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Australia's Maritime Logistics System Inquiry
Productivity Commission
Locked Bag 2, Collins St East
Melbourne Vic 8003

10 February 2022

Submitted electronically

Dear Commissioners,

RE: Australia's Maritime Logistics System

I write in relation to the Productivity Commission's Inquiry into Australia's maritime logistics system, which the Treasurer, the Hon Josh Frydenberg MP, requested in December 2021, pursuant to Parts 2 and 3 of the Productivity Commission Act 1998. As part of this Inquiry, we understand the Productivity Commission will undertake an independent review into long-term structural issues affecting the productivity of Australia's maritime logistics system.

By way of introduction, Accolade Wines is one of the largest global wine companies and our portfolio includes some of the world's most recognised and cherished wine brands includes Hardys, Grant Burge, House of Arras, Petaluma, Katnook Estate, Rolf Binder and St Hallett from Australia, and Mud House and Hay Maker from New Zealand, among many others. Accolade Wines' capabilities span a complex and international supply chain from wine supply and production, to sales, marketing and distribution, with an emphasis on quality, innovation and sustainability.

While remaining rooted in our Australian heritage, with strong connections to regional communities across South Australia, Tasmania, Victoria and Western Australia, Accolade is a truly global company with a presence in 140+ global markets, and is one of Australia's pre-eminent wine industry success stories. As a highly successful export-focussed business, Accolade Wines relies on efficient, reliable and cost-effective port infrastructure as a gateway to its international markets across the world. As recognised by the Treasurer, 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.

I note that while the Australian Competition and Consumer Commission [ACCC] found global factors were a significant contributor to rising shipping costs and delays, it is also noted eminent domestic issues, including port infrastructure and outmoded industrial relations, and that these may be compounding the problems caused by supply chain disruption under record global demand for consumer goods since the start of the COVID-19 pandemic.

Given the jurisdiction of the Commonwealth, it is important that the Productivity Commission's Inquiry gives due consideration to the levers available to the Australian Government to improve port efficiency across Australia by examining long-term domestic trends, focussing on operational cost drivers, including industrial relations, infrastructure constraints and technology uptake across all Australian ports and related transport networks in order to assess the overall competitiveness of the nation's seaports.



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I recognise the terms of reference of the Inquiry and that the Productivity Commission will:

1. Examine the long-term trends, structural changes, and impediments that impact the efficiency and dependability of the maritime logistics system, including developing a framework of performance measures to determine port performance and benchmarking Australian ports internationally.
2. Determine the broader economic impact of the maritime logistics sector, and assess the sectors' operating model and any structural impediments, on consumers, business, and industry. This should include examining costs of curfews imposed at some ports, impacts of urban encroachment on ports and connections to ports, and adequacy of development planning and land protection. It should also look at the economic impact of delays; uncertainty and the capacity for logistics chains to respond; and increased freight costs (including fees and charges in the sector) and cancellations of sailings, including on importers, exporters, and supply chains.
3. Examine workforce issues, including industrial relations, labour supply and skills, and any structural shifts in the nature and type of work in the maritime logistics sector.
4. Assess infrastructure needs and constraints, including options to enhance the efficiency of ports and connected landside supply chains and the interactions between decisions of different levels of government. This should include reviewing rail access at container ports; any imbalance between the types of containers for imports versus exports; the suitability of container storage facilities; and costs and benefits of investing in new port and shipping infrastructure or enhancements to existing infrastructure to enable the use of larger ships. This should also identify the role of Governments and the private sector in meeting current and future infrastructure challenges in the sector.
5. Research mechanisms to help improve the sector's resilience and efficiency. This should include examination of technology uptake, innovation, data capture and sharing across international freight networks compared to Australia; examples of areas where Australia does well; identification of technologies that offer the greatest productivity gains in the Australian circumstances; and identification of any barriers to greater uptake of technology and innovation.
6. Have regard to the interlinkages and dependencies between the maritime logistics sector and other logistics systems, such as air freight and landside supply chains. For example, the impact of the resumption of air freight on ports, the preparedness of ports for disruptions in these supply chains and the role of ports for landside supply chains.
7. Have regard to the ACCC's container stevedoring monitoring report; the Productivity Commission study into vulnerable supply chains; the National Freight and Supply Chain Strategy agreed by Commonwealth, state and territory governments; and the Government's in-principle acceptance of the Harper Review's recommendation to repeal Part X of the *Competition and Consumer Act 2010*.

