



Australian
Chamber of Commerce
and Industry



University of
South Australia

NATIONAL TRADE SURVEY 2021



FULL REPORT

ACKNOWLEDGEMENTS

This report was produced in partnership with the University of South Australia's Australian Centre for Asian Business (ACAB).

The ACAB is a community of leading academics in the fields of Business, Commerce, Law, Management and Marketing dedicated to producing high-quality research on Asian business and broadening the Australian understanding of the Asian business environment.

The Australian Chamber of Commerce and Industry (ACCI) wishes to thank the research team which was led by Professor Susan Freeman, Associate Director, ACAB, University of South Australia and included Bryan Clark and Sara Gillespie, Australian Chamber of Commerce and David Gunter, freelance consultant.

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AUTHORS' FOREWORD

The Australian Chamber of Commerce and Industry (ACCI) conducted its fifth National Trade Survey during one of the most volatile times for global trade in recent history.

On January 31, 2020, the World Health Organisation (WHO) issued a Global Health Emergency in response to COVID-19 and thereafter until the present day, trade and the movement of people have been severely disrupted.

The results of this survey are notable for two reasons. After five surveys with different respondent cohorts, the fact that many of the results across multiple years and cohorts arrive at similar outcomes shows that many of the issues and concerns raised are enduring and need to be addressed.

The second reason is that the qualitative views were captured during both the global pandemic and concurrent geopolitical tensions.

The report makes 20 recommendations to improve the international trade environment for Australian businesses and we look forward to working with the Federal Government to implement them.

Susan Freeman Ph.D
Professor of International Business
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KEY FINDINGS

Survey respondents demonstrated a kaleidoscope of business outcomes, depending on individual circumstances and an ability to adapt to the changing conditions. There were several issues that stood out however, such as an inability to compete, inconsistent online services, and the impact of industrial relations actions on already stressed supply chains.

TOP ISSUES

International competitiveness was the number one trade issue for firms operating as both 'goods' and 'goods and services' businesses, while red tape was the greatest issue for the services sector.

In fact, over the last six years our international competitiveness has been ranked as the most egregious issue on average. Survey respondents rated their top five trade issues for 2020 - see Table 1.

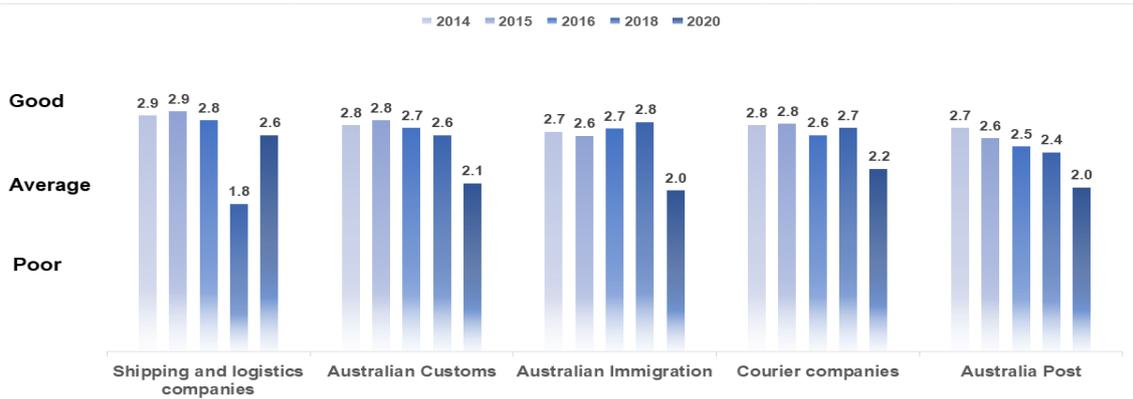
IMPORT PARTNERS

All exporters rely on imports, as do many domestic businesses within Australia. COVID exposed our reliance on a narrow range of import trading partners. Firms responded by altering their supply chains, increasing stocks or inventory, consolidating their position domestically, or even taking advantage of lower domestic competition to gain a stronger foothold in domestic markets.

Table 1: TOP 5 TRADE ISSUES (each group is a separate self-selected cohort and not added together for goods and services)

	GOODS					SERVICES					GOODS & SERVICES				
	2020	2018	2016	2015	2014	2020	2018	2016	2015	2014	2020	2018	2016	2015	2014
International competitiveness	1	1	1	1	1	3	1	1	1	1	1	3	1	1	1
Non-tariff barriers	2			5					5					5	
Red tape & complexity of rules	3	2	2	3	3	1	2	2	3	3	5		2	3	3
Tariffs applied to exports	4														
High exchange rate	5		3	2	2			3	2	2	3	5	3	2	2
Marketing		3					3				2				
New product development		5					5					1			
Regional connectivity		4				4	4					4			
Ability to service international markets			4		4			4		4		2	4		4
Customs & border costs				4	5				4	5				4	5
Market entry/access			5			2		5						5	
Enforcing contracts						5									

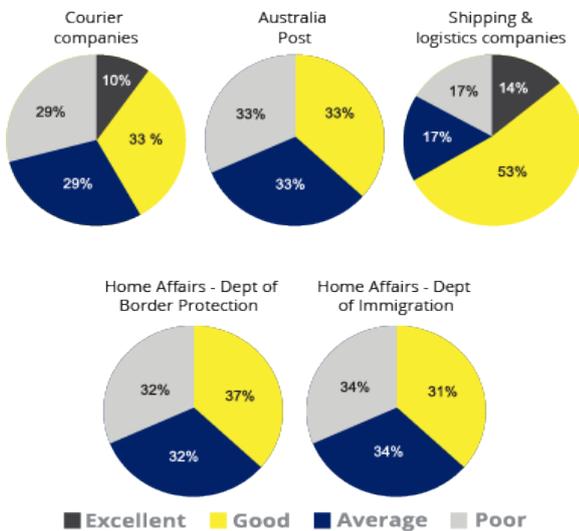
Table 2: Experience with intermediaries - mean score from 1 (poor) to 4 (excellent)



INTERMEDIARIES

Respondents commented positively on shipping and logistics services, with experiences improving considerably from 2018 (Table 2). However, the cost of freight dramatically escalated, hampering competitiveness.

Experience with intermediaries in 2020



The opportunistic actions by unions at ports exacerbated already stressed supply chains and had a severe negative impact on businesses and consumers.

Airfreight was and continues to be severely impacted by COVID-19 border closures and the corresponding loss of routes, and the International Freight Assistance Mechanism (IFAM) support from Government is still essential to keep this operating.

Respondents also suggested an overhaul of our port operating systems, better aligned with international models. Acting on a national scale, as opposed to in isolation, ports would be able to coordinate facilities and improve Australia's competitiveness.

JOBKEEPER

JobKeeper assisted many businesses, particularly internationally engaged firms impacted by border closures, to maintain at least some of their workforce through the pandemic. Even so, businesses reported that thresholds for eligibility didn't reflect that some businesses operate over longer cycles than by month, quarter or year on year.

Given the continuing disruption to supply chains, globally, Government support will continue to be necessary for some businesses and these longer-term cycles need to be considered as the support evolves and becomes more nuanced.

BILATERAL TRADE BY COUNTRY

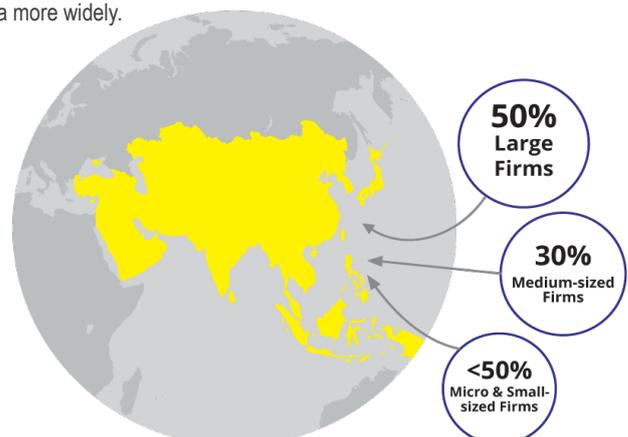
China continues to be the most frequently listed trade destination, more so than in 2018 and 2016 reports. This is followed by the United States, Singapore, New Zealand, and Indonesia.

It is important to highlight a note of caution with the selection of Indonesia as the fifth top country as many survey respondents were from WA and may not fully represent the engagement from other States. For this reason, we have included the United Kingdom in our list as an alternative 'top five' country.



Larger firms are the most reliant/focused on Asia. Nearly 50% of trade for micro and small firms is also in Asia, while medium-sized firms focus on the USA and NZ for over a third of their trade. These comparative figures of focus/reliance and spread of countries suggest different risk profiles for firm size.

A lack of engagement with European countries and the complete absence of trade with Latin America, Middle Eastern and African nations in the top five trading partners can be observed. Japan is also absent from the top five. The significance of Indonesia, for larger firms predominantly in the mining and oil industries in WA, demonstrates continued expansion of interests into Asia more widely.

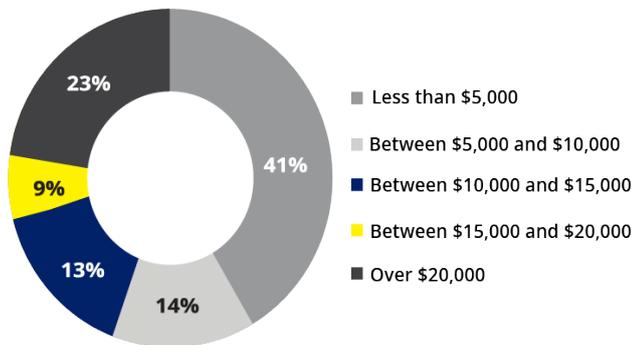


MARKET OPPORTUNITIES

The survey found a sharp increase in all businesses seeking information (Table 3) about market opportunities using online sources, irrespective of size.

The impact of COVID-19 resulted in the rapid adoption of online systems for engagement as travel was significantly curtailed after February 2020.

A large proportion of companies surveyed indicated they spent less than \$5000 on private market visits in 2020.



These figures are likely to have been severely impacted by closed international borders and also the increased number of firms now relying on e-commerce and internet-based means of communication out of necessity and to increase their efficiency and productivity.

Many firms had reduced travel internationally prior to COVID-19 because of the expense and time involved in being away, and now with the COVID-19 era many more firms are moving to digital forms of communication.

Firms reported that international customers and suppliers are increasingly accepting this means of communication as the new normal, but it is still very problematic, especially for firms wanting to access new markets or expanding their customer base and products into existing markets.

Surprisingly, participation in trade missions is regarded as the least important area for businesses to gain information regarding trade opportunities.

BORDER CLOSURES

Impacts were felt from many aspects from the ability to service customers, exchanges of ideas and IP, along with workforce issues. Firms responded innovatively but as they note the digital communications technology helped to reduce the impacts, but it did not replace the total value of face to face interactions and relationship building.

Digital will continue to be embedded in business - we need the appropriate technology capacity to support a future digital economy at a global scale.

LABOUR SHORTAGES

Well known impacts of COVID restrictions were corroborated in the survey. Firms are heavily impacted by the inability to source international workers or students (which also make up a valuable component of Australia's labour force).

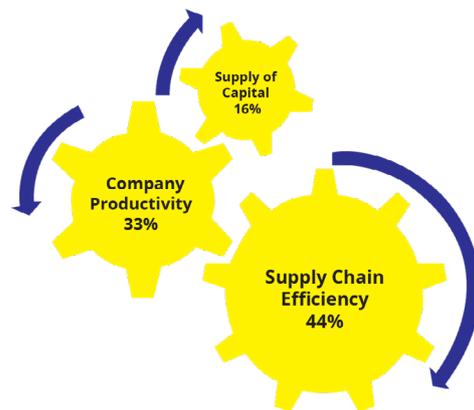
We need to understand that skilled workers, working holiday makers and students have alternatives and won't necessarily return to Australia if we delay our border opening.

“As the border closures have got more erratic or intense it's meant that pools of available labour have been shut down.”

SUPPLY CHAINS

Respondents were asked to rank which factors were most likely to affect their firm's maximum capacity to deliver products per shipment.

Ranked in order of significance, 'supply chain efficiency' was ranked as the most significant factor for businesses of all sizes, followed by 'company productivity' and finally 'supply of capital'.

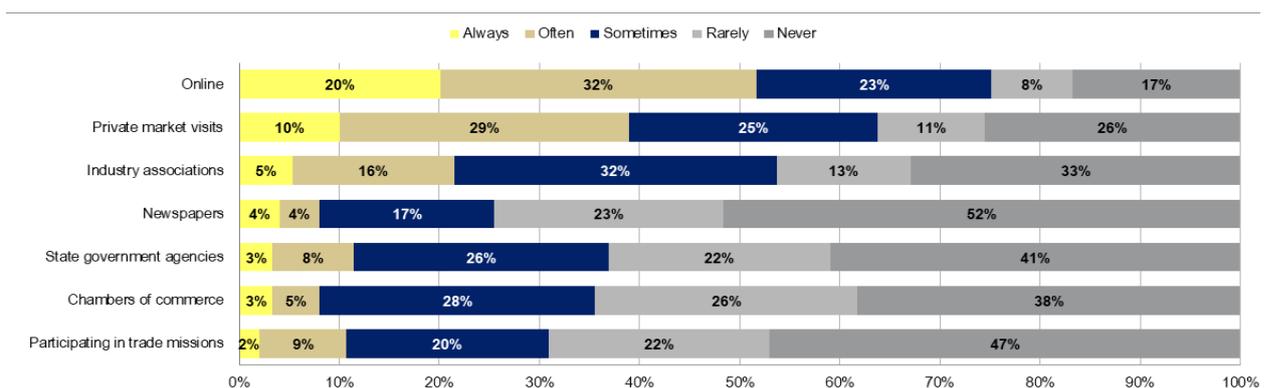


HIGH EXCHANGE RATE

Firms revealed the impacts of high exchange rates on their business. A wide variety of approaches were discussed from holding USD denominated accounts, only dealing in AUD and seeking payment upfront.

But other issues were also uncovered such as the high transactions costs imposed by online platform financiers which undermined business confidence in such systems.

Table 3: Where businesses seek information about opportunities



UTILISATION OF SUPPORT

The survey revealed the differences in State and Federal Government support services, especially experienced by businesses that operate across multiple states. It found trade missions not that useful once a firm had gained experience and contacts in a market, but of definite benefit to those just starting out.

Chambers of Commerce and Industry Associations consistently outrank the agency services in the eyes of business and so there should be greater efforts to form a “Team Australia” approach that considers greater synergies between the various players to provide better support for our internationally engaged companies.

Grants and awards were seen as useful assets for businesses to be recognised as doing well but also to assist with cashflow in difficult times. While on the whole Austrade is seen as a positive and supportive service, during the challenges of a COVID-19 era further diversified support is needed.

“What we really used, and what we could not have done without, was the EMDG and the R&D grants. They were...the difference between starting business in Australia and starting business really anywhere else in the world...particularly the States.”

TRADE AGREEMENTS

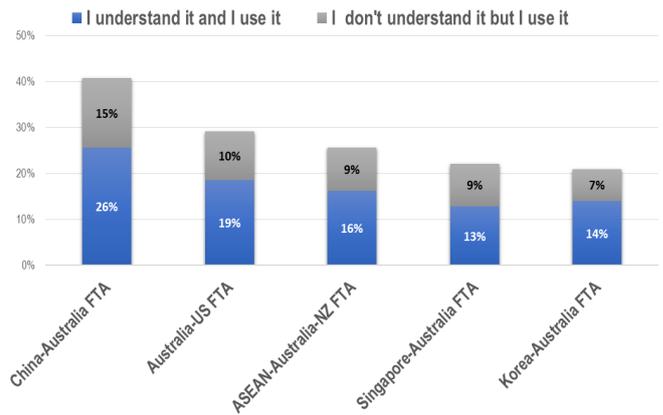
It was interesting to observe that when offered a range of agreements, the greatest positive responses put multilateral agreements ahead, if not equal to any given bilateral or regional agreement.

However, when only offered Australia’s current range of bilateral and regional agreements, CHAFTA was the most important, reflecting the continued general importance of our trade relationship with China over all others.

Businesses were not fearful of the collapse of the agreement given current tensions and in fact pointed to the juxtaposition of political posturing against the signing of new agreements including China.

However, respondents also indicated a poorer understanding of the most used FTAs relative to the less used agreements.

Table 5: Utilisation of FTAs



TRADE DIVERSION

Firms pointed out that the preference of nations seeking bilateral and regional agreements also causes negative effects when other nations gain preferential access into important markets where Australia doesn’t have an equivalent agreement.

FUTURE FTAs

When polled about the prospects of future agreements and with whom these agreements should be pursued, India was regarded as the leading nation of future potential opportunity.

CHAMBERS OF COMMERCE & INDUSTRY ASSOCIATIONS

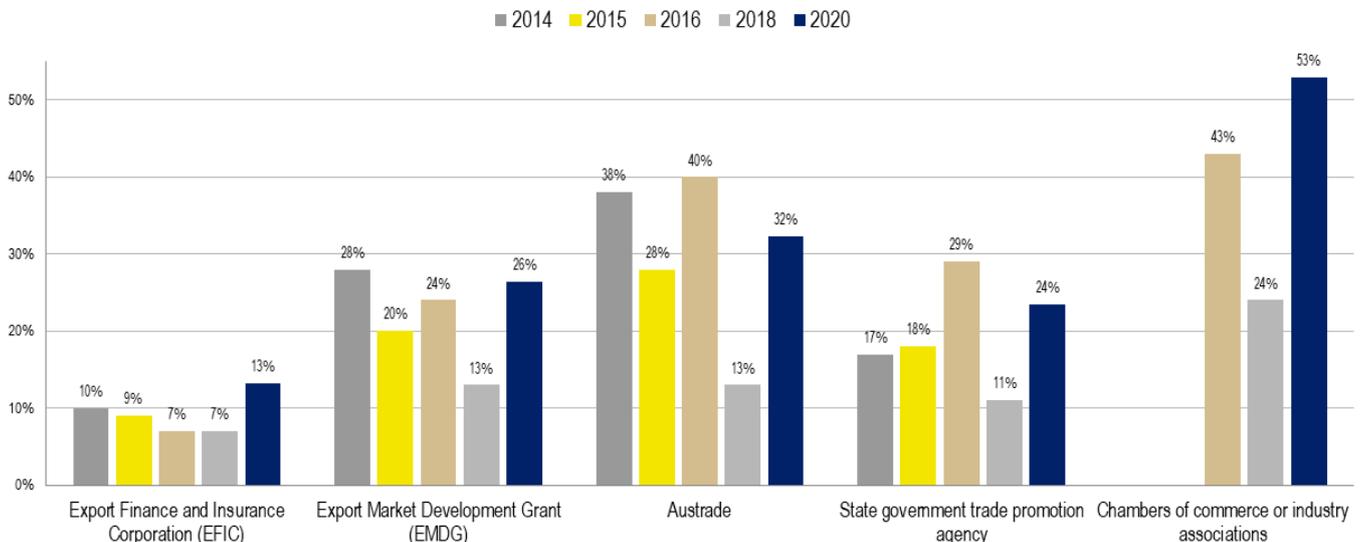
The survey showed there is a low level of understanding of the trade services offered by Chambers of Commerce and Industry Associations.

However, 91% of businesses who use the services indicated they were satisfied.

It could indicate that the landscape of support services for international trade is fragmented and results in confusion about what services are available and by whom.

Certificates of Origin are highly regarded but that’s not to say the system can’t improve.

Table 4: Utilisation of trade support initiatives – Total of ‘Always, often and sometimes’ frequencies for years 2014-2020. Chamber of Commerce response was not available before 2016



RECOMMENDATIONS

TRADE POLICY

Recommendation 1:

Treat imports, exports, inbound investment and movement of people as a complete landscape - all must be functioning well for a healthy trade ecosystem.

Recommendation 2:

Integrate freight and logistics services into trade policy and address the serious lack of competitiveness impacting Australian businesses.

BILATERAL TRADE BY COUNTRY

Recommendation 3:

While greater efforts need to be made to ensure the success of Australia's relationship with China as a major two-way trading partner for the continued benefit of both business and consumers, diversification in trading partners is an urgent focus.

Recommendation 4:

Develop a complete trade policy engagement plan to encourage engagement across a more diverse array of nations and continents, as 99% of the world's customers lie outside Australia.

INFORMATION & OPPORTUNITIES

Recommendation 5:

Develop a tools, skills and infrastructure plan to extract the best advantage from a digital world, especially given the rapid technological advancements emanating from and driven by the COVID era.

Recommendation 6:

Implement high-speed digital access across Australia that is consistent and effective to meet and keep pace with future needs and development.

Recommendation 7:

Provide additional support to assist SMEs to refine their business model to ensure greater efficiencies, and especially in developing new customers through digital e-commerce.

BORDER CLOSURES

Recommendation 8:

Build a blueprint for international engagement post COVID to give confidence to businesses. ACCI recommends adoption of its [Vaccine Policy Part 2 – International Restart \(May 2021\) Plan](#).

INTERNATIONAL COMPETITIVENESS

Recommendation 9:

Improve Australia's international competitiveness by addressing the high corporate and personal tax rates, which create a harsh business environment for high tech knowledge intensive export-dependent startups in Australia.

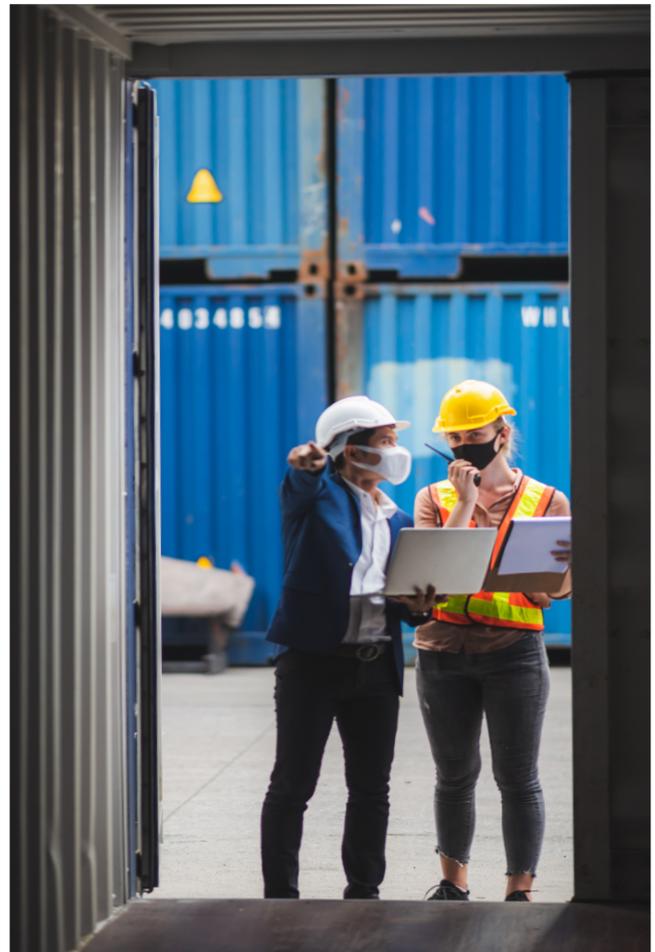
NON-TARIFF BARRIERS

Recommendation 10:

Address non-tariff barriers unable to be resolved at the firm level through greater government-to-government interactions, while resolving the loss of skills and experience as a result of the 'revolving door' of trade and ambassadorial staff.

Recommendation 11:

Provide clear, easily-located, fit-for-purpose Government services, training and events that support business in a digital world, covering the complex web of regulatory compliance, including training and resources around website development, from geocoding to correct tax and currency rates.



SUPPORT INITIATIVES

Recommendation 12:

Implement a seamless “Team Australia” approach between Government, Chambers of Commerce and Industry Associations that provides a package of support measures for importers and exporters, including:

- Providing a designated relationship person to assist with import and export regulations (e.g. customs, visas, freight costs) to improve their export readiness and engagement with international vendors and customers.
- Training to develop an international market strategy, digital engagement and new product development, across a more diverse range of countries.
- Timely responsiveness supplemented with a streamlined online grants process.

Recommendation 13:

Minimise unnecessary compliance, complexity and duplication associated with trade support and grants.

Recommendation 14:

Eliminate Government’s fee-for-service charge so Aus-trade and other agencies refer clients on for more specific support to providers who offer commercial support services.

TRADE FINANCE

Recommendation 15:

Promote and make accessible, trade finance to small and medium-sized businesses especially in the early start-up phase and to recognise the impact of their life-cycle on funding needs.

Recommendation 16:

Reduce administrative complexity in trade finance, critical for SMEs who experience challenges in obtaining funding through the banking system, leaving them reliant on self-funding or private lending firms.



TRADE AGREEMENTS

Recommendation 17:

Implement an improved awareness campaign of the benefits of FTAs to business, with continued analysis of the economic benefits Australia is potentially gaining from such efforts.

Recommendation 18:

Improve the awareness of non-China FTAs in order to diversify our interests.

TRADE SERVICES

Recommendation 19:

Support online trade training (which includes Incoterms 2020 and Certificates of Origin procedures) to improve import and export readiness, new product development, digital processes and servicing international markets.

Recommendation 20:

Chambers of Commerce and Industry Associations to increase the awareness of the benefits of their service offerings and develop much more effective lobbying strategies to influence government outcomes, especially for reforms needed regarding excessive regulations that are difficult for SMEs to mitigate.



Trade in the Time of COVID-19

This report presents the results and findings of the 2021 (Fifth) Australian Chamber of Commerce and Industry (ACCI) National Trade Survey. The 2021 ACCI Report aims to understand the attitudes of Australian businesses on the issues and challenges facing international traders as exporters and importers. The Report is supported by qualitative insights. This is a comparative trade report with analysis over the following years: 2013-2021.

The survey was conducted during an extraordinary time with the COVID-19 pandemic raging globally, but within relatively limited direct impacts on Australia; along with heightened geopolitical tensions, which has had some severe negative impacts on certain sectors and our trading relationship with our largest trade partner – China.

The survey was conducted in two parts. The first being a quantitative survey in November 2020, followed by a qualitative phase of a more limited group over the first months of 2021.

The results are notable for two key reasons. As this is the 5th International Trade Survey conducted by ACCI over 6 years, with different respondent cohorts, the fact that many of the results across multiple years and cohorts arrive at similar outcomes shows that many of the issues and concerns raised are enduring and need to be addressed.

The second reason is that the qualitative views captured express the views and feelings of the respondents in a time of great stress. Some have found the times to have exacerbated the difficulty of business as usual, but many others have found opportunities. But in almost all cases the need to be able to engage globally must be a priority for the Government so that continued border closures don't have an unnecessarily detrimental impact as other nations forge their own post COVID paths to economic recovery.

Under ordinary circumstances business seeks to operate with the light touch of Government in the main, however now we have the situation where business can only operate with the permission from Government. This is not a situation many want to see as enduring.

COVID-19 Impacts

Not all was bad

Many Australian SMEs have fared very well in a COVID-19 era in the manufacturing e-commerce sectors despite prolonged lockdown. Businesses related to sports and exercise as demand for their products and services increased – perhaps at the expense of others.



“Our revenue doubled last year during COVID-19. We found that most of our customers were in lockdown and had time to go [activity]...So they purchased our product and a lot of the times farriers couldn't get to their horses, so they took off the shoes and used our product. We found ourselves in a situation where we had to capitalise on this. We set about providing education [online] about trimming your own horse in between farrier visits so that they could perhaps decrease ...the amount of visits [from] the farrier ...”(Senior Manager 4)

Going digital is key post COVID

Many businesses were able to increase manufacturing and thus expand supply to their domestic and international customers by being heavily e-commerce based. Thus, able to continue their manufacturing export business without interruption because of their focus on e-commerce processes to educate and reach new and stay connected to existing customers.



We're developing our website every day. It's never stopped. It's always a work in progress because Google changes its rules all the time, its algorithms. We have to optimise it for conversion, we have to optimise it for different types of devices that are being used and we never stop. ...a lot of people think you've got an e-commerce business you get the website set up and then you're good to go, but it doesn't happen like that at all. It's a constant work in progress all the time and that's why we work very closely with our web developer and our search engine optimisation specialist and also our content writer because we need to ensure that we optimise all the traffic that goes to our site and without these specialists we can't do that!...(Senior Manager 4)

Identifying as local and regional is important

Firms have been able to capture the lost ground of other major competitors in Australia and New Zealand that initially used locally produced fibres and manufactured only locally, when the competitors offshored their manufacturing. For example, a firm based in Tasmania, sells online directly to the customer and has undergone a dramatic increase in sales and profits since the beginning of the COVID-19 pandemic. The online business model meant there was no interruption to what they would normally do and thus the ability to pivot quickly by scaling up production has been their biggest challenge to meet expanding domestic and international customer demands.

Initially focusing on the domestic market, within a very short time frame from inception, they were selling to international markets. They have continued to expand sales into their two main markets overseas, the US and UK without any significant supply chain interruptions. The high-quality brand associated with so many Australian products, specifically Tasmania, has worked very well for this small on-line high-end manufacturer.



"So because we've mainly grown with our website we haven't done a lot of supplying stockists and obviously if we can sell direct to customers...It's the simplest way and the easiest way. [without travel] it's been about how we get in front of the audience we want to get in front of and it is just that question. And so really we've concentrated on Australia...And there's been a huge support from Australian people...[our competitor was a company that used] New Zealand merino and local made in New Zealand and they went offshore and a lot of people turned to us because we were there still making being made in Australia ...from Tasmania, as the world is kind of suss to know a bit more about Tassie ...with the clean, green image!

I think it aligns itself really nicely with the Tasmanian brand and so people ... [in]US/UK they're like 'oh it's from Tasmania! And I think definitely Australia, but Tasmania is maybe a little bit more. We feel very lucky that about that!" (Senior Manager, 26)

Doing well by taking advantage of the lockdown!

Small specialist high-technology niche manufacturers in Australia report on the difficulties they face in having to work and operate, in a fiercely competitive environment, without the support many other advanced economies provide for SMEs. There has been little to no government support in Australia. New innovations are a focus as they prepare for borders openings and intense global competition. They are expressing concern, about their ongoing ability to continue to grow exponentially, despite their high-tech processes, especially given the need to locate new international customers. However, some have experienced a windfall with COVID-19 as border closures internationally and internally have meant that travel has not been possible.



“Manufacturing in Australia is not easy!...I don't think we get many free kicks. I mean I think probably agriculture is in a similar boat...Which makes us very globally competitive, but it just doesn't make it that easy. Our turnover is around the 6 million mark although we've had a very good COVID-19 in many respects ...because we do supply the building industry and no one's going on holidays this year...They're all putting pools in and so we've actually done well this year!. We've actually experienced over 30% growth... but thank God that we qualified for JobKeeper to fund it... we're ...desperately trying to make hay whilst the sun shines!...And I think then riding in the background of most people, on the periphery of most people's consciousness, is that our consumer base economic model which is a global phenomenon...and we have to have growth every year is frankly unsustainable!!” (Senior Manager 20)

Others have not - with border closures interrupting their exports to international customers this means focussing locally

Firms have responded to the inability to service international market by trying to expand locally. The traditional model was to create networks of distributors but now firms are looking to engage direct sales staff to build their local business across other States. The changing business models are opening new types of roles and work flexibility in locations for staff.



“...the intent is for him to become aggressive over the next 12 months and get out to find new markets. I'm talking about in Australia now! Different sort of markets. He's been doing that now for about five years for another WA based company based in Melbourne and he's done it very successfully... he certainly has grown the business from zero market share to 20% or thereabouts over a five year period...So that's why we grabbed him and so he intends to grow our business. For instance, our business in New South Wales through contacts we have there but not really any distributors. We have distributors and they've worked, and they haven't worked! Obviously, distributors they will only sell your product if it's one making a lot of money for them!” (Senior Manager 16)

Lack of capacity with overseas manufacturing partners preventing expansion

Historic reliance on major overseas manufacture has meant disruption in supply chains for many firms and their ability to supply in Australian and internationally. If the international partners operations are also curtailed due to the COVID situation in regard to supply, then the Australian firm obviously cannot respond to increased demand in international markets. The following example shows the COVID-19 era has been good for their high-tech knowledge intensive e-commerce driven specialist product, used as a primary form of horse management at a time where equestrian sports and recreational activities have increased globally in the advanced economies of Europe and US. Such sports and related activities are increasingly used as a form of relaxation and therapy to manage prolonged lockdowns. But their dependence on a single Asian-based manufacturer in Indonesia, not able to expand quickly, and already operating at capacity, is preventing this e-commerce savvy small high-tech manufacturer from expanding rapidly to fill rising domestic and international demand. Currently, they are pivoting more towards meeting domestic demand, and filling orders through existing stock. They are now looking to potentially reshore their manufacturing as a new value chain activity and/or find alternatives, with the possibility of disengaging from their close and long-standing manufacturing partnership in the long term:



“Yeah my business partner who designed this product designed the first [product] in the world back in the 1980s. And he had set up a relationship with a particular manufacturer in Indonesia and he developed those relationships at that time. When he developed this product, he reached out to a particular person that he had a trusting relationship with and said look I’m doing this [product] boot, would you be able to produce. So, this person sourced a warehouse, sourced employees, sourced injection machines, moulding machines and went out on his own because he was working for [global designer in footwear]. He went out on his own and he started up his business alongside ours and he has since grown organically as well. So that’s why I say we’re co-dependent on this manufacturer. But he’s grown substantially. He produces now we’re at [xxx] a day which he produces for us. We wish he could produce 2,000 [items] a day because we could sell those as well! But he has to grow slowly and steadily...So, he has to catch up with us. We can’t go out [on our own]. We can’t scale up until he catches up with us!...” (Senior Manager 4)

Keeping up with accelerating international customer demand

One particularly challenging aspect of meeting increasing global demand for a large agricultural producer of high-quality dairy products and beverages is managing and keeping their domestic workforce safe and productive during a COVID-19 era. They were very quick to respond and put a crisis plan in place in March 2020 to protect the workforce. This has enabled them to keep production going domestically to respond to now pent up demand globally. However, they are only still operating with 60-75% of the workforce.

Interesting to note: it is becoming a competitive advantage in Australia to be able to continue their manufacturing because of the safety measures in the economy, and in their firm, to protect staff in a COVID-19 era. Australia is quite unique in this respect.



“...we have got a lot of our factories are at 60, 75 per cent of the workforce. So with the impact you just have to obviously phase out your timeline of working. Over there [international locations] at the moment, now some of them are ripping [apart with COVID-19 infections of the workforce]. We haven’t had any factories affected by any COVID-19 cases at all. Australia is strict straight away. Overseas, you see it overseas, some of their factories they are shutting down. So I haven’t been to a factory [overseas] in a year now. ...trying to get into a factory - now you have more chance of getting into North Korea (!), because that is how serious we [Australia] take it! [workforce safety]...” (Senior Manager 10)

Forming COVID-19 bubbles in production sites offshore

In the emerging market context, mining firms are having to work very closely with their partners in offshore locations to maintain production as the health issues of staff remain the major challenge to a productive and re-engaged workforce. Measures are being put in place to safeguard the health of employees working in their offshore mines, but it is a very difficult challenge to address.



“Yeah we’ve got long term relationships with local businesses in these countries. ...There’s always an off shore component which is the design and the procurement and so forth and then there’s the construction management part which is the onshore. So, we have local parties that we work with in those countries because there’s obviously a

requirement under the contract to have local content so that local workforces are getting that work.

And certainly the client drives a lot of the COVID-19 strategies so you'll find that most of the project would end up going into a COVID-19 bubble if you like..." (Senior Manager 17)

Imports

Strategic decisions to focus on the domestic market

A large firm that has capacity to export tends to keep exports controlled and regarded more as an 'add on' than an essential part of their strategy, because of the high barriers to entry that exists in the Australian economy. This is despite the fact that they could easily expand and cater to an international market, but they would face stronger competition than in Australia. This reduced competition allows them to essentially exist in the domestic market and to control supply and hence the higher price they offer to the domestic customer in their agricultural production of high-end seafood.



