

AFGC SUBMISSION

PRODUCTIVITY COMMISSION INQUIRY INTO THE MARITIME LOGISTICS SYSTEM

February 2022

ABOUT US

The Australian Food and Grocery Council (AFGC) is the leading national organisation representing Australia's \$132 billion food and grocery supply industry, which includes local manufacturing and distribution employing 270,000 people. The role of the AFGC is to be the voice of the food and grocery supply industry and to help shape a business environment that encourages a thriving, trusted industry that Sustains Australia.

EXECUTIVE SUMMARY

The AFGC welcomes the opportunity to comment on the Productivity Commission’s inquiry into Australia’s Maritime Logistics System. The food and grocery sector is Australia’s largest manufacturing sector. It is highly trade exposed accounting for over \$80 billion of the nation’s two-way international trade. The food and grocery supply industry operates under just-in-time principles to reduce and eliminate wastage of perishable and time-sensitive inputs, ingredients, and packaging materials. The sector’s reliance on just-in-time principles makes it highly susceptible to supply chain disruptions. The lack of local import substitutes, and cost-prohibitive freight alternatives, increases the sector’s reliance on an efficient maritime logistics system.



The submission draws on the experience of AFGC members’ significant and unsustainable freight related impacts arising from acute disruptions and underlying market inefficiencies in the domestic maritime logistics system. These issues are having a material impact on the food and grocery supply industry’s profitability, competitiveness, and sustainability. We do not address the terms of reference in full. We focus on structural impediments and the economic impact of maritime logistic inefficiencies on the food and grocery sector and draw on previous work developed by the Productivity Commissions’ study on Vulnerable Supply Chains and the ACCC Container Stevedoring Monitoring Report.

The underlying market problem in the maritime logistics system has been exacerbated by the global response to the COVID-19 pandemic. The efficiency of the maritime logistics system can be improved through the implementation of smart regulatory, legal and structural reforms. We provide key recommendations that aim to:

- improve the operational efficiency of the maritime logistics system
- remove market distortions, and
- improve the resilience of the domestic maritime logistics system to support productivity of the food and grocery supply industry.

The AFGC looks forward to the Productivity Commission’s response and further engagement on this inquiry

Tanya Barden OAM
 CEO
 Australian Food and Grocery Council

KEY RECOMMENDATIONS

RECOMMENDATION 1 – Review terminal access charges to examine potential solutions for full or partial cost recovery from shipping carriers.

RECOMMENDATION 2 – Review container congestion, detention, demurrage and other ad-hoc port charges and practices and consider solutions to ensure reasonable policies and charges are administered to end-users.

RECOMMENDATION 3 – Implement a public performance metric of all Australian ports with emphasis on the quantity and volume of vessels awaiting discharge, docking delay times, port omissions, associated fees and charges, number of vessels in demurrage and current congestion rates.

RECOMMENDATION 4 – As part of a shipping competition review, repeal Part X of the *Competition and Consumer Act 2010*, with retention of shipper collective bargaining provisions.

RECOMMENDATION 5 – Consider permanently maintaining the section 11 exemption of the *Coastal Trading (Revitalising Australian Shipping) Act 2012* to diversity options for cargo movement between the east-to-west coast route.

RECOMMENDATION 6 – Support a review of waterfront industrial relations to provide business continuity of essential supply chain services for materials, inputs, ingredients and goods across the critical food and grocery supply chain.

RECOMMENDATION 7 – Increase infrastructure investment to diversify port access and to address inefficiencies in the supply chain caused by larger ships, lack of rail access to Australian container ports and shortage of space in empty container parks.

