

AGEC

11th February 2022

Australia's Maritime Logistics System
Productivity Commission
Locked Bag 2, Collins St East

MELBOURNE Vic 8003

Via: *Submitted to the Productivity Commission website portal*

RE: Australia's Maritime Logistics System

Dear Commissioners,

Thank you for the opportunity to make a Submission to the Productivity Commission Australia's Maritime Logistics System study.

1. Executive Summary

The Australian grain industry is one of Australia's largest agricultural industries, with a substantial regional and export footprint and, as such, delivers significant benefit to regional Australia and the Australian economy through domestic markets, export revenue, regional growth and employment.

It is a substantial user of both dry bulk and container shipping services. The industry and its supply chain have managed to remain agile and resilient to numerous supply chain shocks and has weathered the increasingly disruptive and protectionist nature of international trade and geopolitics.

The grain industry will continue to provide value to the Australian economy. However, the ability to maximise opportunities and to continue to contribute requires the industry to have the tools and policy settings, including maritime logistics systems to continue to adapt to the evolving grain market, its supply chain and the Australian and global trade landscape that is impacted through slow moving reform of:

- competition regulation,
- geopolitics,
- trade barriers, and
- non-tariff measures.

The maritime landscape has and will continue to evolve creating disproportionate value to participants in the global supply chain including Australia. As discussed in the United Nations Conference on Trade and Development (UNCTAD) [2021 report](#) within the containerised trade, smaller markets and low value goods are already being negatively impacted and may increasingly be so in the future. Australia is not a large global freight market and grain is a relatively low value and high-volume commodity. We believe commodities like grain will suffer a disproportionate impact from:

- access to container freight services,
- cost of current and future container freight, and
- longer term access to the preferred container type, i.e., the 20-foot food-grade container.

The UNCTAD report also highlights those ports furthest from the markets may also suffer from changes to vessel operational practices and cost structures as a result of decarbonisation initiatives.

The grain industry's global competitive capability has been impacted and will be impacted further as the shipping industry and its services evolve. Addressing the positioning and access to maritime

logistics services is a critical strategic imperative and requires leadership from both Government and industry.

Australia is reliant on trade for ongoing economic growth. Government and industry have a strategic obligation to monitor and work collaboratively to address Australia's maritime logistic system to ensure it delivers productive and appropriate market-based outcomes.

2. Grain Trade Australia

Grain Trade Australia (GTA) is a national member association and is the focal point for the commercial grain industry within Australia.

GTA has over 270 organisations as members. Their businesses range from regional family businesses to large national and international trading/storage and handling companies who are involved in grain trading activities, grain storage, processing grain for human consumption and stock feed milling. GTA Members are substantial employers, from the farm gate through to end point consumption, and notably in rural and regional Australia. A full list of GTA Members can be found [here](#).

GTA's core focus is to 'facilitate trade' in the Australian grain industry. It's products and services, including the [Australian Grain Industry Code of Practice](#), which provides a self-regulatory framework across the grain industry to facilitate and promote the trade of grain within domestic and export grain value chains.

3. Australian Grain Exporters Council

Australian Grain Exporters Council ([AGEC](#)) is a Sector Council of GTA. Sector Councils, formed by GTA members, offer specialist industry groups the opportunity to meet, form policy, discuss and influence issues in their particular area of interest.

AGEC is a sector council for exporters of Australian grain and seeks to facilitate an efficient and effective export industry.

AGEC and GTA both support this Submission.

4. The Grain Industry

The grain industry is in Australia's top two largest agricultural sectors valued around \$16.5 billion annually. While the domestic market is the largest single consumptive home for Australian grain, over 75% of production is exported in a typical season. The industry is a large earner of foreign income, with exports valued at \$13.6 billion in 2020-21¹ and \$ 19.7 billion in 2021-22 as Australian exporters are forecast to ship approximately 38.6 million tonnes (mt) of grain in 2020-21 and 43.3 mt in 2021-22².