"To be frank with you our business is probably more domestic centric! ...Entry barriers into Australia are pretty good on fresh [seafood]. So there's only two competitors [in state]. So we tend to fight it out for domestic share in there and whoever doesn't win the share you tend to export the excess fish because the reality is you can't push fish down people's throats!...Now if you had a strategic plan in Norway and you're looking at a country on the very opposite side of the world and the most hardest place to airfreight product to for freshness, would you be looking at Australia thinking oh that's a place we should be going, particularly when they have their own industry and right on our doorstep is China, Vietnam, South Korea, Japan which are far larger consuming fresh markets than Australia?...So they tend to concentrate on other areas that are outside of us. Just like we don't export [fish products] to Europe...It makes no logical sense when you're competing like I say against a juggernaut...So they tend to stay away from us. Now there is also other barriers, the Chileans who grow 700,000 tonne a year are banned in Australia for security reasons because of their history of disease. So that works in our favour as well." (Senior Manager 7)

Importing to provide high quality products to Australian businesses

Set up from inception as an importer and exclusive distributor in Australia and New Zealand, this SME is an e-commerce-based start-up specialising in healthcare equipment. The CEO is an English ex-pat and resides in Australia in WA. His company began importing 100% of their inputs at their commencement four years ago. They have experienced rapid growth, and more so in a COVID-19 era, given the nature of their product offerings. Strong partnerships and familiarity with the countries, especially the UK, from which he imports his products, this small exclusive distributor is an example of a very successfully implemented strategy of differentiation, innovation, strong supplier relationships, high-quality products, e-commerce-based processes, exceptionally high-end service and close monitoring of their client needs in Australia.



"I learnt about their products and brought their products back to Australia...[as an exclusive distribution]... Yeah and what I worked out was there's lots of little dealers around, scattered around different parts of Australia, and going through all my business training I worked out that your little dealers are high levels of customer service but low levels of cash flow capability... And you had the big boys who were very low levels of customer service but high so I needed to find a hybrid model that would work together...

And I worked out the fact that there's 12 pallets to a container, a 20 foot container, or 24 to a 40 foot container. All I need to find is 12 people and I get 12, one pallet each and all of a sudden we fill the container and we redistribute and that's how the [firm's] model was born... Yeah so that's my business... [importing from] UK, Holland and France... That's my point of difference because especially working in the West Australian market previously I had, everyone was sick of this 'made in China'!... I think there's more, actual more people from Britain than there are from Australia in Perth. So anyway I mix with all the British people because it's like a bit of ... a heritage type scenario!... And I would speak with hospital engineers and they would reminisce on the days that they were using certain brands in the UK. They [equipment] never broke down, they didn't have this and then I said well we can get you that because they would say price isn't a problem, they want the resilience of the product... And so that's how actually sitting there and listening to what people wanted I was able to work out what to give them!" (Senior Manager 13)

Import supply chains rely on diversity of suppliers

Some small specialised niche market firms are totally reliant on inputs through imports for their businesses, made more exacting with the need to focus on high quality, reliability of supply and good pricing as a strategy. In the illustration below, the SME highlights the reason they maintain a large number of importers from a range of overseas locations. The main reason for the large number of importer relationships and locations of countries that they deal with, is to essentially offset the risk of dependence on a single provider in a single market. It allows them to spread risk of reliance as well as utilise the variation in international currencies to operate efficiently and effectively. However, China is also part of their supply chain for their components and this has been difficult given recent interruptions to supply chains globally with the pandemic.

The essential reason for continuing to diversify their supply chain is to spread the risk of not relying on a single market. However, it does also relate to the nature of what they are importing - high end quality while balancing price sensitivity in a situation where there are alternative suppliers. These suppliers do not exist in Australia.



"We import our components... My supply chain is Taiwan for high end specialised products... The quality there is excellent, and the prices are very competitive because it's all in US dollars. Then PRC, mainland China, for some [other] items.

Next stop is India. I get stainless steel and brass fittings made there by a company who supplies OEMs for this type of specialised product... Their quality is excellent, and they invoice in A dollars but the other Indian companies invoice in USD.

Next stop is Northern Italy near Milan. We get special cable, ... an RTV cable and a specialised cable... made for us on order and we buy them by kilometre on completion... We also get specialised cable from a supplier in Sydney. Sydney or Melbourne I can't remember that imports them for the Royal Australian Air Force in particular special Mil-Spec cables. They're very lightweight and fire resistant... working

temperature is up to about 260 degrees C ...And that comes from a stockist in Melbourne, but it's refined in Austria.

Let me continue with my supply chain...Then we buy thermocouple plugs from Germany, we buy our RTD elements which are little tiny pure platinum printed circuits on a ceramic base that are about 2mm x 1mm x 1mm. We buy them through an English distributor, a German and that distributor has just been taken over by a bigger company and the price has gone up. We buy other stuff from England as well...A specialist company that just focuses on this [Australian domestic] market. And we also buy from up in Newcastle [UK] a special silicone nitrated sheath, ceramic sheath, for very high temperatures that will work in molten aluminium...

And we also buy stuff out of USA...And we have bought stuff out of Estonia, Chechnya, the old Czech Republic...But we buy our temperature transmitters from New Zealand from an OEM. They manufacture them in Christchurch and they're competitive and they're good value...

[The company] - its [a] specialised niche market and I look for quality, reliability of supply and good pricing...(Senior Manager 5)

Exports rely on Imports

Discussion with a major producer and manufacturer of nuts in Australia, 80% reliant on international customers primarily in more sophisticated markets in Asia, such as Japan, Taiwan and Korea and in western European markets reports that he company could easily expand production, but they find the quality of Australian machinery and equipment very poor and not specialised sufficiently for their high-tech processes in Australia. For this reason, they are also an importer of all their equipment.



Basically, because we couldn't get it in Australia ...a lot of the nut manufacturing machinery we use and we got, we adapted it from what they used ...for walnuts or for almonds or these sorts of things!" (Senior Manager 31)

RECOMMENDATION 1

Treat imports, exports, inbound investment and movement of people as a complete landscape - all must be functioning well for a healthy trade ecosystem.

Shipping Costs

Table 1.1 Experience with trade related intermediaries 2020 (All business)

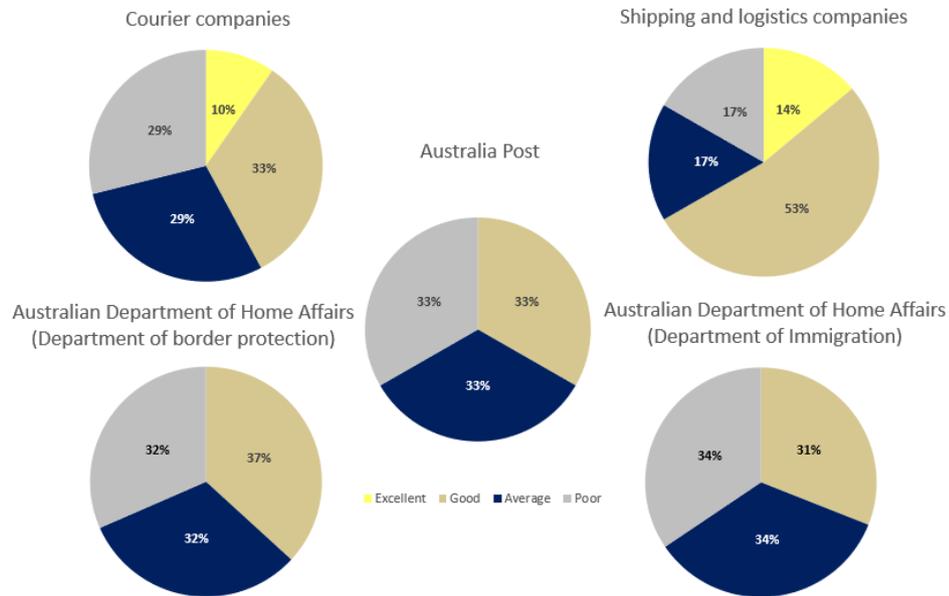
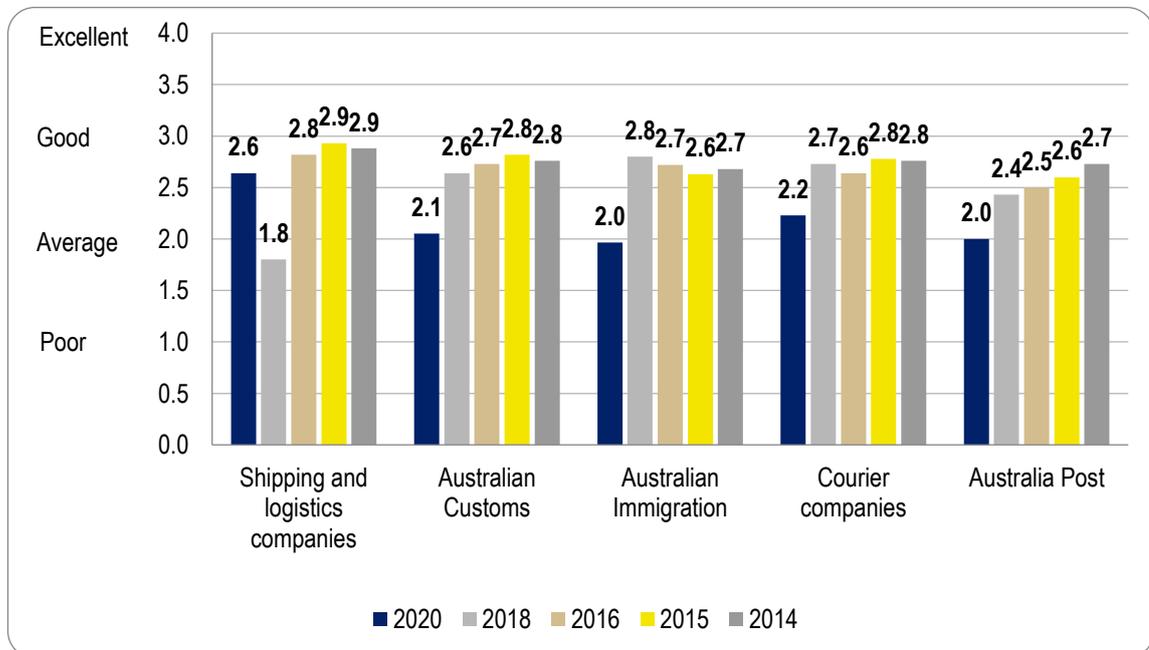


Table 1.2 Experience with trade related intermediaries for 2014-2020 (Mean rating from 4 – Excellent to 1 – Poor)



There is a clear decline in the perceived relationship with most of the options surveyed, except for shipping and logistics companies where their perception was more positive compared to the alternates in 2020. This is often in contrast to the negative comments with some of the interview respondents.

A sense of powerlessness

The excessive delays now being experienced in the shipment of exports and imports has reached a level where SMEs in particular, feel a sense of powerlessness. Congestion causing delays and lack of container space operating at a global level is adding to costs, but so too is the uncertainty dealing with shipping companies and trying to manage any sense of logistical strategy and forward planning.

The views often expressed by senior managers is that there is very little that individual firms can do or expect from their Chambers of Commerce. Rather, there needs to be some level of government involvement. One small agricultural producer, relying entirely on exports, describes the increasing congestion, globally, which is prevalent across all countries, not just a few. It is especially difficult for SMEs to manage given their small size, smaller orders, and lack of resources generally to manage the increasing costs of containers. While there is some evidence that the larger supermarkets in Australia may be experiencing some issues with China, this is not regarded as a Chinese related problem, rather a problem of global interruptions to supply chains that is now leading to increased international congestion, worldwide. However, they do expect governments to make some effort here to address the issues at a national level.



"So I don't know that state Chambers of Commerce or that sort of thing, I just don't think there's a lot they can do there. Certainly, they help us with our certificates or origin and they also assist you but ...for them to go up and apply any pressure to the shipping companies.

So everyone under the sun, I mean for years and years the major, the Woolworths, the Coles supermarket who were bringing in stuff from Asia and these supermarkets literally had all the power and the shipping companies used to come grovelling to them!...Yeah and they can't get it, they might want 10 container spaces, they can only get 5. So they go, oh thank you very much for the five. So, the logistics it's just one thing that used to not be an issue...You just booked your container and you knew that part was right so you had other things to worry about!

... every bit of paper has got to be handled half a dozen times and checked in the hope that you'll get it delivered!...

Oh look it's not particularly China. I mean I've used the China one because that is Woolworths' issues right!...But China isn't an issue at the moment but it then moves somewhere else!...Where delays with containers all over America but they're all delayed. I mean you've got containers sitting in Africa where they can't move, so there's just container loads of stuff that was imported there, but those containers are needed to ship something else! ...So containers are caught up around the world. So, that's the logistical nightmare and that's not going to go away. That's not going to go away for a while!...Like we had situations last year. Not currently but last year where boats were just coming through and just deciding not to call at different ports and if they had importers or exporters and that cargo, some perishable cargo. They couldn't get on booked vessels so there must be some role that could be played [by government]. That sort of says well part of your thing of being able to get berthed in Australia! ...About being able to provide a reliable service to exporters...(Senior Manager 31)

Changing the goalposts disrupting international freight

Sitting over the top of existing issues that small high-tech service providers face is the ongoing impact of the border closures and freight interruptions directly attributed to the COVID-19 era. The prolonged border closures mean they cannot visit existing customers, essential for some SMEs to maintain high growth or what are in all respects, efficient and well run and highly successful exporters. Related to the global and national closures are the problems relating to

freight, now reaching a global bottleneck and dramatically adding to uncertainty and unreliable predictions around a return to open borders. This makes attempts to plan and develop a future coherent strategy extremely difficult in the present circumstances. The perception for some is that there is no clear message about a return to open borders from the Federal or state government to assist future planning and the problems are increasing.



"I think it really is just increasing, there's two sides of it as well, because one side on the business side being in an international business we can't travel and visit our other offices, which there's many, many reasons for that, but that is really difficult operating a business and not being able to see people face to face and then in terms of all of our customers and how we operate on a daily basis the last minute cancellation of flights, or the last minute changing of flights, is so frustrating for our customers, for us, and what we find is even though, especially in Australia where we are going through COVID-19 far better than a lot of other places, people often forget that we are still in the middle of a pandemic and there are limitations to where you can go, what you can do and also on the other side what countries are accepting..."

So, not having enough flights, and also like FedEx they've cancelled, or put embargoes on a lot of their dangerous goods. We are then having to rely on other airlines. We do a regular cargo flight, ...it can be up to between 300 and 500 kilos and we normally use FedEx who give us good rates. Then they've said no more, we are not allowing anymore, so then we have to use MRX and then MRX charge about 10 dollars more per kilo so the prices go up and then now Emirates have reduced their flight schedules because the Government announced that they are reducing the number of passengers allowed into the East Coast States and so then Emirates are pulling out of their flights! So I think it is just changing the goalposts at short notice...It puts a hindrance on the freight industry to keep moving and keep the economy going I think!...(Senior Manager 21)

Exporters in agricultural sectors are finding interruptions in the form of delays in and around Singapore extremely difficult to predict and thus manage. Shipments from Europe pass through Singapore on their way to China and often delay or return from China back to Singapore and experience further delays. This is costing smaller exporters a great deal in time and also a tripling in shipment costs in the last 6 months. There does not seem to be an easy solution as agricultural exporters globally seem to be experiencing similar issues. This is described in detail below by a small agricultural producer, processor and exporter based in NSW.



"I've finally got advice that a container I sent to a customer in Taiwan, a key customer in Taiwan...Who desperately needed the product for Chinese New Year since early December sent to Taiwan and it will be delivered next week! That will be the end of the Chinese New Year! ...it's like what should be a two weeks transit has taken 12 weeks! It's supposedly congestion on ports and that's part of the issue...It's also the ...shipping companies cutting out [smaller volumes] so they can maximise the utilisation of the vessels they've got!

But it's also in the case ...they just had better paying cargo half-way along the way so they dropped it off at another, a third port, third country port and said oh look we'll pick that up when we've got a boat coming through! We didn't know until it had been picked up the second time around just because the customer had paid up, because he expected it to arrive. He knew nothing about it...So we've been paid for the cargo and the customer is looking left, right and centre for it! And then it's going from Singapore to - it ended up in Shanghai! I don't think [it went well] in Shanghai and eventually it's gone from Shanghai back to Singapore!

I speak to shippers all over the world...and they're getting the same issues out of getting their almonds from America! Or getting their hazelnuts from Turkey! They've got the same issues. Getting the containers and the cost. The cost of shipping has trebled! In less than six months!..." (Senior Manager 31)

Freight costs increasing

A number of SMEs and industry experts are observing the increasing cost of freight is making it increasingly prohibitive for smaller exporters to compete effectively despite being e-commerce oriented and efficient in their operations. The excessive costs are now virtually impossible to pass on as the COVID-19 era progresses. A freight forwarder advisor with a peak agency in WA described the unfolding scenario as the COVID-19 era progresses and in particular the impact on the embattled SMEs. In the preceding year freight costs in shipping for a container has skyrocketed from between 265% to 450%. While larger firms are able to offset the rising costs by purchasing or selling with volume, SMEs are unable to do so.



"Alright the biggest thing that I can see in the very front line of my role having been where I came from, and also now, is that the international trading environment for SMEs is becoming; a lot of them can't participate...So for example freight during COVID-19. The freight cost itself. If you have a look at ...the Shanghai Containerised Price Index and I think there's also the Wuhan Containerised Price Index. Those give you a snapshot of how much the freight price has gone up in 12 months; between 265% to 450%. So if you are [XXXX] Furniture Importers for example who have a very tight profit margin in that industry who are surviving shipment to shipment and they're consistent, they're regular but their freight goes from \$850 USD to well over \$5,000.

They can't compete, they can't participate in that market. So large corporate businesses can see their way through that because they can purchase freight in volumes. They are the highest bidder. I've heard of people now paying as much as \$13,000 for one 40 foot container...because it doesn't just stop there. The complexities once it actually arrives in Australia are becoming just as complicated!" (Senior Manager 25)

Unreliability in shipping due to delays

Delays and re-routing of export shipments are adding considerably to the exporting cost of smaller exporters. These delays are attributed to a number of factors including idiosyncratic aspects of particular ports but also the whims of individual shipping companies. In all, making it extremely difficult for firms to predict likely timeframes for delivery. Being resource poor, many SMEs involved in exporting and importing are increasingly finding it difficult to pass on costs and pay the inflated prices of shipments. A small agricultural producer in NSW, 100% reliant on exports to predominantly Asia and Western Europe, discusses the increasing frustration he is experiencing.



"So we've got back to the stages that I'm old enough to remember the last time we had super unreliable ports. We've just got such unreliability in our shipping... Some of them that relate to the regimes under which the ports operate but a lot of it is just straight up bloody mindedness by the shipping companies and they're global!...[Shipping companies] come grovelling to them [customers] saying 'oh can we, what can we do for you?'...'How many containers?'...I mean my understanding is that Woolworths' costs of bringing stuff in from China have gone up five-fold!..." (Senior Manager 31)

More competition needed in shipping

As the COVID-19 era continues the delays and frustrations in dealing with imports are becoming greater. This small, high-tech wholesale food distributor is entirely dependent on 100% imports to distribute to customers across

Australia. While they can be assured that an international client has sent an order, given the technology now available to check movements on-line, the delays across supply chains from Europe, especially as they come through Asia, for example, in Singapore, are becoming unworkable. This small distributor based in WA, can suddenly find their produce is classified as not urgent, and simply offloaded, by overseas shipping lines and port authorities. They are then left waiting for another shipment arrangement. They appear to have no control over shipping arrangements as a small firm and the prohibitive cost of air travel is not an option. The key problem is seen as the lack of competition in international shipping lines with little understanding as to how this problem can be addressed.



"Importing is always fraught with difficulties!...And sort of costs and hidden costs...And unexpected things but you know one gets on with that and that's the risk you take when you're importing. The last 12 months since the COVID-19 crisis started... what it's changed is shipping has got longer time frames and it's become more expensive..."

It seems the shipping lines it's difficult to get a berth on a ship particularly if it's a refrigerated product. You need the electrical plug-in as well and there's limited spots available on vessels leaving Europe to come to WA and so often we've had to wait some or several weeks trying to get a berth...The other issue is that they have jacked up prices quite considerably in some cases and shipping is costing us what can easily be double...Oh it's supply and demand.

The shipping lines have taken some vessels out of circulation and therefore there's more competition for the ones who remain and they know they...can charge more. Whether they have higher costs or not I couldn't comment. I don't know. But shipping lines in my experience are not the most generous and fair people. I presume there's a bit of opportunism amongst them. So a bit more competition in the sector wouldn't hurt.

The sort of difficulty in getting spots on vessels and then paying the extra costs and most of our containers are trans-shipped in Singapore or I think its Malaysia these days and the trans-shipment you can have one of our containers can be left on the wharf for you know a month easily...No we know that a container has left its vessel according to the booking from Europe...But then it just seems to sit on the wharf in South East Asia somewhere waiting for a trans-shipment vessel to bring it to Fremantle and our time frames we keep getting notified of longer and longer dates in the shipping advice!

There's probably not enough competition in the shipping line and so it's very much a supply and demand issue and it's not a buyers market. It's a seller's market. The shipping lines can charge whatever they like and generally get away with it. It's a take it or leave it offer from them!" (Senior Manager 22)

Reduced consumer choice

For many importers, especially small firms, the increased freight costs charged by courier companies, internationally and locally are crippling. For this small exclusive distributor of high-end international food produce, the excessive rising costs in inbound freight are simply prohibitive to their future survival. Given the lack of comparable products in Australia, the range and diversity in current international food and beverage products, provides distinct advantages to the more discerning customer and frequenter of high-end restaurants. However, as his business, like many others is not able to secure reliable imports without excessive payments due to increased courier costs, the domestic customer may well see a decline in diversity of choice as his small import business, like so many others, are not resource rich and thus able to continue to pay excessive courier charges. Furthermore, his overseas suppliers are now reducing their product varieties and asking for larger orders. Again, this is not something that this small importer is able to manage, but a consequence of the COVID-19 era and changing customer needs as iterated earlier. His business model will need to change and adapt to a new COVID-19 era.



"...two years ago you could bring a container out for about \$4,000 and nowadays it's probably more like \$6,000 if we do the same sort of runs that we do...So that's a big jump. ...It all gets added to the cost of business and you can't really absorb that, that's for sure!

I'll give you an example. Our pasta supplier that we've been using for a while he has suddenly decided that if I want a shape like for example a spaghetti, and I might bring in three spaghettis; a real thin one, a regular and a thick one! He wants a minimum 100 boxes per shape!" (Senior Manager 27)

Australian postage services - a real success!

SMEs, reported on the excellent next day delivery services that Australia Post has been able to maintain throughout the initial stages of the pandemic, subsequent lockdowns and ongoing border closures as we move further into a COVID-19 era. One small high-end manufacturing clothing exporter, based in Tasmania and utilising online delivery, has been able to grow their domestic base exponentially. Relying on Australia Post's fast and free next day delivery services to their full advantage, the small exporter has been experiencing exceptionally high growth domestically and internationally.



"...most people get free shipping and we're on sort of Australia Post's most premium service. So, to be honest I believe that even in the lockdown in Melbourne most people in Melbourne got their [product] the very next day all through COVID-19..."

[Following media coverage of the company] we just had this massive influx of online orders from new customers from these two huge stories really supporting our brand. They were getting their orders ...the next day right in the lockdown and they were so tripped out by the service that they put in the order in literally the next day. So, they'd order one day, get their order the next and write another order the next day and some of them did that in one week three times because they just couldn't believe the speed and the service and then the quality of the clothes and the presentation.

And so last March we had sold like half a million dollars' worth of [products] when basically Australia was still in summer and that was just like remarkable and that's sort of what had kept on going right through COVID-19. We just kept on going flat out. I kept waiting for a lockdown or to be shut down but because we were manufacturing locally and the way we worked the government we were put on a premium thing that allowed us to keep going right through COVID-19. And we kept on powering out all year and everyone was blown away yeah by the speed and the service basically!" (Senior Manager, 26)

But greater efficiencies needed

For some small e-commerce exporters, Australia Post is seen as an uncompetitive organization that can still find ways to improve given the type of business ecosystem and support that the Chinese government provides its new, fledging and existing small exporters. The type of government support they receive is far in excess of what businesses here in Australia can come to expect.



"So from a government aspect if they really wanted to help small e-commerce businesses they'd work on [this aspect too] like China does. China totally subsidises their export market...So that they [Chinese small e-commerce businesses] can ship [easily]. I mean how [they can] buy a dollar thing and get free shipping on it...They [in china] have tracking and all this stuff electronically but when we [in Australia] finally had to leave

Australia Post for all of our international shipping they had just bumped the price up and if you wanted tracking it was \$29 for anything!!! So it just got to the point where we switched to DHL eCommerce and we can do the same thing for \$4.70!

So DHL eCommerce is very hard to fault. It's been a game changer for us for exporting. It's really helped us because we used to have a lot of lost packages because we couldn't afford it. We couldn't even offer tracking. You can't offer tracking on a \$50 product for \$40 [in Australia Post]" (Senior Manager 9)

Benefit of freight forwarders

For a large agricultural exporter, freighting issues, especially during a COVID-19 era have not been excessively difficult as they have their own department within the firm. They also use a freight forwarder who can offer multiple services related to trade and they have found this an invaluable service over many years. Except with the recent issues during COVID-19 with China. More specifically, they rely on airfreight and there has been little interruption to freight deliveries. They have, however, made sure they have insurance.



"...we have our own freight division who are booking both domestic and international freight...That being said we will outsource documentation so health certificates, certificate of origin and airway bills will either be booked by the likes of Wiseway or DHL. No problem [with freight at all dealing with them]! Except of course into China...but even then we've still moved a fair bit into China and we're still doing 40% of our export business in there. Just nowhere near as much as what it used to be! ...There were some minor problems [in Beijing] and into Chongqing and Chengdu...

And a couple of others...our key two cities whereby there's no refrigeration. So because they're now doing two day testing for COVID-19 on everything that turns up. They didn't have the chiller space to put product into so customers weren't ordering...Well everything is air freight!

[But] because we've got credit insurance we haven't had one bad debt!"(Senior Manager 7)

IFAM kept airfreight going.

The risks remain very high in the logistics and movement of goods over the next 12 months according to one large agricultural producer of high-end seafood exports. Praise of government initiatives to step in quickly to address the situation by organizing rebates to firms and working closely with DHL has eased the situation considerably. The strategy has been very helpful for this firm with the suggestion that it should remain in place for the next 12 months, at least until our borders are open internationally.



"Continuity of the cargo space to still be going out to markets throughout Asia...it still remains a risk over the course of the next 12 months until we have I suppose either foreign students coming back here or holiday makers coming in here and also holiday makers from Australia leaving which means we've got people on planes coming in and out. Because the greater capacity of flights the reduced cost in terms of cargo...So there's an element of risk with that and making sure that it's still open. The government was very good this year and been very proactive with the IFAM rebate so the International Freighter Assistance Mechanism. That being said...What they [federal government] did was because the cost of air freight, ...went through the roof...virtually doubled overnight...The government came out and offered a support package of up to around about \$100m dollars for perishables. So seafood and other products that were on, they

were using planes to get up into Asia and they were giving us some support back. So in our instance at the moment it's worth about 50 cents a kilo to us...Which offsets part of the increased freight that we're now experiencing. It was much greater. (Senior Manager 7)

The government support in the form of rebates came through very quickly once the interruptions to supply chains became evident. This quick action by the Federal Government has had a very positive impact on businesses. Government has also worked closely with a major and large freight forwarder to facilitate the process for firms to further reduce the costs. However, businesses also recognise the rebate is being wound back and that the Federal Government cannot continue to offer the financial support indefinitely.



"Well we've been lucky enough to have DHL run it for us...So all the rebates go back through those guys and the government picked out a handful of forward freight agents to assist them...so they were very good. ...[the] government was excellent in that area...[and] Absolutely [must remain]...And they've [government] committed to it but they're winding it back you can see it. The price has nearly halved to what it was and granted you know the Australian government hasn't got an open cheque book either! (Senior Manager 7)

Waterfront productivity reducing

Traders also commented that the logistics of the complete lifecycle of a container were being impacted and prices increasing.



"OK freight wise the container shipping business did get a little bit difficult. There seems to be a slowdown in getting things done and the ships arriving and containers being available. There was a shortage of containers where there are ships carrying empty containers from one country to another just to backload the containers because there was a disparity between the supply and the demand. So I did notice that the price is always going up but not because particularly of COVID-19. It was generally just the slowdown in getting the ships out of the port..." (Senior Manager 8)

The need for improved national coordination for supply chains

A view being presented is that there should be a partnership between Federal and State bodies with a Federal oversight to provide a more coordinated 'face' to the world and internally about improvements in Australian port management, especially internationally. This would be an improved model to show how government and industry can work together on such challenging matters as port management as this issue is seriously impacting Australia's overall competitiveness as a place to do business.



"So for example in New South Wales there's the Port Botany logistics arrangements where they have to conduct themselves in a particular way which says that if you're not dealing properly we'll come in and we'll legislate over the top of you. Victoria has talked about a voluntary performance model. I think it would be good to see a federal body with federal jurisdiction overall for the different states and operators to be able to intervene recognising that there's only a limited amount of shipping lines and that there's only a limited amount of stevedoring for example.

A lot of the congestion charges in New South Wales have been removed. So a couple of the shipping lines have said OK we know we levied you congestion charges, we're now not going to levy those and we're not going to recover those. Well that's an example of

where industry has actually worked collaboratively... to try and force some outcomes there. So some of the industry bodies have been to see you know ministers and their agencies and have made a lot of public noise and you know had some effective lobbying and engagement.” (Senior Manager 3)

Lack of domestic port channel management by government

The lack of domestic port channel management is impacting Australia's competitiveness at both a national and international level, makes it very clear that this is not simply an issue of firm inefficiency, lack of nimbleness and competitiveness. Rather these are external structural challenges that Federally, the Government needs to address in a partnership with States and respective industries to support SMEs with structural and procedural reforms.



“Well on a state level they regularly go through processes of consolidation and then diversification of interests. Ports Victoria is set up to deal with things like management of channel deepening and channel widening to deal with things like pilotage and towage and all the like as well. So it covers a variety of things and one of the things they're looking at under the Ports Victoria review; well it's an independent review by the Victorian, commissioned by the Victorian government into our supply chain and operations at the ports. There was a partial response about three or four weeks ago including the announcement regarding Ports Victoria ...and towards the end of last year state and federal ministers of that infrastructure and transport met to talk about better regulating the area.” (Senior Manager 3)

Crippling impact of Australian stevedores' strike action on imports and exports

Apart from the escalating costs of freight and logistics, ongoing strike action by Australian stevedores across the country over the last 12 months is making the shipping freight situation all the more problematic for SMEs, unable to pass on costs or able to pressure the government given their small size and political influence.

Calls for reforms into the Maritime Union of Australia were discussed by a number of SMEs and in the conversation below with a freight forwarder expert with over 20 years' experience in the industry. The strike action has operated throughout the COVID-19 era reducing the competitiveness of not only SMEs but the entire Australian export and import industries.

Government reform is urgently needed if SMEs are to survive as they are dealing with local factors that are absent in other countries that are our major trading partners. These are not firm level factors, but external factors that require a government led strategy to drive a stronger and more workable partnership with unions to assist Australia's manufacturing and export-led recovery.

Rolling strikes, especially over the last 6 months are crippling businesses relying on freight inbound and outbound.



“Strike action around the country so we had 30,000 excess containers in Sydney at one stage. So that's 30,000 empty containers that they cannot do anything with that's slowing trade down on a global scale. It was an absolute disaster! OK so you've basically got the container, well not all of them are empty, but the vast majority. So you've had a whole bunch of containers come in, they're not being handled by the [Australian] stevedores because they're striking. Now the problem is the stevedores themselves for the actual labour on the terminal are all part of a union.

I don't know what the exact percentage was again but the majority of employees under enterprise agreements with DP World, with Patricks, with all of those stevedores, are a part of the MUA. Now in the last six months they have had more than a dozen national

strikes across terminals around Australia which has absolutely crippled, at times, our supply chain. It has brought it to its knees! There's containers not getting delivered to importers until two weeks after arrival, sometimes four weeks. It's slowing all the processes down that happen after that. So, there's the approved arrangements with quarantine and it is just bottle necking everything. It crippled the industry and the costs were going through the roof. You had demurrage, you had storage, thousands and thousands of unforeseeable expenses landing on the end consumer being the SMEs trying to import their goods!" (Senior Manager 25)

IR, port operations all detracting from competitiveness

There are increasing calls for the government to take a more decisive role in assisting the vulnerabilities in supply chains that Australian exporters and importers are experiencing. In particular, the matters relating to stevedore industrial action are disrupting supply chains domestically and impacting global perceptions of Australia's efficiency in shipping. Perceptions of unnecessary delay by governments is regarded as damaging and costly to Australian businesses attempting to improve their supply chain efficiency.



"Look my view is the government will need to intervene... For example the land side operations of stevedores and the like. There's significant increases in access fees which are untouched. From a competition perspective they haven't been addressed. There's issues around access to empty container parks which are actually full container parks. There are issues about additional levies and surcharges being put in all the time. So state and federal governments are starting to be concerned about it...

[Specifically, issues] that arose in part out of stevedores taking protected industrial action. They are actually legally entitled to do what they did...I mean it was running to the end of their collective agreements...But the weird thing is in the middle of a COVID-19 era when we're trying to recover from a recession and a pandemic...

The means to do it through trade is being compromised by problems with the supply chain and it's not just here. These problems are in the US. These problems are in the EU. These problems are all the way through Asia! The problems are in Australia!

My position has always been that Australia needs the body such as the US Federal Maritime Commission... the Australian industry put that in a paper they put out late last year. I've written a number of articles on it. I've put a number of submissions into different studies to say that we need something along...those lines. The ACCC has said itself that it would like more control over these sorts of issues as well and I don't think the ACCC is the right body. It needs a standalone body with specific expertise...even the Victorian government is now setting up a new entity called Ports Victoria to deal with all the ports in Victoria...

...I think they've got to be able to intervene and say that the conduct is damaging in the sense that it's not being conducted in a way which is consistent with the intended outcomes of facilitating trade. So they need to work on the means of reporting the moving of trade, the means of actually moving it and also to put some sort of restrictions or caps or processes in place to approve increases in charges or changes to practices...(Senior Manager 3)

The stevedore industrial disputes and actions are not only impacting company productivity but also resulting in international supplies being potentially diverted away from Sydney and Melbourne, our largest and busiest ports in the middle of a global pandemic and recovery. The discussion below indicates that this is also happening across other national ports and results in delays and inflated shipping freight costs. This results in SMEs directly impacted,

negatively, because they have less resources than larger MNEs to pay the increasing prices to receive or move freight. There is a recommendation from this senior manager to have government involvement in working through the partnership with the Stevedore Union and the Maritime Union of Australia - if we want to have SMEs survive and maintain growth and explore new international business opportunities in a COVID-19 era.



“On one hand you’ve got the protected industrial action that’s been happening around the country for some months now and has seen an incredible congestion caused as a result. I mean some vessels were omitting Sydney and Melbourne altogether...The Victorian Terminal (VICT)... They had a strike that took place a week and a half ago¹ They make up a third of stevedoring in Tullamarine ...and you’ve got a mid COVID-19 pandemic where people are already trying to recover and you’ve got protected industrial action occurring ,,because of a dispute with enterprise agreements and no government intervention, no government, very limited government acknowledgement and industry bodies are forever lobbying to government and to parliament and getting no intervention and no action.

Christian Porter² I think has said whilst he opposes the industrial action the government is unable to get involved and I don’t know why?!...It’s been happening now for the best part of maybe since October last year...Maybe earlier than that. Sydney at one point had 35,000 containers overflow so in excess...In their port systems over capacity to the point they were turning vessels away!...Yeah and it was happening nationally. It was happening in Sydney, Melbourne, Brisbane, Adelaide and Fremantle!...It’s been its cost industry thousands and thousands if not more you know!...

Working for the last freight forwarder I was working with there were more and more people not paying the bill. So yes I mean that’s one side of it but for those that have already shipped the freight and then it arrives here they’re at the mercy of having to pay those expenses to get their goods!

When the Maritime Union of Australia announced these strikes ...this was a public announcement. They announced that as of X date and X time Maritime Union of Australia wishes to advise you know DP World or Patricks that there will be protected industrial action taking place. They published this and you know there have been media releases from Patrick Terminals in response to that. So it’s all there. Government representatives should be across this and I’m sure they are. ...it boggles my mind why they are not doing what the Americans are now doing in addressing the issues that they have!

Because government can’t sit back. If they want an SME level of industry in Australia they can’t sit back and let this happen!

There certainly needs to be reforms around how our supply chain is managed and I don’t know what that involves specifically but is it an ACCC issue, ...who are the regulators that hold people to account for their pricing is one side of it? ” (Senior Manager 25)

The background to the global supply chain congestion is a complex one and the timing of the Stevedore Union and Australian Maritime Union strikes, activities and increasing costs, has created a perfect storm which SMEs involved

¹ Approximately early February 2021

² Former Attorney-General of Western Australia

in trade, both inbound and outbound are least able to manage financially. The flow on effect is already visible in shortages and increasing prices at the retail level.



