



**SA GOVERNMENT SUBMISSION
TO THE
PRODUCTIVITY COMMISSION INQUIRY
INTO INTERNATIONAL LINER CARGO
SHIPPING: A REVIEW OF PART X OF THE
TRADE PRACTICES ACT 1974**

MAY 1999

SA market context

Cargo volumes and ship calls by both conference and non-conference services to and from South Australian ports have increased significantly in recent years, reflecting in particular the strong commercial and marketing focus of the Government and its SA Ports Corporation. As shown in the following table, this growth has occurred in both conference and non-conference services.

	1989	1994	1998
Full Container Vol. (Teu's)			
Conference	19,600	38,300	70,400
Non-Conference	8,000	9,900	14,000
Vessel Calls			
Conference	78	121	203
Non Conference	12	19	82
Ave. Cost to ship TEU			
Europe	\$2,300	\$1,600	\$1,200
SE Asia	\$1,800	\$1,600	\$ 500

(The above rates are an average of the rates as provided by two shipping companies for a full TEU to these destinations)

South Australia represents around 7-8% of the source of Australia's total containerised exports, with almost 2/3 of this traffic now loaded through South Australian ports. These trends indicate that the Part X arrangements have provided a critically important mechanism to ensure that there are frequent, reliable and stable shipping services available for SA shippers in sometimes thin regional trades which otherwise might not constitute commercially viable levels of cargo volumes.

These shipping services have also generally been provided to South Australian shippers at market conservative freight rates and have been of material benefit to many South Australian exporting companies entering new overseas markets.

The present and likely future issues for South Australian shippers are that:

- The South Australian experience has been that market failures in supply of shipping services are likely without intervention mechanisms to create minimum volumes/demand for economies of scale in some regional markets.
- Box rates are at historically low levels and are expected to remain so for the foreseeable future. Whilst the present and continuing low price environment is attractive to shippers, there is a need for economies of scale to achieve commercially viable minimum cargo levels to attract and retain the level and shipping services now enjoyed in South Australian ports, in particular Port Adelaide. In the face of continuing chronic oversupply of shipping and inadequate returns to vessel operators, South Australia is concerned that shipping lines will relocate elsewhere to more rewarding services unless Part X or similar mechanisms are available to support efficiencies in use of shipping and stability in returns.

- A large part of South Australia's total exports by volume are bulk commodities, especially grain, which are effectively natural monopolies for South Australian ports. Increasingly however, South Australia has “won back” a significant proportion of the competitive containerised and breakbulk cargoes to SA ports, which previously used interstate ports. This competition has been based on total transport costs and timeliness due in part to the attraction and retention of frequent and reliable liner shipping services to Port Adelaide.
- There are only limited opportunities for commercially viable alternative transport paths for some trades (in particular low value or time sensitive cargoes) so that loss of services in terms of reduced frequency and/or reliability may at times mean loss of trade. Continuity, availability and reliability of shipping services is therefore considered more important by many South Australian shippers than minimising ocean freight rates.
- Regular scheduled services, reliable transit times and good quality ancillary equipment, especially refrigerated containers are key critical elements in supporting the Prime Minister's “Supermarket to Asia” and the South Australian Government's “Food for the Future” Plan.

South Australian experience with operation of Part X

- SA Ports Corp advise that Conference services are seen by shippers to offer a more reliable shipping service, as generally this type of service runs to a set time-table, whereas, some non-conference lines have in the past bypassed Port Adelaide due to low volumes at certain times during the year. This practice has previously resulted in some South Australian shippers seeking more reliable services operating from the eastern states which may result in South Australian shippers incurring additional transport costs in moving product to Melbourne. Conference trades are also regarded to have a more modern and reliable fleet of vessels, which can reduce the risk in vessel breakdown and the possibility of bypassing a port such as Port Adelaide to make up time.
- Pan Australian freight rates offered by Conference shipping lines also ensure regional Australia, including Adelaide exporters, are not disadvantaged through lack of sufficient volumes to attract high discounts generally available only at high volume ports.
- In South Australia, there does not appear to be any evidence of abuse of market power by conferences, particularly recently in view of the low box rates. In addition, the table above confirms that competition is occurring between conference and non-conference services so that there do not appear to be any significant constraints to market entry. The fact that non-conference service providers exist and are increasing in both absolute and relative terms to Conference services in terms of ship calls is a good measure of the level of competition in South Australia.
- It is believed that lines within the Conference Trade compete with each other on price. It is South Australia's understanding that in this context, import rates are currently higher than export rates. A key issue for South Australia is that extension of Part X or a similar mechanism to cover imports should also be considered as part of this review to provide similar assistance to shippers for transparency of import costs.

- The need for a similar arrangement to Part X for imports is becoming of increasing importance given recent trends in management of imports. For example, most imports historically were on a *free into store* basis but with changes in logistics management and greater use of strategic alliances, there is now an increasing proportion of imports *free on board*. This allows importers to take greater control, for which they increasingly need countervailing powers to negotiate import shipping arrangements in a commercially viable and transparent way.

Alternatives to Part X

South Australia makes the following general points regarding options to Part X:

- In principle South Australia would prefer not to have anti-competitive arrangements in line with its commitment to National Competition Principles, but it does recognise the continuing practical benefits to shippers and shipping lines arising from the present arrangements.
- South Australia is not tied to Part X but needs some form of market regulation/exemption to allow conference activities to continue in the foreseeable future to ensure that an appropriate quality, scope and frequency of shipping services are available in South Australian ports.
- Key risks for SA which must be addressed if Part X is either replaced or modified are:
 - Mechanisms must be available for shipping lines to pool services to achieve minimum economies of scale no less than currently available
 - Outcomes must be predictable and the process must be stable, responsive, consistent, credible and reliable
 - Arrangements must be low cost and minimise administrative effort
 - Adequate countervailing powers need to be available to shippers to match the market power of shipping lines in a predictable and stable way
- South Australia does not support the use of Part VII of the Trade Practices Act as an alternative to “mainstream” shipping service exemptions in a similar way to exemptions in other sectors of the economy. The Part VII process in this context is considered to be:
 - unnecessarily lengthy, complex and expensive compared to Part X because each authorisation or notification puts the onus on the proponent to justify and/or document each exemption to a third party,
 - unable to deliver the level of consistency and stability required by both shippers and shipping lines because it relies on a case by case approach, whereas the present Part X arrangement applies industry-wide. In addition, the risks and benefits of Part X operation have been well documented and are well understood, with appropriate checks and balances now in place through practical experience and also the numerous comprehensive reviews in recent years.