KEY ISSUES

INEFFICIENT MARITIME LOGISTICS IS HAVING A MATERIAL IMPACT ON THE FOOD AND GROCERY SUPPLY INDUSTRY

In the fast-moving consumer goods (FMGC) sector, the volume and frequency of goods in distribution means that businesses are highly sensitive to disruptions and structural impediments along the supply chain. Disruptions and significant cost increases have emerged in the movement of goods from food and grocery suppliers to their customers (supermarkets, restaurants, hospitals, aged care etc.) as well as further up the supply chain in the movement of critical ingredients, inputs, packaging materials and equipment used to manufacture Australian's everyday nutritional, personal care, and domestic household end products.

The Australian food and grocery supply industry relies on a diverse range of imports to manufacture finished local products. This can range from certain types of packaging, chemical ingredients, commodities such as coffee and cocoa beans, and specialised additives such as vitamins. Most of these inputs are imported out of necessity rather than choice as there are either no, or limited, local substitutes. This makes strategic pivoting to local sourcing in the case of shipping disruptions for instance not possible.

The lack of import substitutes is made worse by the lack of economically viable freight alternatives, such as air freight, in the case of shipping disruptions. For these reasons, local food and grocery manufacturing businesses are highly sensitive to issues across the maritime logistics system in the process of manufacturing finished local products.

To date the costs and timing disruptions have been absorbed by food and grocery manufacturers and distributors. However, the willingness and ability of businesses to absorb high import costs (inclusive of shipping rates and associated charges) over the medium to long-term is categorically unsustainable for the sector. This is partly due to highly competitive trading terms including the lack of full and adequate cost past through to the retailer and subsequently to the consumer.

There are several examples provided to the AFGC that indicate freight costs and associated shipping charges have increased to unsustainable levels over recent years. The AFGC understands that the unsustainable shipping costs observed over recent times have been primarily driven by the global response to the COVID-19 pandemic. However, the COVID-19 pandemic has only exacerbated an underlying market problem in the maritime logistics system.

Key impacts of shipping delays to business

- Increased risk requiring higher levels of contingency and longer lead time allowances to respond
- Increased "on-costs" (road freight and warehousing) as a result of increased shipping lead times
- Port congestion has flow on impacts to road and rail impacting availability, price, and risk of wastage
- Production and key ingredient shortages which have impacted product availability and consumer choice
- Extended transit times lead to higher risk of product infestation

	<ul style="list-style-type: none"> - Increased incidence of writing-off product due to passing of shelf-life of sensitive ingredients - Airfreight is a poor substitute for shipping as it attracts very high costs particularly for finished goods - A loss of confidence and trust in brand and supplier reputation - The necessary acquisition of reserve stocks (bulk buying) to compensate for shipment delays, with significant cost implications and impacts to cash flow, working capital and warehousing costs
<p>Examples of freight costs (including fees and charges)</p>	<ul style="list-style-type: none"> - YoY shipping freight costs have escalated up to ten-fold - Cancellation/rejection of container bookings at short notice resulting in last resort “spot market” bookings with rates exceeding multiple times higher than original costing - Shipping lines increase rates by imposing general rate increases (GRIs) on a regular basis or introduce/increase surcharges at will - Substitute freight options (air freight) for critical ingredients has led to unsustainable costs - Port omissions add time, complexity, and additional costs. For example, last minute docking changes from Sydney to Melbourne attract additional road or rail costs to move cargo and may lead to further issues with reverse logistics for returning empty containers. - Last minute changes often result in missed export shipments as rail plans to get containers to port to meet new deadlines cannot be altered at short notice, resulting in additional storage and detention costs of full containers awaiting the next shipping vessel
<p>Cancellation of sailings and its impact on importer/exporter businesses</p>	<ul style="list-style-type: none"> - Cancellation of sailings disrupts business planning, increases capital costs and incurs higher costs to move cargo - Several examples of container vessels skipping Sydney (Port Botany) altogether due to port strike industrial action, leading to additional costs to re-route cargo from other ports such as Melbourne to warehousing in Sydney - Vessel delays and port omissions impact the availability of empty containers - Following a cancellation or port omission, shipping lines refuse to re-offer the contracted allocations on subsequent vessels which result in the use of alternate carriers at spot rates to fulfil customer orders

