

BCA

Business Council of Australia

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

February 2022

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- BCA Submission to the Simplified Trade System Stakeholder Consultation Paper Submission

Introduction

The Business Council of Australia (BCA) appreciates the opportunity to provide a submission to the Productivity Commission's inquiry into Australia's Maritime Logistics System. Our membership includes major participants from across the nation's supply chains, including retailers, miners, manufacturers, freight and logistics companies, and industrial landowners.

Australia's sea ports are the gateway thorough which much of the nation's trade travels. In 2018-19 the combined value of Australia's maritime imports and exports exceeded \$550 billion¹, with over 1.5 billion tonnes moved by ship². This ranged from goods and equipment, through agricultural products, and to raw materials, energy products, and minerals.

Over the past two years there have been significant disruptions to global supply chains as a result of pandemic-induced challenges. This has pushed up the cost of traded goods and added to inflationary pressures. Moreover, these disruptions have severely tested the resilience of the global supply chains serving Australia and highlighted the limitations in their ability to withstand external shocks. This is a critical issue, given not only the significance of trade to the Australian economy, but also the growing uncertainty in the strategic and trade environment in the Indo-Pacific.

The *Container stevedoring monitoring report* released by the ACCC in October 2021 highlights underlying issues in servicing the nation's maritime logistics needs, beyond those caused by COVID-19. This includes the performance of Australian container ports relative to their global peers, reduced competition in the global shipping industry, as well as restrictive industrial instruments and practices that potentially harm productivity and increase disruption.

The focus of this submission is largely around container ports on the east coast. An observation made by one member company in relation to the container trade was particularly telling:

"We are paying the most we have ever paid, for the worst service level we have ever received".

In this context, the BCA welcomes the fact that the Productivity Commission is investigating these issues, and we look forward to engaging with the findings and recommendations that will come out of this work.

Issues covered in this submission

The BCA membership raised a number of matters, which cut across the terms of reference, with a focus on east coast container ports. In that context, the focus of this submission is on container trade in particular. Key topics addressed include:

- Landside transport and planning.
- Port and shipping productivity and fees.
- Cross border regulatory frameworks.

¹ Bureau of Infrastructure and Transport Research Economics, *Australian Sea Freight 2018-19*, July 2021

² Bureau of Infrastructure and Transport Research Economics, *Australian Infrastructure and Transport Statistics Yearbook 2021*, December 2021

Recommendations

- Ports and their adjacent industrial land are central to the nation's trading infrastructure and should be protected from urban encroachment. This ensures facilities that support the operation of a port are able to be optimally located, and they are able to operate without noise or time constraints.
- The capacity and reliability of the rail freight system needs further investment if it is to continue to attract new users. In particular, the rail system servicing the Port of Melbourne, including the city's intermodal terminal network, needs to be expanded.
- In recognition of the importance of road capacity in servicing container ports, improvements to the roads serving the nation's ports and their surrounding industrial precincts should be a national priority.
- The full extent of productivity issues at the nation's container ports and their causes should be examined and laid bare. The flow on impacts of these issues, to the supply chain and the broader economy also need to be better understood, and if warranted, options for government intervention should be considered.
- The impact that a consolidated shipping industry is having on Australian importers and exports should be examined. Measures to improve competition and service from shipping lines servicing Australian ports should be identified.
- At face value there is a disconnect between the fees charged by stevedores to landside transport providers; the freight customers who are contracting shipping lines; and the shipping lines who deal with the stevedores. This diminishes the ability for end customers to negotiate and apply competitive pressures in relation to these fees, and so may require new measures that introduce a competitive dynamic around these charges.
- The Victorian Government has introduced measures to improve transparency in the reasoning for fee increases and in the performance of stevedores. This data should be interrogated to assess whether this new transparency is producing positive and tangible outcomes.
- There should be an examination of current cabotage restrictions that can hinder competition in the domestic shipping market; noting counter arguments around competitive fairness with other modes that are subject to local regulations.
- The inquiry should identify regulatory barriers to cross border trade through ports, with the priority to make cross border trade cheaper, faster and easier.

Landside transport and planning

Urban encroachment and port adjacent land

It is important that industrial lands around major ports are preserved from encroachment. Ports and adjacent industrial facilities should be able to operate 24/7 to allow for operational flexibility. This is only possible if there is appropriate separation from residential property.

Urban encroachment reduces land available to service the import and export task around ports. It introduces conflict between industrial and residential land uses, with the potential for operational constraints and costs being imposed on ports and their supporting industrial facilities for noise mitigation.

Storage and logistics activities require supporting infrastructure. This includes general warehousing, cold storage facilities, empty container parks, truck marshalling areas and the like. Extended distance can create operational inefficiencies, adding extra trucks to road networks and creating further congestion and bottle necks. This can lead to further emissions, additional congestion, and trigger the need to bring forward other transport infrastructure investment.

Australia's container trade mix will continue to generate surplus empty containers. This creates demand for storage parks located close to ports to allow for rapid transport to ships. Colocation of empty container storage near ports reduces the cost of transport and truck movements, and facilitates opportunistic loading of empty containers onto ships about to depart.