"Because China shut down for I think three weeks at the beginning of the COVID-19 pandemic outbreak. So Wuhan obviously went into an immediate lockdown and so did many of the provinces that goods were being shipped on a global level. So China shut down and it caused a huge ripple effect because everyone was demanding their freight, they can't get it, no one had seen this before so you've got businesses in Australia panicking...And rushing freight forwarders to get the freight shipped as soon as possible.

Now China...China has a very sophisticated logistics system so when the doors reopened they were able to move freight at a very rapid rate. It was put on vessels now the shipping lines didn't respond as quickly as they should have so there was limited space available, limited equipment and that's where it started to really become a problem because the volume just went up exponentially to cover ground for that lost three weeks. Singapore became congested. And then the volume eventually landed here [Australia].

And that's when the strikes take place!

Yeah and the strikes took place at the same time. The stevedores put up all of their charges, the shipping lines put up all of their charges and it just became an absolute ...perfect storm with freight and logistics!

...Why have prices suddenly gone up in certain areas so much? And that is because you have a simple demand that is greater than the supply issue as a result of this international trade problem!" (Senior Manager 25)

Airfreight costs rising means looking for new partners

One high tech specialist manufacturer relies entirely on a range of import relationships with suppliers spread across a vast number of nations. They have been very successful but as the pandemic continues into its second year, globally, it is making it much harder for this specialist importer to compete.

Moreover, finding alternative suppliers is not always possible or able to be done quickly, especially in a COVID-19 era. China is an important supplier location but increasingly disruptions to the supply chain out of China are leading to additional delays and these are being passed onto importers as higher freight costs. This situation is getting more problematic given the scale of global interruptions to supply chains in a COVID-19 era, making it a major priority to pivot by switching to potentially new suppliers out of India.

Import clearances and freight costs crippling

The domestic impact as a result of stevedore rate increases, is having a very negative impact on Australian SMEs trying to compete in an already severely interrupted trading environment because of the COVID-19 pandemic.

Delays in clearance at Australian dockyards can be up to and beyond two weeks *after the date of arrival, sometimes three weeks*. This is making the competitive environment in Australia extremely difficult for SMEs, most of whom are resource poor, lack political clout and left very much to fend for themselves. Reforms in this area are needed based on the considerable discussions with senior managers and industry experts. In the discussion below, an industry expert with over 20 years of experience in freight forwarding details the environment that SMEs are being asked to operate in. The domestic situation of strikes and delays is not an external factor beyond Australia's control, and thus a matter for Federal and state governments to partner with unions more closely. This is the view coming through strongly in discussions.



"Because in terms of accessing international markets there are complexities probably more at a domestic level than there is at a global level and I've just seen yet another round of stevedore rate increases which everyone is calling as very disappointing. But it's the cost of moving freight that is really crippling business at the moment and the delay. I mean you know something stuck on the, through our import clearance system here for two weeks after the date of arrival, sometimes three weeks, and these businesses lose their contract plus copping all the costs. I saw something yesterday about President Biden now calling for an immediate review of their supply chain and it really makes me wonder why our front line government why they're not doing something similar here. I mean the Americans are identifying the vulnerabilities in the supply chain. We have clear vulnerabilities but it's not being addressed at the same level and people are paying the price and businesses are effectively going out of business!" (Senior Manager 25)

It's not easy to pivot

There is much discussion among senior managers about the vulnerability of the supply chains and how difficult it is to switch away from trading partners that are embroiling firms in considerable geopolitical generated disruptions as well as heightened tariffs and non-tariff barriers. Coal, wine, seafood and barley have experienced a particularly difficult impact over the last 18 months, exacerbated during the COVID-19 period.

Many industry leaders are responding to federal and state government directions suggesting that companies need to diversify. The Prime Minister is asking firms to diversify country locations for international customers and suppliers, but the reality is difficult - many firms, larger and smaller regard supply chains as a mess!

SMEs in the professional services of legal and commercial trade advice regard this as a very difficult time with little change in the near future to supply chain disruptions severely impacting supply chain efficiency. Pent up demand, delays and domination of China across the movement of goods in global supply chains is now a lived reality for firms that is not likely to ease in the future, certainly not foreseeable at present in the minds of some senior managers.



"Look I think the reality is that the supply chains are a mess at the moment anyway! Creating more issues to be honest than political issues with any country. So the ability to get your goods from Point A to Point B is actually pretty bad...It's really the last 12 months. From ...the beginning it was associated with COVID-19 issues but there's more...Oh it's more pronounced!...Because as people want to increase their sales and increase their movement of goods there's less belly space available on aircraft...And the shipping is terribly congested and very expensive and there are people for example who contract goods going out of China to the UK and it's being offloaded in Europe. And getting worse! ...and there's stuff sitting off Los Angeles that can't move!

COVID-19 led to a massive boom in e-commerce anyway. So a lot of stuff that previously went by air freight is now going by sea freight or trucks...

So the real issues around the supply chain or the more predominant issues now are things like congestion, inability to get certainty, increase in costs, increase in land side costs through stevedores and the like. The Productivity Commission is looking at vulnerability in the supply chain, the current government has done a lot of work and all state and federal governments are looking at the efficiencies in the supply chain, dealing with empty container parks, dealing with getting goods in, getting the ships you know to and from and the like...

I can't see it getting better in a hurry! (Senior Manager 3)

RECOMMENDATION 2

Integrate freight and logistics services into trade policy and address the serious lack of competitiveness impacting Australian businesses.

JobKeeper

Small importers involved in the high-end luxury food and beverage sectors have found the delays in inbound products as well as the lockdown in the hospitality industries have caused considerable difficulties for them in maintaining sales and growth.

As an example, this small importer is almost entirely dependent on accessing international products, in this case, Italy, and operating as a distributor supplying to the larger, better quality hotels and high-quality food and hotelier outlets. Obviously, the COVID-19 era has been a very challenging one. Without *JobKeeper*, the view being expressed below, is that they would not have survived. However, the senior manager did reveal that his small importing firm was already experiencing challenging business realities prior to COVID-19 with distinct changes in consumer behaviour in regards to expensive meals. This 'need' was disappearing prior to COVID-19 and now continuing to be the case as customers become more prudent around meals out and the price they will pay. This prior trend was already impacting his business model.



"COVID-19 still has impacted us. We were obviously eligible for JobKeeper and we still qualify for the next three months because for us, sure the restaurants had come back somewhat but the city where you have a lot of the better end restaurants! Look that was very important... We may have been able to survive but obviously we would have had to get rid of a lot of people... Instead of 15 maybe get back down to 4 or 5 people and see what we could do. ...At our worst we were down to about a quarter of our normal turnover... Look restaurants have their fashions. We've been through the boom and busts!

And these cycles happen and they happen every maybe every 10 years or so. You see it building up and it gets really carried away and then it goes bust and all the expensive restaurants disappear and suddenly everybody gets a bit more down to earth shall we say!

I mean that was already happening prior to COVID-19... That the expensive restaurants were disappearing. A lot of the expensive restaurants basically gave up on the \$150/\$200 menu sort of thing and then went down to reasonable levels. ...people were finding it a bit more difficult than they might be used to... And yeah they cut back and the first thing they'll cut back is going out!

Look government would be more interested in exporters rather than importers and I understand that. We dabbled a little bit in export a few years ago but because we're not a primary producer, we're not a direct manufacturer as such, we're more a trader and we don't have those links to a farmer for example who does maybe for arguments sake very good olive oil. There are some that do great work but their amounts are small trees have an on year and an off year so they'll give you a good year and then the second year they won't give you a good year" (Senior Manager 27)

For many smaller firms trying to manage cash flow during the COVID-19 era, the Federal Government's *JobKeeper* initiative has been of benefit. However, not indefinitely, as many SMEs have continued to do very well, especially given their business model essentially relies on industrial services and managing big data. As discussed below, this SME, an industrial services provider in the oil and gas sector and mining industries, was able to take benefit initially, and now able to continue to grow without need for the initiative. Nonetheless, it is harder to predict and manage cash flows during such disruptive times. This suggests the Federal Government needs to continue the initiative, potentially with a retrospective feature.



"We used JobKeeper for a period, then when our revenues and turnover improved again we went above the threshold and ...then unable to continue to draw upon it!...Our fiscal year is cyclical and we can be up one and down the next, down for three up for two. We are not a business that has a constant turnover so it is very difficult for us to work it out based on the parameters they gave us, if indeed we were able to look back after a 12 month financial period and then say right we were 30% down on the previous year and get some form of correction given back to us that would be much more helpful" (Senior Manager 14)

Bilateral Trade by Country

Table 6.1: Top countries Australian businesses engage with (2020)

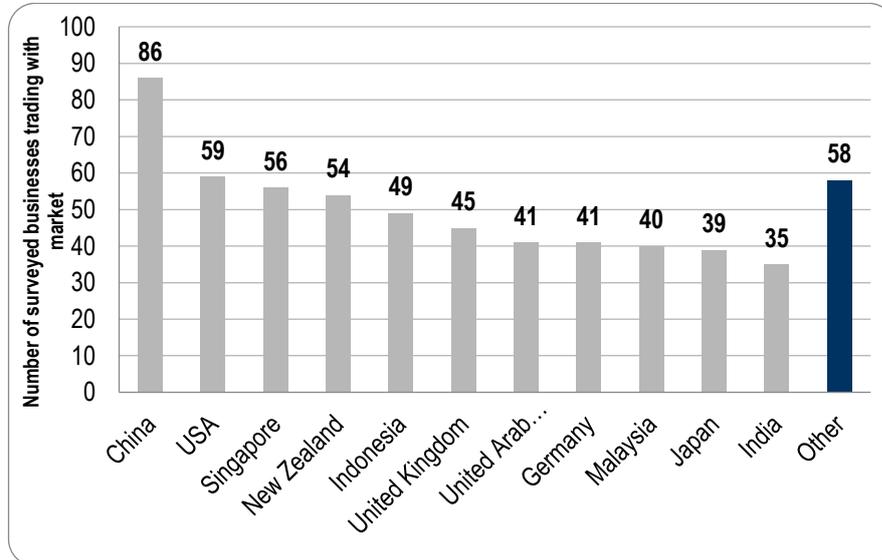
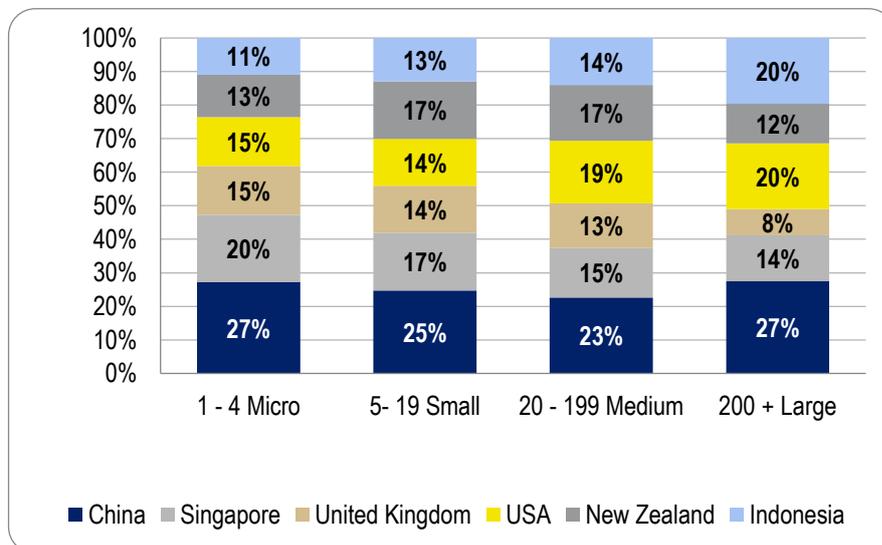


Table 6.2 Top five* countries Australian micro, small, medium & large businesses engage with (2020)



*Six top countries are reported above. However, Indonesia may be geographically influenced by a significant number of participants (70%) in the study indicating their business is based in WA.

Contradictions in trade with China

A hard road ahead with China

For those firms trading in the Asian region, especially with China, there is growing disillusionment with the difficulties of managing international relationships. While SMEs may have built up relationships over many years with their international buyer, COVID-19 and the current geo-political issues are making it impossible to continue to rely on the market, despite being aware of the risks for some time. Senior managers are very aware of the increasingly difficult task of managing the Chinese diaspora inside and outside of China and making considerable effort to find new customers, internationally, outside Asia. Industries vary considerably, but for many SME wine producers, China is now seen as a 'no-go' and 'no future' location. However, the market size; difficulty of understanding how to do business; and establishing a brand and a presence are the underlying issues rather than more recent geopolitical issues. COVID-19 and the interruption to supply chains and difficulties this entails over the past 18 months are to some extent providing a spotlight on what senior managers have known for some time:



"Malaysia, China, we've done bits to Vietnam. Hong Kong was a good base interestingly although that might go pear shaped pretty quickly and we've lost confidence in China completely.

A couple of the problems with China is you don't trust the foreign trade agreement that's in place. They just pull the pin and do what they want...Again the problem with China is ...unless you've got a very, very high quality partner, you're just selling bulk and you have no idea where it goes so you've got no influence on how it hits the shelf. You've got to be really hands-on in China and I've done a few visits to China. So you tend to pull back to the main areas so you'd go to Henan Province or Henan Island where the duty free zone is. Macau because of the quality of the hotels there due to the gambling centre... You can get more at your fingertips just by going to the grape cooperatives and getting more juice. You just get greedy and the quality of your distribution disappears. Your balance sheet looks healthy, but you've got no control over your brand!

It's [China] not for us...Because we have a limited amount of stock and the trouble with whisky is you put it in a barrel today and you can't go near it for seven years. So, we have a long supply chain so we're more interested in the quality of our partnership...And making sure we don't run out of stock. It's very, very easy to go to China. I could sell 10 times the amount of stock that we've got available just by dropping it in a black hole with China and thank you very much I can earn my bonus and my balance sheet looks great but in terms of long term sustainable brand growth...I think it's a poor choice because you've got no control...You've got no control if it's [with an agent] or retailers what they do with it. You've just got nothing! ...Or how it's positioned in the marketplace...

There is a natural demand from China and...we used to fill container loads of mixed product to sell to China but that was just you know a nice bit of business on the side...I think we didn't care about the products we were selling we just took the orders and filled containers and shipped it!...I've actually spoken to a number of people that do operate in China for us and they seem to be pretty good operators but I'm not looking to extend what we do in China...Not to say you can't build brands in China. China is screaming for brands but you're not in control of your own destiny in China!" (Senior Manager 2).

Australian firms find it hard to compete globally.

A similar view is provided by a large agricultural exporter. The real concern is that they have adopted the view that they have little ability to differentiate their product and thus have to compete on price. Internationally, they are not competitive. Thus, their ability to pivot and to find new or alternative international buyers is very difficult.



“China is the most challenging market in Asia by a long stretch! We’ve had problems as China is shut because of COVID-19. Nothing has been air freighted into Beijing since the 13th of June! [2020]...So most of our market share is going into Shanghai or Guangzhou! So we’ve still got a solid relationship there but we’ve probably moved from 80% of our volume down to 40% of our volume in China and we’re concentrating more heavily on Taiwan, Vietnam, South Korea, Japan, Indonesia, Malaysia, Singapore...”

So the ability to differentiate and really get decent value, you might get a little bit of value but to get significant premium products is too difficult. So when we’re competing against Norway or Chile or Canada or Scotland or the Faro Islands ...it’s about offers in the market place and anticipating where the Norwegians are at and trying to just slightly undercut that! (Senior Manager 7)

Better for diplomacy to play out behind closed doors

Their business was going well until COVID-19 and the geopolitical issues at the government level between Australia and China. Their view is the Federal Government should not be playing out its frustrations with the CCP in the media but to be addressing this more discreetly at the government level – behind closed doors, so to speak.



Prior to things going south with the 13th of June and all issues with the Chinese Community Party and our government... and there are some territorial issues that need to be addressed. I think at times Australia also needs to know its place in the world and our ability to be a front runner can be sometimes perceived as grandstanding.

The Morrison government coming out and we need to find out exactly where COVID-19 started and we want an independent enquiry to that. Well that could be done through official channels. It doesn’t need to be done in the media! And I don’t think that does anybody any favours now ...even more recently it was one thing that I just couldn’t believe that the Chinese response where they had ...I think of a Chinese cartoonist to draw a figure of one of our [newspapers]. But I think ...Scott Morrison’s position should have been to the media we’ve got some concerns over this and we’ll be addressing it through official party lines! We don’t see the benefit in doing this in terms of the media and some of this is about cultural issues, about understanding that the Chinese don’t want to lose face! (Senior Manager 7)

Managing supply and quality to extract premium prices

Supply of many agricultural products into China has been a problem for some agricultural producers, but not this small high-end quality agricultural exporter. As an additional strategy, they are restricting the quantity going in and keeping prices very high to send the clear message they only export quality into China. They do not intend to increase their exports beyond 10% to China despite it being a very large and lucrative market for Australian exports with a great deal of demand. This decision is based on spreading their risk across multiple markets and multiple customers in a COVID-19 era. Despite the potential for issues with labelling requirements, there has been no difficulty getting their high-quality produce in because it is regarded as a premium product. They are 100% export intensive and thus able to manage this international diversity strategy well.



"It's been a deliberate decision [to not engage greatly with China]. Yes it's a massive market for Australia...And for Australian [produce] so we need to be in there to keep on top of what's happening in the world!...So we're probably 10% a bit over 10% China. Not [intending to increase that] at this stage...What we've really done is we've actually gone for the very top of the market [in China]. We've said 'OK what is it you want, what is it you need? OK to get that here's what it's going to be. Oh that's too expensive? OK well we're not there [in price]!'. So bit by bit we're sort of probably one of the top brands in China but we're hard to get!..."

So that's the niche we've taken and conversely I mean at the moment where everyone is sort of saying oh no one wants I'm still getting more enquiry out of China than I've ever had...Look there's certainly a number [Chinese buyers] who we've spoken to at different stages over the last month have said oh look [exporter] we're a bit worried that, because it's Australian it might be detained a bit or... ultimately I need the staff to get it through or get it there and it's got through no problem! Yeah and again in the midst of all of this we had actually had a labelling issue which if they had wanted it to it could cause issues but they needed the product and they wanted the product desperately! They sorted it out!

I mean a lot of people ask me it must be hard dealing with Asia. It's only hard because people focus on the 5% that's different! And not the 95% that's the same!" (Senior Manager 31)

China relationship cooling well before the COVID-19 era

Smaller specialist high end wine exporters have found the relationship with China especially challenging to manage, with the perceived politically motivated ban and dispute of alleged dumping of Australian wines to China, reported to the WTO in mid 2020. However, some smaller exporters have reflected and realised that the relationships were already under strain well before the COVID-19 era. Some wine exporters even regard the move away from China as inevitable and timely, to avoid further reliance on a single country location. For one small exclusive end wine exporter, a number of factors have been part of the break in their relationship with China, their largest single market and with their largest single supplier. Changes in branding direction, the timing of a new strategy and business model following a separation from the original founder and owner, and lack of experienced sales and marketing personnel have all contributed to a declining relationship that was exacerbated by the COVID-19 pandemic.



"So we lost ...the sales relationship, we changed the brand... The reason I tell you those things is because for us China had begun to slow a little bit anyway and in many respects the decision by the Chinese government to turn off Australian wine actually has in some respects been really good for us because it's stopped us pushing crap uphill basically! ... in trying to keep the China part of our business going.

It's given us a clear decision that that's no longer a market for us and so that's allowed us to really bring some clarity to our strategy and we've then begun to pivot more towards the domestic market and I'll come back to that in a minute. So for us China is completely turned off at the moment!

I don't anticipate embarking on the exportation of bulk wine or wine in 2½ or 3 litre bottles! Because I think as soon as the Chinese government see that type of behaviour happening, they're going to clamp down on it and it's already difficult to move product anyway because you know inherently these are not trade decisions. They're political decisions!" (Senior Manager 27)

Seeking some balance – Australia also imposes antidumping actions against Chinese products

There are alternative perceptions offered about the Federal Government's stance with China that suggest it is a two-sided argument, and that China is not entirely to blame. The suggestion of political opportunism by the Federal Government is made in the discussions below with a legal service provider on trade related matters, mostly to his Chinese clients. This specialist micro professional service provider suggests that there is a great deal of protectionism in the Australian economy being exerted against Chinese companies. While the question of whether it is warranted or not is beyond the scope of this report, what is of interest is the overt and covert behaviour of not just the Chinese Government but our own, in mounting an ongoing series of protectionist policies against Chinese mining company interests in Australia.

In summary, the perception is offered that on the one hand there's a public conversation going on and then behind that there is another level of conversation going on which says 'yes just keep going' but there's a public face saving exercise going on here in Australia too, just like there is in China.



"I guess in terms of behaviour of the federal government I think it's largely quite opportunistic but it's largely a vote winner too!...In [being] negative against Chinese trade! So obviously the commentary that comes out about the Chinese tariffs on goods entering into China is all very dramatic but for myself I see that Australia is you know 10 if not 100 times worse than China in terms of imposing dumping duties on Chinese products! ...It's just you know technical application of WTO rules in a one sided sort of advantageous way for the country seeking to impose the duties!...And that sort of narrative that's being played out here that Australia is fully open for free trade and China is the one not playing by the rules doesn't ring true to me. ...So I imagine for me most of it is guided by what will produce the best political outcome!

And I think that ultimately Australia's trade with China is still very strong and the volumes are high ... If the government felt as strongly about all the issues as it actually does it seems quite inconsistent then with the relationship it has with China. I feel like it's quite happy to sort of make superficial and public comments that end up having dramatic results for narrow sectors of the economy! But at the same time it's prepared to maintain the structures and sort of economic arrangements that perhaps are less, that aren't seen by the majority of the voting population!

Australia has some unique issues but ...we sort of make the extent to which they are biosecurity type concerns or protectionist or not it's hard to tell on that. I'm not a scientist! But I definitely know that yeah, the sort of protections that we impose for certain industries, in this case the ones I'm dealing with for steel, aluminium, sort of paper production, they're things which the productivity commission have said just isn't in the best interests of the Australian economy. So then you've got to say well why are you doing it then? And that's obviously I think it makes sense politically to do it!" (Senior Manager 29)

High quality agricultural products still in demand

Large Australian exporters in specialist manufacturing of high-quality dairy and beverage products that can meet the high demand as large orders are currently not able to keep up with world demand let alone increasing demand from China. China is still an important market for them despite diversity in their international customers and suppliers. The impact of COVID-19 on supply chains is such that they are experiencing delays along all aspects of the global supply chain. Yet, their diversity of export locations and high-quality green and clean national brand is ensuring steady and rising demand for their products, world wide, not just China and Asia. Interruptions to supply going into China have been hardly noticeable. Australian agricultural products are still regarded as a premium. This manifests in product

attributes such as perceptions of being safe, reliable, and consistent in quality and trustworthy when it comes to integrity of the production process and supply chain. The prolonged impact of COVID-19 on global supply chains is now considerable and difficult to manage and ensure supply given stock shortages, globally.



"[Issues in China have not] really impacted because of the fact that it has been a nuisance value as far as the volume and revenue zone. Now because we have such a diverse base ...we are actually fighting for stock! We can't produce enough stock! So at the moment even if China was having that impact we probably wouldn't have felt it. At the end of the day the demand is there and when you have got demand those distributors even with the Government [tensions], will make sure the product gets in! The problem is at the moment we are all fighting [to meet] demand. It is not just whilst China alone is an issue.

You have got supply chain issues from Europe and South America now which is putting extra pressure back to Oceania and now Oceania can't produce enough product! So in an ideal world if it was just China doing what it was doing and we didn't have COVID-19 affecting all the other supply chains it might have had a different impact, but at the moment now it's negligible because if we all can't keep up and we are all pushing orders out until July well that sort of goes to show that there is a demand in the world now and they are prepared!

'Clean and green' is a premium [from Australia] and they [international buyers] are prepared to come all the way to Australia and that has come down to our brand as well. We haven't ended up probably like a lot of other companies that have had 80 per cent of their eggs in their basket. I think we are so flat on our diversity that it's nice to have China, because when China rises it [sales and revenue] rises, but that is only good if you have got capacity. If you don't have capacity, then you don't need those rises...

It [demand in China] is always on the radar because ...when there are gaps in the market and things potentially go back to a different type of normal per se, there are obviously going to be opportunities. So, it is still about relationships, it is about labelling. It probably creates more of an administrative headache because of the fact that the demand in that country doesn't go! There's still one billion people! They are still eating out! They still need to source produce and they have also got restrictions on what other countries they can get products in from. So it is probably interesting that they haven't hit dairy from that side! None of us can really know why!" (Senior Manager 10)

Mineral products for batteries doing well globally

One explanation for some companies experiencing uninterrupted export growth and exponential profit during the entire COVID-19 pandemic in its early phase in 2020 and now in the COVID-19 era of 2021 is due to the global significance and importance of the new industry opportunities for mining products that are seen as essential to the global battery manufacturing industry. This company experienced no interruptions to their supply chain of exports to their major clients in China with a small amount into South Korea. Battery manufacturing and production is dominated worldwide by China and a very important new industry for their future energy needs. In addition, this SME value adds their product considerably before it leaves the mining site, providing them with not only a long future in this industry, because they control more of the value chain, but more lucrative return on investment financially.

Moreover, they have spent considerable time working through the environmental challenges to their industry and feature this upfront in their product development and innovation. Another benefit of this approach is that it is an attractive place for people to work as the SME sees themselves as leaders in renewable energy. However, they are also aware of the dilemma this potentially poses to the rest of the work, should China for any reason choose not to

supply components of the battery manufacturing and production to other countries. For this reason, this SME is strategically organizing themselves to be a future alternative to the world for a number of key chemicals in battery production that are an alternate supplier to the world, away from China. Part of this 'risk management' strategy is to work more closely with South Korea to expand their customer base but also to let the world know they are a very viable alternative for key components in this young, global and important industry. Thus, a very aggressive strategy of diversification is underway for this small mining company, while at the same time taking advantage of the buying capacity of China.

Meanwhile, other mining production is now occurring in Eastern Europe, the US and of course Australia as the industry evolves further into the growth stage. This highlights also the geopolitical tensions that are underpinning their motivation in expansion in alternative production sites of rare metals and minerals and the importance this will have, particularly for the Western world, and Australia.



"Well it's decarbonising the global economy because the minerals that we're producing become a value-added product in the new energy industry...[of] electrification of the transport industry and e-mobility. Energy storage assisting in the roll out of renewables and that type of thing. We're contributing to solutions we're not creating problems!...So the lithium-ion battery industry which is where most of the raw material is going now is a relatively young industry but China has been very aggressive in their development of the value added chemicals for battery raw materials. So not even just lithium but also adding in nickel...In cobalt and manganese processing. All of the value-added sort of minerals that ultimately make their way into a lithium-ion battery. And they've done it very aggressively. Yeah they really dominate the middle piece of the battery supply chain. They would easily be in the sort of order of 70% or 80% of the [global] market.

So very big consumer of lithium raw material as a result but also now a very important supplier to the rest of the world and that does give reason for people to be concerned. Should they choose one day to not supply the rest of the world I guess stating it plainly?... So again a peculiarity of dealing with spodumene is that all the chemical facilities well almost all the chemical facilities are in China...So today you don't have much choice. [China] is the main market or is the only market really. However people are now starting to invest elsewhere around the world in these chemical facilities albeit off a very low base....

The geopolitical risk increasingly people worry about...And that's meant that people have been keen to establish alternate supply chains and actually that's one of the reasons why we now have some products going into South Korea and we expect more to go there over time and the logic in it is that it will become another alternative to China....and as I said the same thing is happening here in Western Australia. Today there's two chemical facilities being built or under construction. There's another two proposed. So there's a lot happening and eventually there will be more outlets for the spodumene concentrate but in the short term it's pretty much just China!...

Yeah it's a young industry and as a result supply chains are still evolving and there's definitely more innovation to come. So a second order opportunity that helps people make decisions around where the chemical plants should go is that there is also an objective to localised supply chains so...And they're looking for local sources of value added chemicals. Well really anything that's ultimately going to make a battery...But they may not have the mineral itself in which case they'll build a chemical plant and spodumene can be delivered to them or some other form of lithium raw material and

that's how they'll get access to it. And then there'll be some local production centres so for example in the European market which is becoming a very big market...

So Eastern Europe has become a targeted sort of hotspot for these types of facilities and quite a few proposals to build plants there...And as I said similarly in the US and here in Australia with work underway. So yeah it is happening!..

Clearly the tension is very real and quite a big issue for the Western world...And Australia in particular because China is such a big market" (Senior Manager 19)

Diversification is important but it takes time.

Industry differences are visible in the type of supply chain interruptions to shipments.

There have been no interruptions to the supply chain of rare chemical exports from Australia because of the industry's significance to China's needs for alternative future energy sources in the form of battery related energy sources.

As described below by this small mining firm, they are well aware of the geopolitical issues operating within this specific industry. Given its location in Western Australia, the SME has over time, with the help of state government initiatives, and political savvy, developed a very strong but also very strategic relationship with customers in China. As the senior manager points out, Western Australians do not always regard themselves as Australian. Rather, their state's role in managing difficult geopolitical tensions with China and key industries in their state, in this case mining of rare chemicals, is seen as, on the whole, as quietly impressive during the pre COVID-19 and now ongoing COVID-19 era.

However, this mining SME is attending very closely to their risk profile given 100% of their exports go to China across a few clients. However, they are keen to 'spread their risk' diversifying across South Korea already and now into Eastern European and the US, to mitigate the reliance on a single source country. While they do have multiple customers in China as a current risk strategy, future strategic agility across multiple country locations is their future orientation.

The SME is also reflective of the opportunities available in this young and new industry that requires strategic agility and the need for future of long-lived assets as well as a present focus. This small and relatively young firm is addressing this dilemma, by doing both, simultaneously, well aware of the significant time frame it takes to develop a new production site to serve new international clients in other country locations.



"...it's not easy but the truth is all those other facilities don't come quickly...They take some time to develop, so really it feels like it's still the case that China will be the main market for at least the next five years, maybe longer. China not only keeps building chemical facilities, they keep building cell battery making facilities...They keep building car plants to roll out electric vehicles and buses and vans and renewable devices, solar, wind power. You know they're just so important!...Firstly it is a strategic industry. So the new energy industry is very much at the front of the central government's policy decision and as a result it feels to me like they are unlikely to want to tinker with the free flow of trade....So we haven't seen any impacts.

...the battery industry is a relatively young industry, state owned enterprise is not really heavily involved in our industry...Yeah they're typically privateers.

Now there's an argument to say that in China it doesn't really matter and if they want to exert influence of course they will but from our point of view in dealing with...our key customers for example...I would say they're quite outward in their thinking; they're very

Western in their style; they're you know hugely engaged in international markets...And many of them are deeply invested in international markets off a China base. So, I think at least in part that also shapes some of their thinking and some of their responses.

Last thing and this is perhaps the most controversial comment of all we're Western Australia. We're not Australia...And yeah Western Australia has always had I think a better relationship with China than Australia... I think that counts for something. I sort of you know it's never said but you almost get the impression that they respect the fact that Western Australia has done what they can to maintain a positive relationship with China...We feel we kind of stand ready just in case the situation changes and we do our best to maintain as good a relationship with our customers as we can and of course we also work on our own initiatives and alternatively diversify ourselves eventually...[We have] several customers in China...And several more who would hopefully buy. So, I think there's some diversity within China...albeit still China.

...it's just good business practice to be continuing to develop your supply chain. And diversifying generally. Diversifying your interests not even just by location but also by product...And what it is that we sell and do we value add and all those investigations are of course ongoing because they're legitimate tools that continue and can continue to keep growing our business...So yes we've got one eye on the whole geopolitical situation but that's not the only consideration...

The other two key jurisdictions are Europe and the US. It's a longer term project for the reasons I described earlier. You need the chemical facilities to be able to...Value add to concentrates that we produce. So you can't do that overnight. It just doesn't work like that. Its engineering, its customer relationships, who we partner with for which location, by which country...There's quite a few ...considerations and moving parts there... they're long lived assets. Once you've created the chemical facility yes they're definitely long lived assets. It's 10 to 20 year sort of facilities attached to our feed stock...from the mine. But to actually get those facilities up, that's a five year project...So again very, very difficult for new competing technology to get into the market. So we're OK with our place in the industry and the benefits...as a result of the investment that's going into the mine!" (Senior Manager 19)

Imports from China unaffected

Despite the very difficult disruptions many firms are experiencing, the impacts on the high volume of imports from China for this small high-tech manufacturer in Australia, a young firm experiencing a very high growth phase, have been very slight. Their relationship with China has remained very strong because of their strategy of offering to deal with few, but very high quality, domestic and international customers. The irony is that it is more expensive to manufacture in China than it is in Australia. But Australia just does not have the advanced manufacturing know-how or willingness of suppliers to take on such innovative process-based investments in new machinery and automation.



"I think the way our business operates is quite different to a lot of the Australian retailers. So because we're doing high volumes and very low SKUs we haven't been disrupted whereas I feel like people that are ordering you know various models and shapes and sizes of things they're probably being put to the end of the queue. So we haven't been affected which is great...Yeah but it doesn't have to be China because ...when you're manufacturing the same thing over and over you can automate that very well and so all you've really got is the raw materials and the automation. So given the wages in China ... its more expensive for us to make a [product] in China than it would be Australia for a lot of our goods" (Senior Manager 23)

RECOMMENDATION 3

While greater efforts need to be made to ensure the success of Australia's relationship with China as a major two-way trading partner for the continued benefit of both business and consumers, diversification in trading partners is an urgent focus.

Opportunities outside China

US as an ideal, sophisticated e-commerce location for new e-commerce start-ups

While the US is seen as a very competitive market in which to compete, its sheer size and sophistication, is especially attractive for small e-commerce manufacturing based exporters.



"I chose the US because I picked the .com site thinking it would be global but it's more US-centric and I knew that being from the US it was a massive market in there! And it's savvy. They were shopping long before Australia was online and they were more comfortable with something like that.

...we always knew like we get more sales in the US than other places round the world through that [firm] .com site and that's when we ...created a [product] site and we had that for a lot of years" (Senior Manager 9)

One pathway into the USA is M&A

While many firms are struggling during this challenging time, for others it is a time for looking at further opportunities for expansion and growth. The US is a large and attractive market because of its land mass, sophistication, and readiness to adopt e-commerce related big data solutions, in this case water management. As a major exporter, this is providing a major period of strategic expansion as the take up of product integration with their new partner has been very rapid and handled through e-commerce connections without the need for personal visits. By using a merger and acquisition strategy it was much less expensive than having to 'buy' the company or potential competitor outright. So too is the attractiveness and potential of the Middle East given its climatic conditions and also preparedness to embrace big data processes. They are using these existing partners in the US to help find new customers and clients on the ground given international travel is still not possible in the US. They see the US as now their fastest growing and most important market at present and for the long term. Thus, the COVID-19 era is proving to be a high growth period for this well established large e-commerce exporter.



"The other thing that that business gave us was entry into the US market. So that's actually our biggest market out of that [water management product] technology business now is Florida actually. But through another acquisition we employ[ed] some staff over there and I'm basically spending a lot of my time now just supporting them as we're unpacking the opportunity. So I can see our business basically having most of its income coming out of the North American market, followed by Australia, followed by the Middle East. I think that's how it's going to progress... I pushed that along with the owner of the business because I didn't want to have to buy it from them!

Luckily for us when we bought [a supplier in the US] we had sort of a channel and...warehouse. We've got two sales staff there and another support person up in CanadaThey are our main thrust in getting new [customers] and it's our [product] technologies I think we're leading in ...that space and the Americans are lapping it up

because whilst they're very bullish they're actually quite slow adopters for [the technology]" (Senior Manager 11)

Tell the story behind Brand Australia

However, not all industries find the US easy to manage. While it is indeed a sophisticated and very large market making it very attractive to small exporters, for example, in the wine sector, it is a highly regulated market making it difficult to enter and to establish a presence. The discussions with this small export firm suggested a number of initiatives that both Federal and state governments could do to assist the international brand building that conveys a coherent but distinct regional differences that denote Australian quality wines abroad. While individual small wine exporters can do so with their international customers, for a whole effect, governments need to be promoting our quality in agricultural products, including wines, as the story of *Brand Australia*, globally. The competitive environment will continue to escalate in a COVID-19 era requiring a much stronger government involvement in promoting the high quality of Australian agricultural products, including wine exports.



"The worst place actually from a regulatory perspective of trying to get the wine in is actually the United States which is that spins me out that that's one of the hardest places...But honestly that's not been the barriers to entry. I think in my experience the big barriers are connections to big buyers!