The Australian grain sector has consistently achieved productivity increases that has enabled it to remain competitive in global markets and contribute positively to the Australian economy. The industry, and its ancillary suppliers and service providers, are substantial employers, from the farm gate through to end point consumption, and particularly in rural and regional Australia. The grain industry is a critical part of Australia's rural and regional economies driving jobs and supporting regional communities. A recent report from GRDC identified that for every \$10 million of gross value there are on average 80 grain production jobs in Australia.

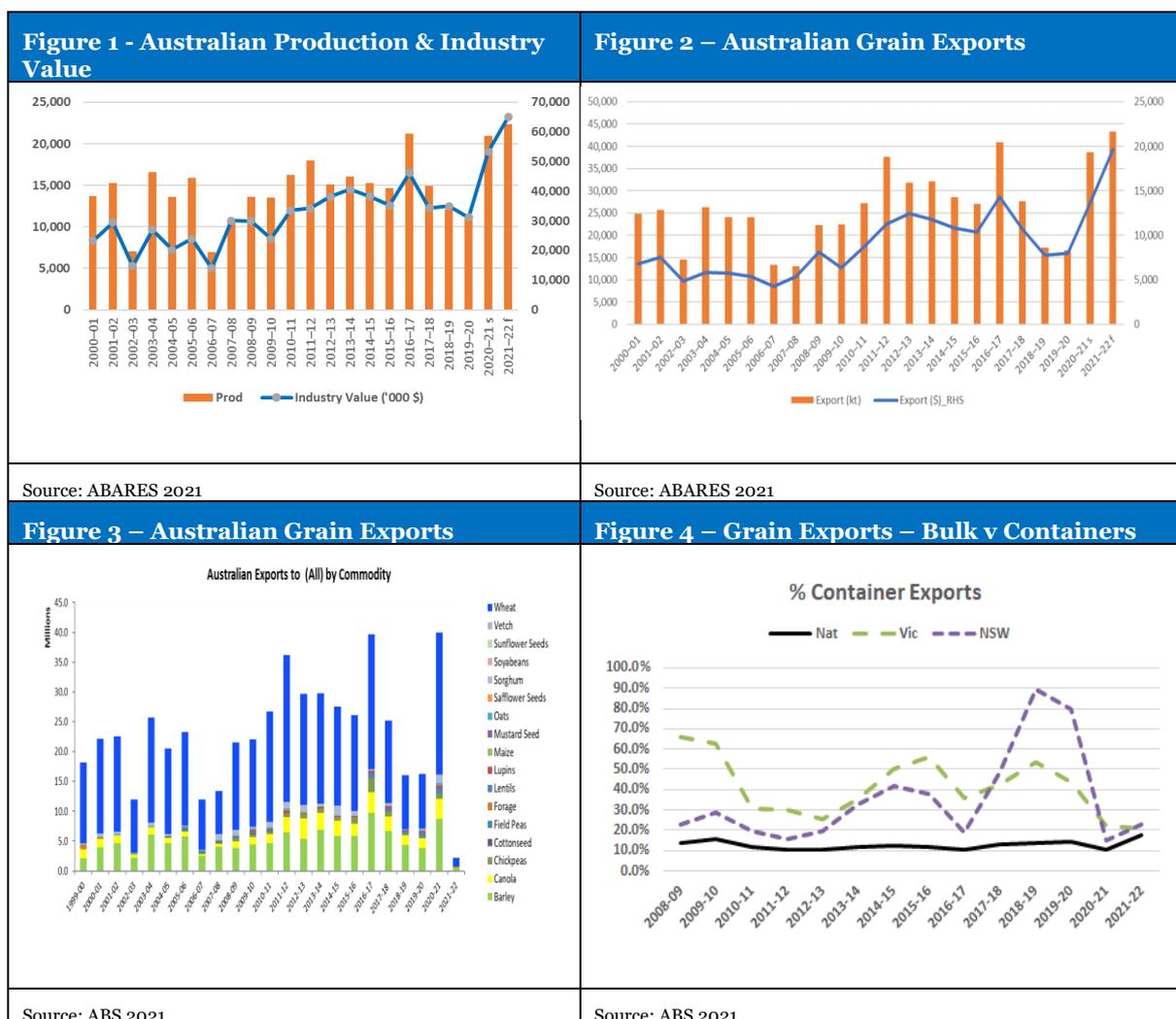
The 5-year average Australian grain export volume is 27.4 mt³. This fluctuates in response to seasonal crop production and domestic market conditions. **Container exports** of grain have grown and developed over the last 15-20 years to become **an important component of the grain supply chain**. Nationally, around 10-13% of Australian grain is now exported in containers, however up to 30-40% of Vic and NSW grain exports are in containers.

