



30 JUNE 2020

INQUIRY INTO THE IMPLICATIONS OF THE COVID-19 PANDEMIC FOR AUSTRALIA'S FOREIGN AFFAIRS, DEFENCE AND TRADE

Submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade on behalf of Freight & Trade Alliance (FTA) and the Australian Peak Shippers Association (APSA)

"KEEPING AUSTRALIA'S INTERNATIONAL TRADE MOVING"



Australian Peak Shippers
Association Inc. (APSA)

SHIPPERS TO LEAD AN ECONOMIC RECOVERY

Freight & Trade Alliance (FTA) and the Australian Peak Shippers Association (APSA) note the Terms of Reference of the *Inquiry into the implications of the COVID-19 pandemic for Australia's foreign affairs, defence and trade* and look forward to an opportunity for further engagement to focus on the importance of an effective supply chain.

Drought, bushfires and COVID-19 have cost Australian jobs across all sectors from retail and manufacturing through to our regional communities and farmers.

Compounding matters is the rapidly changing global trade environment combined with an estimated \$300M+ in supply chain costs imposed by stevedores and a reduction in shipping line competition servicing our trade sector.

This submission provides the *Joint Standing Committee on Foreign Affairs, Defence and Trade* a forward looking agenda with a focus on two key areas requiring reform, being:


- a need for effective competition in international shipping; and
- other measures to reduce supply chain costs.

Australia needs a paradigm shift in government priorities in favour of exporters, importers and logistics providers. It is the efficient movement of goods that will lead our economic recovery and generate national wealth.

We look forward to government reforms respecting and prioritising these needs.

CONTACT

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Secretariat, Australian Peak Shippers Association (APSA)
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ABOUT THE ALLIANCE

Freight & Trade Alliance (FTA) is the peak body for the international trade sector with a vision to establish a global benchmark of efficiency in Australian border related security, compliance and logistics activities. FTA represents 390 businesses including Australia's largest logistics service providers and major importers.

On 1 January 2017, FTA was appointed the Secretariat role for the Australian Peak Shippers Association (APSA). APSA is the peak body for Australia's containerised exporters and importers under Part X of the Competition and Consumer Act 2010 as designated by the Federal Minister of Infrastructure and Transport.

APSA is also a member and has board representation on the Global Shippers Forum (GSF) that represents shippers' interests and that of their national and regional organisations in Asia, Europe, North and South America, Africa and Australasia.

FTA / APSA provide international trade and logistics advocacy to the following associations:

- Australian Horticultural Exporters and Importers Association (AHEIA);
- Australian Cotton Shippers Association (ACSA);
- Australian Meat Industry Council (AMIC);
- Australian Council for Wool Exporters and Processors;
- Australian International Movers Association (AIMA); and
- Tasmanian Logistics Committee (TLC).

The current APSA Officers and Committee of Management are listed below:

- Chair: Sean Richards (EGM - Logistics, Visy Industries);
- Vice-Chair: Olga Harriton (Global Logistics Manager – Manildra Group);
- Treasurer: Eimear McDonagh (Director- Australian Cotton Shippers Association);
- Patrick Hutchison (CEO- Australian Meat Industry Council);
- Flaminio Dondina (General Manager Procurement- Casella Family Brands);
- David Werner (Trade Execution Manager- Cargill);
- Kurt Wilkinson (General Manager - Commercial Commodities & International Division - Fletcher International Exports); and
- Peter Morgan (CEO- Australian Council for Wool Exporters and Processors)

A list of all members and further information about FTA / APSA is available at www.FTAlliance.com.au



REDUCING TRANSACTION COSTS

FTA / APSA believe that open and efficient trade is fundamental to the strength of the Australian economy. FTA / APSA agrees that reducing transaction costs and ensuring increased access of Australian traders to global supply chains should be a key governmental objective.

By volume, the vast majority of Australian trade is transported by sea freight. Below we have set out two issues that are impacting the ability of Australian traders to access efficient sea freight. These two issues relate to (1) the cost of international freight as charged by shipping lines and (2) the charges imposed by stevedores on road and rail transport operators in respect of containerised goods.

Both of these increased costs result from a lack of competition and the inability of market forces to produce efficient outcomes.

While the Australian government should be applauded for its work in liberalising trade, particularly in respect of signing key free trade agreements, the cost of international trade still remains exceptionally high. The high costs of import and export undermine the opportunities created by free trade agreements. Such costs most heavily impact small to medium businesses that do not have the volumes to offset high “per container” costs.

The high cost of international trade can be seen in Australia's Doing Business Ranking as published by the World Bank. In 2020 Australia's overall ranking was an impressive 14¹. However, its ranking for the sub-category “Trading Across Borders” was 106. While an element of this will relate to location, it is relevant that New Zealand's ranking on “Trading Across Borders” was 63.

