

**PRODUCTIVITY COMMISSION  
SUBMISSION –  
AUSTRALIA’S MARITIME LOGISTICS SYSTEM  
INQUIRY**



**SUBMISSION OF:** **SOUTH AUSTRALIAN WINE INDUSTRY  
ASSOCIATION INCORPORATED**

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## **Executive Summary**

The South Australian Wine Industry Association (SAWIA) is an employer and industry association representing the interests of wine grape growers and wine producers throughout the state of South Australia.

The South Australian wine industry is a key export industry relying on the maritime logistics sector to take South Australian products to overseas markets and for the importation of key supplies and equipment.

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.

Over the last two years the South Australian wine industry has experienced significant challenges associated with international shipping, including delays, difficulty accessing shipping containers, significant cost increases and shipping bypassing Adelaide all together.

Wineries have reported orders being cancelled due to inability to secure shipping to markets in a timely manner.

Whilst COVID-19 is a major contributing factor to the challenges it is not the single cause. Australian ports have been internationally uncompetitive with greater costs, worse performance and reliability than our international competitors well before the outbreak of the global pandemic.

The South Australian wine industry is a predominately regionally based industry, with wine producers located in the State's 18 regions. This often means there is an essential need to transport finished products a great distance from the winery to the port or airport.

However, the South Australian road network is in major need of maintenance and upgrades. This situation does not assist the effective transportation of wine and other products to be exported to international markets.

Looking ahead, the South Australian wine industry does not expect the challenges to resolve in 2022, but to remain the same or even get worse.

SAWIA appreciates that there is no quick fix and that Federal or State Government's may have little power and influence over some of the issues. However, the Federal Government should be able to alleviate some of the delays in the short-term and to instigate reforms and infrastructure improvements to lift long-term performance.

## **South Australian Wine Industry Association**

The South Australian Wine Industry Association (SAWIA) is an employer and industry association representing the interests of wine grape growers and wine producers throughout the state of South Australia. SAWIA (as it is known today) was established in 1840 as the *Society for the Introduction of Vines*.

SAWIA is a not-for-profit incorporated association, funded by voluntary member subscriptions, grants and fee for service activities, whose mission is to provide leadership, advice and support to South Australian grape and wine businesses assisting them to prosper within a dynamic, diverse industry.

SAWIA membership represents approximately 96% of the grapes crushed in South Australia and about 36% of the land under viticulture. Each major wine region within South Australia is represented on the board governing our activities.

SAWIA has a strong track record as an industry leader and innovator in many areas. SAWIA pro-actively represents members and the greater wine industry with government and related agencies in all aspects of business in the wine sector.

What SAWIA does for members is covered in four key areas:

- Representation and Leadership
- Advice and Information
- Products and Services; and
- Promotion and Opportunities.

## **Background and overview of the South Australian wine industry**

SAWIA is pleased to make this submission to the Productivity Commission's (PC) Inquiry into the long-term productivity of Australia's maritime logistics system.

This submission addresses the following terms of reference of the inquiry:

2. the broader economic impact of the maritime logistics sector, and the sectors' 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.
5. mechanisms to help improve the sector's resilience and efficiency.

The South Australian wine industry is a key export industry relying on the maritime logistics sector to take South Australian products to overseas markets. In addition, the industry is reliant on the importation of many key supplies, additives, machinery, tools and equipment via international shipping channels.

Unlike other manufacturing sectors, the wine industry's viticultural foundations require long lead times to produce a crop and based on the vagaries of nature each vintage, make the balance of supply and demand 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.

Figure 1: Crush by State<sup>1</sup>

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

South Australia's 18 wine regions stretch from Southern Flinders Ranges in the North to Mount Gambier in the South, Kangaroo Island in the West to Riverland in the East.

South Australia has 1,200 licensed producers<sup>2</sup>. 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 Australia<sup>3</sup>.

The wineries in South Australia are world class and continue to be internationally recognised for their quality and cellar doors. Three of South Australia's vineyards made it into the 2021 world's top-50 wine tourism destinations – Henschke's Eden Valley estate, d'Arenberg in McLaren Vale and Penfolds Magill Estate.

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 State<sup>4</sup>

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%

In 2021, 813 wine producers exported South Australian wine.

