



**PORT OF BRISBANE
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PRODUCTIVITY COMMISSION

**Submission
to the Productivity Commission**

The 2004 Review of Part X of the Trade Practices Act 1974

**International Liner Cargo Shipping
Public Exquiry**

Submission to the Productivity Commission

Re: 2004 Review of Part X of the Trade Practices Act 1974: International Liner Cargo Shipping

The Port of Brisbane Corporation is a Government Owned Corporation responsible for the provision of port facilities at Brisbane. The Corporation appreciates the opportunity to make a submission to the Commission regarding the appropriate arrangements for the regulation of international liner shipping services to and from Australia.

As Queensland's largest port management and development entity, the Port of Brisbane Corporation is able to observe, from a neutral perspective, the relative performance of liner shipping services at the port.

This observation includes -

- The complexity of shipping provided by the various conferences under trade facilitation agreements and discussion agreements that service the importers and exporters of Queensland and Northern New South Wales.
- The volume and share of containerised cargoes handled at the port including the positioning of empty equipment required to service our regional commodities.
- The increase and decrease of seasonal commodities, passing through the port, that continually place demands on the provision of shipping space on the berth.
- The change in composition of various consortia and new vessel sharing arrangements that encourage competition. This has been very evident in the Asian trades in since the last review of *Part X of the Trade Practices Act* in 1999.
- An awareness of the relative level and changes to ocean freight rates as they reflect on the availability of shipping space in the short to medium term.
- The introduction on new competitive services to accommodate a burgeoning southbound trade from China.
- The upward trend of ocean freight rates in the large containerised East / West trades that has impacted on empty container equipment in Australia and the need to return that equipment to the more lucrative Asian market.
- The significant increase in ship building and ship operating costs and more recently the rise in bunker fuel charges that for large container vessels are not insignificant.

Access of Australian exporters and importers to competitively priced international liner shipping services

It is our view that the permitting and registering conference agreements is a net benefit to the importers and exporters in our region for the following reason -

- Australia is a small region in the global market and shipping lines need to work under a conference arrangement to co-ordinate services on each individual trade route and operate in an efficient manner to meet the diverse demands of the importer and exporter.
- Since the last review of *Part X of the Trade Practices Act* shipping services have continued to evolve to best meet the demands of each trade and have met their obligations to the Australian exporter at a relatively low freight rate.
- From July '98 to June '99 the Port of Brisbane had 50 shipping services operating on various containerised trades through the port. Eighty per cent of the total throughput was carried by 18 of those services. In the year July '03 to June '04 the number of services had reduced to 42. Eighty per cent of the total throughput was still carried by 18 of those services. The top carrier in both years maintained the same market share.
- Only one major trade (US West Coast) does not make a regular direct call at Brisbane. Cargoes are serviced via Sydney. It is the economics of this trade and demand for a weekly service that determines the ability to provide a direct service to Brisbane. A long transit time offset by number of vessels deployed in the trade determines which ports will gain a direct service.
- Regular scheduled services provide world wide opportunities to local importers and exporters for all other destinations via Brisbane.
- The provision of a regular supply of refrigerated containers by conference shipping services is essential to uplift the important Queensland beef product to Asia and the US. It is only the confidence of shipping lines, operating under a conference arrangement, that make the long-term commitment to the provision of this expensive equipment to the niche Australasian trade viable.
- Reefer equipment and more recently the southbound movement of forty foot general purpose containers has led to the need for shipping lines to position equipment empty. On a north / south trade route this is an additional cost impost that must be carried by the trade. The recent expansion of the southbound China trade is an example of this trade imbalance.
- In the last two years, members of the Australia / Europe Liner Association (AELA) has made a significant commitment to new vessel tonnage and the associated refrigerated equipment. One would question whether the shipping lines in this trade would have made this type of investment without the certainty of shipping stability in Australasia. In global terms, Australasia is a small and specialised trade.
- Northbound freight rates to SE Asia, and East Asia in particular, have been extremely low over the past two - four years. Shipping lines would claim that they have been uneconomic. This can be attributed to the competition between shipping lines and the arrangements that they operate under, ie ship and space sharing arrangements. The Australasian trade would not be sustainable under different arrangements. Several notable independent shipping lines (Maersk and Mediterranean Shipping Lines) have resorted to vessel sharing arrangements since the last review of *Part X of the Trade Practices Act* due to competition and the provision of improved shipping services to importers and exporters.