We're making some of the finest wines in the world and we've got to be careful because we don't make necessarily the best but we make some great wines. But what we're not telling, in really virtually any market, in any coherent way, is the story of Brand Australia. Why our products should command a premium and that's something that the private sector can't really fulfil for... I mean India we have a reputational problem in India caused by [big well-known cheaper wine producers] owners...

The UK is a very price-oriented market but if we're going to convince people they've got to pay a premium for Australian wine or that Australian wine also has a premium proposition somebody has got to tell that story!" (Senior Manager 28)

Japan and South Korea - excellent growth potential

For small high-tech digital based exporters, the growth options do not reside in a small market such as Australia. Very lucrative growth options reside outside Australia and this small exporter in high end furniture is expanding rapidly in a high growth phase of their development with their reliance on exports beyond 50% as a priority to maintain a healthy growth trajectory for the near future. Both Japan and South Korea are seen as very lucrative and attractive markets because of their population, affluence and customer focus on high quality and luxury end products. Their small range of high-end quality furniture products are already growing rapidly, as particularly well aligned niche products for this young Australian manufacturer.



"a large chunk of our business now is in Japan and they're launching in South Korea in July so next year ...a lot more than half of our revenue will be coming outside of Australia. I think Australia would be one of our smallest markets in years to come... We design all of our products in-house ...we do a lot of our own marketing, so we don't use agencies, we have call centres onshore both here and in Japan!" (Senior Manager 23)

Taiwan is regarded as a higher quality location than China for products in micro processing

A large professional service firms providing legal trade services to SMEs remark on the high-quality products from South Korea in the micro processing sector that is of high quality more so than from China and now a preferred international sourcing location.



“The other thing that needs to be remembered in this mix is that in the example of microchips you know some of these firms make microchips that people I know go specifically to Taiwan to get because the Taiwanese actually have access to US research in a way that the Chinese never will. And so the really sophisticated stuff is either made bespoke in Taiwan or through Taiwanese partnerships with US businesses but the fact is its specialist...” (Senior Manager 6)

Opportunities in Africa post COVID

For Australian mining MNEs also involved in offshore mining projects, there are considerable interruptions to supply chains in some locations more than others. In emerging markets, for example, in Africa, there are severe interruptions to production due to COVID-19 impacted health issues that are making it extremely difficult to maintain safe workplace environments to prevent staff from infecting others with the COVID-19 virus. This means additional workplace health and safety measures are being put in place, but it is making production in such types of economies very slow and unpredictable as it is difficult to regulate given the extreme impact of the pandemic and the lack of infrastructure to deal with these implications. Despite these environmental issues this larger MNE is hopeful of more positive outcomes in workforce management in mid to late 2021 in Africa with new projects looking very promising. Nonetheless it will be difficult to find staff in a COVID-19 era.



“The biggest interruption has been from the projects themselves in terms of actually staffing the project in terms of the shovel and movement part. There’s been front end engineering and design work that’s still progressed on the pipeline of opportunities that we’re looking at but in terms of getting onto site and having the shovel and starting to dig the sites there’s been some delay in that and that is purely around COVID-19. It’s the logistics challenges ...and flights and getting people there and so forth has obviously been significantly disrupted. So we have seen that delay in terms of the projects of pipeline of work coming on board but we expect that to change over the remainder of 2021 and some of these actually kick off...”

And there is an abundance of work coming, coming down which is very promising...So we will almost look to it will be challenging for any company to be able to resource the work because it’s going to be people that are going to be hard to get” (Senior Manager 17)

India is an alternative ‘pivot’ market for Australian exporter/importer, but it is still a very protectionist market:



Well for example at the moment we’ve got a client who’s interested in enhancing their business relationships into India and actually came to us and said “well what’s the standing of the negotiations on our free trade agreement with India”? And I pointed out that we don’t! Those negotiations have been called off but we’ve got a closer economic cooperation agreement and put them in touch with the relevant people at DFAT who negotiated that...

They’re actually looking at developing into the Indian market. ...But not away from China. I mean the reality is people recognise that India is probably one of the more protectionist countries...” (Senior Manager 3)

Micro export businesses - spreading their risk across market locations

Micro export businesses are especially vulnerable to market interruptions in overseas locations when they are 100% reliant on international clients. To offset the risks, one micro agricultural exporter described a strategy of diversifying his range of country locations and having more than one client in each country. This has enabled him to continue a very viable export volume during a COVID-19 era as delays in one market can be offset with less disruptions in another.



“Particularly between countries rather than hav[ing one]...Well you mitigate risk and instead of having two clients in Taiwan only, and saying well if one drops out I can have the other. What happens if something happens in terms of the country as a whole and the Taiwanese government suddenly does what India did and says we’re banning [product imports]....Suddenly I don’t have a client! Anywhere!...Because I’ve relied on those two [Taiwan and India] so spreading it between countries...And then choosing clients in those countries that I prefer to deal with is the answer to me.” (Senior Manager 8)

Using existing clients for referral

In a COVID-19 era building new relationships for business opportunities is very difficult in some industries. In the example discussed below, a large Australian mining MNE has operations offshore in Canada, Africa, Latin America and the Philippines. All new business opportunities are coming through existing clients or through referral. However, in Canada, an advanced market location by comparison, new clients are being developed, not only predominantly through referral. This is more challenging to assess without personal visits in emerging market contexts, despite the burgeoning number of new potential projects available.



“We’ve found multiple projects with clients but having said that there is some clients that are coming on board out of our Canadian business that are new to us so we’re just about to undertake a project in Mexico so with [XX] Mining which is a new client. So yeah there’s a bit of both but longstanding relationships really is the basis of most of our work...” (Senior Manager 17)

Manufacturers considering reshoring

Table 7.1 To what degree is your business supply chain reliant on international vendors? (goods)

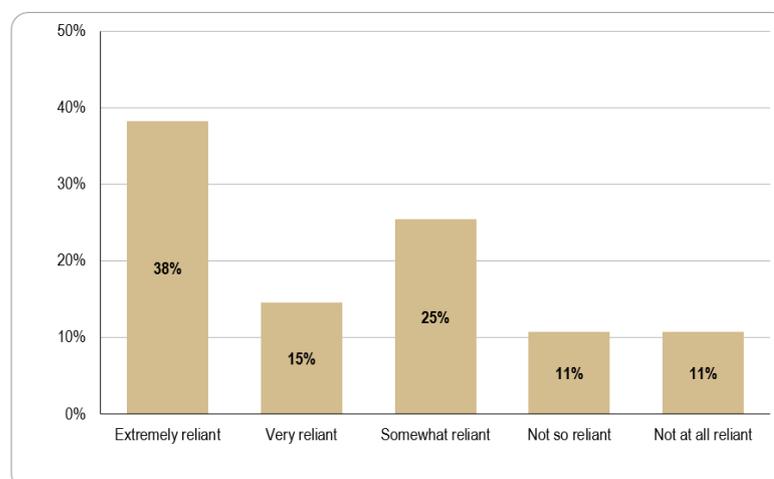
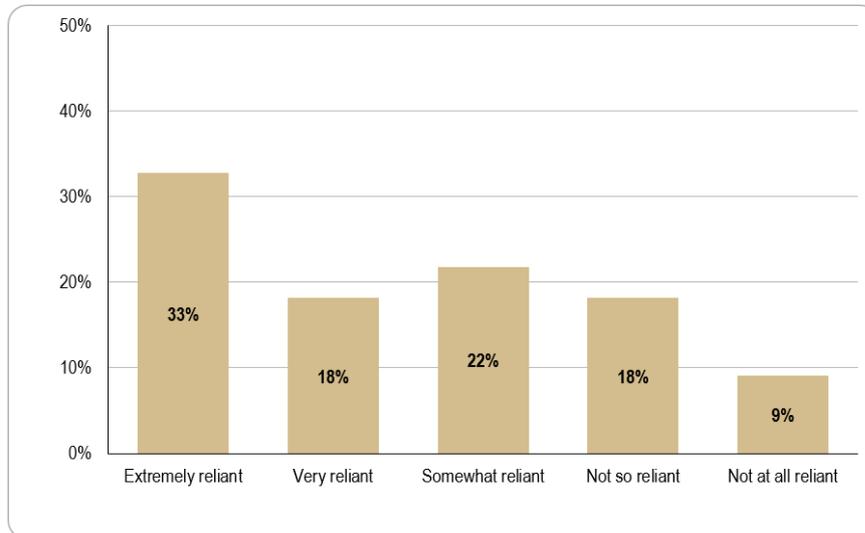


Table 7.2 To what degree is your business supply chain reliant on international buyers? (goods)



Most businesses are either 'Extremely reliant' on international customers, 'somewhat reliant' or 'Very reliant').

Given the disruptions to supply chains for inputs into the manufacturing process, many SMEs are looking to diversify their reliance on single international vendors. While they might be finding few concerns with existing partners in overseas locations, some of whom they have done business with for a long time, such as Indonesia, there is the longer-term challenge of a single source of supply. In a COVID-19 era, it is not business as usual! New business models are being developed to meet new and existing challenges, now highlighted in a COVID-19 era where the role of China is being highlighted as a further factor in consideration in the assurance and reliance of supply as part of an international chain of vendors internationally. For example, the need to pivot away from dependence upon a single supplier, irrespective of what country that might be. To illustrate, one high-tech manufacturing SME with a very focused e-commerce strategy, is attempting to bring their manufacturing onshore in Australia and move away entirely from an international reliance on a single supplier of a major component of their production process as a strategy for the not too distant future. While they have held higher than usual stock to offset supply chain disruptions, since the pandemic, over reliance on a single source manufacturer in Indonesia, is the primary concern and one they have been fully aware of for some time. It is, however, now a major challenge given the likelihood of ongoing global supply chain issues and disruptions in the foreseeable future.



We could...over double the amount that we did [in production] last year. But we're co-dependent on our manufacturer [in Indonesia] so we have to [rethink]...So they dispatch all our wholesale orders [internationally including to Australia]...from Indonesia. However, we look after the retail market even though it's only 20% of our business. So the product comes to us and we house it in our warehouse ...and we dispatch it from here to the wholesale, to the retail market [domestically and internationally]...(Senior Manager 4)

Capacity is an issue for some SMEs unable to expand manufacturing output, as they are reliant on overseas partners for major components into their production process. Outsourcing is a cost saving strategy, but in a COVID-19 era it can be impacted by disruptions to the scale of production in the offshore facility, especially in an emerging economy. To illustrate, Indonesia is the location of the manufacturing facility for this SME, a high-tech specialist manufacturer. However, the prolonged impact of the epidemic is such that the workforce in Indonesia is being harmed seriously. This is causing interruptions to workforce safety and the intensity as the epidemic is now greater in its effects in 2020 in emerging economies, given the lack of infrastructure around health and medical care. This unfolding crisis situation of health issues for employees in emerging economies is now dramatically impacting emerging market

capacity to maintain existing orders, let alone upscale. This in turn impacts the Australian SME's ability to respond to a hike as a result of a surge in domestic and international demand in orders during a prolonged global and national lockdown. This previously known risk is now registering as a major concern for this SME in a prolonged epidemic, such as COVID-19 and recognition that a COVID-19 era will be a long time with us in its multifaceted effects. While they have been aware all along that this situation could occur, the investment in capital offshore makes it not feasible for an SME to pivot quickly and re-shore. Without government funding, this SME is 'caught' in a cycle of 'wait-and-see' and dependent on Indonesia being able to arrest the full health let alone economic impact of a major global disruption in the form of a pandemic:



"Absolutely [want to reshore] but the problem is we have a quarter of a million dollars' worth of assets in Indonesia and our [equipment]..., all our [processes] are there. And so we'd love to be able to manufacture elsewhere as well because and this is a prime example of the pandemic ...where they've struggled to be able to produce for us because they had to exercise social distancing and the pandemic is rife in Indonesia." (Senior Manager 4)

Responding to trade challenges with more sophisticated approaches

There is now increasing evidence of senior managers involved in wine exports needing to show greater sophistication in how the brand is developed and positioning the wine in terms of the international customer base. More nuanced understanding is required with no longer a regional but more of a single country focus, with greater effort to see and understand the stage of development of the wine consumption patterns in a potential market. For SMEs in the wine sector and reliant on international buyers, the recognition of ongoing supply chain disruptions, especially in China, and reduced demand for economic reasons in other regions such as Europe and the US, means that new strategies around their marketing and branding will be needed in moving forward.

More established stage of wine knowledge and consumption patterns in potential countries will be important for those SMEs reliant on international customers given the increased international competitiveness now apparent. In a COVID-19 era increasing international competitiveness is likely to drive further need for Australian wine exporters to enhance their strategic approach to branding and seek out more established wine consumption cultures given the focus on higher quality, recognized brands and greater wine varietal preferences:



"So we put strategies in place, ...basically we mapped countries, not regions, so we didn't say here's our European strategy and here's our Middle East strategy and here's our Asia strategy. We basically said that's a developed economy with developed wine consumers, ...so we were able to match Japan with Brazil with Russia and you have a strategy for that. But then you get some emerging countries and you have a strategy for them and that's a very different philosophy than many companies do..."

And this actually came to me when I went to a conference in Japan and there was...my Taiwanese colleagues and sales directors from...China...We were talking about our marketplaces and it occurred to me that Australia had more in line with the UK and the USA than it did with any country in the region with just completely different stages of development and sophistication and fortified wine drinking. So actually, after that we didn't get involved in what was in our backyard in Asia. We got involved in what consumer behaviour was in the USA and the UK and formed an alliance with them and Germany strangely.

But here's the rub. The Chinese don't drink [fortified wines]. So who are we trying to develop a brand to? You can have the shoes salesman and nobody wears shoes! Wow what an opportunity!! Well that's great if you've got product coming out of your ears and

you can afford to do that but if you haven't. The biggest [e.g. whisky] drinkers in the world and can drink more than any other country in the world put together is actually India... You can look that up and just get on the internet and look up international sales of whisky and it will show you. And the Indian legacy is based on when the British were in town and they used to open distilleries in India...It works well with existing distributors!" (Senior Manager 2)

Longer planning horizons needed

SMEs in the wine sector, for example, refer to the real difficulties of continuing to operate their businesses and relying on extensive inputs to their domestic production. Interruptions to supply chains are much more pronounced with practices of holding little inventory and utilising just in time (JIT) as no longer feasible in a COVID-19 era. In addition, there appears to be considerable opportunism in pricing and arrangements in shipping depending upon the ability to pay for a quicker or better service. A frustration for SMEs that do not have the finances to manage such difficulties that are on the rise. This is leading to little control over their supply chain especially where the reliance on international vendors is extremely high. As a response business are having to extend their planning processes to provide for these delays. In addition, they are having to hold more inventory or stock to offset the delays in overseas inputs to their manufacturing. All adds to the cost of doing business abroad for SMEs.



"And a lot of companies of course have had this just in time philosophy so their demand planning and supply chain and I'm thinking now of manufacturing. So we import our glass from France and bottle caps come from...China...We are multinational in terms of the finished product. Funny that we're really adamant that we make our [product] from local ingredients but you know the rest of the dry goods come from all over the world basically...So the just in time has gone to hell!...You just cannot trust that a container is going to arrive, it's going to stay, it's going to get stuck in Singapore for God knows how long until they find a ship...I think it's a bit of both [genuine rising costs and opportunism in pricing] but I think it's a bottleneck you can pay your way out of if you're inclined to do that!

But it has become a bit of a market for the highest bidder and I think shipping companies are actually prioritising goods as well. I mean whisky is not important for a country to receive whereas you know healthcare and PPE might be. So there's got to be some natural prioritisation I get that. I have seen and I've heard stories of people buying their way out of it. Paying twice as much to get stuff shipped...You can still fly stuff in great but the cost is prohibitive...And again you lose line of sight of your product. You think it's going to be you know 12 weeks on a ship or whatever or you know three weeks...but then it gets stuck on a wharf somewhere...For a month and you've got absolutely no control and no vision of it! There's no quality tracking devices or anything. I think what companies are doing like this one is they're extending their planning processes in terms of their planning horizons...

We don't know if it's just going to come in. The last stuff had a three month delay and we better get at least three months ahead of the curve. Another thing that's happening is that people are stocking up. We're emptying the supermarket shelves scenario where we're actually going to the [international] supplier and saying we want twice as many [input]. We don't just want the next quarter we want the full year if you will!...

It has a huge impact on the balance sheet and the cash flow!...If you can afford it - fantastic! ...But if you're in the world of perishable goods or dated products, well that's tough! (Senior Manager 2)

'Clean and Green' image for agricultural exports important

A number of senior managers have discussed the difficulties Australia might face to its high quality, 'green and clean' image as a manufacturer as we move forward but remaining with a predominantly mining focus, without more prolonged considerations of the need for a more balanced approach in Australia with regard to alternative energy sources. Concerns were raised that the global community may well 'tax' Australian products in the future because of our perceived high carbon footprint, especially from the European countries, given their attitudes to carbon emissions. The Tasmanian approach of a perceived more 'green and clean' focus has become a premium commodity in the sense that these SMEs involved in a range of manufacturing industries and sectors are able to price accordingly as the state is recognised for its quality. The view offered is the world has shifted, and Australia is being left behind. This 'clean and green' image in Tasmania has stood them well in a COVID-19 era but failure of governments, including Tasmania, to address these issues is likely to create a 'big problem for our manufacturing' base. Discussions with a small textile and garment manufacturer in Tasmania illustrates the very positive growth trajectory they have experienced throughout the COVID-19 era to date, domestically and especially, internationally.



Tasmania has really strong green credentials but Australia itself has a very, very poor track record in the world! For its green credential so I really don't know whether or not people in other parts of the world would look upon Australia and want to support our manufacture given we're such a per capita high carbon polluter!

I think that we definitely have to green up big time our carbon footprint and the current government obviously is doing really lousy on building our green image. ...we know in Europe they're looking to even tax Australian goods! For the carbon!

Australia probably has a very poor green credential. We're a rich country that is a selfish rich country considered to the rest of the world is probably how people look at us. That's how I see people looking at us but down in Tassie it's different. We're 100% now renewable energy and we're a little special down here and so we do push our Tasmanian as much as we can and I think this is like a little example to the rest of Australia hopefully. But look it's very hard to change the minds of politicians!

I think it's a big problem for us and you know the government plays up to the Australian public but we're losing face in front of the world and I think that is a big problem for our manufacture. That's my opinion!

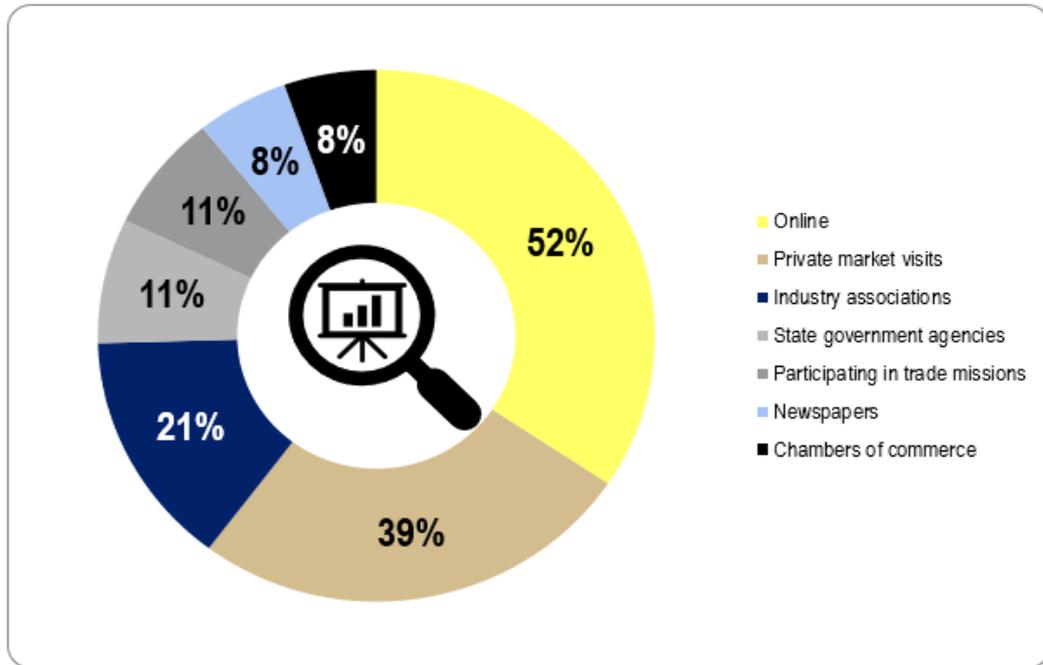
The government can't actually push a green agenda while they continue to harvest old-growth forests and so they're really stuck. You have these populist governments who made up the local population and really destroying our economic futures because once the world moves away from coal we are we going to... be in trouble! Yeah so that's the problem. (Senior Manager, 26)

RECOMMENDATION 4

Develop a complete trade policy engagement plan to encourage engagement across a more diverse array of nations and continents, as 99% of the world's consumers outside Australia.

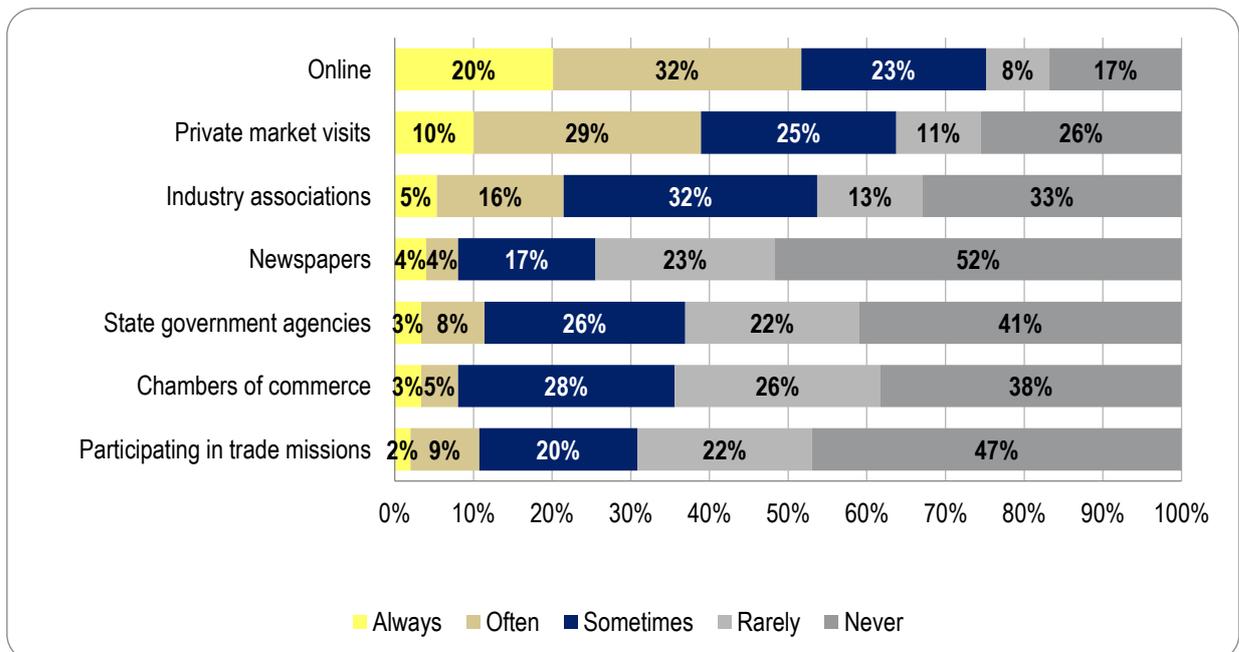
Information and opportunities

Table 2.3 Where do businesses seek information about opportunities (2020) - All businesses*



*Rankings are based on the total frequencies of 'Always' and 'Often'.

Table 2.1 Breakdown of areas where businesses gain information regarding trade opportunities (2020) - All businesses*



*Most businesses surveyed are going 'Online' to find information and trading opportunities compared to traditional print media such as 'Newspapers'.

Digital now the way to go!

Online materials and sites that provide industry and global analysis of events and industry life cycles are increasingly attractive to SMEs for obtaining market and global updates and information, both general and specific. SMEs recognise it is expensive but also invaluable:



"Well there...are tools for instance that's pretty powerful right. Affinity for instance is a monopoly I guess at the moment but they are very strong. You get a lot of information from those online tools...You have SMP, you have Bloomberg...They're not cheap...But that's where you get all your important data right and ...if there's no access to those resources there's always the disclosure of the annual statements and the results of any public organisation and some non-public organisations will also disclose their information as per the regulation..." (Senior Manager 1)

Digital still needs face to face

To address the difficulties of remoteness from their clients and important growth opportunities in Asia and Europe this small, young IT cloud based big data service provider is aiming to relocate all staff offshore in these locations in the near future. Even their large clients in Australia, in Western Australia, like to meet with them regularly. By having a number of bases overseas, they hope to be able to manage short visits face to face to help grow their profile, service their customers, and expand their country locations as a future growth strategy.



"So yeah we're moving away from having a totally Australian based staff group...We've recently hired someone in Russia and we'll be hopefully expanding. Now they just happened to be in Russia. That's just an expert person who we needed and yeah so we'll be hiring. We'll be expanding our team hopefully beyond the shores so wherever the requirement, wherever they happen to live...But ideally in South East Asia!...I think you know we'll have a bit of mixture. So as you say face to face is still important in our local team.

...And one of the things that I mean Western Australia is a small market of IT professionals. A lot of the customers we have like to see and interact with the consultants that they're using! So yeah even though it's possible to do work remotely the type of project work does work better if people are together...

And yeah paradoxically it's detrimental to our business and as soon as we can have those people flowing in again then we are hopeful that the market will stabilise again!"(Senior Manager 24)

Strong and established relationships the key to increased sales

Given the halt on international flights for close on 18 months it has been challenging for Australian exporting firms to manage their international customers. Nor have they bothered to appoint new staff to attend to existing customers or develop new customer leads. Instead they have relied on existing long-standing customers and attempted to continue to engage through online means such as Skype or phone or by WhatsApp. For this large, well established agricultural firm involved in dairy and food products, increasing demand from existing customers is enabling them to not only maintain existing profitability but are now supporting their rapidly expanding export business because of global shortages of high quality products. However, the continued shortages and challenges in reaching customers are contributing to increasing frustrations being exhibited by their key customers internationally.



"Relationships to me - with the heavy amount of time [as experience] in the Middle East and the Sub-Continent and Asian relationships - are key to the fact that the relationships have always been on a strong and open arrangement.

So it actually hasn't been any harder [during COVID-19]. The only challenge has been all via Skype or phone or by WhatsApp. Communication has increased, business has increased. It obviously was a bit tense to start with because people were never sure and they [customers] are taking advice and taking entrepreneurial recommendations [using e-commerce].

But it is all about a consumer trying your product and we have capitalised on everything, whether it is COVID-19, whether it has been on trust, and relationships. I did a presentation I think to the Queensland Government for Export. They asked about relationships. I can't under or over emphasise just on relationships and what that has done. And the time, yes, it has probably put [us] in a state of fatigue because of the fact that the communication has been accelerated but again when we hear countries and companies talking about how they have had a hard year, I can't say that at all! I can say that we have been so busy and our brand has only gone stronger and stronger to the point that it was actually exciting. But you are just not sure where the future part could go because of the fact that we are probably getting more upset customers because we can't actually produce it in time!" (Senior Manager 10)

The era of zoom – driving efficiency!

An unintended outcome of not being able to undertake private market visits by firms in the lockdowns of a COVID-19 era is the increased efficiency of business meetings. While they would previously require travel as a large component of business team building between international offices and Australia and servicing clients and building new leads, they shifted to entirely online means. Being based in Victoria with prolonged lockdowns, has meant that staff can now utilise time more efficiently. While in the past they may only have 1-2 business meetings a day, now, in a more accepted e-commerce environment, they can conduct 5-6 online meetings and achieve far more.

It is not ideal, but the business community now recognises e-meetings as a legitimate and important way to conduct business in a COVID-19 era. It is not only practical, but for some businesses, such as this SME engaged in digital children's games to overseas clients, it is the only means of engaging with prospective clients and servicing existing clients. Ironically, it has also resulted in more highly skilled staff in e-commerce style business development, and increased sales and profits, dramatically throughout the COVID-19 era.

However, there is a growing understanding that the new approach is also very mentally draining and exhausting but also a new way to relate, where people are learning to share more of themselves than would have happened normally in a face to face coffee meeting.



"And so we didn't have an option. I think during that period it was just - it was the era of Zoom! It was just back to back Zooms and one of the things that we realised during that period was that our [domestic] people were becoming a lot more efficient. They would normally go to Sydney and have two meetings. [Now] They can have five meetings with people in Sydney in an afternoon. They just smashed through them. And they'd be exhausted but the nature of it all! So I think it shifted in the sense that because you can do a greater volume... We'd always thought well if we get about 1 in 10... Well suddenly it was more the volume went up but the strike rate probably went down as the volume went up but it sort of it panned out about OK. In fact I think the pipeline has ended up with a lot more. We have a very healthy pipeline right now!..."

And so I think that during that central period that COVID-19 panic period there was a tremendous amount of activity. I'm not sure how much of it was high value. It was just like OK if I can get in front of someone I'll get in front of them and we weren't being as particular about our [firm] processes as we would have been in a situation where we had to pay to go and speak with people!...

We're much better at bringing in people at the right time and not having 30 people on a call...smaller groups...And much more structured that process.

I know [X - co-director] in the States he's struggling with it because the way that he used to do business was very much built around coffees. And going out and talking to people. And it's just much harder to have a casual Zoom call. But he's also adjusting to it though and it's interesting. He said to me that he used to go and have a casual coffee but it was actually quite formal in the way that you would not give much away about yourself. Whereas now he tends to have these Zoom calls where they literally just [talk] about the pandemic for 10 minutes! And you reveal much more about your home life and who you are! And your vulnerabilities and all this kind of stuff!" (Senior Manager 15)

New approaches to customer engagement

However, without the ability to visit these potential new markets, agricultural producers are having to resort to new ways to build customer links into overseas markets. This small agricultural producer in NSW talks about new initiatives such as virtual tours through their orchards to help inform and educate potential international customers, especially in Western Europe.



"And normally our customers like to come out and visit to see what we're doing. Well I'm giving you a virtual tour because you can't come and see me..." (Senior Manager 31)

Great efforts to provide more relevant and timely information

The need for more effort made by government organizations to provide more useful information on overseas country profiles is seen as a desirable and basic requirement by SMEs. They see this as a necessary but also very expensive aspect to build new market locations and customer profiles in international markets. This information is seen as available to competitors operating in Australia but lacking for Australian SMEs wanting to understand new opportunities in potential markets:



"There's a lot of small businesses out there that are trying to understand the market places and you know we have to go to external companies and pay a lot of money very often for data on how to operate, the size of the market, how many consumers, how many retail stores you know and again it's an enormous job because you're dealing not just with possibly with consumer goods but you're dealing with every commodity. But there should almost be an accessible library on how business is done in a particular country and a breakdown of you know if people like Roy Morgan can do it and a number of others why can't the government make it available?"

I don't have an experience of arriving in a country and somebody saying here is a folder of how we do business and you know everything is laid out here. I think we are an easier country to do business with than most countries that we do business with...dealing with our own government bodies and customs if you like...They're very, very good but other countries are not, and they change their rules on a whim. Where do you go to for the latest information? ...It's not our government website! I'd struggle to tell you where there is and where there isn't. I think it makes a difference!" (Senior Manager 2)

Enhancing company productivity in a digital age

Many SME exporters report on the need to update their websites to increase their productivity and profile in a closed global border environment that has occurred in the COVID-19 era. With the lack of flights to meet new customers and service existing customer relationships, social media becomes the norm. New marketing roles that capture skills around digital marketing, nuanced customer profiling, domestically and internationally, and adaptations to processes, procedures and products to reflect on and respond acutely to the growing demand from a locked down global community is paying off. Referral and unsolicited requests for products are expanding rapidly for many small manufacturing exporters, and having a well structured and data driven online presence is essential for today's customers, domestic and international, especially in a COVID-19 era.



"So yes we've recently employed a new SEO person because we realise that obviously we need to be on the first page and you know there's no doubt that if your search engine optimisation and your socials and all of those things are exemplary then you can really, really penetrate the markets all over the world without travelling..."

We used to do a lot of advertising, print advertising in magazines that we felt reflected our values in magazines, ... But ...print has been swinging backwards and forwards and we still are doing some of that but it's recognising that we have ...a much bigger digital presence. And so obviously and having a specific website for the US because even terminology of you know they call a sweater a jumper and a dress is like a jumper pinafore thing...there's some really interesting little things. So we know that getting there would be very advantageous but we are thinking digitally really aren't we?!" (Senior Manager 1)

Companies are needing to respond to consumer driven trends online.



"Yeah referrals work! There is no doubt that we even had people who internationally word of mouth. I mean there's a woman at the moment in Fort Worth in the USA and she's doing the 100 day dress challenge which quite a lot of women I know are doing and are wanting to wear a wool dress to do that and she has told all her friends and I can see that there's just been a little spike from the US...people who find something they love even if it's international and now know that they can order it online and have it in a week or two and then so you do get those warm referrals, those positive word of mouth. They're very powerful for us. And then reviews you know doing our Google reviews and online reviews where people have an opportunity to instantly put up a 3, 4 or 5 star review...Those sorts of things are powerful too and important for us but we're trying to implement all of that stuff so that people you know feel comfortable, that we look credible! we're working harder and harder now in that domain of social media!" (Senior Manager 1)

And better strategies



"We didn't have to get new people. We just had to work, we just had to strategize. For example, we're running campaigns at the moment where we have built a landing page which is all about transitioning your horse. So, we have these page campaigns running on socials [media]. And they will click onto this campaign. And it will take them to this landing page which has all this information about transitioning a horse and what you have to do and how we can help you. Because we have to be seen as the experts in this industry. Because that equates with then of course us being the leaders in [product] technology. So that's how people think! And so we've just got smarter in the way that we

run our business. So we don't necessarily have to employ new people and we just have to be smart about how we implement our strategies! And that's just one example of it...

"But during COVID-19 and now the COVID-19 era I guess I'm strategizing it a little bit differently because we're trying to adapt to working from home. And one example of that is we're rolling out our B2B new business model and we're finding that there are a lot of people now who want to be able to work from home because of the COVID-19 era. And that then leaves it open for them to potentially be a stockist for us so our role of being a stockist allows the opportunity to work from home. ...That's an example of the direction that we're heading and what and how we're strategizing it. And ways that we think of just being able to make this business attractive to a lot of horse riders out there. Because our business model is our wholesalers or our stockists are the farrier, the barefoot trimmer, and the podiatrist!...anything related to the [foot of the horse]...(Senior Manager 4)

Need to educate the community about the value of our industries and resources

A fundamental role for state and Federal governments is to work in closer partnership to support new industries and secure Australia's future energy needs with a much broader strategy than what is currently on offer, according to a number of Australian exporters, especially SMEs involved in gas and oil, as opposed to larger MNEs dominating the national debate around coal seam gas exploration and hydrogen energy. The argument is that discussions to educate the public more comprehensively are absent.

The SME discussion below with a high-tech environmental big data service provider, strongly suggests, a closer partnership is needed between the states and the Federal governments, with an obvious deeper, more long term discussion with experts, scientists and the public around gas power in Victoria and NSW, reputed to be the largest gas supplies globally. There is a call for a national debate that is more comprehensive than those to date and a national education program in schools to help inform a more balanced debate.



"...the vast majority of our revenue comes from around coal seam gas in Queensland and the coal seam gas market here is dominated ...apart from Santos, by the big international oil and gas companies like Shell and PetroChina and ConocoPhillips have got partnerships in here through Origin. You've got these big international oil and gas companies here and although the export of gas from Australia has been its long term assured, /long term gas contracts, etc. it has been identified that there's going to be an absolutely massive, I mean ridiculously massive, shortage of domestic gas and I know the government were focused on trying to fix that but there's still going to be a big gap in relation to it. And it seems just ludicrous to me that the government are going to sanction to spend money building gas import terminals on the East Coast when the East Coast actually sits on the most gas of anywhere in the world including the Middle East!.."

And all the way down the East Coast from Queensland through New South Wales down through Victoria. Massive, massive, massive amounts of gas but yet the moratorium is only just getting lifted now in Victoria to start looking at exploration for gas. New South Wales eventually got the go ahead for Narrabri with a lot of stringent controls put around it but unless the government can help to educate the public properly around the role that gas needs to play as a transition fuel to get us to renewables we're going to be in trouble...

But the government really needs to get on the front foot and we need to be in schools, we need to be educating kids and we need to be taking them around sites showing them that drilling these little wee skinny holes into the ground don't damage the environment. But for some reason we don't do that and we need to get a lot better at that because if

Australia doesn't buy in to how important gas is then we're going to end up we'll get in a lot of trouble because hydrogen is not... Hydrogen is getting all the funding right now! Solar panels is getting a massive amount of funding but how do you build solar panels? You need oil and gas!" (Senior Manager 12)

RECOMMENDATION 5

Develop a tools, skills and infrastructure plan to extract the best advantage from a digital world, especially given the rapid technological advancements emanating from and driven by the COVID era.