A significant volume and value of South Australian wine will continue to be heavily impacted by the March 2021 confirmation of the imposition of 218% duties imposed by China, effectively closing that market to Australian bottled wine until 2026. The China market was valued at \$1.2b for Australian wine (\$700m for SA).

Up until December 2021, wine was the largest export commodity in South Australia based on value. However, due to a 33% fall (\$637M) in export value in the year to December 2021, wine has now been overtaken by wheat<sup>5</sup>.

<sup>1</sup> Wine Australia 2021, National Vintage Report 2021

<sup>2</sup> South Australian Government, Consumer and Business Services 2019

<sup>3</sup> 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.

<sup>4</sup> Wine Australia 2022, South Australia, State Export Report, 12 months to 31 December 2021

According to Wine Australia, nationally 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 industry<sup>6</sup>.

In order to make up for the lost volume and value, the industry is seeking to increase exports to the 96 countries where Australian wine is already exported to as a way diversifying. This means seeking to secure shipping to a large number of different countries with different routes and requirements. Hence, timely and cost-effective shipping is a key condition in order to diversify and build increased exports to other markets.

### **International shipping and the South Australian wine industry**

A survey undertaken by SAWIA in January-February 2022, demonstrate that the top five export destinations are as follows:

<b>Rank</b>	<b>Country</b>	<b>% of respondents</b>
1	UK	82%
	Canada	
	Singapore	
2	US	79%
	Hong Kong	
3	EU, exl Germany	75%
4	NZ	71%
5	South Korea	69%
	Japan	

The main Australian ports used by South Australian wine producers are Port Adelaide (100%), Melbourne (71%) and Sydney (14%). The industry relies on a multitude of logistics companies and shipping carriers.

SAWIA members export not just bottled wine and bulk wine, but also grape alcohol, brandy, brandy distillate, grape juice, wine additives, wine barrels and much more.

The industry is also 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 the South Australian wine industry has experienced significant challenges associated with international shipping. This includes delay in departures (77% of respondents experiencing this always or often), difficulty accessing shipping containers (65% of respondents experiencing this always or often), delay in delivery of goods (60% of respondents experiencing this always or often) and delays to pick up of goods (58% of respondents experiencing this always or often).

Worryingly, 40% of respondents have had experience with missing port always or often.

Wine Australia has also recently attested to 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*

<sup>5</sup> Government of South Australia, Department of Treasury and Finance, 2022, SA Overseas Exports, December 2021

<sup>6</sup> 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>

*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 2022<sup>7</sup>.*

The Australian Competition and Consumer Commission (ACCC)<sup>8</sup> 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 China.

In terms of costs of international shipping, 63% of SAWIA members have experienced cost increases in the range of 100-200%, 15% in the range of 200-400% and 7% in the range of 400-600% in the last 12 months.

By way of example, one of our largest wine producing members with a presence in more than 100 markets have experienced a 400% increase in shipping costs over the last two years. In terms of timeliness and reliability, according to this member, 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, members have explained that 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), where the increased costs are incurred by the customer. However, this may flow on to the wine producer via requests for price reductions/discounts. Members have also reported on some shipments no longer being profitable due to cost increases.

SAWIA appreciates that these challenges are not unique to the wine industry. As highlighted in the ACCC's Stevedoring report, the COVID-19 pandemic has "*derailed the global container freight supply chain*"<sup>9</sup>. This has resulted in:

- Fleet trapped in port waiting queues
- Containers stuck 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

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<sup>7</sup> 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>

<sup>8</sup> Australian Consumer and Competition Commission 2021, Container stevedoring monitoring report, 2020-21, October 2021

<sup>9</sup> Ibid. p. ix

- Inability to meet contractual obligations.

Members have reported orders being cancelled due to inability to secure shipping to markets in a timely manner.

Clearly, this is not sustainable in the long term.

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

- Gain access to as many different freight routes and trans shipment ports as possible
- Reconfigure the shipping cycle for exported goods
- Make changes to production scheduling to enable the winery to meet earlier shipment requirements
- Start the process earlier to allow time for ongoing delays
- Working with freight forwarders to lock in future shipping rates where possible
- Increase inventory to avoid disruption
- Inventory sourced from alternative countries, and
- Notify customers of shipping delays to so they can manage their orders accordingly.

However, members have explained that the lack of space on ships and longer delays continue to negate many of the changes implemented.