The market has mechanisms to ensure that industrial activities that benefit from a proximity to the port have access; while those that do not require this proximity locate elsewhere. In particular, there is typically a price premium on industrial land adjacent to ports.

There are opportunities to intensify the use of premium industrial land. One member has provided the example of multi-story warehousing, which can help overcome the limits of sparse industrial land in highly sought-after locations. A multi-story warehouse brings additional cost and complexity, so is only feasible where there is strong locational benefits and limited land.

Recommendation

- Ports and their adjacent industrial land are central to the nation's trading infrastructure and should be protected from urban encroachment. This ensures facilities that support the operation of a port are able to be optimally located, and they are able to operate without noise or time constraints.

Maritime freight's interaction with other forms of transport

Port facilities need effective ground transport infrastructure to facilitate efficient operations.

Rail freight

Some BCA members indicated extensive use of rail freight to move cargo from ports. The attraction to rail included the ability to avoid congested roads, as well as environmental benefits in comparison to trucks.

Others indicated a desire to use rail, subject to further improvements in the rail freight system. The case put against the use of rail was that it was constrained by capacity and availability, as well as often suffering from delay.

In the context of rail connections into container ports, Port Botany in Sydney and the Port of Melbourne were the two that received greatest mention. These were both the container ports most relied upon, and also viewed as most constrained in terms of landside access.

Of these two ports, rail was much more likely to be used to transport cargo from Port Botany in Sydney, where it provided an alternative to the congested road network. Botany is serviced by a dedicated freight line, which is currently being further upgraded. There are multiple intermodal terminals in Sydney, and further investment in the terminal network is already underway.

In contrast, the Port of Melbourne was seen as requiring further work, with some container terminals within the Port not accessible by rail, and a lack of intermodal infrastructure though the city. One member did highlight recent positive discussions in Melbourne around the rectification of these inadequacies.

Recommendation

- The capacity and reliability of the rail freight system needs further investment if it is to continue to attract new users. In particular, the rail system servicing the Port of Melbourne, including the city's intermodal terminal network, needs to be expanded.

Road freight

The importance of good quality, uncongested road access was raised by a number of members as being of high importance.

Road access is vital, not just for the ports but for industrial land that surrounds and supports the ports. The vast majority of containerised cargo moving to and from ships travels by truck. This is only forecast to marginally change in the coming years, with targets for rail freight mode share still being a fraction of road movements.

On the east coast, Port Botany was identified as being serviced by the most congested road network. Its proximity to other major traffic generators and location within the broader city were highlighted as making it more difficult to serve. Surrounding industrial precincts, such as Banksmeadow, were also seen as needing improved road access. New road infrastructure in the form of the WestConnex motorway and Sydney Gateway, together with localised pinch point improvements, are being delivered.

Recommendation

- In recognition of the importance of road capacity in servicing container ports, improvements to the roads serving the nation's ports and their surrounding industrial precincts should be a national priority.

Air Freight

Air freight is used to transport high priority and high value goods, ranging from retail items (in particular supporting the eCommerce industry) to high-value fresh produce, pharmaceuticals, and specialist parts.

This contrasts with maritime freight operations, which handle containerised goods, bulk (both dry and liquid) and break-bulk product, and large scale equipment (including vehicles).

Air freight essentially operates as a separate market to maritime freight. This was a view shared by members involved in the air freight industry, and those that were customers of the broader freight industry. During the pandemic, when there had been a fall away in passenger aircraft servicing Australia, much of the cargo typically moved on these services shifted to dedicated air freighters.

Port and shipping productivity and fees

Container port productivity

Members' observations back the assessment of the ACCC that productivity at the nation's container ports is suboptimal and needs to be lifted. There is a clear view that even prior to the impacts of COVID-19, performance was in need of improvement.

While COVID-19 has had further obvious impacts on the operations at the nation's ports, industrial relations matters appear to be compounding the issue. Rather than extended strike action, industrial delays appear to be occurring due to reduced hours and artificial limits on productivity.

Customers often lack visibility as to what is happening. While they pay for a service, it can still take days to get access to their container out of a port. Further, with enterprise bargaining negotiations continuing at some ports and with some stevedores, industrial actions are ongoing, and it is not clear when they will come to a head.

One member observed that 'just in time' supply chains were simply not possible in this environment, with a need to carry greater amounts of stock to prevent disruption for their customers. Furthermore, domestic inefficiencies were often borne by the customer, with demurrage and detention charges cited as being passed on to freight customers.

Another member expressed the view that port performance has impacted shipping lines' willingness to prioritise Australia, with service levels creating uncertainty for ships.

Recommendation

- The full extent of productivity issues at the nation's container ports and their causes should be examined and laid bare. The flow on impacts of these issues, to the supply chain and the broader economy also need to be better understood, and if warranted, options for government intervention should be considered.