RECOMMENDATION 6

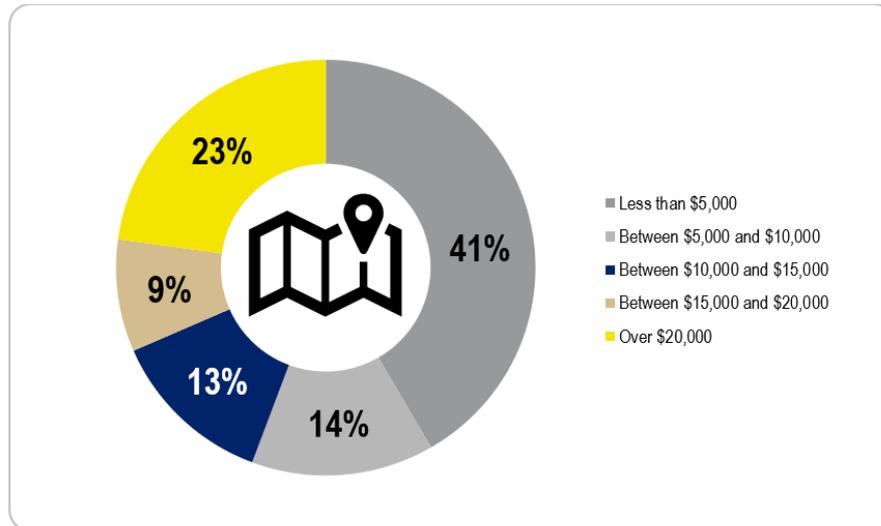
Implement high speed digital access across Australia that is consistent and effective to meet and keep pace with future needs and development.

RECOMMENDATION 7:

Provide additional support to assist SMEs to refine their business model to ensure greater efficiencies, and especially in developing new customers through digital e-commerce.

Border Closures

Table 2.2 Average spend (in AUD) during the last financial year on private market visits (2020)



People and IP exchanges limited by border closures

The challenge of not being able to travel to meet new buyers and see how competitors are developing new and innovative ways of producing, promoting and branding their products is seen as an increasing obstacle for SMEs. While this was always an expensive aspect of business, the interruption to overseas travel is exacerbating the challenge of learning about new markets and new business approaches to product development. SMEs report on the difficulties of not being able to familiarise staff with changing customer and production approaches in competitor locations or being able to attend trade shows. For SMEs in the alcohol sector this is an increasing problem and an obstacle to new product development, new customer development and branding strategies and discussed below.



“So for example we have some distillers here and some people that work in our ...internationally acclaimed visitor centre but...I want to send them [staff] to see distilleries in the USA that I’m familiar with and perhaps some in Scotland because ...I’ve only seen the ...15 distilleries in [Australia] and it’s hard to give people an experience and a context when you can’t actually take them out of this environment and immerse them in another. That’s a challenge” (Senior Manager 2).

No substitute for travel

The inability to travel overseas to meet overseas clients during the COVID-19 era has meant that this firm is unable to familiarise staff between offices domestically and at home to build and maintain a very successful corporate culture. Rewarding and holding on to key staff can also be managed through international travel between overseas offices and clients visits. This is now also a challenge for SMEs, as described by one medium sized digital games service provider. While they are completely e-commerce based, the desirability of travel is still an important component in building new business and rewarding and developing staff careers and experience. It also represented the manner for following up opportunities that might generate new business clients. As discussed below travel is a high priority for this small e-commerce digital service exporter with a very generous budget each year, given the organizational benefits to their corporate culture and generating new business.



"There was just a lot of exchange and some of it was about client meetings but some of it was also just about floating between the two offices. So we had a lot of engineers - would start in Melbourne or start in New York and then swap and it was a lot of fun. If you're in your mid-20s or even young families in their early 30s and you get to go to New York for a year you know it's awesome. Like it was something that we could offer and they really enjoyed it but also in terms of that client interaction we would get on a plane and fly. If we thought it was a decent client if we were in New York, ...we would go to Europe at the drop of a hat. ...if we thought it was a good lead and it was a good client, a good project and we thought it was a real opportunity we would definitely get on a plane!..."

And similarly we actually did the same thing between New York and Melbourne. OK a few times I can pick out which is crazy when you think about it!...You get on door to door. It's like 36 hours. You get off the plane and go and pitch to someone but sometimes really big opportunities. It was definitely worth it and a lot of it landed very well qualified leads."
(Senior Manager 15)

Need for improved broadband

Firms talk about the importance of resuming flights with open international borders to meet potential clients and build new customer bases. Without travel it is extremely hard to establish trust and to meet new customers in some industries. For this small exporter of agricultural products, Europe is a new and very attractive market location but meeting new clients is essential for the expansion of their high-end quality agricultural products into these sophisticated but very protected markets. They have resorted to making virtual tours that help to educate their customers, but country internet facilities are extremely unreliable. Calls for improvements to country broadband are directed to governments to assist their new approach to build a new customer base internationally. This small exporter recognises we will definitely not return to previous methods of business engagement, thus, being able to rely on better Australian broadband in rural areas is essential in supporting new business models that work more closely with digital means of communication.



"And normally our customers like to come out and visit to see what we're doing. Well I'm giving you a virtual tour because you can't come and see me...Fortunately for me in the 12 months before COVID-19 I had seven trips to Japan and did nearly 250,000k flying...Around the world so I sort of built up a bit of money in the bank so to speak...Which unbeknownst to me was very valuable!"

Look everyone I've spoken to with new customers, it's a real battle! It's a real battle because as much as people may think that the world's an electronic world it's about face to face. So these people if you've met face to face you're just sustaining and building further the relationship! How you explain it to them how they use it. You can't do it in this environment!...It's that balance between protecting the assets that we have!...Because the level of safety - food safety and the level of safety I guess we have from the pandemic!...Against being able to ensure this relationship. So I guess probably the biggest issue and frustration we have is probably telecommunications, particularly regional telecommunications and the quality of it!...Absolutely because I mean it's notorious that at least once or twice in every telecommunication and teleconference we have it will drop out. We just had it then driving up here! That was just a telephone call! So I mean speed and quality of signal if that's the way we're going to communicate and keep in touch it needs to be improved.

And that's important. I mean as we get further down the track documentation and sharing of documents when you've got a shipment or something like that. All of those things because it's all an improvement to that interaction and communication! Because we won't go back. We won't go back to the way we did it before!" (Senior Manager 31)

Many firms have adapted to new business models

The new means of e-commerce use in replacing physical private visits and means of communication generally, is in some sense, likely to permanently reduce the need for travel as it has given firms more time to devote to other aspects of the business. While the initial focus during the commencement of the COVID-19 pandemic was to maintain sales and grow revenue and secure the firm's survival, given the rapid closure of international borders, there is now a new focus. With the heightened uncertainty that is accompanying firms operating in a COVID-19 era, the focus is now shifting to strategic direction and production processes to refine the business model and ensure greater efficiencies, and especially in developing new customers. For digital e-commerce based SMEs, this is seen as par for the course.



"Now that might be a function of the fact that we do have a very full pipeline now whereas last year it was chopping and changing. We just didn't know what was happening and nothing drives sales like paranoia. ...Now we'll want to have a series of Zoom calls. That seems to be where we've settled into is that previously they might put out an [invitation], have a single Zoom and then you move onto the next one and you can move through them. Whereas now it's much more like OK then - how do we establish a relationship remotely? We have a large number of calls with a large number of stakeholders. We bring people in. People are much better at managing those calls" (Senior Manager 15)

Trade opportunities undermined by border closures

Similarly, small IT-cloud based big data service providers are increasingly being made aware that despite a great deal of their services existing on 'clouds' their international customers do want face-to-face visits. As the COVID-19 era shows no sign of reducing its border control measures at present, this still seems a long way off before some return to a new normal of international flights and visits is possible. It is causing increasing concerns for these small and IT-based SMEs. It is especially problematic managing their overseas clients without face to face visits that are part of their channel model. This was especially unfortunate in terms of timing as they were about to expand the Singapore office when the COVID-19 restrictions occurred making further expansion into Singapore impossible to continue with at such an early and critical phase of the relationship development where trust and knowledge about each other was insufficient to continue without the option of face to face visits.



"Yeah it's better to be face to face. We practised a lot not being face to face even pre-COVID-19 so we're quite comfortable with that...And so we're not sort of pressing to go every other month or anything...But we still recognise that there's value in it and there are some things that are even, as much as video conferences are effective, you still miss out a little bit of intangible parts or body language or various other elements...Of relationships like going to dinner or it's the necessary things that just flow out of that which are hard to recreate in [zoom]!"

I think COVID-19 has been the primary reason it's not working because our original plans were thwarted totally. So our plan was to set up infrastructure then we would spend some time visiting, recruiting partners.

So we were literally setting up the visits and Singapore went quite early in terms of their restrictions!...And so it was the December of '19. Yeah so we've effectively just put it on hold or forgot about it in many ways!" (Senior Manager 24)

Offshore projects cannot be managed efficiently

A large electrical geo survey MNE is finding the closure of overseas travel extremely difficult to manage their offshore mining projects that need constant surveying, despite an extensive e-commerce component already in place. The delays to overseas flights are reaching an urgent level, so much so, that their Japanese client, one of their largest and most lucrative, is requesting the opportunity to set up an office in Japan to better facilitate the coordination at such a critical time in the project's development. Even this innovative solution is not possible in the Australian context because of the ongoing closure of Australia's borders to travel overseas or receive international travellers. From a business perspective, this is an increasingly urgent matter. This firm is missing out on considerable production capacity in its offshore activities not only in Japan but recognizes the considerable difficulty of having to set up an office overseas, such as past experience in Indonesia.

While health issues should be paramount, business is urging for a more economic focus from the Federal and relevant states governments, specifically in reference to a timeframe for a return to international flights. This is making it very difficult to consider building new client relationships as it is difficult enough to manage existing international clients. This is resulting in a situation where they are having to put business opportunities on hold rather than thinking through new strategic directions and projects. Thus, the continued closure of borders to international travel is impacting considerably future growth opportunities and resulting in lost revenue. While Australia is also a location for a number of their projects, it simply does not offer the considerable revenue and growth potential. International projects are where the real growth opportunities exist for this large Australian MNE.



"Yeah it was around 15% but it would be much more it would be like 30% if we could get to Japan and that's what the client was saying that you know you can set up an office here, we can just come and go but have a permanent [COVID-19 visa entrance].

I set up an office once in Indonesia and yeah there's a lot involved in opening a business in a different country...And obviously each country has got its different rules...

I'm not having a meeting until I know whether I can go somewhere really...this isn't a time for building new relationships because we're busy trying to get around what current restrictions are... its treading water I'd say rather than strategic growth! Really we just need the borders [open]!

I guess as far as critical to the company it's not because we're still able to do a lot of work in Australia. This year particularly there's still been quite a large demand but it just means that we won't have the growth that we thought we would as a company. So we're sustainable as we are because we've got a lot of work on in Australia but there's just the missed opportunity of increased revenue! (Senior Manager 18)

Government needs to step up support

There is recognition that there are extra strains on customs during a COVID-19 era and while the service is seen as adequate and reasonable, there are border issues, such as lack of cargo inspectors with no communication from customs officers, that are being exacerbated by border closures domestically. Another is the concern to maintain the high integrity of our certificates and processes surrounding them as these are seen as very important to our international customers. This is not regarded as a call for more streamlining. Rather, needing more inspection staff

even at times of border closures to assure exporters that the process is remaining in place and well supported. A small agricultural producer on the NSW and Victorian border explains the issues well.



“Oh look I mean we’re still we had an issue but that was more to do with borders and what have you. Where we’re right on the far south of the New South Wales border. And when they closed the border we all of a sudden didn’t have inspectors that could come down and inspect cargo on short notice and no communication but I think that’s more to do with sudden [border closures]...But certainly I mean the integrity I’m constantly concerned at the integrity of our certifications and how they’re perceived by our customer countries. Any watering down, any of those things, I guess devalues those...Well not so much streamlined no. More just in case, more inspectors or more communication.”
(Senior Manager 31)

Restrictive practices in international visas holding back business development

Firms describe some of the restrictive practices that they are experiencing with the issuing of visas that are limiting age levels, making it impossible at times to utilize highly experienced and skilled international employees. Calls for raising the age limits are articulated here in the discussion with a large e-commerce based geo surveying Australian MNE in the mining sector.



“We get these excellent employees and it’s just a real struggle to get it over the line to get these people with the correct visas. I have one guy who he’s worked for us for since I can remember back in the 90s. He left and went with his family in America and ...because of some age limit... now can’t get a visa!
Yeah and he was an Australian and he left and somehow or whatever he let the paperwork slide and ... I want him to be a permanent part of the company and the rules won’t let him stay. So then he’s like well if I can’t stay in Australia then I’m not going to commit to being part of the company obviously!...” (Senior Manager 18)

Working holidaymakers essential to regional business – but need the right workers

While there are difficulties in skilled labour shortages that could be supported well with easing up in immigrant working visas, there are also concerns raised by exporters about the challenges this might pose for the genuine immigrant that offers skills much needed in the agricultural sector compared to those that are merely opportunist. A small agricultural exporter sums this up well by explaining the issue needs to be offset by the sheer number of those in overseas markets seeking safe haven here, in his case, immigrants seeking employment in his small agricultural firm from Africa.



“A lot of the part-time casual employees we’ve had have often been backpackers or people on working visas. Again we’re regional and so part of their visas was that they had to work in a regional area. So that has made the pool of labour and skilled labour a bit tight but from a management point of view we’re seeing a lot of people particularly out of Africa and that sort of thing wanting to migrate but that’s more to do with wanting to get out of Africa...” (Senior Manager 31)

Need a blueprint for border reopening to assist business.

Discussions with many firms around the complexity that is now occurring at unprecedented levels with visas in a COVID-19 era are at a level of deep frustration and disbelief that the Federal Government has given little effort to deal with this at a business level. Previous dealings with the visa process have been largely positive until the

outbreak of the COVID-19 pandemic and resultant quick closure of international borders. While the views often expressed were deeply respectful of the health issues in a pandemic, such as we find ourselves at present with COVID-19, there is pent up frustration by business leaders, with the view that there is little to no evidence of any blueprint from the Federal Government as to when international borders will be open. Moreover, the play off between various state premiers and the Federal Government only seems to be making it worse, requiring an overall Federal Government strategy that manages the process at a central level that delivers consistency across the country.

In the discussion below with a small professional service firm in the education sector, government inaction, inconsistency and failure to implement a blueprint that offers a business plan to return to international border opening soon is resulting in devastating losses in business opportunities. Further, current plans to deal with quarantine, at state level in partnership with the Federal Government are viewed as ill conceived, impractical, and surrounded in red tape that simply results in large state inconsistencies, overlap between Federal and state approvals and inaction. It has become more bureaucratic! The lack of government accountability at any level for quarantine management has been the major problem and has led to an unworkable business context. The strong view being offered to the Federal Government is - they've got to open the borders and they can do that quite easily!



"But it's [previously] been quite straightforward you know. A student would apply to us, we'd issue their enrolment documents, they would apply for a visa and they would jump on a plane and they would come in but the process has been very, very simple notwithstanding the regulation and straightforward. What's happened now is that it's got more complicated!

Because we have these states coming in over the top and we now have to get health approval! This plan again loosely to return the industry and get some students in has got state-based approval in it now, it's got Commonwealth approval from the health area, Commonwealth approval from the education area as well as a visa process and then you have to get an exemption to get into the country!

So it's become more bureaucratic!

Look I think obviously we've got to get the borders open that's the first thing. It's really a simple decision and it's just a decision and the challenges that have been with the health issues have been failure of implementation. The Ruby Princess and hotels in Melbourne and whatever. They've all just been a failure of implementation so... And then they have an enquiry into it and there's nobody accountable. It wasn't his [Victorian Premier's] chief of staff, it wasn't the police commissioner! It wasn't the health minister! So who was it?!

So this stuff is just all capital 'P' politics and it's terrible but the direct implications are we're two staff down. So I've got two people who used to work here who didn't have a job and whatever. So there are real life consequences to these things. So they've got to open the borders and they can do that quite easily.

Recently they've I think last week they've announced that the quarantine centre here in Darwin is going to be increased in capacity and the Northern Territory government is going to take control of that and I think that's a step down because it was controlled by the National Trauma Health Committee or whatever it was called?

Who are all health professionals? Now they're not going to be able to increase the capacity here because they won't be able to attract the staff. The health officials want to attract another 400 specialist health officials to come and assist with the management of the centre. Well that's not going to happen because they can't do it under normal terms here in Darwin so they're not going to do it in a crisis you know... Well we need one

system. We can't have these states playing each other off and closing borders! There've been some terrible things happen. People just travelling back from Melbourne into Darwin and 10 minutes before landing they say you've got to quarantine. 10 minutes before landing. That's atrocious!...

So these are all failures of implementation by government! That's what they are! So we've got the health issues but we've got to carry on and if we can get tennis players into Melbourne to play tennis then surely we can get international students into Australia!"

Well the people that are making these decisions they're not impacted of course. They are still getting their salary every month and it's not one public servant who's has lost a job. So this is, COVID-19 is very much a private sector disease. It is exclusively a private sector disease! (Senior Manager 30)

RECOMMENDATION 8

***Build a blueprint for international engagement post COVID to give confidence to businesses
ACCI recommends adoption of its Vaccine Policy Part 2 – International Restart (May 2021) Plan.***

Labour Shortages

Small e-commerce manufacturers are describing challenging situations in trying to fill key roles, many of which require highly skilled personnel. This is proving to be extremely difficult to address in a COVID-19 era with closed international borders. The skills are not here, and the impact is harming opportunities for accelerated growth for these dynamic e-commerce manufacturing firms. Reforms to the foreign visa arrangements are needed.



“Look I can fully understand that there are a lot of reasons they [Federal Government] don’t want to just have people coming here and taking Australian jobs! I’m all for it. I grew up in America. Heck you know we have 20 million people a year coming in the country...You know illegally or whatever... It can be kind of threatening in a way but then again it can also be pretty hard especially in regional Australia to find people. That’s the situation we’re in. We were out looking for somebody to fill this role for four or five months before we get an applicant from overseas and tried! I think what it’s probably doing is pushing more companies like us just to use people overseas... You know we have to be competitive!” (Senior Manager 9)

Similar shortages are being observed in discussions with small mining exporters. The discussion reported on below suggests that as the economy is now growing there are labour shortages across the board impacting firms’ ability to attract and fill new staff positions and to recruit for existing positions. This is being exacerbated by national and state border closures which are preventing the free movement of staff internally, which is also impacting Australia’s national competitiveness, in this case, the mining industry, in specialist classes of drivers which was being managed with the pool of employees willingness to relocate and the additional pool prepared to undertake fly-in and-fly-outs! More specifically, very long road train drivers. According to this senior manager and other very successful firms, there is an urgent need to open borders within Australia to help with labour shortages to maintain Australia’s growth across industries.



“Yeah there is some inflationary pressure around people now and it’s pretty much across the board whether it’s blue collar, workforce, trades or technical and management skills. Generally, the mining industry is going through a tough time at the moment...And that’s because there’s a lot of growth going on in the industry and a lot of development underway which ...sucks up the pool of available resources and then that’s been further complicated by the border closures. So as the border closures have got more erratic or intense it’s meant that pools of available labour have been shut down!

Believe it or not a lot of the very long road train drivers, ...lived ...on the Gold Coast for example...And as a result there was a lot of fly in/fly out from the Eastern Sea Board but in particular Brisbane and the Gold Coast coming to Western Australia...And you know when borders closed it’s impossible. So there’s been a very bad shortage of road train drivers and it’s been difficult to back fill seats and that’s caused some headaches for industry over here. That’s just one example but there’s plenty more like that where border closures have severely crimped the available labour supply and that’s now translating to cost!” (Senior Manager 19)

The labour shortages of skilled migrants and visa complexities are also prevalent in other industries, which SMEs find especially frustrating when there is the opportunity for high growth, particularly from international customers in Japan and South Korea, lucrative markets with high populations interested in high quality Australian products. This young, high end quality manufacturer of furniture is experiencing labour shortages both domestically but also internationally, and finding the visa issues a complex array of unnecessary red tape. This is holding back their growth and rapid expansion as there are good people they can employ abroad and use here in Australia and abroad if there was movement of staff. COVID-19 restrictions are exacerbating the issues.



"I think we've more than doubled our workforce in the last 12 months. So we sort of went on a hiring spree during COVID-19 and unfortunately getting in some of these skilled workers is really hard...Particularly the ones that have a family, so the two in the US [and] ...the teams up in Sweden we're trying to get down as soon as possible...Well yeah I think we can normally get them in but given COVID-19 with all the approvals it's quite tough. You sort of have to lobby Home Affairs every time you want to get somebody in or...talk to some certain ministers and it's not as easy as just sending for an application! Yeah well when it comes down to like the [unfilled] Australian jobs that these people are supporting it just makes sense to try and go another way! I think a lot of the people that we hire are the future, for our future, so ...it would just make our future plans easier to execute!" (Senior Manager 23)

Education exports hit hard

Several educational providers at the VET and university/tertiary level have raised concerns about the lack of international students and the devastating impact on the industry, due to international border closures. Biases are perceived with the decision by the Federal Government to not make JobSeeker available to the VET and tertiary education sector. Yet it was described as indiscriminate in who it was made available for, such as larger department stores.

Concerns about the long lasting and negative impact of closure of international borders to international students is discussed below with a VET provider, a small professional service firm in the Northern Territory. The broader benefits of international students to the economy are very significant, financially, culturally and socially and the continued lack of perceived support from the Federal Government and closure to all international students is having a very negative impact on a range of industries and sectors including tourism, hospitality and the housing rental market.



"Look it's just a direct impact across the [Education] sector and as you know the sector is bleeding. The universities are bleeding, the private colleges are bleeding and the federal government has done some interesting things in the market...And that's got to ...be sorted out but for the rest of us who are doing the right thing and trying to maintain investment and keep people employed and it's yeah it's more than frustrating. It's disastrous really!

You know the university sector is not getting JobKeeper that's a very specific thing to do! Yeah it's bizarre isn't it? Like you know Harvey Norman got some enormous amount of money, millions of dollars in JobKeeper and you go well, they just sell fridges and TVs!

They're not really an essential! An essential service as such and here we've got a \$40bn industry in terms of international education and it just flows across the community in so many ways and universities!...And for the cultural stuff!

There's a number of reasons for that but the Darwin labour market has been historically really short of labour and short of skills. That's a historic thing and we bring in these students and they're an integral part of the hospitality and tourism labour markets. So it's been a good story obviously for us but also for the broader community. The hotels like what we do, the students like what we do; there are pathways out of our programmes and into possible permanent visas and those sorts of things!..." (Senior Manager 30)

Develop dedicated entry locations and processes to facilitate border reopening

The view often reported in discussion with businesses of all sizes and in all states, is that there is a very strong inconsistency in the operation of entry into Australia under COVID-19. This is seen as a process that can be easily

managed given the resources Australia has. However systematic failures in Australia's quarantine process is negatively impacting Australia's business recovery in many industries, that provide a positive net value to our economic growth, but especially in international service providers in the education sectors. The discussion below is articulated by a small professional service importer reliant on international students.



"Yes there must be consistency whether a student comes into Darwin or Melbourne or whatever. There are no flights because they're not allowed in therefore people are not booking on the flights!. So it's that circular sort of thing.

The demand offshore is still strong right and aside from people normally wanting to come to Australia and study whatever I think also there's the push factor you know where COVID-19 is rampant in the Philippines or Indonesia or India or whatever. They want to get out. So I think the demand is going to be really strong and that needs to be managed of course because that's a health risk... and it clearly can be managed if the systems are in place...With all the resources of government and facilities and services and budget that the private sector doesn't have. So they should be able to just put it in place! It should just be now, 15 months on from the first cases, it should just be formalised almost!

But that facility that quarantine facility is you know coincidentally purpose built so you know surely you can knock up one of these facilities in Adelaide, Sydney, Melbourne or Brisbane in world record time!

I think we've got to compete internationally and have visa pathways for students that are equal or better than places like Canada where you've got post study work rights. ...this sector brings people in to Australia. We educate them, we train them up in an accounting degree or be a chef or whatever and then basically we pump them out!

It's a criminal gap in government strategy and what we should be doing is bringing all these people into the country, not necessarily making them all permanent or whatever, but we should get the value of their education into the labour market for a time you know. Two, three, five years or whatever. It's sort of criminal that we don't do it! " (Senior Manager 30)

Lack of student - preventing growth in Australian business

Small professional service providers are in real need of assistance to provide a more streamlined approach to recruiting highly skilled staff through the skilled migration arrangement. There are critical shortages in the VET sector, and in discussions with this small VET provider of a range of areas, they cannot obtain sufficient staff domestically, and are prevented from expanding their training and skill offerings because of a lack of educators. Reform is being recommended as urgent. A more coherent and cooperative partnership between government and industry is seen as necessary and important to bring about required reforms. It is separate and quite different in its needs from the high end tertiary sector.



"For our business absolutely. Look we face a skill shortage too in the education sector. We find it historically difficult to find trained and qualified staff.

It's blurred into just being another sector but we're sort of at the top of the food chain. If we can't get good quality educators then the quality of the education suffers and then the quality of the industry suffers. So we're at the top of the food chain so to speak. So I think we need more assistance to help us develop our own staff and obviously future staff. You know there needs to be a much more strategic approach to this and in the VET sector, probably higher ed sector too, but the VET sector is a complicated mishmash of

poor policy over 40 years really... we don't need a reform we need an atom bomb put under it! And start again! It's never been done in a proper integrated way!

We've got to turn our attention more back now to domestic students and look you know the unemployment rate COVID-19 notwithstanding up here in the North is always pretty low. It's always you know the official figure is low but the actual figure is pretty much zero in normal times!

You know if you can't there's a saying in Darwin if you've got a pulse you'll get a job if you want it. Notwithstanding there are gaps in the market and continued labour and skill shortages and it's still current actually.

South East Asia has always been strong you know including into sort of India and Nepal! The Philippines, Indonesia a little bit, up through Korea and Taiwan have been strong markets for quite a while!

There is no strategy for the sector. We've had the only international students that have come into Australia have been into Darwin when there was a pilot programme for the university here in October last year. 63 students came in! And there was talk of a plan and I use that word plan very loosely. It's just a thought bubble of words on a page. It's not a plan. It's got no direction, it's got no timeframes, it's got no outcomes, it's got no accountability and we've got a meeting this afternoon of various industry people and government people together and it's just a talk fest. It's just almost a waste of time!"
(Senior Manager 30)

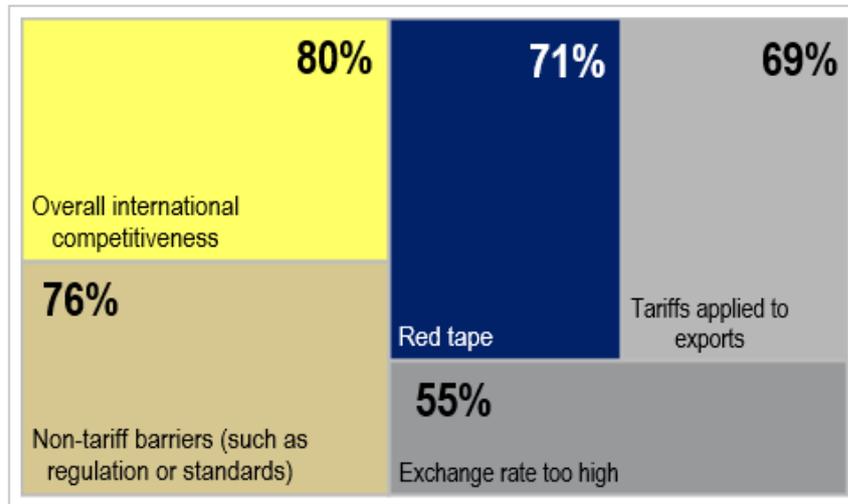
International Competitiveness

Table 3.1 Ranking of the top five trade issues 2020 (compared to previous surveys)*

	Goods					Services					Goods & Services				
	2020	2018	2016	2015	2014	2020	2018	2016	2015	2014	2020	2018	2016	2015	2014
Overall international Competitiveness	1	1	1	1	1	3	1	1	1	1	1	3	1	1	1
Non-Tariff Barriers	2			5					5					5	
Red Tape and Complexity of Rules	3	2	2	3	3	1	2	2	3	3	5		2	3	3
Tariffs applied to exports	4														
Exchange Rate too High	5		3	2	2			3	2	2	3	5	3	2	2
Marketing		3					3				2				
New Product Development		5					5				4	1			
Regional Connectivity		4				4	4					4			
Ability to Service International Markets			4		4			4		4		2	4		4
Customs and Border Crossing Costs				4	5				4	5				4	5
Market Entry/ Access			5			2		5					5		
Enforcing Contracts						5									

*Each group is a separate cohort and not added together for goods and services

Table 3.4 Top five trade issue concerns in 2020 for businesses (Goods)*



**Based on the total percentage of 'Major concern' and 'Moderate concern'.*

Overall international competitiveness

The lack of overall competitiveness of Australia as an investment location is seen as deteriorating, not simply because of its size as an economy, comparatively, but from future policy directions that are not addressing the renewable energy industries that hold the potential for considerable international investment in high end manufacturing. This is especially concerning for large organisations and their intent to invest in Australia in the manufacturing sector. However, it is also a negative association for SMEs considering investment outside Australia:



"Normally Australia hosts investors here that ...want to do JVs and subsidiaries here in the Australian market but the Australian market is very small and I think with the current strategy, the current government where there's hardly any manufacturing and not really investment into renewables, I think it's just very difficult ...

*...what I am aiming to do knowing the Australian market, which is very limited, I'm trying to help small businesses and medium businesses to commercialise a business overseas.
"(Senior Manager 1)*

The uncompetitiveness because of the lack of automation and machinery that is leading edge makes it unfeasible to manufacture in Australia according to this small exporter. This young, small high tech, high quality furniture manufacturer sees little future in Australian manufacturing, preferring to manufacture increasingly offshore, given the complacency of many manufacturers in Australia. He sees a lack of vision, desire to update, future orientation and unwillingness to take some risks. This is not their impression of manufacturers in Europe and Asia and even North America. While a major part of their inputs come from China, as much as 80-90%, for risk management purposes they are diversifying away from China in a COVID-19 era and onshoring in Australia for some manufacturing of their products.



"So we've actually manufactured all of our products bar a couple in Australia first and then we've had to take the majority of them offshore because of quality and sort of innovation. So quite sad really. Like so many of the products that we take offshore we're actually paying more for from overseas rather than we could make here. It's just the factories in Australia don't or haven't invested in automation or the right machinery. ...you've got like family businesses, second and third generation sort of family members now running the business and I think they're just taking a lot of the good will out of the

business and not giving that back to their customers in terms of the relationships or ...giving their product, their customers a competitive advantage...Whereas I think certainly in Europe and Asia and even North America you're seeing a lot of manufacturer's offer service where in Australia I don't think that really exists which is quite sad!

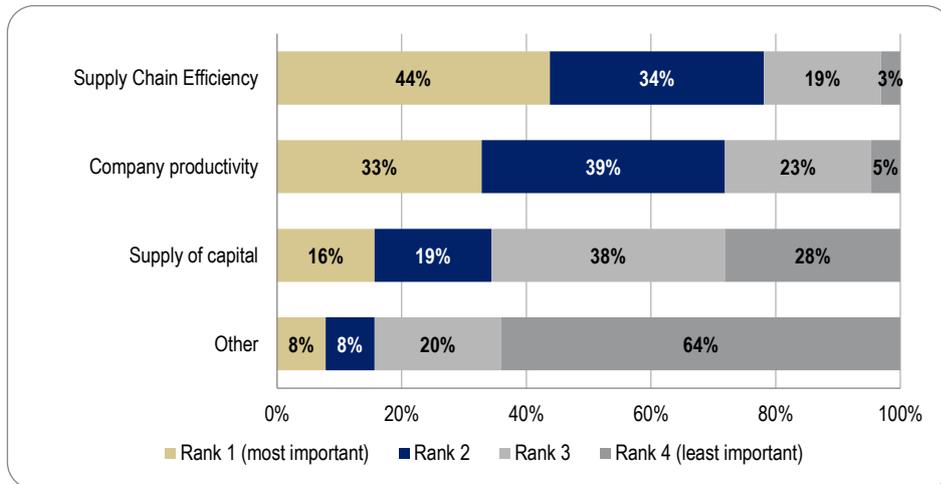
...it's not hard to catch up if you're proactive because like for example we had to move our mattress [sourcing] offshore and we did that because our [local] manufacturer wouldn't invest \$2m in a new machine. So that's \$30m worth of business going offshore for a \$2m machine! I think they're just looking for the margins and to take as much out as possible!

So unfortunately we had to move our Japanese mattress over there ...[to] China...a couple of years ago and now we've had to move the Australian mattress!...Which is quite sad!

...then we've actually added more products in Australia being made in Australia this year than I've taken away which is good but...Well we just had opportunities to make some of our products locally! Oh it would be 80%... It would be up to 90% [in China] I think" (Senior Manager 23)

Additional trade challenges

Table 3.5 Factors affecting maximum capacity of delivering products per shipment (2020)*



*Respondents were asked to rank which factors were most impacting them from 1 (most important) to 4 (least important).

Literally the best mines in the world!

A small and relatively young mining company that exports predominantly to china in the rare chemicals sectors for the global battery industry, regards their processes and procedures as one of the best in the world. Heavily relying on the latest technology and taking advantage of innovation as a primary focus, they regard themselves and Australia as a highly efficient operator and highly competitive manufacturing location in Australia.



"The highest margin you know mines get developed first...And then new mines come on as a function of demand, price incentivising higher cost mines into production. So again it just gets to the heart of explaining why Australia's iron ore industry is so competitive. They are quite literally the best mines around the world and they have been for the last

30 years...Other people bring mines into the market and they're typically higher cost because our mines are so good and that supports price which supports margin. I would like to think that you know we're in that category..." (Senior Manager 19)

High rates of taxes and overheads

A consistent message reported in discussions with senior managers of SMEs as service providers dealing with international customers, is the lack of competitiveness in the Australian business context compared to many of the countries they are familiar with. This small high-tech service provider in transport has an extensive history of success in Asia and the US, yet finds the context in Australia increasingly expensive, given the high rate of taxes and numerous overheads, especially as they relate to staff. They are of the view that this context is eroding Australia as a competitive environment in which to do business. While their business is 65-70% reliant on domestic customers, the SME only derives 35% of its revenue domestically, because of the lack of competitiveness of the Australian business environment.



"I would say in Australia it probably accounts for about 35 per cent of our global revenue, purely because the costs in Australia or our overheads are far higher than any other office that we have and so it really drops our profit in Australia and we would obtain more profit I would say from our other international offices, more from the UK and South Africa than we do in Australia. [I] guess it is just the way that the different countries operate, but it is a big issue in Australia with overheads, the cost of salaries. We laugh about France being one of the countries that has the highest social taxes and everything else, but in Australia we have all the hidden extras that on top of salary you have your payroll tax, your worker's compensation and everything else!...So that is a big issue, [and] something that we are constantly trying to review and work on to see how we can change that!" (Senior Manager 21)

The Australian taxation system is seen as a disincentive to conduct business overseas, in terms of what can be perceived by some SMEs, as unnecessarily complex, excessive regulations, bureaucratic in design and erratic in its application. In addition, this contributes to overall perceptions of lack of Australian competitiveness by local SMEs, for example, in the wine export sector:



"Taxation is a big issue. It's complex and it's unwieldy...Our tax structure in Australia for alcohol makes it very difficult to export products because everything is rated differently and under different rules but other countries out there don't quite get it you know. Not that we pass our duty on that way but it does affect the relative prices in our marketplace at retail level versus what you get in other countries.." (Senior Manager 2)

High rate of taxes unattractive for tech start ups

The high rate of corporate and personal tax is seen as a particularly harsh business environment for high tech knowledge intensive export dependent start-ups in Australia. The high set up costs and constant re-investment during the start-up and then growth phase means that small firms cannot pay their senior management staff/CEO/partners. This makes Australia a particularly unattractive environment for start-ups as there is the presumption there are much more competitive and business friendly environments that would support their founding and growth phases much more appropriately.



