



Productivity Commission Inquiry into Australia's Maritime Logistics System

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Executive Summary

Recommendation 1: AMIC recommends \$300m for the extension of the International Freight Assistance Mechanism (IFAM) to mid-2023, to provide exporters with some level of certainty on airfreight, until international border restrictions are removed and a new normal is established.

Recommendation 2: AMIC recommends a formal waterfront industrial relations review by the Fair Work Commission to provide immediate and continued business continuity for what is an 'essential service' and our international gateway for major supply chains.

Recommendation 3: AMIC recommends \$2.5bn over four years for an expedited establishment of an Infrastructure Fund focussed on investing in productivity improvements in Australia's international freight supply chains.

Recommendation 4: AMIC recommends that the Australian Competition and Consumer Commission (ACCC) progress its review to establish shipping competition policy and associated regulatory framework in line with the findings of the ACCC Container Stevedoring Monitoring Report 2020-21.

Recommendation 5: AMIC recommends that the scope of the National Transport Commission (NTC) review of Terminal Access Charges be expanded to examine cost recovery processes.

Introduction

The Australian Meat Industry Council (AMIC) welcomes the opportunity to provide a submission to the Productivity Commission Inquiry into Australia's Maritime Logistics System.

AMIC is the Peak Industry Council representing 2,000 post-farm gate red meat industry enterprises. AMIC members include businesses processing for domestic and export consumption, smallgoods manufacturers, boning rooms, cold stores, wholesalers and distributors through to exporters and independent retail butchers.

The Australian meat supply chain makes a substantial contribution to the national economy each year by accounting for over \$18.4 billion in export receipts and \$13.6 billion in domestic sales, plus an additional \$4 billion sales in smallgoods.

The post-farm gate meat industry employs around 200,000 people directly and indirectly and is often the single biggest employer in rural/regional areas, underpinning vitality and sustainability of Australia's agricultural sector and regional communities.

COVID Impacts on Australia's Meat Export Sector

In an increasingly competitive world, Australia has distinct advantages in delivering high quality red meat protein to global markets. It is geographically located in the right region to access growing demand in the Asia Pacific and has world-leading shelf-life performance underpinning an expanding chilled trade.

As such, Australia is the second largest exporter of chilled beef (the US is number one but is advantaged by its land border with Canada and Mexico) and the largest exporter of chilled sheepmeat.

However, global shipping and airfreight have been in turmoil over the last two years. Consumer demand for goods has vastly exceeded expectations, most notably in the US, and supply chains have grappled with relentless disruptions caused by COVID-19. The International Meat Traders Association (IMTA) estimates that average door-to-door shipping time for ocean freight has gone from 41 days a year ago to 70 days. With relatively inelastic global shipping capacity, container and vessel shortages have been exacerbated, freight rates have skyrocketed (particularly on Asia-US and Asia-Europe routes but also ex-Australia) and bottlenecks have emerged at major ports across the world.

This strained shipping environment has been thrown into further disarray as key international ports and their surrounding freight networks have gone into lockdown following COVID-19 outbreaks. Other recent sources of disruption have contributed to derailed supply chains, such as the blockage of the Suez Canal and increased occurrences of protected industrial action at Australia's ports. The Economist estimated that there are 8 million TEUs (twenty-foot containers) in ports around the world or waiting to be unloaded, up by 10% year-on-year (estimation from 17 September 2021).

Meanwhile, airfreight has offered little reprieve from such pressures, with passenger planes (which carry the bulk of international air cargo) grounded and international flights deterred by caps on passengers permitted to enter Australia. Despite support from the Australian Government's International Freight Assistance Mechanism (IFAM), the sheer lack of planes in the sky has hit red meat exports to certain markets particularly hard.

While exporters in North America, South America, New Zealand, and Europe have also faced these challenges, disruption has proved particularly testing and costly for Australia's chilled red meat trade. Australian red meat exports declined in 2020–21 due to the retention of livestock by primary producers on the back of the drought from the previous season. Tight livestock supply has been compounded by increasingly difficult and persistent freight disruptions.

Industry experts expect that high prices will not be resolved by high prices as consolidation in the industry and retiring of older ships in the fleet will keep the market balanced, certainly for the next few years. The Wall Street Journal highlights that global consolidation between 2016 and 2018 has led to 6 container operators controlling more than 70% of all ship space. This means fewer small ports, alternative routes, and smaller ships are available to provide flexibility and price competitiveness. Another report outlines that container manufacturers have doubled production from 2,500 to 5000 per day but this is still not enough to meet demand. The IMTA says that new ships are under construction but are not expected to be delivered for another 2-3 years. For shippers, this will mean a continuation of higher prices for container bookings for the foreseeable future. Some industry experts predict prices to come back to 10% - 30% above pre-COVID levels during 2022-23.

Delivering Ag2030

AMIC supports the industry and government goal of growing Australian agriculture to \$100 billion in farmgate value by 2030. To reach this value within the desired timeframe, the flow of product through the entire supply chain must be kept front-of-mind.

