



AUSTRALIAN
**FOOD &
GROCERY**
COUNCIL



AFGC SUBMISSION

Review of the National Freight and Supply Chain Strategy

4 October 2023

PREFACE

The Australian Food and Grocery Council (AFGC) is the leading national organisation representing Australia's food, beverage and grocery manufacturing sector.

With an annual turnover in the 2021-22 financial year of \$144 billion, Australia's food and grocery manufacturing sector makes a substantial contribution to the Australian economy and is vital to the nation's future prosperity.

The diverse and sustainable industry is made up of over 17,000 businesses ranging from some of the largest globally significant multinational companies to small and medium enterprises. These businesses contributed to an industry-wide \$3.2 billion capital investment in 2021-22.

Food, beverage and grocery manufacturing together forms Australia's largest manufacturing sector, representing over 31 per cent of total manufacturing turnover in Australia. The industry makes a large contribution to rural and regional Australia economies, with almost 40 per cent of its 271,000 employees being in rural and regional Australia.

It is essential to the economic and social development of Australia, and particularly rural and regional Australia, that the magnitude, significance and contribution of this industry is recognised and factored into the Government's economic, industrial and trade policies.

Throughout the COVID19 pandemic, the food and grocery manufacturing sector proved its essential contribution to Australian life. Over this time, while our supply chains were tested, they remain resilient but fragile.

The industry has a clear view, outlined in *Sustaining Australia: Food and Grocery Manufacturing 2030*, of its role in the post-COVID19 recovery through an expansion of domestic manufacturing, jobs growth, higher exports and enhancing the sovereign capability of the entire sector.

This submission has been prepared by the AFGC and reflects the collective views of the membership.

EXECUTIVE SUMMARY

The Australian Food and Grocery Council (AFGC) welcomes the opportunity to contribute to the Review of the National Freight and Supply Chain Strategy (NFSCS). The food and grocery sector has been a strong supporter of the government's intent to develop a national approach to freight and supply chains transcending borders and transport modes.

While our sector remains committed to the principles underpinning the NFSCS, it is evident that the past three years have presented substantial challenges that warrant a re-evaluation. The disruptions experienced, such as difficulties in securing freight, surging freight costs, shipping container shortages, delays in biosecurity inspections, labour shortages, constraints in the supply of wood pallets, and a shortage of logistics real estate for the movement, storage, and distribution of food and grocery products, have underscored the critical role of transport infrastructure and the end-to-end supply chain in food distribution. The deterioration of road and rail assets due to fires and floods further emphasised the importance of a resilient, adaptable and efficient supply chain.

Throughout these challenges, the food and grocery manufacturing sector played a pivotal role in keeping supermarket shelves stocked. This was achieved through increased production, the establishment of buffer stocks, diversification of material sources, and, importantly, collaborative efforts between manufacturers, distributors, and retailers under the oversight of the government. These coordinated efforts ensured the efficient allocation of stock to regions and sites where they were most needed.

To build upon this resilience and better prepare for future threats, and given the interconnectedness with the supply chains the food and grocery sector relies upon, it is imperative that the National Freight and Supply Chain Strategy undergoes a comprehensive review.

This brief submission will not address all the points from the discussion paper, but will focus on those that are of significance to the food and grocery sector.

The AFGC recommends that:

1. the NFSCS is given a well-defined and singular overarching purpose statement to enable all stakeholders to align their efforts towards a common objective fostering a more coordinated approach.
2. the NFSCS' goal is changed to "Innovative solutions *across the end-to-end supply chain* to meet freight demand" to empower coordinated action by governments to optimise the movement of goods across the country, encompassing improvements in warehousing, distribution, and logistics.
3. the NFSCS incorporate monitoring and evaluation (M&E) principles and processes into the National Action Plan and associated projects, in collaboration with the Australian Centre for Evaluation.

4. the NFSCS and Action Plan shift toward a targeted approach, reducing the number of projects per action area to concentrate efforts on those with the greatest potential to enhance supply chains.
5. the government allocate funding for a comprehensive study to map the state of digitalisation across the supply chain to identify gaps and barriers that impede industry-wide adoption of digitalisation.
6. the review to the NFSCS considers lessons learned from other reviews, such as the Bureau of Infrastructure and Transport Research Economics' Road and Rail Supply Chain Resilience Review and the Productivity Commission's Report on Maritime Logistics System.
7. the government conduct a supplementary review to identify key road and rail routes with a high risk of disruption for other industries, with a particular focus on food and grocery products.

