

A REVIEW OF PART X OF THE TRADE PRACTICES ACT 1974

A contribution by INTERLAINE to the Production Commission

INTERLAINE represents the wool-textile trade and industry of the European Union, Australia's largest customer for wool. It is of very considerable importance that wool should be transported to Europe in the most efficient and cost-effective manner.

For some forty years, the Interlaine Freight Committee, in close co-operation with its exporter counterparts in Australia, has negotiated with shipping lines the terms and conditions under which wool is shipped from Australia to Europe (and to a number of additional destinations in the Eastern Mediterranean and the Middle East).

More recently, as Wool Commodity Group (WCG), this structure has been formalised under Australian law within a designated secondary shipper body, the Wool Industry Shipping Group (WISG).

It is the belief of wool receivers in Europe that present arrangements have worked to the benefit of Australian exporters and European importers of wool alike, and that there is no reason for change to the current exemptions for which provision is made under Part X of the Trade Practises Act.

In respect of wool, the following considerations need to be borne in mind :

- ♦ on average some 14-15.000 TEUs (or close to 300.000 tonnes) are carried from Australia to the European area each season.
- ♦ this wool needs to be shipped from all of Australia's major ports to a wide range of ports in Europe and the Eastern Mediterranean.
- ♦ many mills are located at some considerable distance from the nearest ports of arrival. It is therefore essential that efficient on-carriage arrangements exist to enable the wool to reach its final destinations without delay, and at a competitive price.
- ♦ in today's difficult trading environment, European receivers and manufacturers cannot afford to hold large stocks of raw material, they work very much on a "quick response" or "just in time" basis. Hence their need for high-quality service and reliability, rapid transit times, linked to competitive ocean freight rates, and space availability.

- ♦ The existence of the Australia to Europe Liner Association (AELA) in the form permitted by Part X of the TPA provides such a service.

In the light of the above, Interlaine would submit that there is an extremely strong case for the retention, unchanged, of Part X of the Trade Practises Act. The presence of powerful non-conference carriers on the Australian coast (e.g. MSC, Maersk, Evergreen) . Even if certain of these operators are not major wool carriers to Europe today, they certainly would quickly enter the wool industry in a big way if Conference lines attempted to significantly increase their rates ; this is in itself a guarantee that the Conference will not enjoy any quasi-monopolistic position.

But in addition, we believe that in any negotiation on terms and conditions, wool shippers and receivers will be at a relative advantage if they are in a position to negotiate together for the volumes of cargo described above, and as a result, to insist that the level, frequency and quality of service provided should satisfy the requirements of the industry as a whole.

This is important for the Australian economy itself. Whilst there are in the industry a small number of major exporters and receivers, there are also a much greater number of smaller operators. They together make up overall demand. The availability of a quality service for all shippers and receivers to the destinations they require works to the advantage of wool growers in Australia, whose current plight, mainly as a result of the Asian crisis, is well-documented.

In our view, the above comments on service apply equally well to price. In this area too we believe that WCG has been successful in achieving overall reductions in freight rates on behalf of the industry as a whole. This again has been possible as a result of the united front presented by exporters and importers who together are in a position to see the whole scene from point of export through to the final (mill) destination. (We would respectfully commend this approach to other export commodities). In addition, the existing ocean freight rates negotiated are maximum rates. Hence, while the smaller shipper enjoys the protection of knowing that his total freight bill cannot exceed a known amount, a larger shipper/receiver may still choose to seek lower rates for higher volumes.

Recent years have also seen substantial reductions in many inland haulage rates (DZCs) offered by the Conference (AELA).

Ocean freight rates and inland haulage rates for wool have been considerably influenced by the presence of independent carriers on the Australian waterfront . WCG has actively encouraged these lines to carry wool in competition with Conference. In addition to reduced ocean freight rates, a notable success in this context has been in the field of inland haulage rates, a significant part of overall transport costs.

By comparing these (DZCs) costs and presenting the lowest for each destination to the shipping lines, many such rates have been substantially reduced in the past five years.

Interlaine certainly sees competition from non-Conference carriers as an important fact of life in shipping. In wool today the Conference carriers in excess of 2/3 rds of the cargo.

This level does however vary overtime, and has been below 50%. The Conference does not therefore enjoy a monopoly situation, and it has been forced in previous years to invest in new vessels and to sharpen up its service to shippers and receivers as a result of outside competition. In certain areas, and notably the Eastern Mediterranean, it has been forced to drastically reduce its on-carriage rates to certain outports in order to retain a reasonable market share.

Non-Conference carriers have therefore been in a position to compete with Conference lines. They clearly cannot offer the overall service frequencies which the Conference can . On the other hand, they have an ability to take large proportions of cargo from and to those ports where they have the greatest strength. WCG has sought to build on these individual strength, and also to make use of them to achieve improvements in the overall Conference service. We believe that we have been successful in this.

As to the Conference itself, we consider that the exemptions which exist under Part X enable it to organise a level of overall service from Australia and into Europe, including inland haulage rates, which is in proper response to the needs of its customers. A fragmented Conference, unable to pool its resources, would not be able to achieve these levels of service; operating as individual lines, current Conference lines would in all probability be forced into severe competition with each other.

This could mean a short-term price advantage for large shippers. In the long-term, its apparent benefits to the Australian economy would be outweighed by :

- ♦ higher rates overall and more especially for smaller exporters
- ♦ reduced service from and to certain ports (Brisbane - Barcelona - Piraeus)
- ♦ and an overall reduction in competition and higher prices as smaller Conference components were pushed out of the business.

An inability to pool services resources would also inevitably result in a similar inability as far as inland haulage is concerned. These rates could therefore be expected to increase substantially.

We believe that the removal of existing exemptions under Part X could have a further damaging effect upon Australia's exports as a whole, at least in the longer term. As things stand, AELA is committed to a direct service from Australia to Europe, and, as we understand it, does not envisage any form of relay service via Singapore or other Far Eastern ports. Wool shippers and receivers much prefer a direct service. Charges to Part X could encourage one or more of the stronger Conference lines to seek to take greater advantage of the Asia to Europe trade by serving Australia by relay too.

We would be concerned that under such circumstances, Australia would be the loser at times occasions when exports from Asia to Europe were able to fill the second leg vessels at more lucrative rates.

Wool Commodity Group has already had some experience of this nature with existing relay carriers (Hanjin, OOCL).

CONCLUSION

1. The exemptions for which provision is made under Part X of the Trade Practises Act give wool shippers and receivers the opportunity to ensure levels of service for wool which are beneficial to the industry as a whole.
2. Our ability under Part X to negotiate terms and conditions also provides guarantees for smaller shippers and receivers, as well as opportunities for

bigger players to obtain volume discounts. These price issues relate both to ocean freight rates and to inland haulage.

3. There appear to be no real alternatives to the provisions of Part X, other than amendments to other parts of the Act which would in effect have the same significance as Part X itself. In these circumstances, Interlaine suggests that Part X remain unchanged.