



Wilmar Sugar Australia

Submission to the Productivity Commission's
Inquiry into Australia's Maritime Logistics System

11 February 2022

Table of contents

1. About Wilmar's operations in Australia	3
2. Wilmar's interest in Australia's maritime logistics system	3
3. About Wilmar's submission to this inquiry.....	4
4. Wilmar's response to Commission questions.....	4
How and why would any changes lift performance, and by how much?	5
Who needs to do what to make those changes happen?.....	5
In particular:	5
• what should governments do? and.....	5
• what should the private sector do?.....	5

1. About Wilmar's operations in Australia

Wilmar Sugar Australia (Wilmar) is owned by Wilmar International, a global agribusiness group with interests in 50 countries. It is one of the top sugar traders in the world.

- Wilmar is the largest producer of raw and refined sugar in Australia.
- Wilmar owns and operates eight sugar mills in Queensland, producing around 2mt of raw sugar for export per year, representing about 60 per cent of Australia's total raw sugar exports.
- We employ about 2,000 professional, skilled and non-skilled Australians, contribute \$1.2 billion annually to the economy, and support the livelihood of farming and regional communities throughout north Queensland.
- Wilmar is the majority joint venture partner with Mackay Sugar in **Sugar Australia** which operates refineries in Mackay (Racecourse) and Melbourne (Yarraville). Sugar Australia markets the CSR brand in Australia and New Zealand Sugar markets the Chelsea brand in New Zealand.
- **Wilmar BioEthanol** operates an ethanol distillery in Sarina (Queensland) and a warehouse and packing facility in Yarraville (Victoria).

2. Wilmar's interest in Australia's maritime logistics system

Access to a cost competitive, reliable and efficient maritime logistics system is vital for the Australian sugar industry – one of Australia's most important agricultural export industries – to operate domestically, supply customers abroad and compete in a highly competitive global sugar market

As part of an integrated business model, Wilmar International owns a fleet of vessels which cater primarily to in-house needs. The shipping operation is managed by a subsidiary, Raffles Shipping Corporation Pte Ltd.

Raffles also operates the MV *Pioneer* (*exclusively for Sugar Australia*), a specialised food-grade bulk refined sugar vessel – the only one of its type in the world. *Pioneer* has a cargo capacity of 18,500 tonnes and has been designed to load and transport refined, food grade sugar in bulk and discharge it in bulk at 500 tonnes per hour. The vessel regularly loads 220-250,000mt refined sugar in bulk annually from our Mackay Port storage, discharging in bulk at our Glebe storage and export to Singapore.

Sugar Australia ships approximately 250-270,000 tonnes of bulk raw sugar annually from Queensland to its refinery at Yarraville in Melbourne. Raw sugar is an internationally traded commodity and Sugar Australia is reliant on access to competitive coastal freight rates for its business success.

Wilmar ships 200,000 – 300,000 tonnes of sugar cane molasses annually from Queensland to fermentation and animal feed markets in Victoria and overseas.

Wilmar also moves 20,000mt of bioethanol from Mackay to Melbourne and Kwinana annually. Ethanol (non-fuel grade) is an internationally traded commodity chemical. Major trading nations are the USA, Brazil, Pakistan and Thailand. Wilmar has, on occasion, imported ethanol to Melbourne but currently uses bulk chemical tankers operating under Temporary Licences. As this ethanol product has Kosher and British Pharmacopeia status, the product requires specialised handling and shipping. There are no suitable GL vessels currently on the Australian register.

3. About Wilmar's submission to this inquiry

Wilmar welcomes the Productivity Commission's inquiry and the opportunity to contribute.

We support the Australian Government's ongoing efforts to address impediments to efficiency and effectiveness of maritime logistics.

In submitting to this inquiry, Wilmar urges the Commission to revisit the findings of its 2017 report *Regulation in Agriculture*. That report made pertinent recommendations in relation to coastal shipping reforms.

Wilmar endorses the findings of the Commission in 2017, in particular Recommendation 9.5:

As a matter of priority, the Australian Government should amend coastal shipping laws to substantially reduce barriers to entry for foreign vessels, to improve competition in coastal shipping services.

Wilmar also urges the Government to consider coastal shipping reform in the context of its potential to assist Australia's domestic and export trade.

Unless information provided in this submission is annotated as being commercially sensitive or provided on a confidential basis, Wilmar has no objection to the Commission publishing it.

4. Wilmar's response to Commission questions

The Commission asks:

If the system is underperforming, what needs to change and why?

The short answer to this principal question is Yes; the system **is** underperforming.

More problematic for Wilmar Sugar Australia is that the system is actually impeding the performance of system participants and is at risk of descending further into dysfunction e.g. the privatisation of ports has highlighted the real risk of conflict between the short and medium term profit imperative of a port owner/investor and the long term sustainability and competitiveness of users and dependent industries.

We believe there is inadequate requirement for port operators (whether privately or publicly owned) to collaboratively plan and develop Australia's critical port infrastructure to ensure that existing users and potential users have appropriate access and the ability to install, replace and expand assets vital to operations and commerce.