¹ ABARES (Dec 2021)

² ABARES (Dec 2021)

³ ABS (Jan 2022)

The ability of grain exported in containers to be shipped using bulk vessels is limited as containers supply customers that cannot normally financially or logistically deal with a bulk shipment.



5. Constraints & Opportunities of Australia’s Maritime Logistics System for Grain

The grain industry operates in a highly competitive global market and has a high reliance on the Australian maritime logistic sector to operate efficiently with internationally competitive cost structures. Maritime transport, both dry bulk and containers, is an important and key component to a resilient and strong grain industry in Australia.

GTA and AGECE members, as heavy users of maritime services, are concerned the maritime landscape for containers has and will continue to evolve with disproportionate distribution of value to participants in the global supply chain, with likely detrimental impacts more pronounced on low value commodities and smaller global players including the Australian grain industry and the Australian container market.

5.1 Impact of the evolving maritime market on the grain industry

Grain is relatively a low value/high volume export commodity and can be disproportionately impacted within the supply chain compared to high value consumer goods. This is especially the case in container shipping.

The shipping industry has and continues to evolve, **becoming more concentrated** as a result of mergers and global alliances. Concentration within the shipping sector has resulted in a shift in the balance of power and leverage between industry participants. As reported in the [ACCC](#)

[Container stevedoring monitoring report 2020-21](#) the bargaining power of shipping lines is likely to grow further and may put them into a stronger position to control shipping capacity in the market.

Australia relies heavily on unfettered access to international markets to generate maximum value for its export industries. The current concentrated market conditions within the shipping industry **increase the risk and exposure** for Australian exporters to **service and price related inefficiencies and penalties**.

GTA and AGEC in a submission into the [Independent Review of the Victorian Ports System – 2020](#) noted concerns with increases in container stevedore infrastructure charges and the impact the price increases on high mass and low value commodities such as grain.

The submission noted the concentrated market conditions within the shipping industry afford its participants some leverage over Australian stevedore companies. The stevedores in turn have a position of leverage in the onshore services market. This competitive imbalance between the two markets in which stevedores provide their services, means there can be a natural inclination whereby stevedores competing to provide services to the highly competitive shipping line market may bargain with less vigour or determination on price knowing they can increase revenue elsewhere, such the less competitive onshore services market.

AGEC and GTA's members argued stevedores are earning a growing proportion of their revenues in the transport infrastructure surcharge market where their market power is much stronger relative to the more competitive market in which they provide services to shipping lines.

Australian exporters and importers are justifiably frustrated. The shipping lines (who are exempt from Australia's Competition and Consumer Act 2010 Cth) are enjoying reduced costs and record margins while stevedores' revenues are not impacted (or potentially even increasing revenue). This is while grain shippers are paying more for land-based freight and services (with no apparent benefit, efficiency gain or saving in shipping freight) and increasingly experiencing low levels of service, efficiency and confidence in the supply of containers and access to liner vessels.