Responses to terms of reference can be found in Appendix A. Contextual information on the increased cost of ocean freight experienced by the company is detailed in Appendix B [*confidential*].

In summary, Accolade Wines supports:

- Exploration of the merits of significant investment in infrastructure connected to accessing seaports and at seaports across Australia to improve efficiency;
- Exploration of the role of Federal and State governments to jointly improve domestic infrastructure affecting port efficiency; and
- Holistic review of industrial relations at, and connected to, ports to ensure these are appropriate for the contemporary business environment and commensurate with best practice.



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Thank you for taking the time to review the matters raised in this submission and for considering pragmatic reform that will deliver efficient, reliable and cost-effective port infrastructure as a gateway to international markets for Australia's exporters. I hope that you will explore ambitious policy options that may be considered to ensure Australia retains its international competitiveness in an increasingly complex and interconnected world.

I would welcome the opportunity to discuss these matters in greater detail with you and to provide any information in the form of case studies or datasets to further assist your analysis. I have arranged for Mr Shae Courtney, Government Relations & Communications Manager, to assist in organising a meeting and to provide any information on behalf of Accolade Wines.

Yours sincerely,

Anjanette Murfet
Chief People & Communications Officer



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Appendix A: Accolade Wines' response to the terms of reference

Accolade Wines is a member of the South Australian Wine Industry Association [SAWIA], and is pleased to recognise the positions expressed in the response by SAWIA as appropriate in relation to the Inquiry. Additionally, it is appropriate that the company expands upon the response by SAWIA and other industry partners. I understand that Wine Australia will also make a submission to the Inquiry.

The company's submission addresses the following terms of reference:

- (2) the broader economic impact of the maritime logistics sector, the sector's operating model and any structural impediments, on consumers, business, and industry;
- (3) workforce issues, including industrial relations, labour supply and skills, and any structural shifts in the nature and type of work in the maritime logistics sector; and
- (5) mechanisms to help improve the sector's resilience and efficiency.

Wine Sector and Maritime Logistics Interface

The Australian wine industry is a key export industry relying on the maritime logistics sector to export Australian products to overseas markets. For Accolade Wines, the company depends on efficient key transport links to access ports across Australia to reach 140+ global markets.

In the reverse, the industry is reliant on the importation of many key supplies, additives, machinery, tools and equipment via international shipping channels. For example, Accolade Wines purchases approximately one-third of the industry's total annual colourant purchases from California for use in specific red wine products. Colourants extracted from grapes are often added to wines and other beverages to give them the desired shade and intensity of red colour associated with high-quality wine. Berri Estates alone purchases 24 tonnes of grape-derived colour soluble extract annually. Overall the Australian wine industry purchases close to \$10 million of colourants annually. The most desirable and commonly used products are imported from California and are characterised by their high red or purple colour intensity, low brown intensity, and easy solubility.

Unlike many other manufacturing sectors, the wine industry's viticultural foundations require long lead times to produce a crop and high levels of inventory to be carried. Based on the uncertain nature of each vintage, the balance of supply and demand are a constant challenge.

In terms of wine production, South Australia is the single largest producing State based on grape crush, representing more than half, 52%, of the national grape crush.



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Figure 1: Crush by State and region¹

State	% of total crush
South Australia	52%
New South Wales	29%
Victoria	17%
Western Australia	2%
Tasmania	1%
Queensland	<1%

South Australia has 711² wine producers. At the last Census (2016) around 8,400 people stated that their primary industry of employment was either grape growing or in wine manufacturing in South Australia³.

In relation to wine exports, South Australia is the largest wine exporting State representing 58% of the volume and close to 70% of the value of total Australian wine exports, as set out below:

Figure 2: Wine exports by State⁴

State	Volume (million L)	% of total volume	Value (million AUD)	% of total value
South Australia	362	58%	\$1,376	68%
New South Wales	163	26%	\$357	18%
Victoria	88	14%	\$245	12%
Western Australia	5.6	1	\$42	2%
Tasmania	0.7	<1%	\$9.3	<1%
Queensland	0.1	<1%	\$0.6	<1%
TOTAL	619	100%	\$2,029	100%

Significant volume and value of South Australian wine will continue to be heavily impacted by the March 2021 confirmation of 218% duties imposed by China, effectively closing that market to Australian bottled wine. According to Wine Australia, wine exports fell by 30% in value and 17% in volume in the year ended December 2021. The main decline is attributed to the 97% fall in value and 93% fall in volume of exports to China, representing a loss of nearly \$1 billion to the industry⁵.