Looking ahead, 46% of SAWIA members expect the current situation to be about the same, with 45% expecting the situation to get worse or much worse. This is based on direct feedback to members from shipping lines and brokers advising of price increases, less vessels arriving in Adelaide and a backlog of freight orders to action.

Whilst COVID-19 is a major contributing factor to the problems and challenges above, it is not the single cause. Australian ports have been internationally uncompetitive with greater costs, worse performance and reliability than our international competitors well before the outbreak of the global pandemic. COVID-19 has further exacerbated the systemic issues in Australian ports.

In addition, some members have been frustrated by what has been perceived as inefficient inspection and approval processes by Government regulatory bodies, delaying clearance for up to two weeks.

These systemic and long-term issues hurt Australia's global competitiveness, particularly export-reliant industries, including the Australian wine industry.

## **Long-term performance of Australian ports**

According to ACCC<sup>10</sup>, Australian ports have a poor reputation and are known for being relatively inefficient with a performance ranking well below international best practice. 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, and
- Protracted industrial disputes resulting in loss of working hours.

This cannot be allowed to continue and action is required by the Federal Government. For an island-continent like Australia, reliable, efficient and cost-effective shipping is crucial to our economic performance.

A major cause of the problem according to the ACCC is restrictive work practices, including severe limitations on the ability to recruit, allocate and roster staff, outsource work and implement new technology, imposed via enterprise agreements. The higher costs and inefficiencies in the end damage not just export-reliant industries, but overall Australia's global competitiveness, as noted below:

*"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"<sup>11</sup>.*

Ports and stevedores are responsible for the negotiation of enterprise agreements with terms that support and facilitate productivity improvements, and not agreeing to terms and conditions which damage their own operational performance and competitiveness. However, it should be noted that many of the current enterprise agreements have been approved only after significant days in dispute, up to two and a half years in some cases.

The current industrial relations system under the *Fair Work Act 2009* and the Fair Work Commission overseeing applications for industrial action and enterprise agreements, appears to embolden unions in winning terms which cement restrictive work practices in critical national infrastructure, including the maritime logistics system.

The Federal Government has the ultimate responsibility in allowing this to happen. ACCC has, in consecutive Container Stevedoring monitoring reports, noted issues in relation to prolonged industrial disputation.

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

<sup>11</sup> Australian Consumer and Competition Commission 2021, Container stevedoring monitoring report, 2020-21, October 2021, p. 67



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”<sup>12</sup>.*

In addition, Australia’s industrial relations framework has been extensively reviewed and evaluated, including by the Productivity Commission in their 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 and patterns of engagement in the labour market
- 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 are causing significant harm. However, SAWIA is unaware of the Federal Government responding to the recommendations via legislation.

Whilst this inquiry was completed in 2015 and there have been significant developments in the Australian economy since, SAWIA would recommend the Productivity Commission also consider this report in the context of the workforce and industrial relations context.

SAWIA understands that there has been a recent announcement by Patrick Terminals of an in-principle agreement for a new enterprise agreement removing some of the restrictive work practices<sup>13</sup>. However, it is too early to say whether this is an isolated improvement or an industry-wide trend.

### **Infrastructure and interlinkages**

The South Australian wine industry is a predominately regionally based industry, with wine producers located in the State’s 18 regions. This often means there is an essential need to transport finished products a great distance from the winery to the port or airport. Hence, interlinkages with road transport, rail transport, maritime transport and air cargo network are essential both within South Australia and nationally.

According to the ACCC, over the last decade only 10-12% of containers arriving or leaving Australia are transported by rail, with the majority transported by trucks. If this split continues into the future, this could result in increased road congestion<sup>14</sup>. Hence, there is a need for improving rail capacity nationally.

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<sup>12</sup> Australian Consumer and Competition Commission 2021, Container stevedoring monitoring report, 2017-18, October 2018, p. 14

<sup>13</sup> Australian Financial Review 2022, David Marin-Guzman, February 7 2022.

<sup>14</sup> Australian Consumer and Competition Commission 2021, Container stevedoring monitoring report, 2020-21, October 2021

The rail market share of freight containers has increased with over 16% in Adelaide since 2013-14, whereas it has declined with one percent nationally during the same period<sup>15</sup>. Adelaide tops the five major Australian ports with a rail market share of more than 20%, compared to 6% in Melbourne and 15% in Sydney.