"...yeah it's still pretty depressing when you've got to pay personal income tax on the investment you made in your business...So you know you end up paying 80% tax you know on the money that you invest in the business ...I just started [the business]...I was really kind of mind struck in that OK I invest a million dollars into a business, then I can

take it out of the business but I have to take it out as either income or dividends and then I have to pay taxes on that income again! Because that's the only way I could pay myself back the loan was by the company making business and having to pay taxes. So I don't know how they would structure the tax law differently but I would think that if it's your own invested capital that you should be able to pull it out...

And the business had to pay 27.5% tax. Well in our case we had historical losses for a bit of it but then we still had to pay 27.5% tax. So when you think about it most of your income you're paying 50% tax because we're in high income brackets, maybe you know 40% effective rate. When you add 27.5% on it and so to start a business, you've got to be willing to basically say I'm going to give 67% to 80% of this in taxes!...Because it probably would have steered me away [from Australia]...

So I think you know some sort of incentive for using your own money would be a great thing to people that start a business so that they can then get that money out of the business without having to pay corporate or personal taxes on that money!... ” (Senior Manager 9)

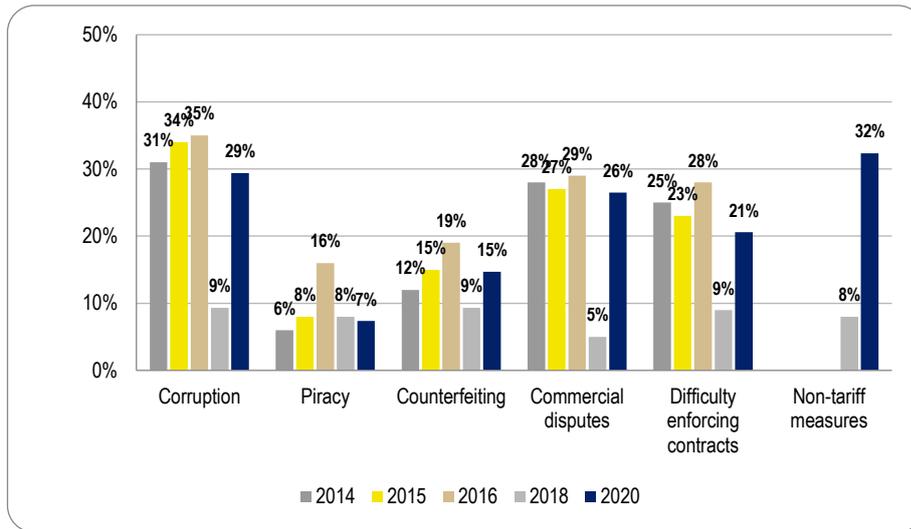
RECOMMENDATION 9:

Improve Australia's international competitiveness by addressing the high corporate and personal tax rates, which create a harsh business environment for high tech knowledge intensive export dependent start-ups in Australia.

Non-tariff Barriers

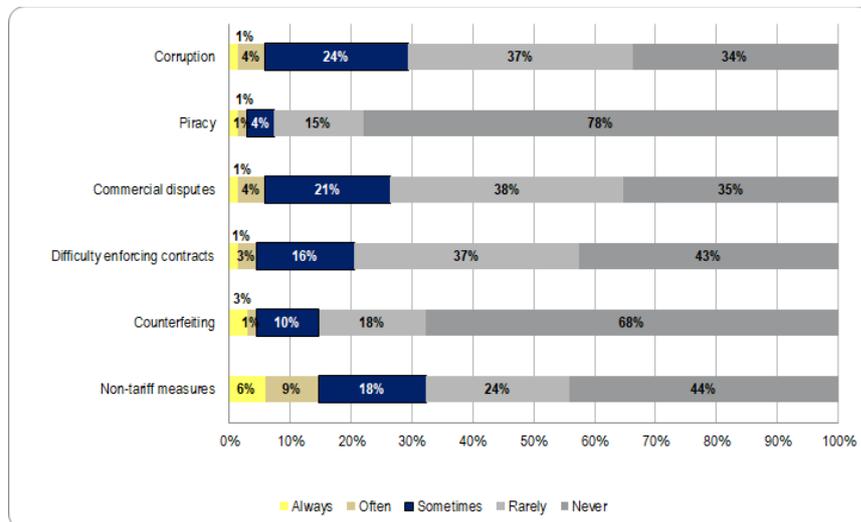
Problems business experience in international trade

Table 3.6 Problems businesses experience in international trade – Total of ‘Always, often and sometimes’ frequencies for 2014-2020



Based on the total percentage of ‘Always, Often and Sometimes’. ‘Non-tariff measures’ were included as a category from 2018 onwards. For categories ‘Non-tariff measures’, data is not available for the preceding years.

Table 3.2 Problems businesses experience in international trade for 2020 – All business



‘Non-tariff measures’ were seen as the most frequent issues businesses experienced in international trade with 6% ‘Always’ and 9% ‘Often’ experiencing problems.

Government red tape

Unnecessary bureaucracy in the process of delivering services by government agencies is seen as a major area for reform by a large professional service firm providing business and legal advice to Australian exporters and importers. More specifically, senior government trade ministers lack experience and good advice from agencies. Worse, there is

a lack of government direction for an overall trade strategy. This is important, as the manager points out that in a small economy, such as Australia, relying on the domestic economy for growth is simply not feasible.



"You've got bureaucratic institutions in DFAT, Border Force and maybe parts of the Department of Industry...Now who do they serve? Their charter isn't about serving businesses. That's problem number one...Information goes to bodies that aren't created to serve industry!...They respond to political imperatives...Push it up along a little further. So OK well who controls these organisations? So you've got probably six Ministers with briefs that touch on international trade. So we have no Minister for Trade [overall]...So structurally we're already behind the eight ball!...In terms of trying to have a dialogue that can actually do anything. I experienced it recently with the action White Paper on increasing trade in trade in services exports...We'll get everybody in the room and you know we've got a brief to agree on this, that and the other. They were in the room but they weren't going to do anything outside their brief because they look up. They don't look down!...

Well they don't understand it and they keep butting their heads up against what they think is a problem and trying to work out what the problems are. The problems have never changed! Your trade in services only takes two or three forms. It's either physical presence, physical or entity presence in another country; can I do that yes or no!...Can I move a person; yes or no?...Can I transmit digitally; yes or no?...Get that right and you know just do what you like. But they keep circling around or trying to find a different angle to approach difficult problems..." (Senior Manager 6)

Export compliance red tape

While the general view is that customs is working well it is still unnecessarily complicated, especially for new firms entering the export market. This process needs further streamlining to assist the small firms, especially the micro and SME that does not have the resources of larger MNEs to deal with the complexity. However, the agencies are considered largely to blame for the unnecessary complexity as they provide little advice on why the claim may have been rejected and thus simply exacerbate the delays unnecessarily when it comes to complying with codes for exporting products.



"I mean like most government agencies God they're so complicated! Sometimes... it makes you wonder but anyway that's not because of COVID-19. ...They've got their rules and you can't go outside ...those rules, the ones I'm talking about are to do with the inspection of [goods] and how that's done and you have a lot of hoops to jump through...It's not an easy process and it's actually...the process that was quite daunting...To a newcomer it would almost be off putting! Simplifying it is an easy word to use but it probably doesn't fit with their model of what they have to have their end because this has been refined and gone to the nth degree over the years. ...I'll run you through a quick example..."

When I need to export some wood the first thing I need to do is apply for my export licence to Canberra. That's a 14 day business one. That comes back and it says this is the amount of [good] that you're legally allowed to export, etc. Then I have to go to an outside agency who has the software to handle the application and the inspection of [product]. The application for an inspection and then the inspection. So I then send, this is all through email, I then send it off to this crowd and they have a form which you must fill in which if you don't know the right codes and things it's very difficult.

Each export product has a code...So the AHECC code is important. It's a six digit code made up of about three components. To get that code right I have to have it exactly right...And it's not just the actual species of [agricultural product]. It's the actual packaging that you're using and all of this! And oh God it's so difficult to get that right because I had difficulty sending [product] to India as opposed to sending [product] to Taiwan because although you would think that the AHECC codes are correct...They're it gets complicated!

And they [export agencies] say look it's easy, you just look up the AHECC code on our web page and you go to the web page and you choose your product; [good], manufactured and you go through a whole process. It's like looking up a species of animal or plant! You go through the Latin! So there's five or six stages you go through before you pin point it down to species level. Well this is the same thing and it's very difficult! I've put wrong codes in and then it's come back no it's rejected you. They don't say why it's rejected...I think it is unnecessarily complicated probably because it's going through like I say an outside agency. All they see are the codes on a piece of paper. They don't understand the business or why it's this code or how it's that code! They just come back with it's been rejected the code is wrong...So then you have the phone calls to Canberra, the time difference with daylight saving and all that sort of thing comes into play and eventually we work out what code it should be. We make corrections. The downtime spent just sending emails with corrections...And getting scans done and then signing off on this one and then you have to sign a declaration to say that this one's changed. It really is complicated from my side but it may be that that's what's necessary from theirs to comply with legislation! So I understand that component of it but boy it's a frustrating process to go through!" (Senior Manager 8)

Prejudice and corruption

Personal experience can transform into personal prejudices. The prior experiences may or may not have relevance in further attempts to re-enter a prior country or consider a new one. While the illustration below from a medium sized mining company demonstrates experiential knowledge that regards the unfamiliar as a distinct barrier to re-entry or the consideration of new country locations for trade and foreign direct investment, they are personal prejudices.

At a more concrete level, suggestions are made for the more direct role that government at the Federal and State level can play at a government to government and at the ambassadorial staff level to ease what amounts to non-tariff barriers in the form of bribery and corruption.



"The Americans and the USA may speak English but they think differently!...The Canadians are more like us!...The English are very slow to respond. The French are an absolute commercial nightmare...And I cannot understand why our government has gone with the French company for submarines. They're going to be absolutely put [us] over the barrel! ...They think differently!...Now with [Pakistan and X company] we used to get some support from the government. I could go into the High Commission in Islamabad...I've tried that on my own in Yangdong [province in China]...And didn't get too far!

India is a very difficult country to work in. I've been and tried to do business there...It is important [to us] and they're a democracy but Hindus think themselves superior to others!...I'm looking to transfer my supply chain from China...Taiwan I love!...The quality and the response is excellent...India - it's got its own difficulties. Pakistan...I don't trust!...I don't know what it is. I did some big work for[company] in Pakistan ...They're close to China....They're very corrupt. So are the Indians!

We took an influx of Indian engineers during the last boom here and they're textbook engineers. They can't think out of the square!...But dealing with the Indian engineers was horrible!...But the lower level. The very top end people, top 2%, brilliant...

In India I think it was Rajiv Gandhi when he was in power in India. He freed up the IT market and let them run and they've become world leaders in IT but hardware they're not. Their rules and regulations are pretty onerous!...

Indonesia is a very treacherous country to deal with!...and I've done business in Indonesia. We tried to set up a [energy] project there in 2002, 2001...Well we were the only one with a [energy] plant in the country and they still couldn't get it. It was corruption, corruption, corruption!... That can only be solved by the application money!

Malaysia is corrupt but it's more sophisticated!...a project in Subang building...horrible issues! ...[XX] who had the contract and we had to go through [their partner] which was [X]'s company.... That was a means of them getting money and going through it and they cream off 30% at least. But he preferred to hire us Australians because his own staff were stealing from him!...

I tried to do...work in India. You've got to bring it in on piecemeal [so they can get paid like a bribe] and erect it on site. Whereas the jobs I did in Indonesia and in Pakistan we fabricated [removing the middleman and bribe] them in 40 foot module sizes!... (Senior Manager 5)

Business needs more support from diplomatic posts

What is underpinning much of the frustration described above is the role that the Federal Government could play in addressing these aspects at a government to government level. At a firm level these types of non-tariff barriers cannot be addressed easily. However, concerns regarding the knowledge and experience of Australian Federal trade and ambassadorial staff has been questioned given the constant shuffling of positions in these high-ranking roles. Networks that are extensive, authentic and legitimate, take many years to develop to be effective in such situations. They need to be at the personal level. Given the constant shuffling of ministers and ambassadorial personnel, especially the former, deep, personal networks are absent making the possible benefits of such personnel in Federal Government and ambassadorial staff somewhat ineffective. What is recommended by senior managers is a much closer relationship between companies in such projects in this type of emerging economy and Federal Government representatives and their ambassadorial staff. Perceptions are that this partnership was more apparent in the 1960s in the mining sectors with a whole approach with multiple companies involved as the Federal Government worked through such non-tariff barrier issues.



"Well it needs to be from the top down! It needs to be from minister level...I want action!...I want Australian companies involved...I don't care whether it's a he [Federal Minister for Trade] or a she but he or she's got to understand how these Australian companies [overseas] are going to be involved. In the original iron ore developments in the 60s here in WA, the Hamersley Irons and now Newman Mining's went out of their way to get Western Australian companies involved..." (Senior Manager 5)

Inability to deal with the intentions of the Chinese Government

Small wine exports discuss the difficulties of the rising tariff and non-tariff barriers imposed by the Chinese Government which has made the management of their international customer relationships in China impossible to manage and resulted in a complete cessation of trade. Any attempt to deal with this at a firm level is regarded as futile. Many have been very focused on China for some considerable time, as described by this small high-end wine exporter in South Australia, including the appointment of Chinese sales staff to cater specifically for their biggest

customer base. However, reduction in Chinese employed staff because of the decline wine export sales to China is inevitable in the very short term. They regard the situation with China is not likely to change in the foreseeable future, and not likely to change in the next 3-4 years as a minimum. Many small wine producers are in the short term focusing back on the domestic customer base. Digital media engagement with the domestic market is helping to build a sales stream.

Unable to travel internationally to build a new customer base is a challenge and largely drives the return to a domestic market focus. There is, however, increasing interest from other international customer locations, such as Taiwan, UK, Indonesia, Vietnam and the US and other countries.

To many, however, there is still the residual surprise that the Chinese market has disappeared as a lucrative one for the foreseeable future despite past sales experience.



"And so any attempt to get around the intention of the Chinese government is bound to fail because they'll just bring new barriers to trade in. So we've not got involved in that. It's likely the biggest fall out of this will be that our Chinese sales manager will go down from five days a week to two days a week. We've kept him on for a period of six months while we sort of test how long this is going to last. My belief is that it will probably last you know two to three to four years maybe...And so in the meantime we're divesting investment dollars away from China and export into our domestic business which used to account for about a third of what we did!

So we've recently recruited a digital and data person! Really recruit or try and acquire data from our database so that we can be better targeting the existing bases of domestic customers that we have and then another position that we're currently recruiting for is somebody who can come in and basically acquire people to our cellar door and to our broadening scale of wine tourism products and build more wine tourism products for us to drive domestic revenues. Because obviously with an inability to travel that's really the; and we do have low having fruits. It's not something we've concentrated on for the previous 10 years!

In terms of other markets we've seen a little bit of increased activity in Taiwan ...

I got a deal over the line on Christmas morning that I'd been working on for three years and that principally came about because I think they wanted to give the two fingers to the Chinese government! By Taiwan doing more business in Australia! In Vietnam, in Indonesia. Indonesia is fast becoming an important market for us. I'm hoping that we're going to be in Japan very shortly! We also appointed back in September before the Chinese decision an in-market consultant in the US...

Where we seem to be more connected to the UK than anywhere I think ...since 2007. I thought we were doing a great job in that China space. And sure there were probably aspects that we aren't privy to as lay people in the sort of intelligence space or the infiltration through academic communities or whatever that might be" (Senior Manager 28)

Standards, compliance and regulatory requirements

Non-tariff barriers such as delays and excessive requests for further standards, compliance and regulatory requirements by China that are politically motivated, have caused increased concerns for exports and imports (inbound and outbound trade), more so since the COVID-19 era. Switching from Chinese firms to other alternatives in trading partners in Asia such as firms in Vietnam, for example, is the increasing advice of specialist professional service SME law firms dealing in trade and commercial operations. Primarily, they are suggesting the use of soft

power and a ‘softly softly’ approach that avoids dealing with any criticism of the Chinese. A lot can be done behind the scenes through official channels such as DFAT and company lawyers. None the less, diversity is seen as a front-line strategy now and for the long term. Spreading the risk, by expanding the alternative country suppliers/customers in Japan, Vietnam and Indonesia, to take advantage of diversification is an associated strategy being suggested to SMEs and larger MNEs. Relationships in business are very difficult to manage in the current climate and certainly for the foreseeable future is the perceived new reality.



“...when dealing with China it’s a long game not a short one...And they [exporters and importers] have to be aware that it’s also inherently ...going to be subject to political issues back and forward as well and...a lot of them [exporters/importers] aren’t going to be able to influence the arrangements. So ...they’re not going to individually take on the Chinese government for example on some issues...They can certainly talk to DFAT about them which is what we do regularly. If there are local issues in export markets for example inbound into China or into Japan or into Vietnam or into Indonesia we’ll often deal with our corresponding lawyers ...within those jurisdictions to help facilitate any issues. What they’ve also got to be mindful of is the need to if you like spread their investment if possible... pivot to other countries!” (Senior Manager 3)

Complex processes and difficult to understand

SMEs struggle with complexities around the various taxes and duties that operate across international markets. Where that information can be obtained is still seen as difficult and indeed bewildering given the present manner in which government and non-governmental organizations display and provide such data:



“Well one of the challenges we have in the alcohol industry of course is dealing with taxes and duties...And it’s a nightmare. Trying to understand what’s required for each country. Vietnam is very hard to do business with. China, oh my God, it’s different by province. And to try and find the source of information on that is really, really hard... why can’t I go on a government website and understand and find this information?...That needs a complete overhaul. Just the way information is being presented [could be] in a more intelligible way. (Senior Manager 2)

Anti-dumping compliance proving difficult

Trade related issues and anti-dumping accusations officially and unofficially from China are making business as normal impossible for Australian exporters in general and Australian exporters based in China. A specialist commercial law SME is advising their clients on trade diversion strategies, such as moving to suppliers in other nearby Asian locations, including Vietnam, Indonesia and Malaysia. The need to pivot and switch is seen as likely to be the case for considerable time frame:

Tariff management costing firms dearly.

While the large majority of firms regard China as a protagonist with regard to increasing tariff and related costs, other specialist firms, such as professional service SMEs offering trade advice also make the point that many other markets act in a similar fashion, from time to time, including Vietnam, Korea and Malaysia in the Asian region. Nonetheless, China is on the extreme end of the spectrum at present with regard to Australian interests, negatively. But, Australia also operates as a protectionist market.

The sheer complexity of the rules and regulations around tariffs, all of which add considerably to business complexity in terms of direct costs, but also in time, a secondary but related effect on overall costs:



“...the Chinese government and its agencies, the Vietnamese government and its agencies and the Korean government and its agencies and the Malaysian government have all complained extensively about our dealings with our anti-dumping regime for example or our foreign investment review board activity...”

I think I have a good relationship with the Anti-Dumping Commission. I've been involved in a lot of investigations and a lot of litigation where it's the sheer complexity [that] makes it difficult”...

And the overseas interest believes there's a bias one way or another in favour of Australian companies to the exclusion of the overseas interest. But often the overseas interest won't spend the money to have themselves represented so there's that issue.

There is also the big [geopolitical] issues at the moment!...I've done a lot of work in Vietnam. I've seen a lot of clients move their supply chain [away from China to Vietnam]...

From sourcing products in China to sourcing products in Vietnam which they see as [good risk management]...And now there are a number of companies moving back into Malaysia...So they might have been in Malaysia previously...They swung to China because of the China free trade agreement...But because of the current issues they're switching back to Malaysia again! (Senior Manager 3)

Tariff classification on imports can cause issues

Discussions revealed that importers have problems when the Australian Government reclassified their products for tariff treatment



“...we've been dealing with Japanese imports of sake where the Australian government is not treating the sake in the way in which it's treated in Japan in terms of classification and in terms of recognising it as duty free sake. They're classifying it differently so we're dealing with DFAT on that. A lot of clients want to run up and down and go and see ministers and the like...” (Senior Manager 3)

Australian tariff administration is frustrating

Improvements in greater clarity around codes for goods being imported and explanations around the categorizations would assist the smoother process of importing items. The view of one small importer, an exclusive distributor, is that the Government needs to have much larger oversight and control over their agencies. The agencies are unnecessarily complicating the process with excessive red tape and bureaucracy and lack of transparency around the processes they follow. This can result in difficulties in trying to import quality medical equipment, for example, from the UK, a leader in this type of equipment. The alternative is to observe the FTA with China, where the option is cheaper but far less quality imports, something that is not necessarily to the advantage of end users in medical care equipment.

While acknowledging that the information on HS codes is actually available online it is time consuming for business to search for such information when it could be provided by the agency needing it via a hyperlink to the sources they find reputable.



“Australian customs needs to turn around and say ‘this is the information you need to provide us to let us know you're bringing these products into the country’!. - so for example, HS codes I've mentioned...There is nowhere on the whole of the internet can you find a list, an official list! Of HS codes. This is something I could do and just say right this hospital bed, type in hospital bed, HS code 1234. Bang next line. We've got a

wheelchair. HS code 1234. Done. It would probably take 15 minutes to do! But unfortunately they've contracted that out to these third parties and these third parties come up with all these fees of \$100 for this, \$97.65 for this and it's just like and you can't, you can't challenge it! And it just leaves a lot of animosity there!

Delays on freight and even when you're telling people you know sometimes it's been urgent medical equipment that people have needed it really, really fast. And you've sent letters from the government to say we really need this. It doesn't bother them! Yeah customs needs to control customs! Not third parties need to control customs!

I only understood the other day why it's in place. It's the duty rate. There's high percent duty on everything coming into Australia. There are some exemptions. This is where we argue with the third parties because we say our stuff is medical so it's therefore exempt, it comes under the medical equipment exemption code and then they'll say well I don't think this is a medical product although it's a wheelchair and you go 'oh mate come on'. What more have I got to say? But there is a duty in place between the UK and Australia. Now it's 5% but then that 5% has to be either absorbed by us or passed onto the end user which is not value for money. If I want to go and buy from China there's a free trade agreement so although the products are closer, cheaper and there's the free trade agreement it makes it a barrier to entry to bring quality products into the country which the hospitals want. Not so much the nursing homes. They're happy for the Chinese products and that's their decisions...But if you were to go into hospital and needed treatment we want to provide products that are going to give you the best rehabilitation possible!" [Senior Manager 13]

Getting trade documents online - removing a paper-based approach

Despite the availability of online and electronic services for documents, many firms discuss the cumbersome process of still having to deal with a paper-based approach for certificates and approvals from various chambers and government departments. This is often driven by non-tariff barriers such as import nation requirements.

The small agricultural exporter below, laments the process is still unnecessarily cumbersome in terms of a paper-based process, especially frustrating for exporters in rural areas.



"Look we still have a fair degree of cumbersome regulations, not so much regulations but just waiting for people to print out papers and send them down or what have you. Again we're regional rather than being in a major city...That's where our Department of Forestry and Fishery. The old AQIS. They love that AQIS certification. I mean and maybe we haven't availed that as much as we probably could more so but even the Chamber of Commerce certificate of origin and that sort of thing we have. It should be all online but at the moment. At the moment we need [to go in and pick it up or wait on physical postage]... That's a no brainer! ..." (Senior Manager 31)

Biosecurity and export controls Working well for micro firms

Experiences with Australian regulators do vary but on the whole, the strong view coming through from micro firms involved in specialist agricultural exports is that the service is running well, despite the disruptions to the process in a COVID-19 era. They are being kept informed, proactively, by agencies of any unexpected delays and this is resulting in a very good service on the whole.



"In terms of dealing with government agencies it didn't really change much. I have to deal with Canberra in my application for an export licence for [agricultural product] in particular... So they generally have always had a 14 business day turnaround from the time that you apply and that still applies... So that hasn't changed. The fumigation of [product] which is sometimes a requirement. No that didn't really change although I haven't sent a container as I say since November but I've had emails from them saying look we've got a bit of a problem with our facility here and you've got to allow extra time for your containers to be fumigated and head to the wharf. So that is a direct result of COVID-19. Otherwise most of the other freight type things no I haven't noticed a difference..." (Senior Manager 8)

RECOMMENDATION 10:

Address non-tariff barriers unable to be resolved at the firm level through greater government-to-government interactions, while resolving the loss of skills and experience as a result of the 'revolving door' of trade and ambassadorial staff.

RECOMMENDATION 11:

Provide clear, easily-located, fit-for-purpose Government services, training and events that support business in a digital world, covering the complex web of regulatory compliance, including training and resources around website development, from geo coding to correct tax and currency rates.

Exchange Rate Too High

Unfavourable movements in exchange rates in last 12 months



“They were going great till 12 months ago!...Like literally the exchange rate ...will have impacted our price by 25%! ...I think governments are going to find themselves in a hell of a sticky situation if they start trying to manipulate currency...” (Senior Manager 31)

Pricing in USD as a buffer to the impact of exchange rate fluctuations

Focusing on a premium product with supporting features that concentrate on efficiencies along the supply chain and latest technology and innovation in their production processes has given this small and relatively young new entrant into the mining sector little real concern about fluctuations in exchange rates. Price premium, internal efficiencies that are leading edge and external management of good international client relations, have combined to provide this SME with a strong position when it comes to fluctuations in exchange rates. They are 100% reliant on export to China across just a few customers in rare chemicals in the battery industry. Given China’s global dominance of the industry, however, they are currently diversifying products and locations and number of clients in each country location to mitigate future risks.



“You know we’re one of the important mines around the world ...and attracted to capital and that means that we’ll be competitive for some time to come...And there will be mines elsewhere ...around the world and in Australia that might get shut down in a period where you know pricing is very poor because they were fundamentally higher cost. It’s subject to [exchange rate]... movements in the Australian dollar. So we don’t spend a huge amount of time agonising over the effect of exchange rates! No because our product is priced in US dollars we get somewhat of a natural hedge...!” (Senior Manager 19)

Using the Australian dollar and not other currencies to offset fluctuations in exchange rates

Especially during the COVID-19 era with exchange rates being so volatile with many trading partners, firms discuss the benefits of using a more stable currency, such as the Australian\$ rather than the US\$ to offset the swings. One micro specialist exporter, in agricultural goods, highlights the benefits of such a practice, which is a significant risk management strategy given his business is 100% reliant on export trade.



“And I gained a little bit and I lost a little bit but it was just too risky because between signing a contract and producing the actual goods could be three or four months and depending on how the world economy is going that could swing wildly” (Senior Manager 8)

Financial services need improvement

Small e-commerce exporters find the excessive costs extracted by PayPal very uncompetitive and difficult to escape. Given their market dominance and pervasiveness in large, sophisticated e-commerce markets, such as the US, and now their prevalence in Australia, extraction of excessive fees for supposed financial services needs to be addressed in order to support smaller exporters.

Being able to hedge between using Australian and US dollars can make a significant difference for small e-commerce manufacturers.



"The biggest problem that I'm having right now and I've actually filed something with the Australian Financial Commission is PayPal...So unfortunately [they] kind of dominate a lot of the payments on e-commerce and we've been using them exclusively for a lot of years. They've been nice to us. But what they have recently done is they've restricted us from being able to take out any of our money that we collect overseas except in Australian dollars. ...you used to be able to collect USD and put it into a US bank account...In November they stopped that and they basically said if you want to take your USD out we're going to take 3%...On top of the fees that they already took for collecting the money! So we've got \$200,000 and they want \$6,000 just to put it in their bank and I'm just like that's crazy!. The only other option we have is we have to take their exchange rates...And their exchange rates are so atrociously bad that it's at least 3% over what I can get with TransferWise or any other service and so basically they're holding you hostage on that exchange rate arbitrage. And God knows if they're paying any tax on all that money they're making on it or just you know I have no idea. But anyhow it's very, very wrong what they're doing..."

And they're basically trying to preserve some sort of scheme for being the really, really stupid people by taking extremely atrocious exchange rates. So that's probably our biggest issue with the exchange rates. I try to always leave money and especially in US dollars because we have to buy a lot of our raw materials in US dollars...So we sort of hedge between you know having Australian and US dollars. Australian to pay most of the bills but US to buy you know packaging and supply materials, the raw materials that we need" (Senior Manager 9)

Least important trade issues

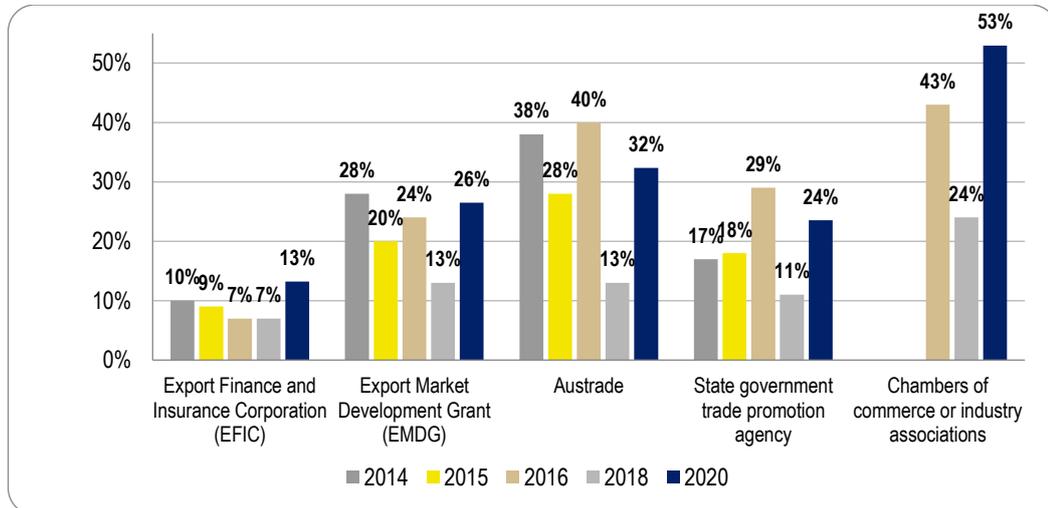
Table 3.7 The five trade issues considered least important in 2020 for businesses*

	Goods	Services	Goods and Services
1	Piracy	Exchange rate too low Migration levy	Piracy
2	Enforcing contracts	Progress on trade agreements	Migration levy
3	Dumping and anti-dumping rules	Skilled migration	Dumping and anti-dumping rules
4	Commercial disputes	Australian investment opportunities globally	Enforcing contracts
5	Exchange rate too low	New product development	Corruption in international market

*Based on total percentage of 'Minor' and 'No concern'. Note each group listed is a separate cohort or respondents

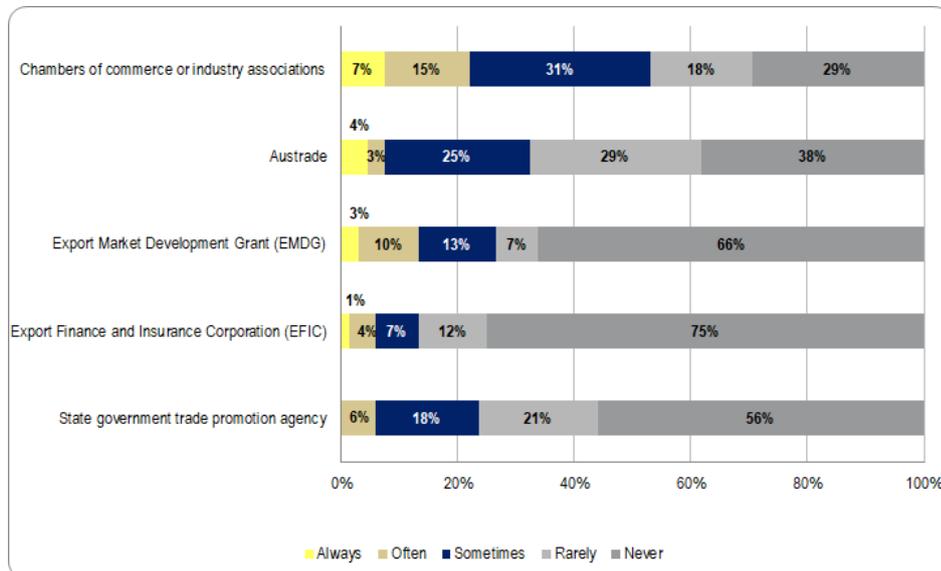
Utilisation of Support Initiatives

Table 4.1 Utilisation of trade support initiatives – Total of ‘Always, Often and Sometimes’ frequencies for years 2014-2020*.



Chamber of Commerce response were not available before 2016.

Table 4.2 Utilisation of trade support initiatives (2020) - All business*



*Most businesses surveyed preferred to use the ‘Chamber of commerce or industry associations’ for trade support initiatives followed by ‘Austrade’.

Inconsistency and expense of services provided by Government

States vary in terms of how businesses might view the benefits of their services. To illustrate, a large agricultural firm has suggested some states offer superior services to others as they have experienced this given they operate in two states - Tasmania and Queensland. There is also a mixed response as to whether firms should actually have to pay for the services of government and industry organizations.



“Austrade they can charge like wounded bulls. I’ve also used the Queensland Government Investment Bureau, the QGIA or something it’s called... Yeah, they were terrific. Because we’re a Queensland operation! When I was in Tokyo 18 months ago, they supplied translators for two days. Showed me around the city Were very helpful, very forthcoming and there was no charge back to us because we were Queensland based for our [agricultural product] operation... If I had gone through Austrade it would have cost me a couple of thousand bucks for two days...”

Well here’s the thing - is Austrade is meant to be a profit centre and if it is yes [charge us]! But if it’s a government office that’s costing us anyhow as a taxpayer, and it’s there to promote industry, the [agricultural] industry, ‘no’!. So I’m probably leaning more towards ‘no’! I think they’re there as a service organisation to ensure commercial relationships are developed overseas.” (Senior Manager 7)

Trade missions better for the less experienced

Other firms already have such extensive networks that the perceived benefits of organized trade missions do not seem to be obvious or warranted, suggesting that they may be of more significance to firms with less experienced personnel or with no networks in the location of the trade mission. This suggests the benefits of what government agencies can provide in overseas locations needs to be marketed more effectively.



“I went to Shanghai and saw the expo and that was great, but I was travelling at that point just a tremendous amount. So that trade mission was more sort of organic travel and conferences and meeting people that I was doing. But I’m aware now that for example I can take an office in this place or that and Austrade does a lot of stuff... There are social events and all this kind of stuff. I think the reason why I didn’t take advantage of those things is actually because ... I had and still do have, a reasonably well developed network and I was just really just pulling off my own network... So one of the things I just want to make clear is I think that for some people those offers actually could have been very useful. Part of the reason why I didn’t turn to government at that point is because for those types of things I was actually pretty well covered! And you know yeah like I was also relatively resourceful. I can go and find a public library and work in there and I did that a lot!” (Senior Manager 15)

Access to support funding needs to be easier

Small exporters highlight a number of concerns, many of which are particular to them. This list was suggested, following a discussion with a small e-commerce manufacturer, and summarises the challenges they face in accessing grants and other forms of industry and government support that they feel are very important to their continued success. While some may be more significant in early stages of their development (e.g. inception) and others at a later stage (e.g. development and expansion), they reveal a comprehensive list of key areas that both government, their agencies and industry associations could work more closely to coordinate and assist to provide a much more coordinated and effective environment to support the creation, development and survival of exporting SMEs in Australia.



“There are lots of incentives I’m sure all SMEs who export would love the government to implement but here are a few important ones:

for e-commerce SMEs - training and resources around website development to include geo coding and correct tax and currency rates

assisting with relationships with freight and logistic providers

Grants to travel to visit manufacturing sites

Specific grants to set up manufacturing in Australia

Grants to assist with legal costs to protect IP (we have to pay hundreds of thousands of dollars each year for our patent costs - for some SMEs this is not economically viable and ultimately are unable to protect their idea)

Grants to assist with accounting advice to manage international relations

addressing pre-paid tax - a business who makes a profit and has to pay back tax on that financial year but also has to pay prepay tax for the following financial year at the same time (essentially the business is paying tax x 2 at the same time)

providing a designated relationship person to assist with import and export regulations

more FTAs

Providing dedicated customs broker agents

Grants to offset significant customs duties and taxes incurred by exporters..." (Senior Manager 4)

Raising profile of the grant applicants

Grant applicants indicate how important these grants can be for raising their profile in Australia. For example, in the case below, a small e-commerce big data service provider in environmental technology services, participation in the awards' ceremony in Canberra last year allowed them to network with some key personnel, including a number of Federal and State level ministers, important in their industry sectors. The grant was intended to assist them in developing another lucrative international market location, in Chile, having already conducted some preliminary work on its positive market attractiveness.

While the CEO was quick to point out he had many strong and excellent networks over his long corporate career, they were primarily originating from his time in large corporations, where profile raising was not so important. But in his role as CEO of a reasonably new and small e-commerce service provider, meeting key personnel and bringing to their attention what his SME is doing and hoping to see is a very important function in his view.