The detrimental impact on high mass/low value agricultural products such as grain is substantially greater from the imposition of these fees, with no consideration of what costs individual supply chains can absorb. The ACCC's Container Stevedore Monitoring Report 2020-21 indicates stevedore infrastructure charges at the three major Australian ports increased from sub \$40 per container in January 2017 to a range between \$120 to \$140 in July 2021, **an increase of 300-350%**.

This increased cost when applied to a 20-foot container (that will hold approximately 24 tonnes of grain) equates to an additional per tonne cost of \$5.00 to \$5.83. In comparison as reported in the Australian Grain Export Innovation Centre (AEGIC) [grain supply chain report](#) an Australian exporter will be charged in the vicinity of \$15 to \$25 per tonne ⁴for an **integrated bulk shipping service** that includes:

- (a) Inspection of grain;
- (b) the intake of grain by rail or road transport;
- (c) storage of grain for a period of time; and
- (d) the provision of assets, operations and supporting administration for the loading of a bulk vessel.

AGEC and GTA suggest governments must ensure a transparent, fair, and competitive commercial environment and that suitable **regulatory reform be considered for implementation**.

Australia's supply chain is complex, and this complexity is also evident in the **multiple levels of federal and state regulation** that seek to foster a **competitive landscape** for Australia's importers and exporters.

This complexity within the supply chain and the various levels of competition regulation has stifled reform and engendered the production of numerous reviews and reports rather than tackling market conditions and potential inefficient behaviours. As a general principle, we would encourage **regulatory simplicity as well as consistency** across jurisdictions, to optimise business efficiency, minimise cost burdens on business thereby driving optimal value across the economy.

Regulatory simplicity should be a key consideration in any outcome regarding maritime logistics systems. GTA and AGEC consider Australia has ample existing regulatory organisations and

⁴ AEGIC, TIM UPDATE THIS

frameworks available for the ongoing review and regulation of ocean commerce. **The federal government should work within the existing framework.**

In contrast to the pace of the government reform process, international markets are becoming increasingly dynamic and responsive to short timeframes, and to the forces and pressures of political, market and economic change. However, **Australian competition reform** has been relatively **slow and non-responsive**, considering the 2015 Competition Policy Review (Harper Review) called for:

- (a) change to the Competition and Consumer Act 2010 (CCA);
- (b) the removal of the supports for ongoing special treatment of the liner shipping industry – the **repeal of Part X** of the CCA 2010; and
- (c) consideration of extending the review and monitoring of stevedore charges to include infrastructure charges.

Importantly these changes were expected to provide some level of price transparency which may flow through and assist with improving the understanding of stevedore infrastructure charges.

Whilst the ACCC has issued a discussion paper on 3 December 2019 seeking comments on a possible class exemption for ocean carriers it is noted the consultation process has been paused meaning further delay to any potential change in the competitive landscape.

The recent 2021 ACCC Port Monitoring report **raised these issues yet again** and questioned the relevance of shipping line exemptions from the CCA in today's world. The ACCC has noted there is no formal process for its recommendations to be acted upon, **unless chosen to do by Government**. GTA and AGECE strongly encourage Government to commit to a process of reform.

Recommendation 1

Governments and the ACCC commit to an integrated plan and timeframe that **actually delivers regulatory change**, suitable and aligned with the pace of change in the market environment and conditions including **repealing Part X** of the Competition and Consumer Act 2010

5.2 Trends and Shocks (COVID-19 Disruptions) - Ongoing Observation and Action

Since the beginning of the global COVID-19 pandemic the container supply chain has been in a state of disruption and turmoil exhibiting a low level of capability and resilience to be able to manage the many shocks that have occurred and likely continue to occur.

In the grain supply chain both dry bulk and container cargo have been impacted with the greatest impact evident in the container trade. Surges in consumer demand combined with port shutdowns and restrictions created significant capacity constraints and congestion that have exponentially grown as shipping schedules all around the globe have been re-cut to mitigate delay and cost. This rescheduling, rolling of planned cargo and cancellations have created an imbalance within the supply chain that may take years to fully correct.