BACKGROUND

The food, beverage, and grocery sector's ability and effectiveness in supplying products to supermarket retailers and the community are constrained by the productivity and efficiency of the supply chains and infrastructure required to effortlessly move perishable and non-perishable products.

The food and grocery sector has consistently supported a comprehensive national approach to improving freight and supply chain efficiency and capacity, and managing the costs of transporting goods through our major national container ports, airports, intermodal terminals and pipelines. This commitment dates back to 2017 with the initiation of the Inquiry into the National Freight and Supply Chain Priorities by the Department of Infrastructure, Regional Development and Cities.

The 2018 Inquiry report¹ reemphasised the need for a unified national approach, encompassing planning, infrastructure development, investment, streamlined and harmonised regulation, and cross-border planning among Commonwealth, state, territory and local governments. The report also stressed the significance of a national strategy for collecting and analysing data related to freight and supply chains to measure activity, assess performance, and monitor domestic and global competitiveness. Furthermore, the report advocated for an integrated urban planning approach that considers the evolving freight requirements of both urban and regional communities and improving access for all stakeholders. It highlighted the importance of prioritising freight precincts and ensuring that their land, maritime, and air connections possess the capacity required to meet future demands. Lastly, the report underscored the necessity of effectively communicating the value and contribution of freight and supply chains to the overall well-being and prosperity of our communities.

These five key areas, which formed the foundation for the development of the NFSCS, remain at least as crucial today as they were in 2018-2019. Since the inception of the NFSCS, our nation has endured increasingly frequent and compounded weather-related disasters that have strained the capacity and resilience of our freight and supply chain infrastructure. We have also encountered a global pandemic that underscored the vital role of efficient domestic and international supply chains. In addition, the importance of data and technology has surged, providing opportunities to streamline operations, enhance resilience, and boost productivity. Lastly, the emphasis on environmentally sustainable logistics has grown, as we seek to reduce the carbon footprint of supply chains while ensuring the uninterrupted flow of freight.

The 2019 NFSCS represented a commendable step toward achieving a comprehensive government-wide approach to enhancing the productivity and efficiency of the freight and supply chain sector across all modes of transport. However, its impact in addressing some of the most prevalent issues within supply chains has been somewhat challenged by an unfocused approach, a lack of fully effective performance evaluation for initiatives, and limited accountability mechanisms.

¹Commonwealth of Australia. 2018. *Inquiry into National Freight and Supply Chain Priorities, Report, March 2018*.

According to the World Bank’s Logistics Performance Index (LPI), which measures logistics performance² across 139 countries, Australia’s international ranking slipped from 18th to 19th place between 2018 and 2023. The LPI benchmarks countries’ performance across six dimensions:

- (1) efficiency of clearance process by border control agencies;
- (2) the quality of trade and transport-related infrastructure like ports, railroads, roads and information technology;
- (3) ease of arranging competitive priced shipments;
- (4) competence and quality of logistics services such as transport operators;
- (5) ability to track and trace consignments; and
- (6) timeliness of shipments in reaching their destination within the expected delivery time.

As depicted in Figure 1, the World Bank’s index reveals that Australian logistics and supply chains scored lower in 2023 compared to five years prior, particularly in the efficiency of clearance processes by border control agencies, the ease of arranging competitively priced shipments, and especially in timeliness for delivering products within the specified timeframe.

Australia was one of seven countries within the top twenty to receive an overall lower score, while other countries within the region or with similar income levels experienced significant improvements in most categories. For instance, Singapore, within the span of five years, catapulted from the 7th to the 1st ranked country in logistics performance. When compared to other countries in the region, Australia has a gap in most competencies.



Figure 1
Source: World Bank

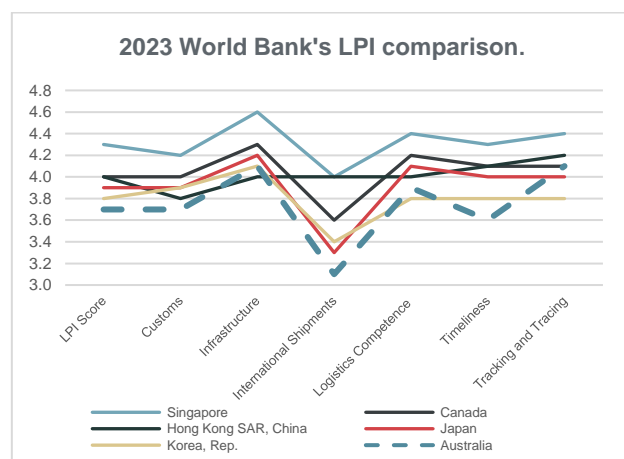


Figure 2
Source: World Bank

² Logistics understood as a network of services that support the physical movement of goods, trade across borders, and commerce within borders comprising transportation, warehousing, brokerage, express delivery, terminal operations, and related data and information management.