	<ul style="list-style-type: none"> - Expensive airfreight of raw materials is needed to meet production deadlines, otherwise delays/ inability to produce finished product - Shipping lines cherry picking more profitable shipping lanes over traditional routes impacting the number and frequency of ships to move product
<p>Uncertainty and capacity constraints for logistics to respond</p>	<ul style="list-style-type: none"> - Lack of information from shipping lines on delays and when containers will sail - Limited and capped capacity on vessels exiting east coast to west coast - Consolidation of shipping lines and larger ships have created extreme peaks and troughs with availability going from nil to too many causing unnecessary additional storage requirements, or additional costs/detention charges - Emerging evidence of shipping lines using their increased market power to coerce customers into activities such as customs clearance, haulage, and product insurance - There is evidence of shipping uncertainty leading to delays in product inspection appointments by Biosecurity Australia resulting in product unable to be unpacked from containers and moved to warehouses
<p>The effectiveness of digital technologies adopted by maritime supply chain and associated logistics</p>	<ul style="list-style-type: none"> - Real-time data is helpful and necessary in many instances, particularly where estimated arrival times of shipments are shown - Coverage of this data however is inconsistent (particularly out of parts of Asia and through freight forwarders) - Systems that can better manage exceptional reporting of unplanned trans-shipments or skipping ports is critical
<p>Other relevant matters in relation to the functionality of ports and shipping operations across Australia</p>	<ul style="list-style-type: none"> - Industrial strike action has resulted in delays and ships re-routing or skipping ports continuing to cause delays - A lack of prioritisation given to critical goods and ingredients (including time-sensitive/perishable items) - A lack of visibility from freight forwarders on delays in trans-shipment creates uncertainty, lost sales and stifling effective business planning - Shipping container shortages - Investigation of alternative/smaller ports across Australia worthy of further consideration - Need for visible performance metrics across all Australian ports, with particular emphasis on the quantity and volume of vessels awaiting discharge, docking delay times and

port omissions, associated fees and charges, number of vessels in demurrage, congestion rates

- Escalation of ad-hoc taxation on container handling, empty container park fees, Chain of Responsibility (CoR) fees (with an apparent lack of governed add-on costs)
- The East-to-West Coast rail line and Stuart Highway are vulnerable to weather disasters and on-going maintenance disruptions. Coastal shipping options should be explored for a more permanent solution.

UNDERLYING MARKET PROBLEM IN THE MARITIME LOGISTICS SYSTEM

The underlying market problem associated with Australia's maritime logistics system has medium to long-term implications for the competitiveness, resilience, and risks local food and grocery manufacturing presence in Australia. Due to the diverse nature of the sector, industry market solutions such as pivoting to, or investing in, local supply sources are unfeasible solutions under most circumstances, particularly in the short term. The sector's ambitions to double in size by 2030 to \$250 billion is also contingent on access to key export markets. To sustain jobs and growth of the sector, it is critical that government(s) act swiftly to eliminate unnecessary impediments (regulatory, legal, or structural) across the maritime logistics system, to improve the two-way trade flow of what is a highly-trade exposed sector.

The ACCC Container Stevedoring Monitoring Report, found several market-level inefficiencies across the maritime industry including:

- **Privatisation of the 4 major container ports in Australia has improved dynamism but they are currently under-regulated.** The Essential Services Commission of Victoria found in 2020 that the Port of Melbourne had exercised its market power in charging land rents to port operators.
- **Growth in shipping capacity and growth in vessel sizes has led to shipping lines consolidating, forming alliances, and entering into other co-operation agreements.** This has increased shipping lines' bargaining power. Larger vessels have adversely impacted on productivity of ports as they require investment from ports and stevedores to offload and move cargo.
- **Productivity has stagnated, despite investment.** Over the past decade, Australian stevedores have invested billions of dollars in infrastructure and more efficient equipment at Australian container terminals. However, recent studies have shown that Australian container ports are relatively inefficient and well below international best practices.
- **Industrial relations are hurting Australian container ports.** Restrictive work practices and industrial actions have escalated over the past decade. This has contributed to the relatively poor performance of Australian ports and has caused ongoing disruptions to the entire supply chain.