ACCC has reported that both Port of Melbourne and Port Botany are making investments to provide for on-dock rail access over the next couple of years. It is important that this is monitored once completed to ensure that it makes a contribution to a more balanced split between rail and road container freight and thereby more efficient transportation of goods to the ports.

It is also important to ensure that the ports have the capacity to take larger bulk carriers, and particular concerns have been raised about the Adelaide port in this regard.

The Federal Government has identified road and rail corridors that are of national importance. This is referred to as the National Land Transport Network<sup>16</sup>. In South Australia, this includes the Sturt Highway, Dukes Highway, Riddoch Highway and Princes Highway and the Melbourne to Adelaide and Sydney to Adelaide rail lines to name a few.

A number of road infrastructure projects as part of the National Land Transport Network have been identified, including the Sturt Highway (Renmark to Gawler) project, supported by the Federal and the South Australian State Government.



Source: Department of Infrastructure, Transport, Regional Development and Communications 2020

<sup>15</sup> Ibid

<sup>16</sup> Department of Infrastructure, Transport, Regional Development and Communications 2020, [https://investment.infrastructure.gov.au/about/the\\_national\\_land\\_transport\\_network.aspx](https://investment.infrastructure.gov.au/about/the_national_land_transport_network.aspx)

However, there is a need for further transport infrastructure improvements. According to Infrastructure SA<sup>17</sup>, the South Australian road network at present, falls behind the national target of 80% of all road rating above three stars. Of all roads in South Australia, 74% are rated at one or two stars out of five.

This is also supported by Infrastructure Australia<sup>18</sup> which estimates that 75% of state-owned roads in South Australia are life-expired and require maintenance. This situation does not assist the effective transportation of wine and other products to be exported to international markets.

SAWIA recognises the responsibility of State Governments in funding these improvements. In South Australia, a 20-Year State Infrastructure Strategy was released in 2020. It sets out the need for new, improved and maintained infrastructure via sealing specific roads, widening, shoulder sealing, passing lanes on regional roads and improved parking and pull-out areas.

In conjunction with the State Infrastructure Strategy, Infrastructure South Australia releases an annual Capital Intentions Statement which identifies infrastructure projects which should be given special consideration or be implemented in the next five years.

SAWIA notes that the 2021 Capital Intentions Statement also includes a project which is of relevance to the wine industry, namely the Sturt Highway and Truro bypass project.

### **Action by State and Federal Governments**

The COVID-19 pandemic has put the maritime logistics system under immense strain globally. There have been numerous reports in the media of major delays and bottlenecks at US ports, UK ports and ports in continental Europe, with a further deterioration predicted<sup>19</sup>.

SAWIA appreciates that there is no quick fix and that Federal or State Government's may have little power and influence to address this in the immediate future.

However, the Federal Government should be able to alleviate some of the delays in the short-term and to instigate reforms and infrastructure improvements to lift long-term performance.

This includes:

- Federal Government to initiate high-level discussions with shipping lines to discuss how to secure more vessels to Australia
- Reduce waiting times for goods to clear quarantine, customs and other regulatory inspections/approvals
- Pursue industrial relations reforms on the waterfront to improve productivity at ports and stevedoring operations to at least the global benchmark, and
- Investigate capacity issues at Port Adelaide for bulk carriers.

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<sup>17</sup> Infrastructure SA 2020, 20-year State Infrastructure Strategy, May 2020

<sup>18</sup> Infrastructure Australia 2021, South Australian road network maintenance, <https://www.infrastructureaustralia.gov.au/map/south-australian-road-network-maintenance>

<sup>19</sup> Reuters 2022, <https://www.reuters.com/business/global-container-flows-struggle-pick-up-speed-data-shows-2022-02-02/>; S&P Global 2022, <https://www.spglobal.com/platts/en/market-insights/latest-news/shipping/011222-port-congestion-in-key-europe-us-gateways-continues-to-deteriorate-sea-intelligence>, The Loadstar 2022, <https://theloadstar.com/no-happy-new-year-for-shippers-maersk-warns-of-more-supply-chain-delays/>;

SAWIA looks forward to continuing to engage with this inquiry to improve the sector's resilience and Australia's competitiveness as an exporting nation.

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