Unfortunately, this target goes against a backdrop of increasing global protectionist sentiment exerted by some trading nations. Thus, for industry to overcome these challenges, it must, at the very least, have the ability to deliver export product efficiently and competitively to our trading partners. As the shipping situation currently stands, we are facing insurmountable difficulty getting export ready product off our shores and into the supply chains of overseas markets.

Additionally, the inability to competitively deliver product to overseas markets threatens the benefits arising from the Australian Government's achievements in securing preferential free trade agreements. Reaping the full gain from these trade agreements is paramount to achieving industry/government goal of \$100 billion in farmgate value by 2030.

COVID Impacts on Australia's Meat Import Sector

The impact of COVID on the cost of containers and space on shipping vessels is not only affecting Australia's meat exports, but also having a significant effect on Australia's supply of meat imports. The following anecdotes have come from two major Australian smallgoods manufacturers.

"Most packaging for fresh meat and ingredients for processed meat products are imported. In the case of smallgoods, there is a significant amount of pig meat being imported for processing into ham and bacon which is also being impacted by the escalating cost of containers and shipping. The increased cost of packaging and ingredients is not only having a significant effect on the price of locally supplied fresh and processed meat products but also meat products that are exported from Australia."

"Several shipping companies have reduced shipping services to Australia and New Zealand which is affecting both imports into Australia and exports out of Australia. The shipping issue goes a lot deeper than just the cost of containers and shipping. It is about the supply of critical imports packaging, ingredients, spares, machinery etc. without which, the Australian meat processing industry will have great difficulty to manufacture and supply local demand let alone export."

AMIC Shipping Survey Report

AMIC conducted a membership shipping survey¹ in October 2021 to quantitatively confirm anecdotes of the impacts of the current shipping crisis on the Australian red meat export industry. There were 52 respondents in total to the survey and the results confirmed that the Australian red meat export industry is suffering from the global shipping crisis. To the first question "Has exporting your product been more difficult and/or more expensive recently when compared to pre-COVID times?", 86% of respondents reported that it had been both more difficult and expensive exporting their product when compared to pre-COVID times.

The following question inquired about whether the respondent's business had experienced a downturn in profits over the past 18 months as a result of COVID-19 when compared to pre-COVID times. 80% of respondents reported that they had experienced a downturn in profits as a result of COVID-19 and responses ranged from 2% to 150% downturn in profits. The most common percentage of profit downturn as recorded by a third of respondents was 50-55% downturn in profits compared to pre-COVID times.

The red meat processing sector has demonstrated a high degree of resilience and flexibility in rising to the supply chain challenges as a result of COVID. The sector encourages ongoing government investment to shore up and extend capabilities both domestically and internationally, including broader supply chain and logistics capacity which is a massive chokepoint that is currently constraining productivity and growth.

¹ Refer to Attachment 1 for the full AMIC Shipping Survey Report.

Recommendation 1: AMIC recommends \$300m for the extension of the International Freight Assistance Mechanism (IFAM) to mid-2023, to provide exporters with some level of certainty on airfreight, until international border restrictions are removed and a new normal is established.

- Since April 2020, IFAM has reconnected 9 Australian ports to 61 international destinations and helped the movement of high-value perishable Australian products to international customers. The program has also enabled the import of nationally important goods, aiding Australia’s pandemic response.
- Currently, air freight prices are sitting between 1.8 and 6 times the pre-COVID average, and these prices are not expected to fall in the foreseeable future. Combined with significant shortage of chilled and refrigerated containers for sea-freight, agricultural commodities including fresh meat have very few commercially viable pathways to international markets.
- AMIC readily acknowledges that ‘new normal’ cost for airfreight post-COVID will be significantly higher than historical airfreight charges, and it will be up to industry to navigate this cost environment. However, current prices are heavily inflated due to a range of restrictions/conditions on air travel, necessitating the ongoing support provided by IFAM.

The Impact of Protracted Waterfront Industrial Action

During the last quarter of 2020, ongoing industrial action had crippling effects on the international trade sector resulting in many vessels by-passing Port Botany. As well as resulting in additional time and cost to move imported goods back across state borders, the events left the Australian export and import sectors facing severe deficits of export equipment, particularly impactful for refrigerated container availability upon which the Australian red meat export industry relies.

Exporters and importers paid an estimated \$330 million in congestion surcharges to recover vessel operational costs as a roll-on impact of ongoing industrial action. This resulted in significantly diminished returns for manufacturers, farmers and regional communities.

AMIC conducted a Waterfront Industrial Action Survey and Report² in December 2021, with the aim of gauging the effect of protracted waterfront industrial action (WIA) at Australian ports on the businesses and customers of the Australian red meat export sector. The key outcomes of the survey are below:

- 74% of respondents confirmed that their businesses had been negatively impacted by recent WIA.

² Refer to Attachment 2 for the full AMIC Waterfront Industrial Action Survey Report.