We remain perplexed as to how shipping lines can change, or even cancel, their schedules and commercial commitments to shippers (including GTA & AGECE members) with no financial recourse or compensation for loss or damages to exporters and their customers. Certainty and a commitment to provide a level of service is critical to supply chain efficiency. We support the Productivity Commission considering shipping lines **adhering to service level commitments** and other measures that promote efficient operations within supply chains including the provision of acceptable notification periods for variations.

The recent ACCC 2020-21 Container Stevedoring Report noted that in these unprecedented times it appears some shipping lines have shifted their focus to more profitable trade routes with some shipping lines servicing Australian ports less regularly. Whilst a factor of the current constrained market (allocating scarce resources where they will generate the most value) it does highlight the

fragility of the maritime logistics system and the level of impact supply chain disruption has on the general economy and wellbeing of Australia.

It can be argued that agricultural exports in containers, (and especially the cargoes of smaller exporters) have been more severely impacted than other exports during this period. This is likely attributable to requirements to access food-grade 20-foot containers combined with the period loaded containers take to be processed and returned to the carrier in the importing country. This is concerning as the cancellations of exports sales due to container supply chain issues will impact the Australian grain industry's reliability as a trading partner when compared to grain exporting countries that may have superior access to containers.

Recommendation 2

- a) Government recognises the importance of ongoing **observation and analysis of the maritime logistics systems** and global trends and how they impact the Australian supply chain including service levels commitments.
- b) Government in conjunction with industry should **increase the level of data gathering and data analysis** and share and interrogate this data in conjunction with industry to understand and manage shipping trends that may have a marked impact on the Australian economy.

5.3 Australia's Global Competitiveness

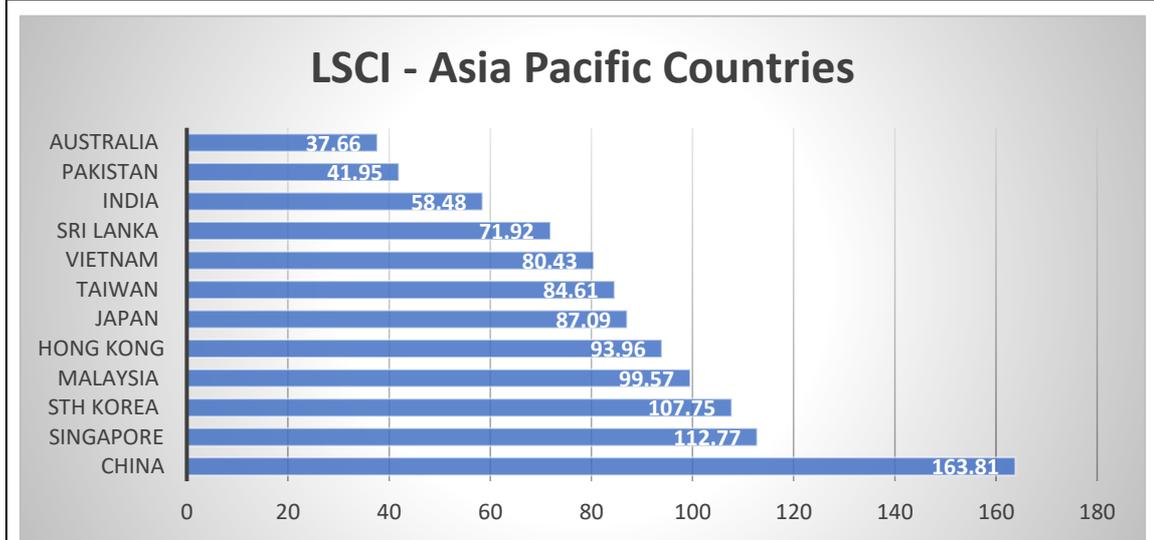
The United Nations Conference on Trade and Development (UNCTAD) Review of Maritime Transport 2021 provides a summary of the maritime industry during 2021, the longer-term outlook and the impact structural megatrends may have on the global shipping market and on the different players and regions in this market.