Australia has world class manufacturers and producers who are supported by skilled customs brokers and freight forwarders. FTA / APSA believes that the country is ready to take advantage of the opportunities created by free trade agreements and economies recovering from COVID-19 regulations. However, these opportunities will not be fully realised while the costs of trade are prohibitive.

COMPETITION IN INTERNATIONAL SHIPPING

A significant cost for Australian traders is sea freight. This is the cost imposed by shipping lines. FTA / APSA has observed the consolidation of international shipping lines. This reduction in competition has had the expected impact on pricing.

FTA / APSA notes a commentary in *The Loadstar*, in which the CEO of SeaIntelligence Consulting declared that during the COVID-19 crisis, the shipping industry had entered “a new competitive landscape” in which the era of “all savings and more” being passed on to shippers was over.

He added: “In the three months impacted by the virus, demand has dropped, in some cases 20%-30%, and the oil price has dropped 60%-70%, yet freight rates are unchanged.”
“This is a very clear example of what you can do when you have a much more consolidated industry”.

It may well reflect a mood in the shipping industry, bolstered by the renewal of the European Union (EU) Consortia Block Exemption Regulation (CBER), that higher rates (or as they call it ‘price stability’) are available in the future.

In an Australian context, shipping line market consolidation plus the emergence of stevedore-imposed Infrastructure Surcharges has resulted in supply chain costs rapidly increasing, exposing significant deficiencies in the effectiveness of existing competition law in being able to achieve basic shipper protections.

FTA / APSA provided a detailed submission to the Australian Competition and Consumer Commission (ACCC), including 9 recommendations for reform, in response to the discussion paper *Proposed Class Exemption for Ocean Liner Shipping* – the [submission](#) is attached for your reference and is available from the FTA/ APSA web site's home page.



¹ <https://www.doingbusiness.org/en/data/exploreconomies/australia>

SUPPLY CHAIN COSTS

Other than commodities, the vast majority of goods are transported by containerised freight. Those containers are loaded and unloaded by stevedores at various ports. Traditionally, stevedores have sought to recover their costs from their customer, the shipping line. However, in recent times stevedores have imposed new charges on transport companies delivering and collecting containers. This is a cost that transport companies cannot negotiate or avoid and has greatly increased the cost of international trade. At some ports, the cost is in excess of \$120 per container – a [summary](#) is attached for your reference.

All businesses face a dilemma of how to deal with unavoidable costs such as rent, infrastructure, labour and power. Those same businesses are then forced to either absorb costs or pass them on to their commercial clients. Similarly, stevedores should be forced to either absorb operating costs or pass these on to their commercial client (shipping lines). Shipping lines then have the choice to absorb or pass this onto shippers (exporters, importers and freight forwarders) through negotiated freight rates and associated charges.

In contrast to the above, transport operators (road and rail) do not have the ability to negotiate and cannot elect to use a different stevedore. They must deliver or collect goods from the stevedore used by the relevant shipping line. This means that transport operators are forced to pay an Infrastructure Surcharge to collect and deliver containers – this aligns to an appropriate renaming of the surcharge by some stevedores as a 'Terminal Access Charge'. Stevedores know that transport operators are trapped into using their services and have consistently increased infrastructure / access charges without negotiation and with little justification.

Transport operators will in most cases pass these charges onto their customers (the importer or exporter). In addition, many transport operators have included administration fees to manage cash flow associated with these charges resulting in cascading costs flowing through the supply chain. Ultimately, Australian exporters and importers pay further inflated prices. Each stevedore periodically increases the quantum of the surcharges costing shippers an estimated \$300+ million per annum. These are charges that simply did not exist a decade ago and have significantly increased over the last five years.

With repeated warnings by state governments to stevedores being ignored, particularly during the current COVID-19 crisis, increased costs are having devastating impacts on our trade sector with the most significant impact on our retailers, manufacturers, farmers and regional communities.

Statutory monitoring processes to oversee further price increases are not the answer. Existing prices are already excessive. Incremental increases on this base would continue the devastating impacts on Australian jobs. Our regulators must protect shippers by directing stevedores to cease this practice. Stevedores should be given appropriate notice to allow negotiations of charges with shipping lines. This outcome would allow market forces to take effect. An open and competitive environment will determine appropriate price for services without the need for further government monitoring or intervention.

FTA / APSA provided a detailed submission to the Deputy Prime Minister, including 2 recommendations for reform, titled *Status Report – Container Stevedore Imposition of Terminal Access Charges* – the [submission](#) is attached for your reference and is available from the FTA/ APSA web site's home page.



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