"We've participated, we've had METS funding and we did qualify last year on some export market stuff that we've been looking at the potential of maybe going to Chile for instance was one of the places that there's a lot of mining activity going on in Chile and they were looking for some environmental solutions. So we did qualify for a small EMDG grant last year...And we got nominated. We actually went to the finals last year...Down in Canberra for the METS Ignited awards. We didn't actually win anything in the end but we went down and spent a day down there with the various ministers, etc. and it was quite a good day out...Yeah so probably I would say so if you look at the big companies like the BHPs, the Shell, Santos and all those sort of type guys they all get a lot of air time with government in relation to oil and gas policy and minerals, mining extraction and all that sort of type thing. But there's not the same level of engagement or you don't quite get the same level playing field for some of the smaller companies..."

Anything being the CEO of a smaller company! I mean I've had positions in bigger companies as well. I mean for instance when I was in the Middle East I used to look after a geomarket for a company called [X X] that was turning over \$1bn. But the pressure of

running a business like that was very, very different because I never had any cash flow pressure, I never had any worries about whether we'd ever run out of money because I could just phone the [X X] bank and they'd send me more money if I needed it! But once you're in a much smaller self-funded business things are a lot harder around how you collect your money!" (Senior Manager 12)

Or just help out with cashflow!



"What we really used, and what we could not have done without, was the EMDG and the R&D grants. They were ...the difference between starting business in Australia and starting business really anywhere else in the world I think, but particularly the States. ...We could walk in and know that if we were pitching for something that was interesting that was new and innovative that we would be able to pick up 30% for that component...On the other side in cash you know!" (Senior Manager 15)

SMEs outside minerals need equitable support too

The issue of feeling marginalised in terms of any support from government and agencies, including DFAT, for SMEs not involved in high profile industries such as mining, oil and gas, was a regular feature of conversations with senior managers in SMEs. For this small, young exporter in professional services, the experience has been nullifying and very disappointing. The comment made is that this is surprising from a risk management and future opportunities perspective as governments need to be thinking of the future and other industries that will be needed to secure Australia's future growth, away from a total reliance and somewhat obsession with mining, oil and gas industries.



"...we have contacted state government business development department that would be responsible for growing business externally and also DFAT, we're a small business and we're not in mining, oil and gas and so the support or interest we got was zero!

But if it was possible to have some extra focus on those industries which are not mining, oil and gas and of course the huge returns are there so I understand the return on investment perspective in an external sense. Although from a long-term perspective, businesses like ours which we're effectively selling intellectual property that's what we do. It's the automation and product creation that we do in the Cloud. That's our value and so we're effectively selling IP overseas...Is that there needs to be a bit more focus on the long-term viability of other industries. I mean we can see what's happening with the mining sector. It's booming at the moment...But that's not going to be forever..." (Senior Manager 24)

Austrade services - adequate but need greater understanding of export diversity

While on the whole Austrade is seen as a positive and supportive service, during the challenges of a COVID-19 era further support is needed that is more diversified in its focus across multiple industries and sectors and not limited to just a few priorities. For this small agricultural producer and exporter, the view is that oil and mining and education states and other things are very strong exports and focus but certainly the food producers are not or we certainly do not feel to be as well represented. Japan is a key market for them and further profile raising for their high-quality agricultural produce is needed. Further, the advice they do have is old and outdated regarding Australian high-end agricultural products and needs addressing.



"Oh look I've had over the years a lot to do with Austrade and different agencies that [have helped]...where I can't travel to Korea or I can't travel to Japan. I just pick up the phone to the local office and say 'look I've got this can you; da, da, da'. 'Well this person needs to do this; da, da, da. Can you follow it up for me?' And that's quite good and

conversely, I give stuff to them when they need it for promotions and so that works well. It ebbs and flows...It depends on the personnel in the different offices...I think we're possibly getting a bit light on the staff where we certainly had good representation in some market places and some areas particularly in Japan...

Where we had some very, very good people in Japan and there was a period there where there was sort of no or people where they weren't replaced or they were replacing from within and they were making positions redundant and people left and yeah there's a few balls got dropped in the process of that. Particularly not so much national as in a country but just Australians who were up there [in Japan] that were doing the guiding for them or what have you!...

I mean education and other things are very strong exports but certainly the food producers are not or we certainly don't feel to be as well represented!

And the activities of the officers don't seem to be as focused in that area as they are in sort of more to a lesser degree mining but particularly the oil educational states... But certainly I mean a lot of the food advice and support you get is based on 10 years ago not what's happening today and so often I'm training them on what's happening!" (Senior Manager 31)

RECOMMENDATION 12:

Implement a seamless "Team Australia" approach between Government, Chambers of Commerce and Industry Associations that provides a package of support measures for importers and exporters, including:

- ***Providing a designated relationship person to assist with import and export regulations (e.g. customs, visas, freight costs) to improve their export readiness and engagement with international vendors and customers;***
- ***Training to develop an international market strategy, digital engagement and new product development, across a more diverse range of countries;***
- ***Timely responsiveness supplemented with a streamlined online grants process;***

RECOMMENDATION 13:

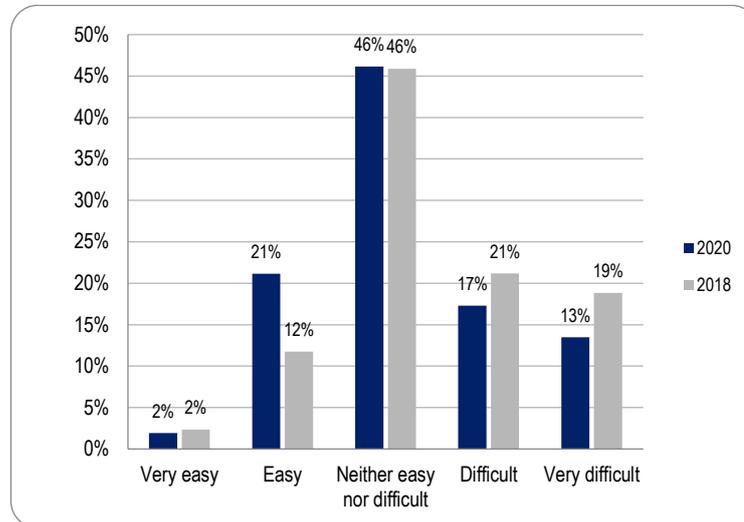
Minimise unnecessary compliance, complexity and duplication associated with trade support and grants.

RECOMMENDATION 14:

Eliminate Government's fee-for-service charge so Austrade and other agencies refer clients on for more specific support to providers who offer commercial support services.

Trade Finance

Table 8.1 Level of difficulty accessing trade finance comparison 2020 to 2018*



*Businesses surveyed have found it easier to access trade finance in 2021 compared to 2018.

Benefits of self-funding and organic growth

Some micro firms report never having borrowed funds in the early growth stage. Micro firms discuss the benefits of organic growth and self-funding. While it is regarded as slower than engaging in large bank loans which would enable rapid growth, they nonetheless have used banks in their exporting to clients to ensure financial safety and payment upfront prior to delivery. Their businesses are growing very well, despite a pandemic. They explain that over time, relationships are formed with international clients based on trust. This small agricultural niche-based exporter has a strong bond with several clients in Taiwan and India, comprising 100% of his export trade, equally divided between them both. He prefers not to deal directly with China, even though this was the initial client, as he found trust was much more problematic and difficult to establish. He now relies on 30% down payment and the balance on delivery. This seems to work well for him even through the COVID-19 period with no payment issues arising with his international customers. The relationships have provided flexibility to manage a number of difficulties from his clients and that has increased the trust built up over many years.



“a certain sort of bond and friendship exists... we do discuss quite openly the pricing and ...At the end you don't have a business unless...two parties agree...You can't clap with one hand as they say but once all that is over and done with ...a sort of a friendship develops in so much as my Indian client for example invited me to his son's wedding.”
(Senior Manager 8)

Cash poor SMEs don't have the resources to apply for and manage grant funding

SMEs are usually cash poor but innovation rich and hold the potential for new product development. One way of judging that potential is to consider future likely success based on previous innovations, rather than current profits. By doing so, it would enable Australia to 'hold on' to these very important dynamic smaller firms, fundamental to our future industries and innovation development for new products in Australia. It is SMEs that create new technologies, and thus carve out new industries and industries sectors.

Large MNEs rely heavily on the SME involved in high-tech knowledge intensive processes and procedures, in the initial industry infancy phase. Once the sector enters its growth phase due primarily to SME innovation, they then operate on scale and mass production. For this reason, seeing new ways to assist such SME innovation through up front funding based on prior success in innovation and new product development would make sense and needs further consideration by lending organisations, guided by new or refined Federal Government policy to assist such revision in standard practices, including the reducing of excessive red tape and reporting. We run the risk that such innovation by our SMEs will continue to move offshore to locate ecosystems where this is easier, such as the US.



“...we’re developing new ...wireless technology that’s going to go into [extraction industries]. So we’ve been setting up a manufacturing facility ...and so we’re going to apply for a grant because there’s grants available for manufacturing. But the way it will work is that I’ll need to submit my report quarterly on what my spend has been and then I’ll get half of it back. But that doesn’t help us! Small business! And you’ve still got to physically fund that with cash to make it happen.

So I’d much rather that we submit a project plan and you get the funding up front not funded from behind!...So it’s a fantastic programme and it’s a great way to get money back into the company but if you were really going to help us smaller guys, particularly guys that have gone through a very hard time over this last 18 months, there’s not many small companies that are sitting with lots of money in the bank right now! Most of them have been using up their bank reserves! To make sure they can survive! Something with upfront funding would be a much better way!

I mean I think it would be on submission of your detailed project plan and instead of them saying well OK once you deliver your project plan we’ll give you X amount of money. You qualify on your project plan, you get some money but then obviously you sign some legal agreement saying that if you don’t deliver then the money has got to be handed back and you get a director’s guarantee...

Well I think it could easily [fit] within the METS Ignited framework. The reporting requirements are quite stringent anyway ...Don’t get me wrong it’s a very good thing they do but for the small companies even the level of reporting that you’ve got to do ...I’m essentially committing to an extra person!” (Senior Manager 12)

Small exporters report that trade finance is critical when they are younger but not so much later as they mature. A small agricultural exporter describes this.



“Probably an issue more earlier on! I mean certainly in the start-up phases where you basically haven’t got the cash flow and you haven’t got the sales!” (Senior Manager 31)

Young firms - difficulty organising bank funding or even a credit card

SMEs report still not being able to organise bank funding or even a credit card after four years of successful trading and producing numerous innovative products and processes. This situation is punitive in its impact and not assisting the e-commerce, high-tech knowledge intensive start-up, as reported below. These Australian SMEs are fundamental to the development of innovation, needed by larger MNEs. Reform is needed as is currently discussed in popular media and industry forums.



“And then the other one is around access to bank funding for small to medium size enterprises. So government can definitely help here as well I think because [firm] is coming up four years old and we have not managed to get any bank to give us bank funding. Not even a credit card can we get from a bank! ...We’re just getting to the stage now where we’ve got written offers from CommBank and from [another Bank] that they’ll look at giving us some sort of revolving credit facility...And the reason you run into this trouble is if you do have a start-up company...It doesn’t matter who you are unless you’re willing to put your house and all your own personal assets up for grabs...You won’t get any bank funding because the first question they ask you is ‘do you have some audited accounts. They want two years audited accounts! ...So it’s very tough to get any sort of funding like that and then it means that the start-up companies like we were, you end up relying heavily on shareholder debt or very expensive interest rates to try and get yourself started” (Senior Manager 12)

Challenges accessing finance for internationally focused exporting start-ups

Numerous small exporting firms involved in high tech niche manufacturing report very high growth in exporting sales and profit despite the challenges of the COVID-19 era. Yet, they also describe the great difficulties of financing their small innovative firms in the inception and development phase with little opportunity to access funding through lending organizations and granting bodies. Little time as a resource to apply for funding and no track record, because of their start-up phase, meant they needed to rely on their own self-funding initiatives. This added dramatically to their risk profile but has also built remarkable resilience and strategic agility. Utilizing e-commerce as their basic business model from inception has also been a real advantage, especially in a COVID-19 era. They now view the Australian environment as a lot easier to access forms of finance for start-ups.



“And we just fortunately have been growing between 30 and 40% at this COVID-19 year and the year before we had a... big struggle!...I mean for the first seven years we didn’t pay ourselves because we couldn’t! Because we kept growing and having to reinvest everything! And thank God we had enough savings! But we barely made it. By about the sixth or seventh year I remember us getting down to something that was extremely, extremely scary but it was all for growth...It was like OK we’ve got to buy another quarter of a million dollars’ worth of product...So we’d get it and you know we didn’t have any luck with the banks back then because it just wasn’t you know an established enough company so you can’t really go ‘oh can you give me a line of credit’ or...proven it....Now all the banks are knocking on my door now! It’s no problem!...But yeah it was an interesting process in the beginning. It got very, very isolated for a lot of years and if I didn’t have the money it would have never have been a business. Which is tough because I can remember when we’d go to Angel Investors. There wasn’t a lot of that back then anyhow. There’s probably more of it now in Australia which is nice to see! (Senior Manager 9)

RECOMMENDATION 15:

Promote and make accessible, trade finance to small and medium sized businesses especially in the early start-up phase and to recognise the impact of their life-cycle on funding needs.

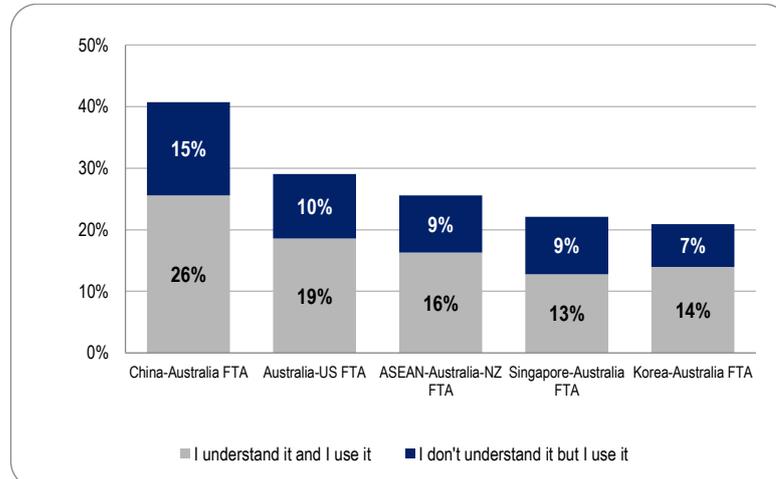
RECOMMENDATION 16:

Reduce administrative complexity in trade finance, critical for SMEs who experience challenges in obtaining funding through the banking system, leaving them reliant on self-funding or private lending firms.

Trade Agreements

Businesses' understanding and utilisation of trade agreements

Table 5.3 Top five used free trade agreements (2020) – All businesses*



*The 'China-Australia FTA' is the most used agreement among businesses surveyed but it is not completely understood with 15% of businesses using it despite, 'I don't understand it but I use it'.

In country knowledge essential for efficient market entry

FTAs are perhaps only as good as the agent relationships that exports engage with but there are very positive comments expressed by a number of SME exporters in dealing with the US as a market. This small, high-tech service provider has agents in multiple countries, including Asia, and a physical presence is fundamental to their operations, albeit through their agent. The Australia-US FTA agreement is fundamental to their growth and expansion given its size and e-commerce sophistication.

However, relationships are what makes the sales, not the FTA. It takes considerable time, effort and consistency in meeting with their overseas customers to build momentum in this all-important market given the regulations and changes that can occur regularly. What comes through very clearly though, is the value of a good agent relationship in order to pre-emptively manage any issues.



"...we rely on a good agent over there, the same with all of Asia, we have got great agents that we rely on. We have tried giving it a go in Singapore opening an office, but we found it quite difficult to start that office and keep it going, not being a local. It is always difficult when you don't have a local person who knows I guess the industry, the market, has their own network, then also the same with the US it is a really difficult market to break into. We tried going through Miami, but it just didn't become a viable option, so we brought it back and went back to relying on our agents and we have been doing that I would say for the last 10 to 12 years and so at the moment we have got no issues with the US. We find it is quite straightforward as long as you know all the regulations that you need to comply with...And they change quite often..."

It is great having an agent that is a local that knows what all of the requirements are, so before sending anything, we will always contact [them] first and say we have got this coming over, what do you need, so we can pre-emptively manage any issues that might

come up and just make sure that it then arrives at our other end and can clear really smoothly. We try and follow that practice with all jobs that we send.

We make sure that we contact them in advance, any agents, officers and make sure that we can send the goods, there's no issues with clearing them and it just ...builds more of that reputation that we have with our customers that our customer service is great, we have got great communication and which has allowed us to build quite a good following over the years through word of mouth because of I guess what we do and how long we have been around. It has been a real organic growth I would say..." (Senior Manager 21)

China-Australia relations

There are a number of discussions that senior managers have outlined that have touched on the future and viability of our current China-Australia FTA. The senior manager below, provides an account of why he thinks the FTA will remain in place and the likelihood that the divide between both the rhetoric and reality will continue to grow at this point. Relationships are important for business dealings across Asia and as pointed out by this manager, that also applies to the relationships between Governments too.



"My suspicion or my expectation is that the FTA will remain in place and the reason I say that is Australia did sign up to the Regional Comprehensive Economic Partnership that involved China earlier in the year and it did that at a time where China was imposing its own protectionist measures and doing the steps that Australia is objecting to. So it's one of those again those huge contradictions. So criticising China's approach to trade but then giving China a big I guess sign of international support by joining up to a free trade agreement which they were essentially the champion of!

...I don't think you'd do that if you were at the same time looking at doing something to ...our bilateral free trade agreement with China. ...I think ...the [Australian] government understands how important the FTA is and I just feel like I'd be surprised if they would go as far to take steps themselves to unwind that or reduce the benefits!...

So I would suggest that those same principles which you know governments run seminars and Austrade tell people. All these things about dealing with Chinese businesses about the cultural differences or what are culturally important. But then it doesn't seem that that's reflected in the way that Canberra is dealing with China!" (Senior Manager 29)

Chinese investment and business is being deterred

Australia has traditionally been a welcome home for Chinese investors and people who emigrate to Australia. Some senior managers that have close dealings with Chinese MNEs in Australia hold the view that it would have been most unlikely that the Federal Government was unaware of the Belt and Road Initiative and MOU signed between the Premier of Victoria, Daniel Andrews, and the Chinese Communist Party in 2018. The benefits of encouraging trade first through the FTA and later with individual state initiative, are seen to outweigh the negatives according to a micro professional service provider of legal and trade related matters. Moreover, there is far more scrutiny now of Chinese firm initiatives in Australia.



"But the Victorian government would have done press releases about it! It was seen as a non-contentious event at the time! I'm sure a positive of course if you're encouraging trade with China through free trade agreements why would you not also support state governments entering into initiatives that are going to give Victorian companies the best opportunity to be involved in those sort of mass expansion projects? It only became

contentious obviously when trade with China became a political hot topic. So it would not make sense to have governments entering into agreements which are then overturned by other governments ...

No matter who you're contracting with you need some sort of certainty and having the legal rights if there's a breach of contract. ...no one's going to enter into a contract thinking God there's a chance that if there's a change of government or if the political winds change...the new government will just tear this up. And yeah sure we can sue them for damages but people enter into contracts because they want it to be performed!

So I do think ...state owned enterprise in China looking to enter into contracts with Australian state governments ...will have to see this as an example or a factor to take into account into considering whether or not that contract will be fulfilled!

...with the COVID-19 restriction my understanding was now that basically any level of foreign investment now needs further approval... being more heavily reviewed and being knocked back in greater numbers than other countries!...once things are in the hands of a minister then of course you can have things that are driven more by political outcomes and that doesn't seem objective, but really that's you know probably less than half a dozen decisions a year!" (Senior Manager 29)

Use of expat networks

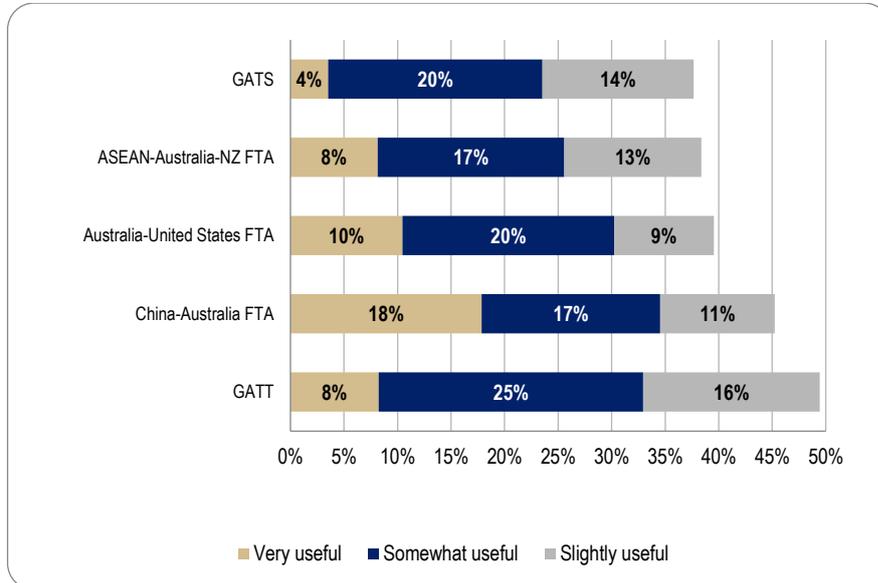
While SMEs do not indicate a high use or perceived benefit of FTAs, one small high-tech manufacturer, discusses their strategy of tapping into the Australian expat customer base because it reduces language barriers. They are often contacted by expats for their product, and utilising FTAs can be beneficial.



"Funnily enough the way it tends to go is that Australian expats in these countries approach us and want to import our products and that works quite well because you've got that sort of foot in the door and you know they're customers but you don't have the same language barriers and so on!" (Senior Manager 20)

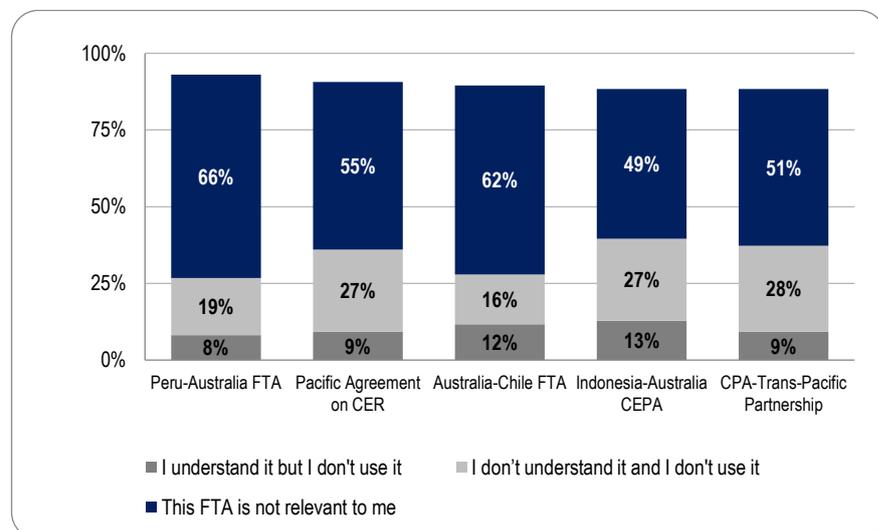
Usefulness of Current Free Trade Agreements

Table 5.1 Top five most useful rated current FTAs (2020) - All business*



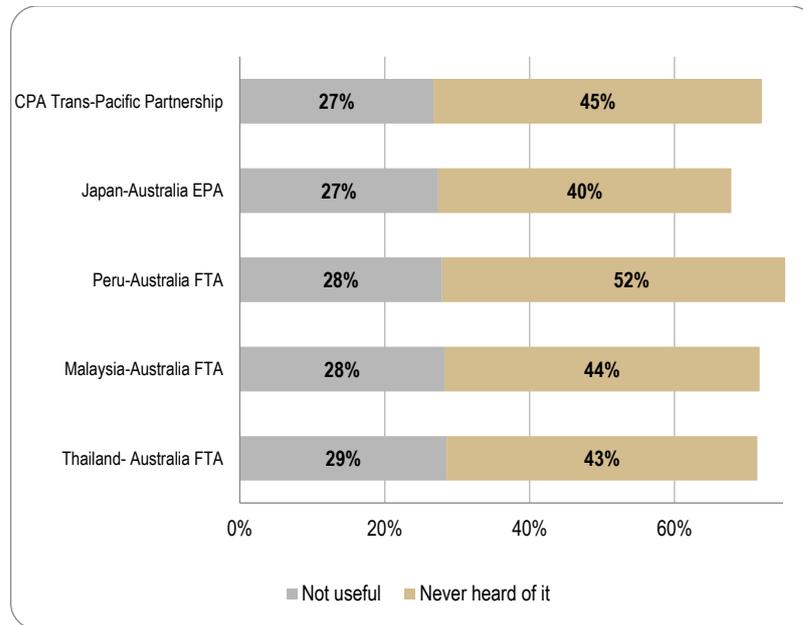
*Calculated on total response scores of 'Highly useful', 'Slightly useful' and 'Somewhat useful.'

Table 5.4 The five least used free trade agreements (2020) – All business



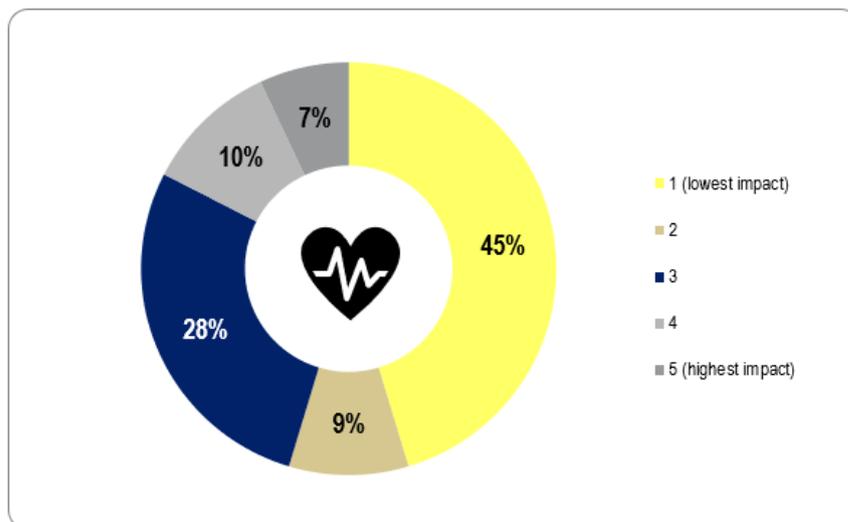
The category 'This FTA is not relevant to me' has been calculated as an agreement not being used and added to the other two categories of 'I don't understand it and I don't use it' and 'I understand it but don't use it.'

Table 5.5 The five least useful rated current FTAs (2020) - All business*



*Calculated on total response scores of 'Never heard of it' and 'Not useful.'

Table 5.6 Overall impact of Australia's current FTAs on business (improved access to market, operational savings and increased ability to employ) (2020)*



*Calculated on rankings of '1' being lowest and '5' being highest.

*Of the businesses surveyed, most were highly dissatisfied (45%) with the impact of FTAs with only 7% being highly satisfied.

The responses in the survey indicate that the multilateral agreements within the WTO are still the most important to Australian businesses and outrank FTAs in their usefulness.

Benefits of FTAs are not universally understood or accepted

While there is a great deal of time and effort that is generated to develop new FTAs, the discussions with many senior managers of firms that export and import across the globe, few extolled the virtues of FTAs, and what they really do offer. Many firms show very fine understanding of FTAs while others do not and are not especially interested in knowing more. A clear inference from these types of discussions is that governments and agencies need to do a much better job in communicating to industry sectors what FTAs might benefit them and why. Communication strategies as they currently exist appear to be reasonably useless and ineffective in communicating the advantages, benefits and industry specific outcomes. Discussions below with a small professional service firm involved in the education sector offers details as to why differences among FTAs are hardly noticeable or why they in fact offer benefits.



“Look at the coal face, they have no difference whatsoever. ...we don’t have any interaction with it at all. I’ve been to lots of seminars about free trade agreements when I was involved in the chamber and what have you...So I understand their importance but ...No impact of that absolutely!” (Senior Manager 30)

FTA Utilisation

Trade agreement negotiations and their benefit provided by such organisations such as DFAT also come under criticism for their lack of comprehensive understanding as to how businesses actually use them. A large professional service firm discusses the inadequacies of those in government charged with the responsibility of developing effective FTAs as ineffective given their lack of experience and strategic thinking. Rather, they are perceived as political rather than economically motivated. There is a perceived lack of understanding as to what trade is and its importance to the Australian economy given its very small size. This implies we need a consistent strategic plan and recognition that we cannot rely on an internal, domestic growth to support future growth and prosperity.



“I suppose that brings us to another layer of critique - on our trade agreements!... So if I look at the trade regions for instance. We’ve got a whole swag of asymmetrical economies. So what can you achieve service wise in those circumstances where you can’t even agree on what standards are?...And the enforcement of contractual obligations. It’s again its ignorance of the dependencies that I think suggests to me that these agreements are terribly political in nature rather than economic in nature...So I don’t think the government is experienced. [Trade minister is a] bit of a show pony honestly!... Make no mistake he certainly had attributes that were very, very important with the right advice [on China]! But I think - was he getting the right advice? I don’t think so!...So we need a clear charter around what trade means for this economy!...

So pretty much one in two dollars is derived from trade in our economy...But do we ever, ever, ever, ever have any kind of focus on what that means? We spend heaps of time on fractions of that amount in different sectors and we have no comprehensive approach to trade. So who is responsible? Why is it important? Do we want it? You know where are the opportunities for growth in the Australian economy? They’re not domestic! Why do we think that we can keep squeezing money out of a 25 million [persons’] economy? We can’t! ...All our growth prospects are offshore! Everything is offshore! So it’s just get that fundamental recognition going first, characterise those recognitions in structures in government!

That puts us in near a 100 in degree of difficulty in doing international trade. We’re in the top 10 in terms of ease of doing business but our trade bureaucracy and everything like that is considered to be almost third world! The bureaucrats hate it but we don’t see the

administrative reform [that is needed]...So my mantra has been reform the act, reform the admin and then automate a good process! (Senior Manager 6)

RECOMMENDATION 17:

Implement an improved awareness campaign of the benefits of FTAs to business, with continued analysis of the economic benefits Australia is potentially gaining from such efforts.

Trade Diversion

FTAs of others are increasingly being regarded as a disadvantage for exporters and importers. Smaller exporters and importers have formed the view that they are operating at a major disadvantage against firms from other nations that have FTAs in place with target markets. For example, competing in Europe against products from Africa.

Our current FTAs with China, Korea and Japan are seen as extremely beneficial for this small agricultural exporter. They are very keen to see one signed with Europe, a popular destination for agricultural products from Australia.

Despite our FTAs with the US and China, they are seen as difficult markets to penetrate because of the channels one has to move through to reach the retailer and end consumer. They are regarded as very protected markets. While Europe is similar, they have over time been able to work through the various distribution channels to deal directly with the consumer.

Trade policy needs to look at the impacts of the rising number of trade agreements and the impacts on trade diversion and competitiveness in supply chains.



Oh absolutely. I mean predominantly in the fact that they've given ...preferential access [through FTAs] over some of our competitors or other supplies. Conversely into Europe we're at a disadvantage to some of the African supply sources...But once we do [have FTAs] that's why you might notice [the benefits] of free trade agreement into Europe and are very positive about it...Certainly we've found the China agreement to be very useful, the Japan one to be very useful, ...particularly in the area of ...some more higher value products ...Korea has been wonderful. Korea is probably of all the markets in the world Australia has almost a 100% share of all the [produce] going into Korea...But also preferential access...And that's gone from being a very minor market for Australia [produce] to over the last 10 years becoming a major one. It certainly has contributed a lot to it!

As far as one's going forward, I'm very keen on the European one!...We're particularly keen because we're looking to expand its footprint in Europe. That would be very beneficial for us! To a lesser degree the TPP or whatever we want to call it! The Trans-Pacific one! That will sort of remove a few more things and make some of the access that we've got already more uniform across that area...

America is still the biggest market in the world but it's not for Australia. It's not for Australia's [agricultural produce]...I think that Americans really don't know the concept of quality and hygiene! Oh the biggest rubbish in the world they will take anything! So really it is the ...cheapest market for [produce] in the world!

China every year gets tighter and tougher. Tighter and tougher! Very protected.

We don't go through any third parties. We rarely do it. We deal directly with customers. You can't do that in America. You've got to go through this broker and that broker and a broker to a broker. It's not like that in anywhere else. A little bit in Europe but we're getting around that now!" (Senior Manager 31)

RECOMMENDATION 18:

Improve the awareness of non-China FTAs in order to diversify our interests.

Priorities for Future Free Trade Agreements

Table 5.7 What future FTAs do you believe should be the government's priorities? (Select up to three) (2020)

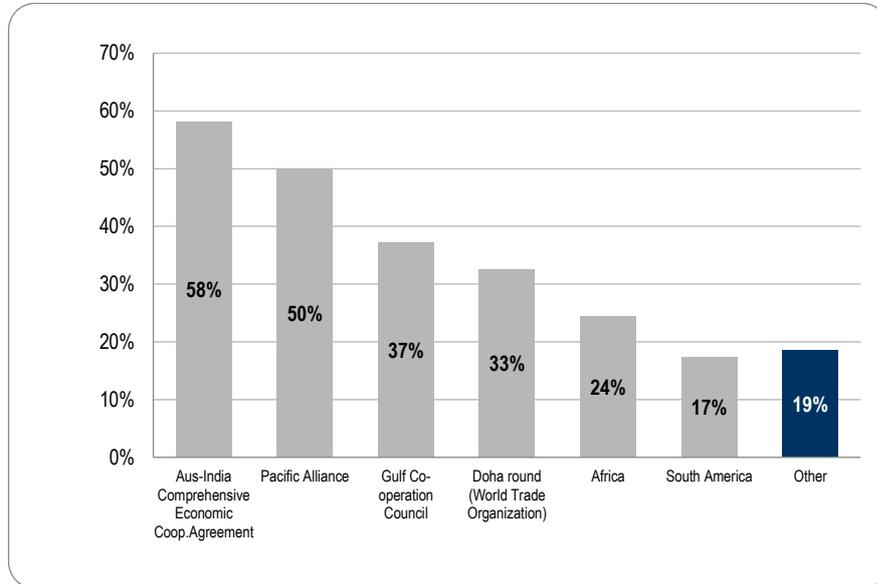
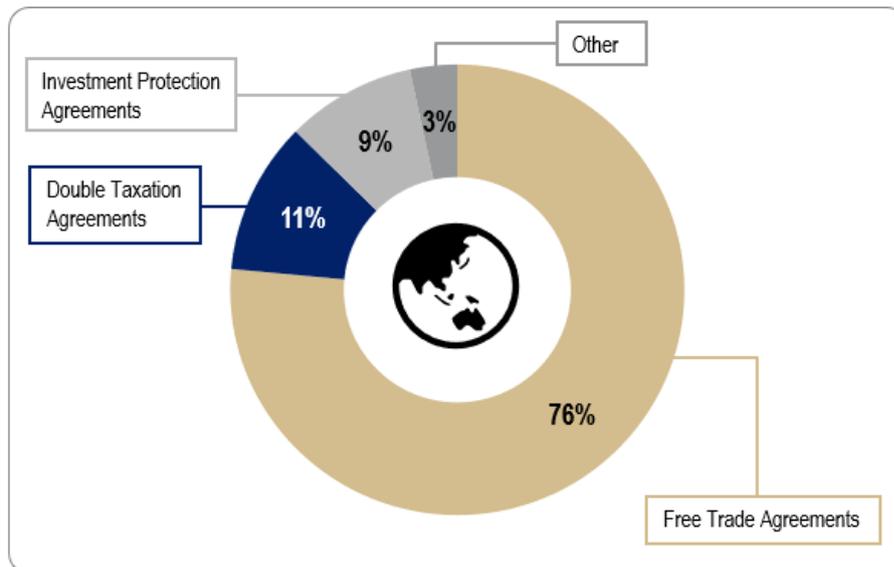


Table 5.8 Preferred types of agreements on which the Australian government should focus its efforts (2020)*



*Free trade agreements' (76%) were seen as the preferred type of agreement the Australian government should focus its efforts on.

Businesses surveyed were asked to select up to three FTAs they believed should be the government's priority. The 'Aust-India Comprehensive Economic Cooperation Agreement' was the most prioritised followed closely by the 'Pacific Alliance' and the 'Gulf Co-operation Council' along with interest in Africa and South America, although completing the WTO Doha round was also seen as important in the mix.