Industrial strike action at shipping ports has led to significant anxiety and stress for business operators in the food and grocery sector. Industrial dispute action has led to a delay in container movement and warehousing backlogs impacting local businesses and the consumer. This has significant implications for the FMCG sector where inputs, ingredients and finished goods have limited shelf-life and are prone to infestation. The ACCC notes that in the past 3 years,

“...industrial action has disrupted port operations continuously, causing significant delays, increased costs and loss of business. For example... an exporter stated that it had to deliver its cargo to another port for a period of 3 weeks due to industrial actions. This cost the exporter \$200,000 and resulted in delays, which caused the exporter to miss shipping windows and risk exceeding contracted timeframes.”

The AFGC has received consistent feedback of missed shipping windows and significant cost implications leading to a loss of business and product wastage. There are also concerns of shipping lines spending significantly more time waiting for Australian container ports, compared to overseas counterparts, particularly as they employ larger vessels. This increases the opportunity cost of vessels waiting at Australian container ports and missing their next scheduled window. This has reduced the number of shipping lines services to Australia. The ACCC found that,

“A recent study by the World Bank and IHS Markit showed that even before the recent logistical issues caused by the pandemic, Australian container ports were relatively inefficient and well below international best practices. The study ranked Australia’s largest container ports, Melbourne, and Sydney, in the bottom 15% and 10%, respectively, of the 351 global ports in the study. Data published by the United Nations Conference on Trade and Development (UNCTAD) also shows that in 2019, the median in-port time for container ships visiting Australia was 3 times longer than Japan, twice as long as China and 50% longer than Singapore or New Zealand.”

There are several other underlying and emerging market issues in the maritime logistics system that may add further costs to end-users. For example, shipping carriers are expected to attract premium freight rates as they upgrade and transition existing fleets to operate using cleaner fuels such as hydrogen.

THE OPERATIONAL EFFICIENCY OF THE MARITIME LOGISTICS SYSTEM CAN BE IMPROVED VIA REGULATORY, LEGAL AND STRUCTURAL REFORM

The way in which terminal access, storage and detention charges are being administered should be closely examined. Given the market power of stevedores and shipping lines, consideration should be given to introducing regulations that require stevedores to levy their charges on their commercial shipping clients rather than on third party transport operators and ultimately passed through to food and grocery businesses. This would assist in managing future terminal access charges.

The AFGC has multiple examples of extreme and unreasonable detention charges that are being absorbed by food and grocery businesses. There are also several examples of new tariffs and surcharges imposed by parties in the supply chain with little regulatory oversight. These costs are being absorbed with unsustainable pace. Current prices have escalated 10-fold over the past 12 months. These charges are unlikely to subside over the short-to-medium term, further impacting the profitability and hence viability of food and grocery manufacturers and distributors. AFGC member businesses have absorbed millions of dollars in additional terminal access charges, surcharge, and detention fees over the past few years. The current rate of growth and lack of regulatory oversight of these charges is having a material impact on business viability. These shipping cost increases are particularly challenging for the sector to bear on the back of a decade in which rises in input costs have exceeded increases in output prices, resulting in a fall in sector profitability from \$8bn to \$5bn as highlighted in the AFGC [Sustaining Australia 2030 report](#).

There is a lack of transparency provided by stevedores as to why certain fees or charges are levied or why they are increasing. AFGC members have raised concerns that landside charges are too high and have increased significantly over a short period of time. In recent years, terminal access charges (TACs) have increased significantly without any improvements in landside productivity. The brunt of these costs should be borne by shipping lines accessing terminals.