The report also discusses the concept of Liner Shipping Connectivity Index (LSCI). There are six components of the port LSCI that capture a key aspect of a country and its ports connectivity, these being:

- a) A high number of scheduled ship calls allows for a high frequency for imports and exports.
- b) A high deployed total capacity allows shippers to trade volumes of imports and exports
- c) A high number of regular services from and to the port is associated with shipping options to reach different overseas markets
- d) A high number of liner shipping companies that provide services is an indicator of the level of competition in the market.
- e) Large ship sizes are associated with economies of scale on the sea-leg and potentially lower transport costs
- f) A high number of destination ports that can be reached without the need for transshipment

Australia's LSCI in 2021 was 37.66. This is low in comparison to the top 10 Asia Pacific countries as shown in Figure 5.

Figure 5. LSCI – Top Ten Asia Pacific Countries as compared to Australia



The scale of Australia container trade impacts the first four components of the LSCI, particularly the size of our market and the number of shipping lines that provide services to Australian ports. RBB Economics in its response to ACCC’s Discussion Paper on Ocean Liner Shipping indicated the carriers active on the key Australia-Asia trade have fallen dramatically from a level of 22 in 2014 to just 13 in 2019.

In comparison UNCTAD report Shanghai in the fourth quarter of 2020 was serviced by 63 companies and Singapore by 54 carriers.

Figure 6. Australia’s active carriers 2014 to 2020

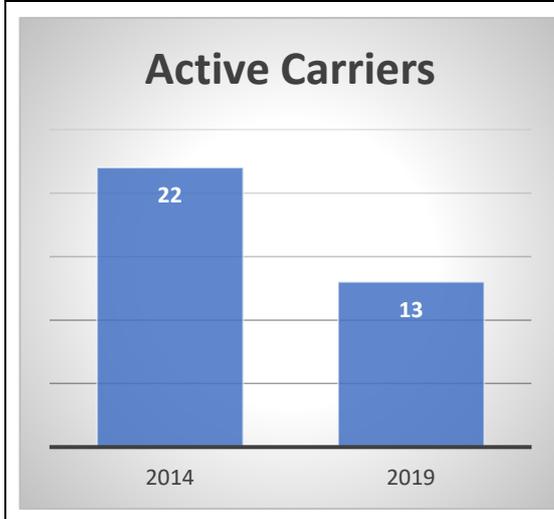
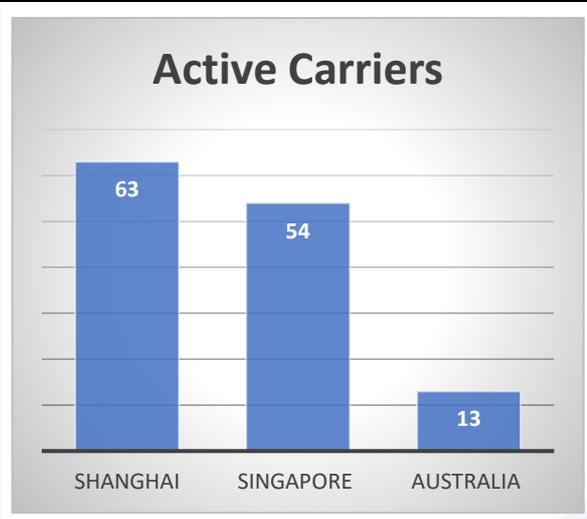


Figure 7. Comparative active carriers 2020



The UNCTAD report also highlights those ports furthest from the markets may also suffer disproportionately more from changes to vessel operational practices and cost structures as a result of structural changes including decarbonisation initiatives.