- Most respondents reported that approximately a quarter of their exports were being affected and a quarter of their shipments were needing to be rescheduled because of WIA.
- The Port of Sydney was the port most affected by WIA.
- 92% of respondents reported that their businesses had encountered increased handling costs due to outcomes caused by WIA.
- All respondents reported that their businesses had felt a decline in customer confidence in the reliability to deliver to global markets on time.
- All respondents reported that they felt that future business opportunities would be missed in part due to outcomes caused by the WIA.

Recommendation 2: AMIC recommends a formal waterfront industrial relations review by the Fair Work Commission to provide immediate and continued business continuity for what is an 'essential service' and our international gateway for major supply chains.

Australia's Ports Performance

An article released by Shipping Australia in June 2021, reported on The World Bank and IHS Markit Container Port Performance Index 2020 Report. The report identified that Australia's container ports are some of the poorest performing container ports in the world.

The key findings from the report were as follows:

- All of Australia's container ports, except Brisbane, are in the 25% of the worst-performing container ports in the world.
- Brisbane just scrapes into the second-from-bottom 25% of the worst-performing container ports in the world. Meaning all our main container ports are in the bottom 50% of container port performance in the world.
- Australian container ports have been unable to meet the surge in demand for containerised goods arising from COVID lockdowns, stimulus payments and the decline in international travel.
- Inefficiency at ports in Australia can cause further congestion in other international ports as many shipping lines operate in loops passing through Australia.
- Shipping Australia says, "We need Australian container ports to improve their performance, and quickly, because their poor performance is holding back the exporters of Australia and Australian families generally".

Use [this link](#) for the full details of the index, including the methodology and underlying data.

Recommendation 3: AMIC recommends \$2.5bn over four years for an expedited establishment of an Infrastructure Fund focussed on investing in productivity improvements in Australia’s international freight supply chains.

- AMIC recommends that a \$2.5 billion Infrastructure Fund be established to expedite investment in productivity and efficiency improving activities for Australia’s international freight supply chains.
- As an island nation, it is essential that Australia maintains connectivity to markets. However, Australia’s ports and stevedoring services are in the bottom quartile in terms of productivity, and Australian exporters pay some of the world’s highest prices for international freight services.
- The recent significant disruptions to international freight supply chains have put a spotlight on just how unproductive Australian ports have become. International shipping lines have been bypassing Australian ports due to chronic congestion, rolling industrial relations disruptions, the slow turn-around of ships, and imposition of port congestion charges.
- In launching the Productivity Commission review into maritime efficiency, Treasurer Frydenberg noted in December 2021 that “the efficiency of Australia’s ports is vital to our economic success”, and “with more than \$400bn goods imported and exported every year, it’s critical that we lift productivity at our ports”.
- The proposed fund would provide expedited funding to underpin productivity improving investment, including ICT systems and landside infrastructure, tied to the Recommendations from the Productivity Commission report due in mid-2022.

Additional Recommendations

Shipping Competition

Part X of the Competition and Consumer Act 2010

Part X of the Competition and Consumer Act 2010 provides shipping lines with exemptions from competition law whereby they are able to coordinate in transporting cargo to or from Australia. This market consolidation when combined with additional stevedoring surcharges has led to increased supply chain costs for exporters, exposing the ineffectiveness of Part X in achieving shipper protections. As such, a need remains for cargo owners to have access to collective bargaining. There is a need for a designated body to review and implement a mechanism for consultation to support benefits currently available under Part X.

Additionally, as part of a review and implementation mechanism Part X, international shipping lines should have to adhere to acceptable notification periods on service and cost variations. A model for such impositions could be the regulation of the United States which requires a 30-day notice period by shipping lines.

Recommendation 4: AMIC recommends that the Australian Competition and Consumer Commission (ACCC) progress its review to establish shipping competition policy and associated regulatory framework in line with the findings of the ACCC Container Stevedoring Monitoring Report 2020-21.

Terminal Access Charges

As goods must be collected from the entity (stevedore or empty container park) that is contracted by the relevant shipping line, transport operators do not have the ability to negotiate and cannot elect to use a different stevedore or empty container park. The outcome of this is that transport operators are forced to pay an 'Infrastructure Surcharge' to collect and deliver containers for their clients. These surcharges are also commonly and sensibly referred to as 'Terminal Access Charges'. The reality of the situation is that stevedores and empty container parks effectively force transport operators into using their services. Stevedores and empty container parks have also regularly increased terminal access charges overtime without negotiation and usually, with very little justification.

As with all other businesses that incur unavoidable costs as part of their operation, stevedores and empty container parks should have to absorb operating costs or choose to impose them on their commercial clients (shipping lines). Their commercial clients then have the option of absorbing those costs or passing them onto exporters, importers and freight forwarders through negotiated freight rates and associated charges. The following recommendation is in line with the recommendation put forth by the Australian Peak Shippers Association (APSA).

Recommendation 5: AMIC recommends that the scope of the National Transport Commission (NTC) review of Terminal Access Charges be expanded to examine cost recovery processes.

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