The repeal of Part X of the *Competition and Consumer Act 2010*, with the retention of shipper collective bargaining provisions should also be considered. Several reviews of Part X have recommended it be repealed or reformed, with concerns that it is not considering net public benefits. In 2015, the Competition Policy Review (Harper Review), recommended that Part X should be repealed

“A block exemption granted by the ACCC should be available for liner shipping agreements that meet a standard of pro-competitive features”

The ACCC has also proposed to develop a class exemption. This class exemption would provide legal protection for certain types of coordination among liners and their customers without having to apply to the ACCC. In a public review seeking stakeholder views on a possible class exemption, overall stakeholders were supportive of a liner class exemption limited to operational coordination that should not include prices.

The repeal of Part X would leave foreign owned shipping lines to operate in line with competition laws faced by other businesses involved in Australian commerce. For foreign owned shipping lines to have ongoing protections, the ACCC could administer processes to safeguard exporters' and importers' interests and monitor the appropriateness of shipping line (and contracted stevedore / empty container park) surcharges, fees and penalties. There is growing risk that without repeal that shipping lines could use Part X to artificially elevate freight rates in the future.

A public performance metric of all Australian ports will assist with business planning and certainty and increase the confidence of using the maritime logistics system into the future. Public performance metrics also incentivise port operators to better compete based on the quantity and volume of vessels awaiting discharge, docking delay times, port omissions, associated fees and charges, number of vessels in demurrage and current congestion rates.

PERMANENT EXEMPTION NEEDED FOR COASTAL TRADING

Recent damage to the rail connection between the East and West Coast of Australia demonstrates the vulnerability of relying solely on primary connections for the critical movement of goods. The Federal government's response with section 11 exemption of the *Coastal Trading (Revitalising Australian Shipping) Act 2012* for voyages by container and roll-on, roll-off vessels to Western Australia until 31 March 2022 was a welcome step to ensure the continued supply of critical goods to Western Australia. The continuation of this exemption should be further explored as it diversifies freight options when and if needed.

ADDITIONAL INFRASTRUCTURE REQUIRED

There are several smaller ports in Australia with the potential to provide alternative access points to shipping lines. With adequate investment, including road and rail link to terminals, they could be used as

part of contingency access points when larger ports are congested. This may reduce cost-associated pressures on industry in relation to detention and demurrage fees. Ports can also greatly benefit from greater rail access. Over-reliance on trucks, with a projected doubling of the number of trucks required can lead to greater congestion and increase in costs. The potential to better integrate rail into the supply chain can increase capacity and efficiencies at the ports. Transport by rail compared to road is considered more efficient for large volumes of cargo. Increases in rail capacity can benefit farmers and other regional exporters who currently rely more on rail.

CONCLUSION

Food and grocery manufacturing and distribution is critical in delivering Australian's everyday nutritional, personal care and domestic household needs as well as supplying products to health and aged care facilities, educational institutions, workplaces, and restaurants. Persistent underlying market issues in the maritime logistics system, exacerbated by the global response to the COVID-19 pandemic, is having a material impact on the sector's ability to meet these needs with long-term implications for the sector's viability, profitability, and sustainability in Australia. The AFGC presents seven key recommendations to improve the operational efficiency and resilience of the maritime logistics system. The issues raised in this submission are having a material impact on the food and grocery supply industry's profitability, competitiveness, and sustainability. Terminal access charges, as well as container congestion, detention, demurrage, and other ad-hoc port charges must be reviewed to ensure reasonable policies and charges are administered through to the end-user. A public performance metric of all Australian ports may act to drive competition in the sector. Regulatory reforms via the repeal of Part X of the Competition and Consumer Act 2010 and consideration for the permanence of section 11 exemption of the Coastal Trading (Revitalising Australian Shipping) Act 2012 can act to diversify options, improve resilience and efficiencies. A review of waterfront industrial relations and increased infrastructure investment may also act to support a more resilient and efficient maritime logistics system.