The international shipping industry is committed to decarbonisation targets and initiatives. For individual companies adhering to and achieving these targets means investing in new vessels, upgrading existing vessels or to sail slower to reduce fuel use and emissions. All these strategies will likely lead to increased freight rates that will disproportionately impact further markets and low value/high mass commodities including grain.

As the demands on shipping lines increase the impact on Australian ports and the cost to exporters will be exacerbated due to Australia’s relative distance to markets. It is therefore imperative

strategies including investment in critical port and logistics infrastructure are developed and actioned.

Recommendation 3

Government and industry establish a permanent congress of key industry participants to review collated data and analysis of the maritime logistics system and form strategies that support Australia's future access to liner capacity.

The future access to liner capacity and the removal of services will be impacted further as the shipping industry and its services evolve. Addressing the positioning and access to maritime logistics services is a critical strategic imperative and leadership from a government and industry perspective is required.^{5.4 Grain industry access to 20-foot Food-Grade Containers}

Shipping containers utilised for the export of Australian Agricultural food products must pass the Australian government Department of Agriculture, Water and the Environment (DAWE) phytosanitary inspection to certify the container will not alter the pest or disease status of the prescribed goods during transit. Containers that can meet this standard are referred to in the industry as food-grade containers. GTA in conjunction with Shipping Australia Limited and DAWE developed and published a comprehensive [Standard for Empty Shipping Container Inspection](#).

Access to food-grade containers during the global COVID -19 pandemic has been problematic with some exporters being squeezed out of participating in the export container market due to the inability to access supply.

In addition to this short-term shortage is the deeply concerning, long-term declining trend in the percentage of 20-foot containers being manufactured compared to 40-foot containers. Shipping lines have informed the grain industry of declining access to new 20-foot containers.

The grain industry has a preference due to road mass limits to utilise 20-foot containers. A 20-foot container can only be loaded with around 24 tonnes of grain before breaching road mass limits, despite the cubic volume of the container not being filled. A 40-foot container is subject to the same road mass limits, so loading it with grain means half (or more) of the cubic volume of the container is not utilised, yet the container takes up more physical space in a container park or on a ship, thus increasing costs.”

Review of the recent and past Department of Infrastructure, Transport, Regional Development & Communications Maritime Waterline reports (Waterline 62 and 67) illustrate a notable trend in the number of 20-foot shipping containers available to the Australian exporters.

Figure 8. Percentage of 20-foot containers as a proportion of all containers handled in Australia from 2015 to 2020



Source: DITRDC Maritime Waterline Reports

It should be noted that as the age and wear and tear of the existing 20-foot containers increase the ability for containers to meet food-grade standards becomes an issue further limiting access to 20-foot food grade containers for agricultural trade creating a market access issue for Australian exporters.

Recommendation

Government, in conjunction with the agricultural industries that are reliant on 20-foot food grade containers must analyse the future access and availability of these containers to Australian exporters and jointly consider the implications on trade.

6. Conclusion

GTA and AGEC agree the long-term productivity of the maritime logistics sector is vital for supporting Australian businesses and communities to access and supply global markets at competitive rates. Australia's maritime interface to world trade and its competitive performance in comparison to international standards must be better understood to ensure Australia's productivity is supported.

Australia's current international competitiveness in maritime services is poor and trends indicate this may worsen in the future negatively impacting on Australian trade, especially in the containerised trade of grain.

The current supply chain disruptions have **exposed the vulnerability of the global supply chains** and provided real examples of the impact to the Australian economy. It is critical **to learn from this disruption and make appropriate adjustments in regulatory and policy settings.**

GTA and AGEC would strongly support the establishment of a cross government and industry congress that **monitors the macro performance** of the Australian supply chain and **formulates strategies and actions** to protect and create value for the Australian economy.

GTA and AGEC welcome the opportunity to provide comments to the Productivity Commission's inquiry and encourage further review and discussion on these important topics between government and industry.

Please do not hesitate to contact GTA or AGEC at any stage to discuss further.

Yours faithfully,



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