- Southbound rates, particularly from China, have increased significantly in recent times, due to a lack of shipping space in the short term. Shipping is by tradition, of a cyclic nature, and this is demonstrated by the introduction recently of new consortia providing additional services from Asia and China in particular. It is this dynamic nature of trade that requires shipping lines to respond to variances in volume but at the same time reflect the difficulty that lines may experience in providing suitable shipping tonnage. The level of recent ship charter rates clearly demonstrates that without confidence in a trade, particularly a niche north / south trade shipping lines will not commit unless there is a reasonable long term stability in that trade route.
- In considering the nature of restrictions on competition
 - One should review the recent changes to the North Asian trade and the decision by ANL to re-align with other ship operators and form the ANUACE North Asia Service. Similarly other lines have changed their consortia relationships to more accurately address the demands of the trade.
 - One should also note the entry of new shipping services into the Asian trade including Australia / China Express.
- An issue that is slowly changing the dimension of containerised shipping services and the commitment of shipping lines to a trade is the move toward chartered tonnage. In the early 1990's the top 30 carriers in the world chartered approximately 18% of their shipping tonnage. Recent figures indicate that 45% of the current fleet is chartered and an estimate of the order book in terms of capacity is 60%. In a specialised trade such as those serving Australia, it is important that the trading conditions and the application of legislation supports continued investment in tonnage that is able to carry our considerable proportion of refrigerated cargoes.

We believe that the above circumstances provide reasonable evidence that by permitting and registering conference agreements, they still provide a net benefit to the Australasian community. The ability for shipping lines to co-ordinate their services provide the opportunity for the connectivity of international trades. This assists in delivering regular shipping services that satisfy the needs of the importing and exporting community at a reasonable price by world standards.

Recent international regulatory changes

Under the Terms of Reference documentation, recent international regulatory changes are highlighted. It is acknowledged that improvements in the US trades have been achieved under the new *Ocean Shipping Reform Act (OSRA)* legislation introduced in 1998. However, this is not the case with regard to the recent finding in the European Union and the relevance of the Block Exemption. (ECDG 2004a) It is important to take into account, the nature and volume of the trade and the ability of any shipping line or consortia to take competitive advantage under normal operating circumstances. The shipper lobby similarly needs to be considered.

A further important factor for Australia, when reviewing these overseas legislative reviews, is the size of our north / south trade in comparison with the East / West counterparts and the nature of our specialised shipping services. The reefer trade is particularly specialised and requires significant capital investment on behalf of the shipping lines. Our relative trade size in world terms is a mere two percent.

These factors must be considered when reviewing legislative reviews overseas and recent changes.

Summary

We believe that *Part X of the Trade Practices Act* as a countervailing power regime encourages the many Australian shippers to join together as designated shipper body and negotiate with liner cargo shipping conferences. We believe that the exporters and importers have been relatively well served since the last review, taking due cognisance of rapid changes in trade flow and the complexity of providing suitable shipping tonnage to the Australian trade in the short term.

Australian exporters have continued access to outward liner cargo shipping services of adequate frequency and reliability at freight rates that are international competitive.

Access to export markets continue to be enhanced with the addition of more destination ports that match the needs of the export community.

The 2000 Amendment to the *Trade Practices Act* has to a limited degree assisted importers in an area that internationally is controlled by place of origin.

A stable environment is required to ensure that the specialised needs of our trade are adequately met by the predominately overseas based ship owners, and *Part X* should be retained to the benefit of our region.

Graham Poynter
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