Recognising these challenges, Australia has the opportunity to realign the NFSCS with industry needs and incorporate the lessons learned over the past few years.

GOALS.

1. Do the Strategy's current goals support the needs of the freight and supply chain sector?
2. Should other goals be included?

In this context, the AFGC asserts that the Strategy's goals, while comprehensive, lack a clear and consistent overarching purpose. The absence of a unifying purpose has resulted in a disconnect between the Strategy and the actions undertaken by Commonwealth, state and territory governments. This disconnect stems from the lack of a unique measure to identify programs for public investment that will deliver the best value for money. Additionally, it hampers the development of clear Key Performance Indicators (KPIs) to measure the contribution of governments to the Strategy.

To address this issue, the AFGC recommends that the NFSCS is given a well-defined and singular overarching purpose statement. This clarity will enable all stakeholders to align their efforts towards a common objective fostering a more coordinated approach.

The AFGC supports the Australian Logistics Council's (ALC) call for the inclusion of the following purpose statement: *"Deliver productive, resilient, and sustainable supply chains for all Australians through a commitment to collaborative, long-term, 'whole of systems' approaches to policy and investment."*

Such a purpose statement aligns with top-of-mind concerns of supply chain leaders and practitioners within the food and grocery sector, many of whom have expressed an appetite for enhanced collaboration with government to improve supply chain productivity and resilience.

Furthermore, in a recent consultation with supply chain leaders and practitioners from the food and grocery sector, it was advised that the NFSCS' goals appear to overlook other critical aspects of the end-to-end supply chain, notably warehousing. Australian companies are currently grappling with a significant challenge due to a shortage of industrial and logistics real estate. According to a recent report by CBRE,³ the national average vacancy rate for properties suitable for warehousing and logistics is at a record low of 0.6%. This constrained supply of properties, coupled with heightened demand for space to store and redistribute products to customers, is driving up prices. On a year-on-year basis, national super-prime and prime real estate rents have grown by 25.9% and 15.6% respectively, with rents in capital cities exceeding the average. A similar situation is observed in the cold storage real estate market, essential for storing and redistributing fresh, chilled, and frozen products, where demand outstrips supply.

A shortage of warehousing and logistics real estate can nullify the gains achieved in freight efficiency. Therefore, there must be recognition that to enhance the sector's efficiency, other aspects of the supply

³ CBRE.2023.. [Australia Industrial and Logistics Figures Q2 2023](#).

chain are equally crucial as the freight component. The AFGC recommends making the following change to the goal:

“Innovative solutions across the end-to-end supply chain to meet freight demand”.

This inclusion will empower coordinated action by governments to optimise the movement of goods across the country, encompassing improvements in warehousing, distribution, and logistics.

ACTIONS

3. Should the National Action Plan focus on a smaller number of targeted national actions, or should it retain the existing reporting structure?
4. If we focus on a smaller number of targeted national actions, what action areas should be included in the National Action Plan that require national coordination?

The four critical action areas identified in the NFSCS remain relevant for the food and grocery sector. However, they suffer from being overly broad and lack clear, measurable objectives by which to assess the performance and relevance of initiatives reported annually by all tiers of government.

As a result, in the 2021-22 Annual Report the Commonwealth, states and territories collectively reported a staggering 380 initiatives or projects, with varying degrees of relevance to freight and supply chains, at a very low completion rate. Figure 3 provides a view of the number of projects in progress reported by each jurisdiction comparative to the number of completed projects. It becomes apparent that the Commonwealth government is delivering the largest number of projects supporting the NFSCS, while states and territories display varying levels of commitment.

The majority of the projects reported by states and territories are associated with road infrastructure and heavy vehicle regulatory reform. Many of the completed projects are centred around road repairs and maintenance, activities that would need to be conducted irrespective of a national strategic approach. In contrast, projects focused on efficiency through process improvements, regulatory harmonisation, decarbonisation, and alternative modes of transport, such as air and maritime freight, are notably limited.



Figure 3. Projects by Jurisdiction detailed in NFSCS 2021-2022 Annual Report
Source: 2023. Australian Logistics Council.

One key issue with the National Action Plan and the extensive number of projects reported by all tiers of government is the absence of a robust and coherent Monitoring and Evaluation (M&E) framework that facilitates impact and performance measurement. M&E is a widely recognised practice employed by international and domestic organisations such as the United Nations, USAID, World Bank, and DFAT to ensure that investments in development projects yield optimal outcomes.