Focusing on Europe more than UK

New growth opportunities are seen in Europe where customers have sophisticated taste and appreciation for high quality Australian agricultural products according to a number of agricultural exports. However, the UK is not seen as sophisticated in the sense that customers would be prepared to pay the premium and thus they are not interested in this market for their high end quality agricultural produce. The observations of this smaller agricultural producer, 100% reliant on Australian exports, is that Europe is their future growth region, with Asia remaining important but no longer offering the same growth opportunity as the past. Future FTAs that focus more on Europe would be helpful for small agricultural producers in high end products.



“Well our business wants to grow. So our aim is that most of our future growth will come from Europe...And will sustain or slightly grow our Asia business.

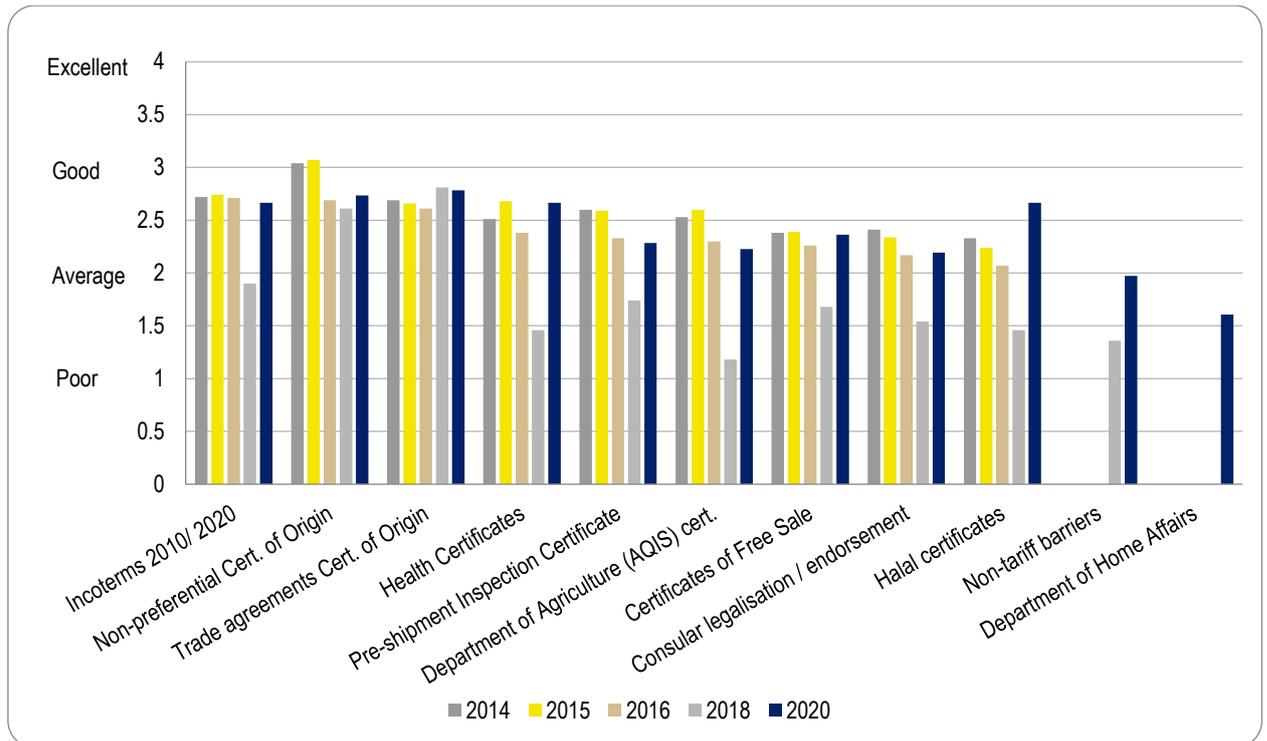
But there’s a hole where they’ve [EU based partners] used other [products] they’ve got no experience with [our products] so it’s really building that side to it...[European customers - quality] That’s what they want to understand. They want to understand the safety and the processes and all the things that go into the product.

England is beer and nuts.” (Senior Manager 31)

Trade Services

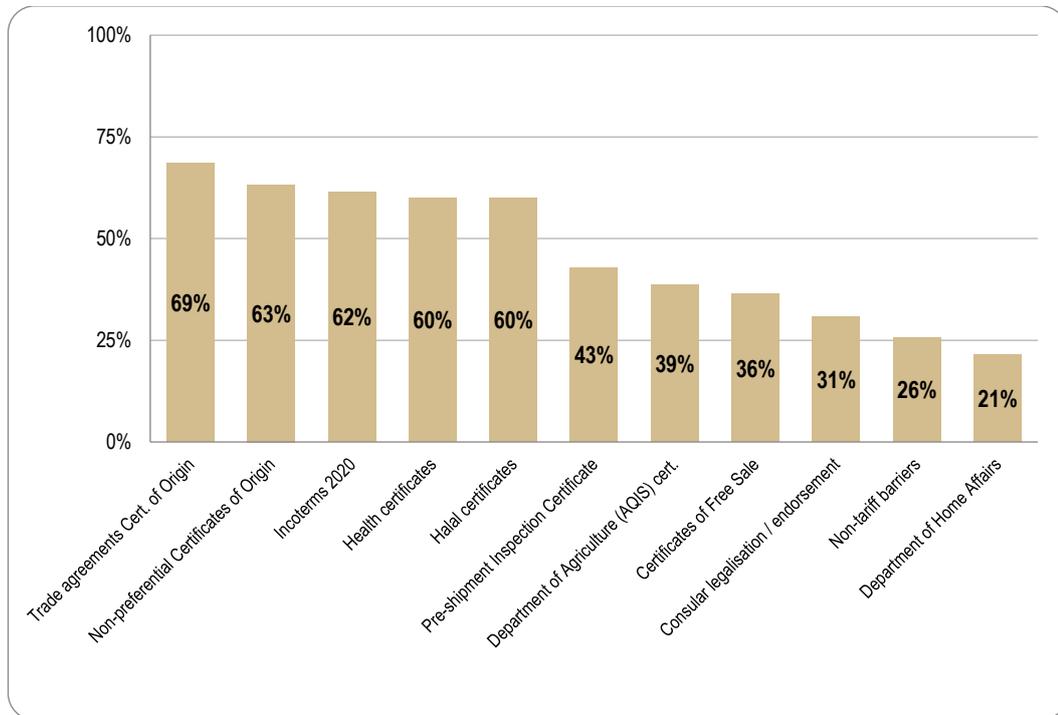
Respondents reported that the support measures offered by Chamber of Commerce are consistently sought out than those offered by both Federal and state Government agencies. This suggests that great collaboration between Government agencies and industry bodies like Chambers of Commerce would assist to ensure improved overall support for companies involved in international trade.

Table 3.3 How respondents rated experiences dealing with administrative issues in 2020 to 2014*



*Respondents mean rating (from 4 – Excellent to 1 – Poor). For categories 'Non-tariff Barriers' and 'Department of Home Affairs' data is not available for the preceding years.

Table 3.8 Respondents' positive experience with dealing with trade related administrative issues (2020) - All business*



*Based on the total percentage response of 'Excellent' and 'Good.'

The best experiences in dealing with trade related administrative issues in 2020 were: 'trade agreements Certificate of origin', 'Non-preferential Certificates of origin', and 'Incoterms 2020'. Finally, both "Health certificates" and 'Halal certificates' were rated by businesses as their fourth best experience in dealing with trade related issues.

Paper based Certificates of Origin still required

The services of Chamber of Commerce, especially certificates of origin, are highly regarded but that's not to say the system can't improve.

Small high-tech manufacturers find the administrative issues involved in exporting very complex, time consuming and inconsistent. There are reports of many using freight forwarders, as the time involved is simply not regarded as worth it!

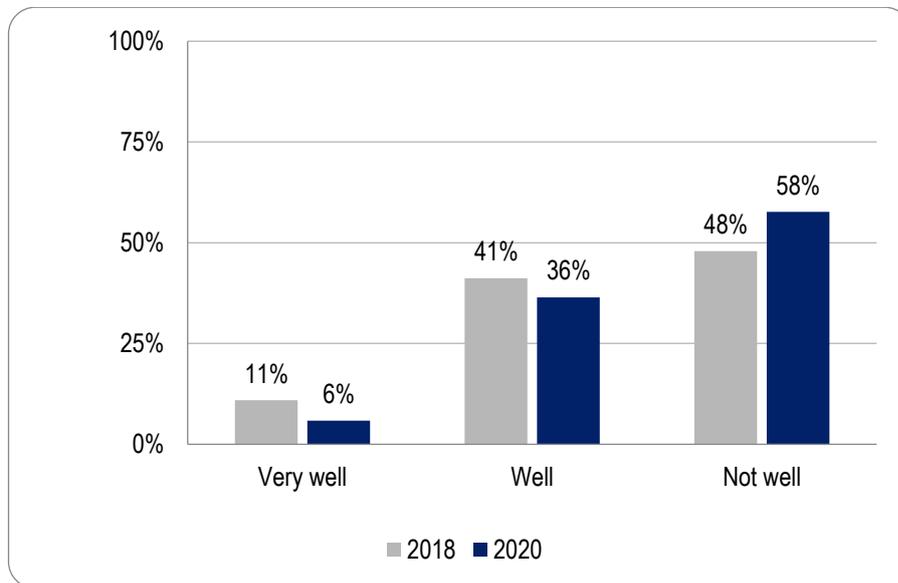


"But the one thing I would say is we started off trying to handle most of the documentation ourselves! ... I mean it was pretty challenging to get the certificates of origin. And I did actually use CCI to do the various documents that you need and it was quite a challenge to do that. We now use a freight forwarder. They look after all of that for us because they're much better at it!" (Senior Manager 20)

RECOMMENDATION 19:

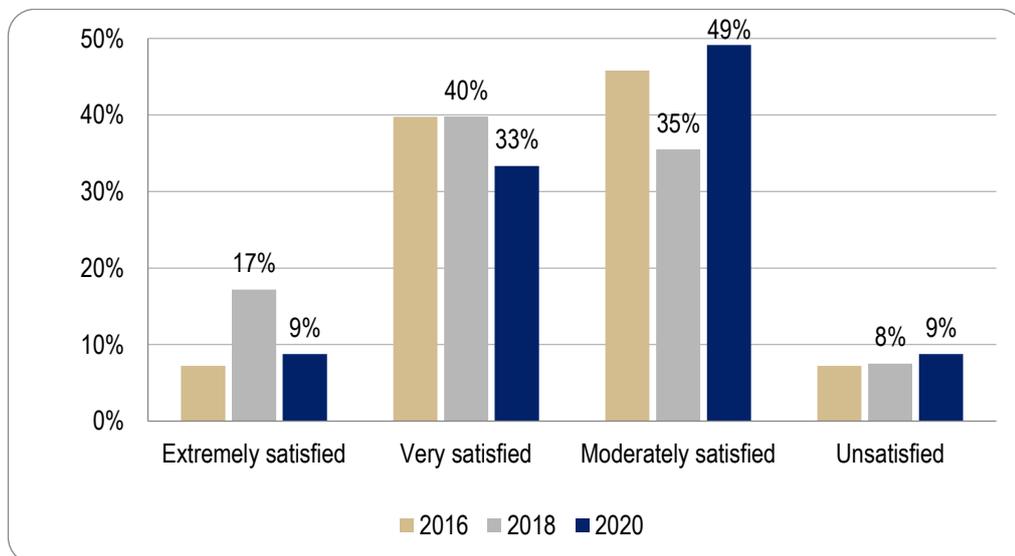
Support online trade training (which includes Incoterms 2020 and Certificates of Origin procedures) to improve import and export readiness, new product development, digital processes and servicing international markets.

Table 9.1 Level of understanding of trade services provided by Chambers of Commerce and Industry Associations



In Table 9.1 we summarise the level of business understanding of trade services provided by Chambers of Commerce and Industry Associations for 2020 compared to 2018 based on rankings of 'Very well', 'Well' and 'Not well'. Of businesses surveyed in 2020, most selected 'not well' compared to 2018. Merely 6% of businesses in 2020 reported that they understood the services 'Very well' compared to 2018 (11%). Thus, businesses seemed to have less understanding in 2020 than 2018.

Table 9.2 Level of satisfaction with services provided by Chambers of Commerce and Industry Associations



In Table 9.2 we summarise the level of business satisfaction with services provided by Chambers of Commerce and Industry Associations for 2020 compared to 2016-2018. Most businesses indicated they were less satisfied in 2020 compared to 2018.

These responses indicate that the services are well regarded by those who use them. It could indicate that the landscape of support services for international trade is fragmented and results in confusion about what services are available and by whom.

Government and industry need to join together to provide a “team Australia” approach to supporting the companies involved in international trade.

Industry Associations and Chambers need to lobby harder

While many firms do find benefit from the multiple services and support offered by the various industry association and chambers of commerce across the country, the view frequently shared is that more effective lobbying is needed, especially in industries experiencing particularly difficult challenges in a COVID-19 era. In the discussion below with a small, professional service provider in the education sector there were views shared that despite a great deal of experience and long association and membership of numerous industry associations and chambers, the impact they have for influencing government directions and priorities is negligible if not a failure.



“Look I’ve had enormous involvement with industry associations. We’re a member of the chamber and I’ve been a member of the chamber for [xx] years probably. I was [a member] ... of the International Business Council here at the chamber for [xx] years...

...our industry association ... is ... now called ITECA so I was actively involved in that. I was on the National Board for [xx] years on the National Board. So I have been very involved in that strategic industry representation and what have you. Now I still believe in it but having said that I’ve actually resigned from ITECA as a member because I think they’re being pretty hopeless in terms of lobbying and pushing for assistance to industry. So I’ve sort of voted with my feet and withdrawn my membership!

We still need representation but they’re being way too soft. ...I think they’ve historically been soft but I think in a pandemic you need to go really hard on government because this stuff is government controlled. So international education has been a super highly regulated area over many years. It continues to be!...” (Senior Manager 30)

RECOMMENDATION 20:

Chambers of Commerce and Industry Associations to increase the awareness of the benefits of their service offerings and develop much more effective lobbying strategies to influence government outcomes, especially for reforms needed regarding excessive regulations that are difficult for SMEs to mitigate.

Appendix 1 – Survey Respondent Characteristics

Table 10.1 How many people are employed in your business (number of employees)?

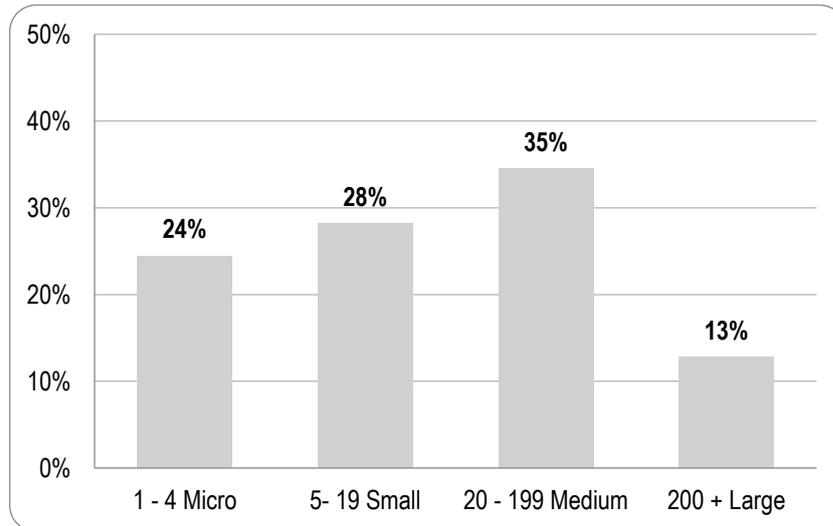


Table 10.2 In which state is your business based?

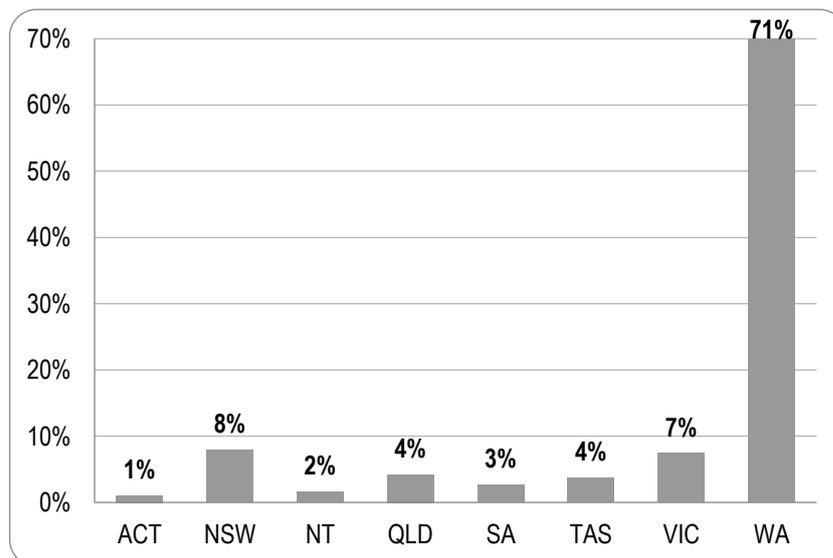


Table 10.3 In which Industry does your business mostly operate in?

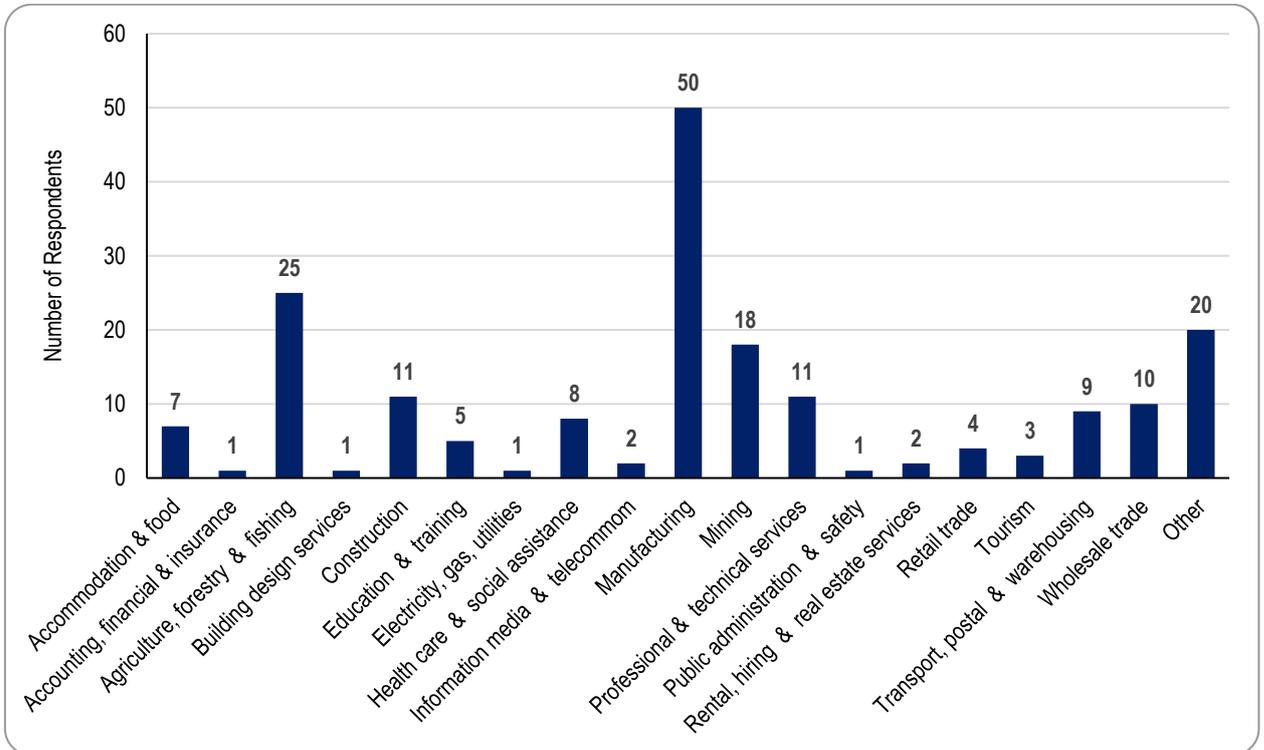


Table 10.4 What was your business turnover (in AUD) from all sources last financial year?

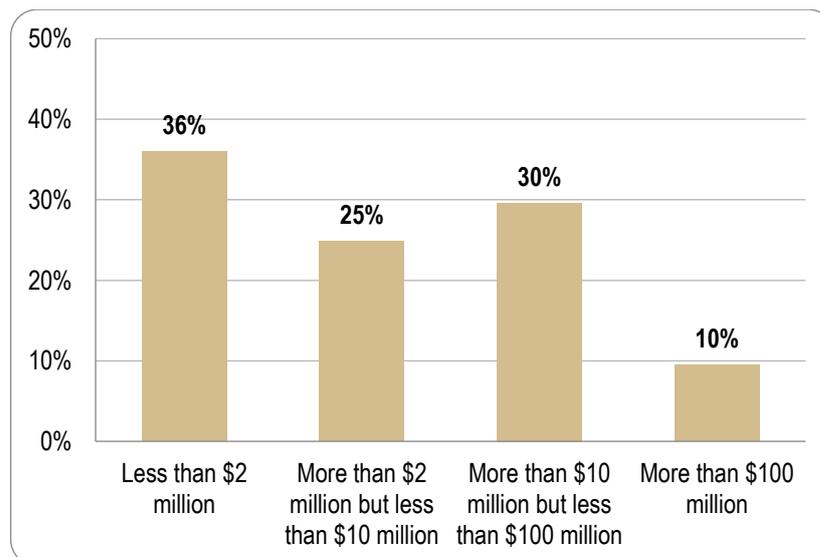


Table 10.5 What was your revenue from international business (in AUD) last financial year?

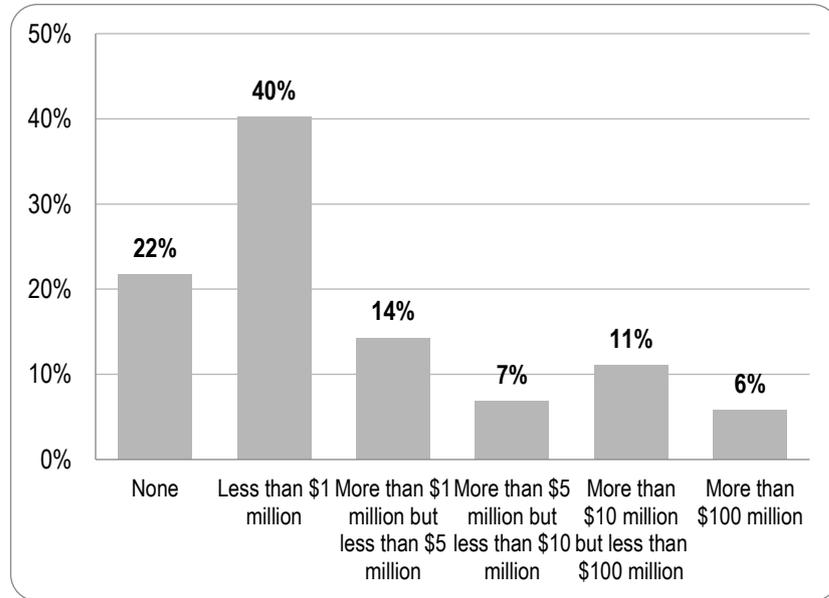


Table 10.6 How does your business engage in international trade?

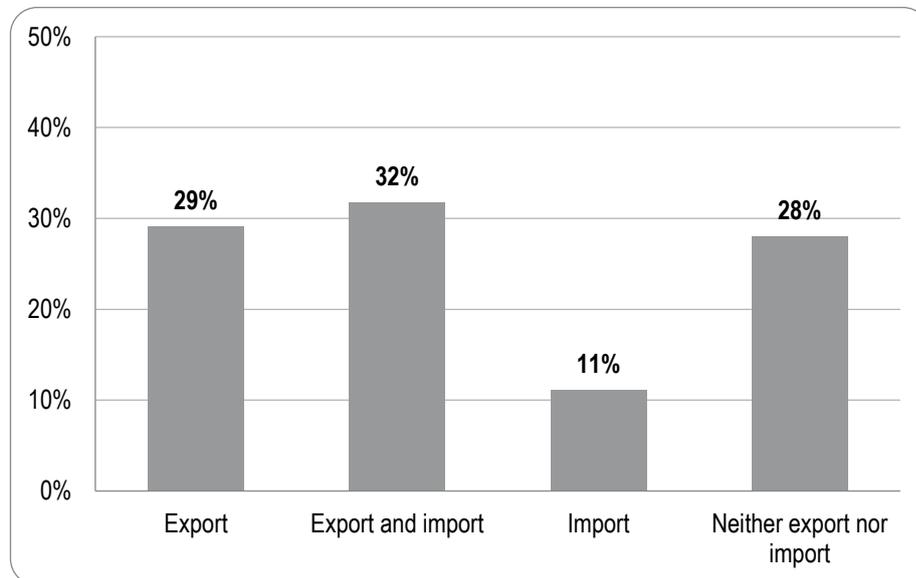


Table 10.7 How does your business engage in international trade? (company size)

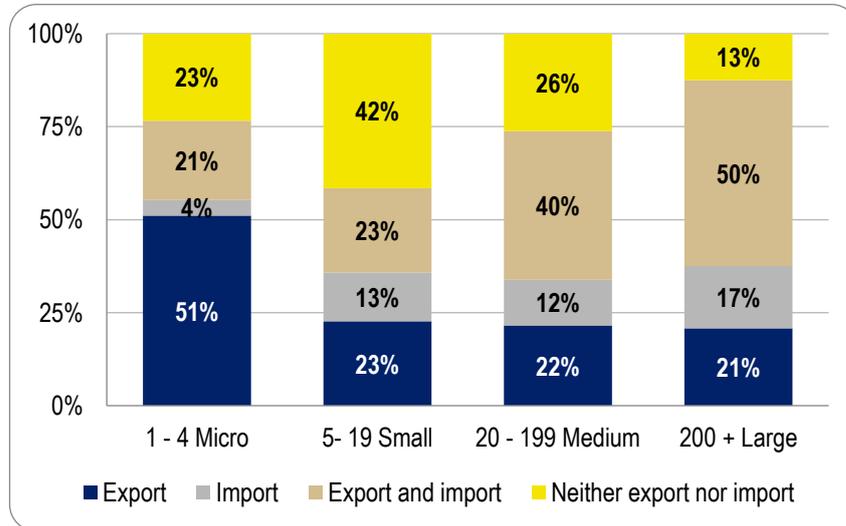


Table 10.8 What is your approximate rate of export shipments? (goods only)

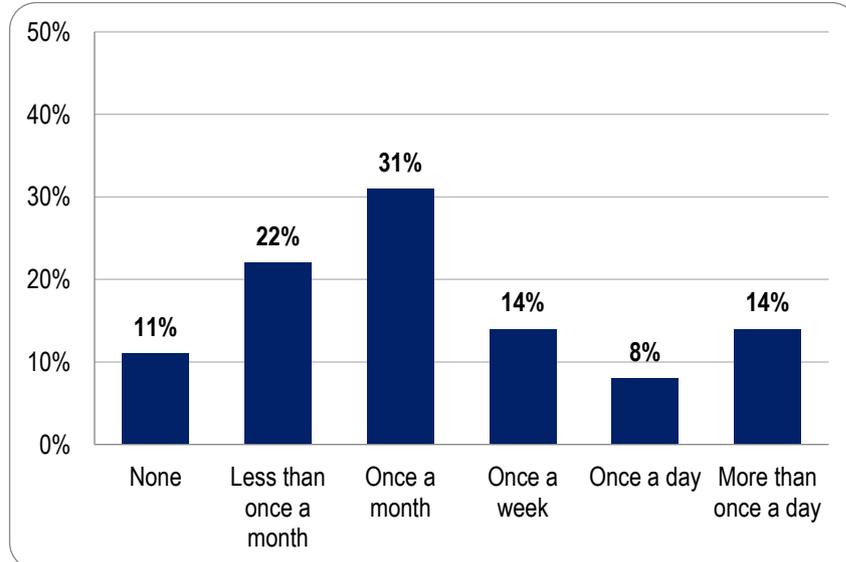


Table 10.9 What is your approximate rate of export shipments? (goods & services)

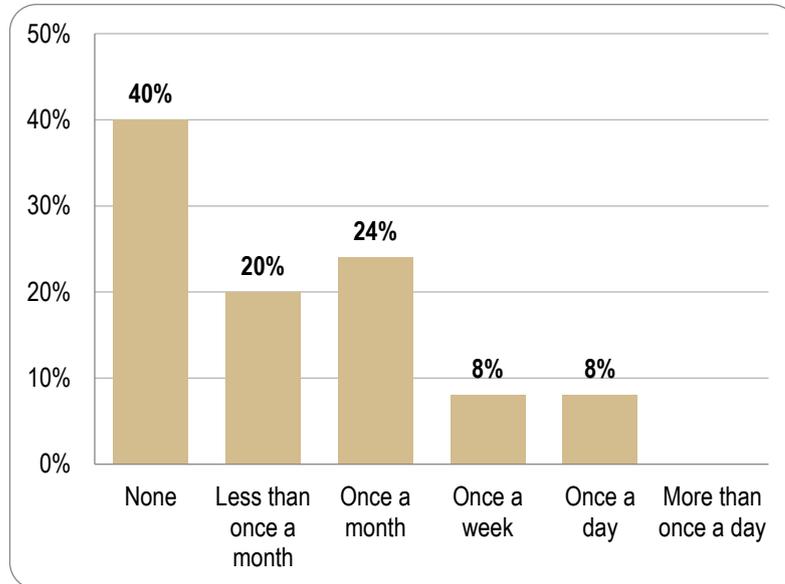
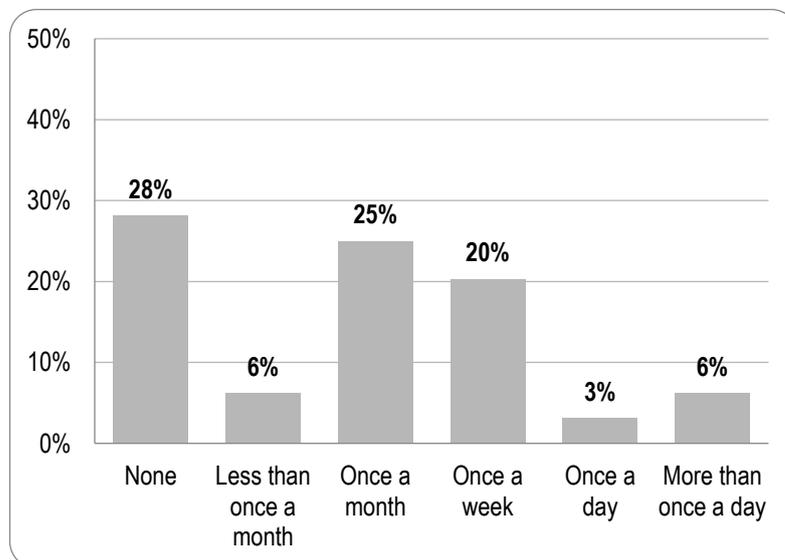


Table 10.10 What is your approximate rate of import shipments? (goods only)



Appendix 2 – Case Descriptions

Managers who participated in the interviews discussed their attitudes towards international business issues, based mainly on their experience of working within particular firms. We refer to these firms as cases throughout the report. As shown in Table 10.1, the firms were from a range of industries and varied in size from small (0-19 staff) to medium (20-199) to large (200+).

Table 11 Table of Interviewee (Characteristics) and Firm (Industry and Size)

CASE NUMBER	ROLE	INDUSTRY	SIZE	STATE
1 Senior Manager1	Chief Executive Officer	Professional services – legal and business	Micro	Queensland
2 Senior Manager2	General Manager	Wine and spirits producer	Small	Tasmania
3 Senior Manager3	Senior Partner	Legal services in international trade	Medium	Victoria
4 Senior Manager4	Chief Executive Officer	High-tech, e-commerce manufacturing - horse husbandry	Small	Tasmania
5 Senior Manager5	Chief Executive Officer	High-tech equipment – industrial sensors	Micro	Western Australia
6 Senior Manager6	Partner	Legal services in international trade	Large	Victoria
7 Senior Manager7	Senior Export manager	Wholesale, agricultural and fishery foodservices	Large	Victoria
8 Senior Manager8	Chief Executive Officer	Agricultural manufacturing	Micro	Western Australia
9 Senior Manager9	Chief Executive Officer	High-tech eyewear manufacturing	Small	New South Wales
10 Senior Manager10	Chief Financial Officer	Agricultural manufacturer	Large	Victoria
11 Senior Manager11	Senior Manager	High-tech irrigation technology	Large	New South Wales
12 Senior Manager12	Chief Executive Officer	High-tech environmental service provider	Medium	Queensland
13 Senior Manager13	Managing Director	E-commerce wholesale (importer) -healthcare equipment	Small	Western Australia
14 Senior Manager14	Managing Director	Industrial pumping services	Large	Western Australia
15 Senior Manager15	Chief Executive Officer	Film and games design and manufacture	Medium	Victoria
16 Senior Manager16	Managing Director	Digital access (ladders) engineering services	Small	Western Australia
17 Senior Manager17	Chief Financial Officer	Rare metals and resources - mining	Large	Western Australia

CASE NUMBER	ROLE	INDUSTRY	SIZE	STATE
18 Senior Manager18	Managing Director	E-commerce electrical ground surveying	Large	South Australia
19 Senior Manager19	Chief Executive Officer	Rare metals and resources - mining	Medium	Western Australia
20 Senior Manager20	Director	Water sanitization specialist	Medium	Western Australia
21 Senior Manager21	Managing Director	Hazardous goods transportation	Small	New South Wales
22 Senior Manager22	Senior Manager	Wholesale food (importer) distributor	Medium	Western Australia
23 Senior Manager23	Chief Executive Officer/ Founder	High-tech digital furniture manufacturer	Large	Western Australia
24 Senior Manager24	Chief Executive Officer/ Founder	IT-Big data infrastructure storage	Medium	Western Australia
25 Senior Manager25	Managing Director	Supply chain (freight forwarding) customer services	Medium	Western Australia
26 Senior Manager26a	Joint Co-Director	Woolen products manufacturer	Medium	Tasmania
26 Senior Manager26b	Joint Co-Director	Woolen products manufacturer	Medium	Tasmania
27 Senior Manager27	Managing Director	Agricultural food products (importer)	Small	Victoria
28 Senior Manager28	Managing Director	Wine producer	Small	South Australia
29 Senior Manager29	Managing Director	Professional services - customs and legal trade services	Micro	Victoria
30 Senior Manager30	Managing Director	Private educational vocational training organization	Medium	Northern Territory
31 Senior Manager31	Commercial Director	Agricultural producer	Medium	New South Wales

Appendix 3 - Method

An online questionnaire was used to collect data from Australian businesses in Dec 2020. 189 questionnaires were returned and were usable for data analysis, representing Australia's state and territories, and different industries and business sizes. Businesses were categorised as small (1-19 employees), medium (20-199 employees), or large (200+ employees). Additional details about respondents can be found in Appendix I.

In addition to the questionnaire, a qualitative phase was undertaken. Semi-structured in-depth interviews were the basis for data collection and took place over the course of three months (February to April 2021). All interviews were conducted by Professor Susan Freeman on skype, teams, phone or face to face. The interviews were used to draw out specific issues raised in their survey responses. Senior managers and firm founders involved in exporting and importing and industry experts were invited to participate in a 45 to 60 minute interview. The roles of senior managers included CEOs, Chief Financial Officers, Senior Sales Managers, Product Development Managers, Co-founders, Business Analysts, Trade Advisors, Legal Advisors, Directors, Co-Directors and Principals. An interview protocol (template) was used to help guide the interview process and provide a level of consistency to the data collected. In all cases, the interviews were recorded and transcribed. In total, 32 in-depth interviews were conducted predominantly via telephone or zoom.

The data analysis technique applied in this study included frequency distribution of responses by respondents for the survey analysis and the template approach for the qualitative interview analysis. A coding template, which summarised themes that emerged from the data was developed³. The coding template identified themes and provided brief descriptions of each theme. Each interview was coded using the coding template themes. The qualitative findings are presented alongside the quantitative results to highlight issues identified from the survey. It is important to note the role of qualitative research is to understand key attitudes, emotions and patterns of thought, therefore responses to themes are not quantified, but rather represent a range of opinions that provide better context to the questions at hand.

³ King, N. (2012) Doing template analysis. In: G. Symon and C. Cassell (eds.), *Qualitative organizational research: Core methods and current challenges*. London: Sage, pp. 453-478.



Australian
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NATIONAL TRADE SURVEY 2021



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