The China market was valued at \$1.2b for Australian wine (\$700m for SA), underscoring the importance of export market diversification which is underpinned by reliable, cost-effective and efficient ports and ocean freight. Against the backdrop of global market disruption, it is more important than ever for Australia's exporters to diversify their export markets to ensure resilience against future disturbances in export markets, and maritime logistics are fundamental to this process.

¹ Wine Australia 2021, National Vintage Report 2021

² Source: The Australian and New Zealand Wine Industry Directory 2021

³ This excludes casual workers such as grape pickers and other seasonal workers not working in those industries in the week prior to the Census. It also excludes people who worked in the wine and grape production industry as a second job.

⁴ Wine Australia 2022, South Australia, State Export Report, 12 months to 31 December 2021

⁵ Wine Australia 2022, End of year 2021 export figures show global challenges continue to impact Australian wine exports, <https://www.wineaustralia.com/news/media-releases/wine-australia-export-report-december-2021>



Industrial Relations

According to the ACCC⁶, Australian ports have a poor reputation and are recognised as being relatively inefficient with a performance ranking well below international best practice. This is corroborated by Accolade Wines' experience across its global operations, with Australian ports consistently ranking among the lowest for efficiency in OECD markets.

This can be summarised as:

- Australia's largest ports, Sydney and Melbourne, ranking in the bottom 15%-10% of ports globally;
- Median in-port time for container ships visiting Australia being 3 times longer than Japan, twice as long as China and 50% longer than Singapore or New Zealand;
- 4 of out 5 Australian ports ranking in the bottom quartile of global ports;
- Shipping lines spending an average of 21 hours sitting idle in Sydney;
- Protracted industrial disputes resulting in loss of working hours and poor worker efficiency.

A major cause of the problem according to the ACCC is restrictive work practices, including limitations on the ability to recruit, allocate and roster staff, outsource work and implement new technology, reinforced via often outmoded enterprise agreements. The higher costs and inefficiencies risk Australia's competitiveness and global position as a leading export-focussed economy:

*"Critically, in addition to adversely impacting on stevedores' revenues and costs, the industrial actions are causing damage to many Australian businesses that are not parties to the industrial dispute. Market participants informed the ACCC that supply chain disruptions have increased significantly over the past few years and that industrial action was one of the major causes of these disruptions. Market participants have stated that these disruptions have caused considerable delays, higher costs, and loss of business"*⁷.

Ports and stevedores are responsible for the negotiation of enterprise agreements with terms that support and facilitate productivity improvements. It should be noted, however, that many of the current agreement enterprise agreements have been approved only after significant delays and disputes of up to two and a half years.

The current industrial relations system under the *Fair Work Act 2009* for industrial action and enterprise agreements, has cultivated restrictive work practices in critical national infrastructure, including the maritime logistics system.

The Federal Government may consider appropriate reform which allows for greater efficiencies to be made that are commensurate with the contemporary business environment. The ACCC has in consecutive Container Stevedoring monitoring reports noted issues in relation to prolonged industrial disputation. For example, in November 2018, the ACCC noted that:

*"Despite the improvements that have been made in relation to productivity, the industrial relations climate still poses a challenge for Australian stevedores. This may be having an impact on the ability of Australia's ports to be internationally competitive"*⁸.

⁶ Australian Consumer and Competition Commission 2021, Container stevedoring monitoring report, 2020-21, October 2021

⁷ Australian Consumer and Competition Commission 2021, Container stevedoring monitoring report, 2020-21, October 2021, p. 67

⁸ Australian Consumer and Competition Commission 2021, Container stevedoring monitoring report, 2017-18, October 2018, p. 14



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In addition, Australia's industrial relations framework has been extensively reviewed and evaluated, including by the Productivity Commission in its Workplace Relations Framework Inquiry in 2015. The Inquiry looked at a number of matters including:

- productivity, competitiveness and business investment;
- the ability of business and the labour market to respond appropriately to changing economic conditions patterns of engagement in the labour market; and
- the ability for employers to flexibly manage and engage with their employees and industrial conflict and days lost due to industrial action.

The Inquiry report made numerous recommendations, including in relation to enterprise bargaining and industrial disputes, including where industrial disputes is causing significant harm to Australia's national interest and efficiency as an export-focussed economy. It is appropriate that the Productivity Commission again considers the policy settings that may be appropriate in delivering working practices at ports that are contemporary and efficient.