Recently, the Commonwealth committed \$10 million over four years, beginning in 2023-24, to establish the Australian Centre for Evaluation within Treasury. This initiative aims to utilise M&E processes to enhance the efficiency and effectiveness of government programs by identifying "what works and what can work better".⁴

In light of this, the AFGC recommends that the NFSCS incorporate M&E principles and processes into the National Action Plan and associated projects, in collaboration with the Australian Centre for Evaluation. By systematically measuring the impact and performance of each initiative, all levels of government can prioritise taxpayer investments in those projects that offer the greatest relevance and impact in improving national freight and supply chain efficiency.

Furthermore, the integration of M&E principles into the design of new initiatives proposed by all jurisdictions will mitigate the risk of poorly designed or implemented projects, such as the Urban Congestion Fund within the NFSCS. This \$4.8 billion initiative, as of 2021, lacked implementation plans,

⁴ The Hon Dr Andrew Leigh MP. 2023. Media release. Australian Centre for Evaluation to measure what works.

performance indicators and an evaluation plan, among other issues, as highlighted by the Australian National Audit Office.⁵

This commitment to evidence-based policy and tangible outcomes must be accompanied by a more focused approach. The AFGC recommends a shift toward a targeted and focused strategy, reducing the number of projects per action to concentrate efforts on those with the greatest potential to enhance supply chains. This streamlined approach will enhance accountability and enable more effective progress tracking. It also aligns with addressing strategic issues, identified since the Inquiry into the National Freight and Supply Chain Priorities, such as regulatory standardisation and supply chain resilience.

KEY PERFORMANCE INDICATORS

5. What KPIs are useful to measure the success of the Strategy?
6. What data do we need from industry, states and territory governments to measure potential KPIs?

As previously recommended, the incorporation of M&E processes into the Strategy will inherently assist in delineating parameters for early indications of progress and provide an objective assessment of goal achievement. Each project within the Strategy must entail distinct KPIs to gauge its effectiveness in addressing the NFSCS' goals and overarching purpose.

The government has made tremendous progress in gathering essential data to assess project effectiveness, primarily through CSIRO's traNSIT program and the Supply Chain Benchmarking Dashboard providing statistics on road freight operations. Nevertheless, a significant information gap persists, particularly concerning freight efficiency, costs, trip distances, volumes, and the value of freight, especially for industries beyond mining and primary agricultural commodities. Additionally, much of the data collected by government pertains to the physical facets of supply chains, omitting the increasingly vital digital dimension.

Recognising the imperative for greater resilience within manufacturing and supply chain networks, companies have acknowledged the necessity of enhancing transparency, interoperability, and integrity through digitalisation. Improved data management stands as a pivotal enabler for supply chains, both domestically and internationally. The freight and supply chain sector must invest in the comprehensive digitalisation of the entire supply chain to align with consumer and business expectations, particularly within a more volatile and uncertain operating environment.

The end-to-end digitalisation of the supply chain can significantly improve the way in which businesses and the industry operate, by streamlining processes, improving productivity, providing granular, real time data on which to base decisions and plan operations. Early availability and real-time access to reliable data, can help business forecast, manage inventory and respond to freight and supply chain disruptions in a timely fashion.

⁵ Commonwealth of Australia.2021. Administration of Commuter Car Park Projects within the Urban Congestion Fund. Auditor-General Report.

To facilitate this essential digital transformation and aid government in planning, monitoring and evaluating projects within this domain, the AFGC recommends that the government allocate funding for a comprehensive study to map the state of digitalisation across the supply chain. This study's objective would be to identify gaps and barriers that impede industry-wide adoption of digitalisation. Such an endeavour would be invaluable in steering strategic initiatives to propel digitalisation forward, ensuring the prosperity of Australia's freight and supply chain sector as it moves into the future.

REVIEWS AND PAPERS TO CONSIDER

- | |
|--|
| <p>7. What outcomes, findings and principles should the review take into consideration from related works?</p> |
|--|

Natural disasters, such as cyclones, floods or bushfires, can lead to indiscriminate, widespread acute disruptions to food and groceries across the country. The 2019-20 bushfires, and more recent flooding events which destroyed crops, communication and transport infrastructure, have revealed the dependency of Australia's food distribution system on interconnection with other industries.

