse.

Other businesses have explained that not being able to get their staff in to visit customers in more restricted jurisdictions, particularly Victoria and New South Wales, is causing concern about lasting impacts. For example, businesses may lose shelf space at supermarkets or other retailers for their South Australian manufactured products. Again, the longer restrictions continue, the more likely it is that suppliers from outside jurisdictions will face challenges with maintaining relationships with key customers.

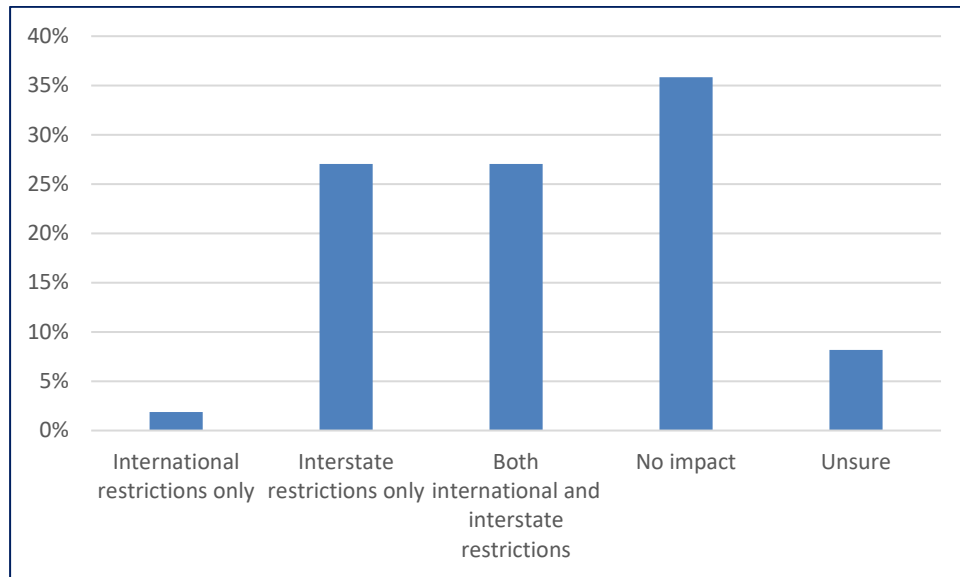
Case study – IJF Australia

IJF Australia is a leading commercial joinery and furniture manufacturing company with a range of clients across the country. Headquartered in Adelaide, the business is typical of many successful local businesses which have long pushed beyond state borders to facilitate growth. This is the type of strategy which the State Government strongly supports, although the present reality is that businesses like IJF are being extremely challenged by a lack of free movement across state borders. In practical terms, the business has not been able to fly in architects to look at prototype products nor get key sales staff into visit interstate customers, particularly on the Eastern Seaboard. IJF are also struggling with interstate Governments focused on buying local which is disadvantaging South Australian businesses. In practical terms, this has already resulted in four significant projects being lost.

IJF employees around 120 staff which is already a third down on their pre-COVID peak and the business is exploring every option it can to sustain local manufacturing. The biggest single support for their business will come through either border restrictions lifting, or improved flexibility for businesses like theirs to be able to send key staff interstate and bring key staff from interstate clients to Adelaide. If this business development continues to grind to a halt, businesses like IJF cannot continue to maintain capacity to service a national market with no genuine market access. Like most members of Business SA, IJF recognise the health needs of Government decisions around pandemic related restrictions, but those decisions are having ongoing and quite acute impacts on businesses like theirs which needs to be continuously weighed up.

Business SA is currently in the process of surveying all regional businesses on a range of issues, including in relation to supply chains. While the survey is still open, we already have in excess of 200 responses with preliminary results suggesting widespread impacts of supply chain issues on businesses:

Figure 3



From Figure 3, we can see that 56% of regional businesses are being impacted by supply chain issues, with interstate restrictions being much more prevalent than international restrictions.

Structural challenges for South Australian supply chains

Recent feedback provided to Business SA indicates a common thread that the size and breadth of our local manufacturing sector no longer provides the economies of scale needed to underpin many supply chains; which has become more pronounced in a time of crisis. For example, sourcing enough local demand to adequately underpin airfreight is not as simple as it may have been in the past when local manufacturing was of greater scale. Local businesses also lament not being part of a logistics market as important to the major distribution companies as other states, which again has become more evident during COVID-19 with its associated delays. These examples are symptoms of a structural economic issue with no easy remedy but it worth pointing out that repositioning South Australia's economy for post-COVID growth will require bold political decisions to elevate the State onto a new growth trajectory. As part of Business SA's recently released 9-point plan, we outlined the types of policy options that can unlock this growth and we look forward to working with all political parties to achieve our ambitious goals.

The size of South Australia is such that many local businesses rely on interstate and export markets for growth. This is a reality that compounds the impacts of border restrictions, only serving to highlight just how dependent we are on outside markets. Over the decades, many local businesses have been forced to be world competitive in order to survive in South Australia. However, even being competitive in a world market is not enough to overcome associated COVID-19 restrictions on commerce.

Opportunities to improve South Australia's supply chain

In 2019, for the first time State and Federal Governments agreed to a national approach to Australia's freight and supply chains, culminating in the release of the National Freight and Supply Chain Strategy. This was driven by a recognition that Australia's economy is increasingly integrated across interstate and international markets. The Strategy also acknowledged that Australia's freight productivity has plateaued since the 1990's with little change in real (inflation adjusted) freight costs since.

The State Government subsequently released an independent study into its Globe-link proposal by KPMG. The economics of a specific freight-only airport at Monarto did not stack up, but the report helpfully analysed a whole range of alternative options to improve South Australia's freight competitiveness. The report also highlighted that two thirds of interstate freight moved in South Australia occurred between Adelaide and Victoria via the South-Eastern Freeway. With respect to rail options, in the absence of population growth KPMG found deteriorating cost benefits since the Government's 2010 rail study. However, road options to improve freight connectivity into Adelaide looked more promising, particularly the Short-South option of a freeway link connecting from Mt Barker to the North-South Corridor at St Marys. The Short-North option was another potential, yet more expensive, East-West link alternative. As previously stated, Business SA advocates for the interests of the both the broader business community and road freight sector to be taken into account.

In Business SA's recent 9-point plan to Skyrocket SA, we outlined a need to focus on bold infrastructure projects to generate economic growth across the regions, including duplications of the Dukes and Augusta Highways. According to State Government data, approximately 3,500 vehicles travel the Augusta Highway on a daily basis, 750 of which are commercial vehicles². Business SA encourages the Government to plan a duplication of the Augusta Highway which would not only satisfy the needs of heavy freight users, but also provide safer outcomes for passenger vehicles (including tourists). The Dukes Highway duplication could be another key priority, with State Government data estimating 4,000 vehicles use this road each day, 30% of which are commercial vehicles³. From Business SA's perspective, duplicating the Dukes Highway also aligns in with the Victorian Government's gradual progress in duplicating the Western Highway towards the South Australian border. We recognise that these types of projects may not necessarily be able to be completed over one or two budget cycles, but now is the time to take material steps to improve South Australian supply chains to position the State for post-COVID growth. The State Government can also harness this drive to meet other policy objectives including circular economy development; achieved through a concerted effort to embed recycled products in future road projects.

² Department for Transport, Planning and Infrastructure, 'Traffic Volumes', Interactive map

³ Department for Transport, Planning and Infrastructure, 'Traffic Volumes', Interactive map