Improving Resilience and Efficiency

The main Australian ports used by Australian wine producers include the Port Adelaide, Melbourne, Fremantle and Sydney. The industry relies on a multitude of logistics companies and shipping carriers to transport finished product from production facilities to port via road and rail. Vulnerability and ageing rail infrastructure and congested access roads at ports have consistently hampered Accolade Wines' ability to efficiently transport finished product to port.

As alluded, the industry is heavily reliant on international shipping for the importation of essential wine additives, chemicals and materials, oak chips, packaging materials such as glass, labels, capsules, closures and cartons, machinery parts, plant and equipment.

Over the last two years, Accolade Wines and the broader Australian wine industry have experienced significant challenges associated with international shipping. This includes delay in departures, difficulty accessing shipping containers, delay in delivery of goods and delays to pick up of goods. Further contextual information has been provided in Appendix B.

Wine Australia recently corroborated the impact on the wine exports of challenges associated with international shipping:

"The global freight crisis emerged in the second half of 2021, hampering exporters' ability to get wine into markets – particularly in the US and Europe. Logistics companies Hillebrand and Flinders Port Holdings reported that the combination of a fundamental shortage of container ships and a sudden and strong rebound in global demand driven by the US and China – compounded by COVID-19 related labour shortages and other factors – led to port congestion, worst ever schedule reliability and increased costs.

Exporters experienced both increased delay times and increased costs of containers over the past year. Flinders Port Holdings reported that Australia also represents only 1 per cent of global container throughput, so we are at the mercy of bigger international players with this increased demand for freight. The crisis is not expected to be resolved before the end of 2022⁹."

⁹ Wine Australia 2022, End of year 2021 export figures show global challenges continue to impact Australian wine exports, <https://www.wineaustralia.com/news/media-releases/wine-australia-export-report-december-2021>



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The ACCC notes that Adelaide has been particularly impacted, with 20% of shipping services bypassing Adelaide and shipping lines being reluctant to send empty containers to Adelaide as they can obtain higher revenue by shipping goods from China¹⁰. This is particularly concerning to Accolade Wines as its main port of departure.

In relation to the cost of international shipping, Accolade Wines has experienced a 400% increase in shipping costs over the last two years. In terms of timeliness and reliability, Oceania has experienced some of the biggest delays overall. In addition, reliability and service continues to deteriorate, yet prices continue to increase.

The causes of these cost increases are varied, however, one key driver comes from delays in release of containers out of port, causing dehire/detention costs to increase substantially.

It should also be noted that many contracts are Free On Board (FOB), with the increased costs are incurred by the customer. However, this may flow on to the wine producer via requests for price reductions/discounts.

While some of these issues may be attributable to the COVID-19 pandemic, existing weaknesses in port infrastructure have exacerbated the problem. Accolade Wines recognises the limitations of the Australian Government's jurisdiction in relation to international shipping, but affirms the need to address underlying issues related to infrastructure and industrial relations.

As highlighted in the ACCC's Stevedoring report, the COVID-19 pandemic has "*derailed the global container freight supply chain*"¹¹. This has resulted in:

- Fleet trapped in port waiting queues.
- Containers in the wrong places.
- Challenges securing food quality containers.
- Shipping lines omitting ports and cancelling orders.
- Increased competition for cargo bookings.
- Significant cost increases for shipping.
- Significant delays and
- Inability to meet contractual obligations.

In order to address the issues in relation to service, reliability, timeliness and costs, Accolade Wines considered a range of options and implemented a number of changes. This includes:

- Gaining access to as many different freight routes and trans shipment ports as possible;
- Reconfiguring the shipping cycle for exported goods;
- Making changes to production scheduling to enable the winery to meet earlier shipment requirements;

¹⁰ Australian Consumer and Competition Commission 2021, Container stevedoring monitoring report, 2020-21, October 2021

¹¹ Ibid. p. ix



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- Starting the process earlier to allow time for ongoing delays;
- Working with freight forwarders to lock in future shipping rates where possible;
- Increasing inventory to avoid disruption;
- Sourcing from alternative production countries; and
- Notifying customers of shipping delays so they can manage their orders accordingly.

It is important to note that despite these mitigation measures, they continue to be negated by many of the challenges posed by ocean freight cost, availability and reliability. While COVID-19 is a major contributing factor to the problems and challenges above, there are considerable underlying issues.

Australian ports have been internationally uncompetitive with greater costs, worse performance and reliability than international competitors for many years, and this Inquiry presents a real opportunity to deliver improved domestic infrastructure for global benefit, and to exporters and Australian communities which depend on favourable access to global markets.