The 2019-20 bushfires were widespread and highly damaging to bushland, properties and infrastructure. Subsequently, the 2022 floods have significantly degraded the industry's ability to harvest and plant crops, damaged transport infrastructure and disrupted several manufacturing facilities. Faced with such destruction, the emergency response by the food and grocery sector, working with government agencies at the Commonwealth and state and territory level has been very effective at getting supplies to affected communities and bringing facilities back into operation.

The response to these natural disasters revealed the substantial resilience of the food and grocery supply sector. By reallocating stock and drawing stock from alternative distribution centres, manufacturers, wholesalers and retailers were able to keep products flowing effectively, even to the most affected regions. Although the size of both the bushfires and the floods were unprecedented, the operations were informed by lessons learned from previous emergencies such as the bushfires in Victoria in 2009 and the Queensland floods of 2010.

The resilience to natural disasters continues to be demonstrated by the sector. Food manufacturing and distribution ensures food supplies to affected regions are delivered rapidly after weather-related events. This is not to belittle the substantial damage to production, manufacturing and supply infrastructure, but to illustrate the ability of the Australia's whole food system to rapidly respond and adapt to ensure supplies get through when and where needed.

Most recently, the 2022 floods have caused disruptions to food supplies into areas beyond those regions immediately affected due to losses of production of some food crops, particularly horticultural products. This resulted in well-publicised price spikes, in some instances, and higher sustained consumer prices for some products.

Some critical infrastructure vulnerabilities were also exposed by the extraordinary flooding. Specifically, the railroad linking Australia's east coast with Western Australia was out of commission for about several weeks in the first half of 2022 due to flooding. With the bulk of food manufacturing being on the east coast, supplies had to re-routed by road across Australia and via coastal shipping to meet requirements. Once again, a national response ensured coordination between manufacturers, retailers and transport

companies and sufficient stock was delivered to Western Australia across most food and grocery categories. The effort did, however, stress the food supply chain across the whole nation as trucks were diverted from usual operations to the urgent task of getting supplies to the west.

The impacts of both the bushfires and the floods have been substantial on many individuals, and both governments and private sector organisations responded to provide assistance. Whilst Australia can be proud of the overall response of the food and grocery supply sector, and its display of resilience, the supply chain was significantly tested, and its ability to respond to another emergency in the near future has been degraded. Time will allow a rebuilding of response capabilities, but further resilience can be assured by actively planning for multiple, simultaneous or rapidly sequential future threats to the food supply system. In light of this, the AFGC recommends considering lessons learned from other reviews, such as the Bureau of Infrastructure and Transport Research Economics' Road and Rail Supply Chain Resilience Review and the Productivity Commission's Report on Maritime Logistics System.

The Road and Rail Supply Chain Resilience Review served as a valuable starting point for identifying the freight sector's critical pressure points. While industry leaders and supply chain practitioners generally agree that the review identified some of the most significant choke points following a natural disaster, it missed some of the most vital road and rail freight routes for the food and grocery sector. Notably, it overlooked the Parkes to Broken Hill railroad, which ceased train operations due to flooding in November 2022, disrupting the transportation of food and groceries from the east to the west coast. This portion of the network remained closed until late January 2023, increasing the cost of freight and putting pressure on the freight network. The AFGC recommends that the government conduct a supplementary review to identify key road and rail routes with a high risk of disruption for other industries, with a particular focus on food and grocery products.

CONCLUSION

The food and grocery sector in Australia has demonstrated remarkable resilience in the face of natural disasters and other unforeseen challenges. The response to events such as the 2019-20 bushfires and the 2022 floods highlighted the sector's ability to adapt and ensure the uninterrupted flow of essential supplies to affected communities. However, these events also exposed vulnerabilities within the supply chain, particularly in terms of critical infrastructure and the need for enhanced digitalisation to bolster transparency and operational efficiency.

To build upon this resilience and better prepare for future threats, it is imperative that the National Freight and Supply Chain Strategy undergoes a comprehensive review. The recommendations put forward by the AFGC emphasise the need for a clear overarching purpose in the NFSCS to align all stakeholders toward a common objective. Furthermore, a more targeted and strategic approach, coupled with robust Monitoring and Evaluation processes, will enhance the effectiveness of initiatives and ensure accountability. Additionally, addressing the digitalisation of the supply chain and identifying key road and rail routes vulnerable to disruption are critical steps toward a more resilient and efficient food and grocery supply sector.

As Australia continues to face evolving challenges, including climate change and the need for greater supply chain resilience, a forward-looking approach to the NFSCS is essential. By noting the lessons learned from recent events and incorporating these recommendations, the nation can reinforce its food

and grocery supply chain, ensuring the reliable delivery of essential goods to all communities, even in the face of adversity.