Unless a balance is struck between national interest and profit, there will remain a risk for the economy and communities (especially regional communities) as well as industry investment, growth and competition in global markets.

This is a far higher priority and of far greater potential benefit to our national interests and common wealth than a development of 'national strategic fleet'.

Australia's Maritime Logistics System

Submission to the Productivity Commission

Rather than developing a 'national strategic fleet', we support improved systems for managing and working with foreign-flagged vessels using Australian ports offers multiplicity of efficiency and benefit including in border security, customs, biosecurity, ESG, seafarers' qualifications and welfare, and maritime safety.

The Commission then asks:

How and why would any changes lift performance, and by how much?

Who needs to do what to make those changes happen?

In particular:

- **what should governments do? and**
- **what should the private sector do?**

Coastal Shipping Reform

A 2017 discussion paper on coastal Shipping Reforms prepared by the Department of Infrastructure and Regional Development identified a number of features of the current logistics system that we can confirm are restricting our operational flexibility, constrain our business and impose unproductive, additional cost.

These are the:

1. five voyage minimum requirement for a Temporary Licence (TL);
2. TL application process;
3. TL variation process; and
4. tolerance provisions.

These provisions result in reduced efficiency and unnecessary cost to Wilmar, our customers and ultimately to consumers.

The following demonstrates the effect of each provision and our preferred outcome:

1. Five voyage requirement

- Within the last five years, one of our business units has had to vary in excess of 50% of the voyages granted on TL. Most of these relate to date tolerance because it is impractical to forecast five voyages in advance. Five voyages in advance also severely limits the ability to secure spot vessels.
 - **Preferred outcome:** Remove the five voyage minimum requirement for a TL.

2. TL application process

- If a contracted vessel moves outside the notified number of days (a common occurrence in shipping), we have to apply for a New Matter Variation (NMV) again. This could mean a vessel is stuck collecting demurrage for four days while the NMV process is followed
- There are no General Licence (GL) bulk chemical tankers currently working the Australian coast. Regarding raw sugar vessels, to our knowledge there is only 1 GL dry bulk cargo

Australia's Maritime Logistics System

Submission to the Productivity Commission

vessel working the Australian coast, and this is not set up for carrying raw sugar anyway. Despite this, we have to go through a lengthy application process for TL.

- **Preferred outcome:** Streamlined TL process, particularly where no GL vessel is available.

3. TL variation process

- Similarly to the point above, when there are no suitable GL vessels available, the TL variation process should be more streamlined
 - **Preferred outcome:** NMV timeline should be shortened to 24 hours lead time for approval where there is no GL vessel.

4. Tolerance provisions

- Parameters of TLs are not in sync with how freight is generally chartered due to the following:
 - five voyage minimum requirement;
 - limited date tolerance; and
 - lengthy process variation in new matters.
- **Preferred outcome:** A 30-day window and removal of the volume tolerance. The benefit should be reducing the licencing burden.

There is opportunity through Government reform to improve optionality in how sea-freight charters are fixed to better fit the commodity market we operate in. Some examples of improvement include:

- Dropping the requirement for nomination of the performing vessel when applying for a TL (even if reduced to single voyage minimum).
- Allowing for nomination of multiple load and discharge ports per cargo on a single voyage when applying for a TL.
- Ensuring changes to the tolerance provisions do not enable other vessel operators to challenge a TL application/variation.

Wilmar also recommends consideration of issues in relation to coastal shipping on foreign flagged (FF) vessels that would reduce unnecessary costs impacting on our competitiveness:

- Irrespective of the amount of space chartered on a vessel, or the amount of international work that vessel is concurrently performing for other parties, the requirement is to pay full Part B wages for the whole vessel. This is a significant cost barrier for a small parcel shipper to move from inland options to coastal freight.
- Once a charterer fixes a coastal voyage with a FF vessel, owners can add extra port calls for international work between the coastal load port and discharge port. This adds the cost of extra Part B wages to the charterer even though the vessel is performing purely international work.
- If while carrying a cabotage cargo, the vessel chartered makes a foreign port call (eg NZ), there is still a requirement to pay Part B wages to a FF vessel in foreign water with foreign sailors.

There would also be benefits from Government driving changes to the application of Part B wages such as:

- application on a pro-rata tonnage basis;
- Part B applying in Australian waters only; and/or
- allowing 24-hour AMV extensions to voyages once the notification is given to avoid demurrage impacts.

Australia's Maritime Logistics System

Submission to the Productivity Commission

Response to Covid-19

Covid-19 highlighted a lack of consistency in approach between ports when dealing with the quarantine requirements for vessel arrivals and in facilitating timely changes of crew as required.

The Australian maritime logistics system should have a better co-ordinated and uniform approach to handling such situations in the future. This is a matter as much for state and federal governments as for port operators. It requires recognition by governments that maritime logistics is essential to national resilience, industry and the economy and should be treated accordingly during times of emergency or disruption.

Because of charges incurred by customers and the impact on ship owners and crews, the existing lack of co-ordination and consistency has been impactful on entire domestic and international supply chains.

Further contact:

Chris Stewart
General Manager, Corporate Relations
Wilmar Sugar Australia