Consolidation of shipping lines

A number of members have raised the consolidation of shipping lines and formation of a small number of 'alliances' over the last several years as an issue which has led to a reduction in competition and service levels. Even large importers report a lack of any substantial leverage in their dealings with shipping lines.

There has been a reported reduction in choice of services, with delays observed due to a greater requirement to have containers move through transshipping hubs, more frequent cancellation of sailings, and the addition of time into sailings to save fuel costs. This also reduces overall capacity into Australia. In many cases there may be only one choice of shipping alliance for a particular import requirement, meaning there is no alternative options available in respect to pricing and quality level. Even where there are options, they are often similar in terms of their pricing.

Shipping lines are reportedly not honouring contracted rates and capacity, with companies having to pay market spot rates several times their prior contracted prices.

Recommendation

- The impact that a consolidated shipping industry is having on Australian importers and exports should be examined. Measures to improve competition and service from shipping lines servicing Australian ports should be identified.

Stevedore fees and charges

Customers do not have direct control of the stevedore fees being charged to their land transport provider, as they do not have a choice in the stevedore terminal where their containers are landed. It is the shipping line that determines which stevedore is used. As already discussed, there is limited competition between shipping lines on many routes. The limited ability to move between shipping lines, also limits which stevedore is used.

There has been a substantial cost increase from stevedores to discharge containers over the last few years, with a significant fee per container. The tariffs charged are different depending on the port, and typically increase annually with no context as to reasoning.

These 'infrastructure charges' are a relatively recent phenomenon, and now in addition to that, COVID-19 levies have been introduced. There is poor visibility on how these fees are being spent to the benefit of customers, with several members forming the view that there are no productivity benefits being seen for these charges.

Fees from the stevedores are being passed through from trucking companies, and generally are being factored into the cost of goods sold.

There has been limited movement from governments on this issue. The Victorian Government has introduced the Voluntary Port Performance Model in response to fee increases by stevedores at the Port of Melbourne. This is a positive step in at least providing better transparency. The inquiry should however interrogate the data made available under this Model; including the cost increases that have occurred, explanations provided by stevedores, and the reported changes in performance. If there is limited correlation between increased prices and performance, then other measures beyond providing transparency may be needed.

Recommendation

- At face value there is a disconnect between the fees charged by stevedores to landside transport providers; the freight customers who are contracting shipping lines; and the shipping lines who deal with the stevedores. This diminishes the ability for end customers to negotiate and apply competitive pressures in relation to these fees, and so may require new measures that introduce a competitive dynamic around these charges.
- The Victorian Government has introduced measures to improve transparency in the reasoning for fee increases and in the performance of stevedores. This data should be interrogated to assess whether this new transparency is producing positive and tangible outcomes.

Coastal and domestic shipping

Members use of coastal shipping varies depending on their particular supply chain needs. Some members indicated they were significant users of coastal shipping services for the internal movement of product and supplies within their operations.

From a customer perspective, it is important that national policies allow for competition on domestic routes. Flexibility and reductions in red tape are therefore priorities in this space.

While some freight customers indicated they typically have relied on land freight for transcontinental movement, the increasing frequency of weather events that have impacted interstate transport may require a greater focus on domestic coastal shipping in the future. Recent floods that have disrupted roads and rail lines in South Australia are one such example.

Domestic services to Tasmania were called out by one member as a particular area of concern. Competition on the route is limited to two operators. Issues around prioritisation of goods and industrial challenges were raised, as well as truck turnaround times with Webb dock in Melbourne.

Recommendation

- There should be an examination of current cabotage restrictions that can hinder competition in the domestic shipping market; noting counter arguments around competitive fairness with other modes that are subject to local regulations.

Cross border regulatory framework

Despite the economic importance of trade, the regulatory framework around the movement of goods into and out of Australia lacks coordination, is unnecessarily complex and is often not fully digitised or automated. This results in large numbers of regulatory touch points for individual companies, a burden which may deter businesses from exploring opportunities for trade.

The main costs incurred by businesses under Australia's cross border trade system are delay, compliance and opportunity costs. There is often a lack of information and transparency, delays caused by government process, and duplication and inconsistent interpretation. Government cargo clearance processes often extend past estimated timeframes, and many agencies do not process clearances outside of regular business hours. This leaves cargo that arrives outside business hours sitting idle.

The Business Council supports a 'Single Window model', whereby a national one-stop-shop digital trade platform becomes the sole touch point with which companies engage in relation to their cross-border trade related regulatory requirements. A 'tell us once' and 'digital first' approach should underpin all cross-border trade compliance

The work of the Simplified Trade System Implementation Taskforce, which is looking into this matter, is welcomed. A separate submission has been provided to that Taskforce, and is attached as an appendix to this submission for the Productivity Commission's information.

Recommendation

- The inquiry should identify regulatory barriers to cross border trade through ports, with the priority to make cross border trade cheaper, faster and easier.

BUSINESS COUNCIL OF AUSTRALIA

42/120 Collins Street Melbourne 3000 T 03 8664 2664 F 03 8664 2666 www.bca.com.au

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