National Farmers' Federation

Submission to the Productivity Commission review in Australia's Maritime Logistics System

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NFF Member Organisations

AGFORCE

ACGC Australian Chicken Growers' Council

Australian Dairy Farmers

Australian Forest Products Association

ALEC AUSTRALIAN LIVESTOCK EXPORTERS COUNCIL

ALPA

Australian Organic

AUSTRALIAN Pork

AVA AUSTRALIAN VETERINARY ASSOCIATION

BEECHWORTH HONEY

CANEGROWERS

CATTLE COUNCIL OF AUSTRALIA

COTTON AUSTRALIA

farmers for climate action

GICA Goat Industry Council of Australia

GrainCorp

Grain Growers

National Farmers Federation | Horticulture Council

KIAA

NSWIC NEW SOUTH WALES IRRIGATORS' COUNCIL

nsw FARMERS

NORTHERN TERRITORY CATTLEMEN'S ASSOC. N.T.C.A

The Pastoralists' Association of West Darling

PET PRIMARY EMPLOYERS TASMANIA

ppsa PRIMARY PRODUCERS SA

RICEGROWERS' ASSOCIATION OF AUSTRALIA INC

SHEEP PRODUCERS AUSTRALIA

SoilsForLife

TFGA Tasmanian Farmers and Graziers Association

Victorian Farmers Federation

WAFARMERS

WOOLPRODUCERS AUSTRALIA

National Farmers Federation

The National Farmers' Federation (NFF) is the voice of Australian farmers.

The NFF was established in 1979 as the national peak body representing farmers and more broadly, agriculture across Australia. The NFF's membership comprises all of Australia's major agricultural commodities across the breadth and the length of the supply chain.

Operating under a federated structure, individual farmers join their respective state farm organisation and/or national commodity council. These organisations form the NFF.

The NFF represents Australian agriculture on national and foreign policy issues including workplace relations, trade and natural resource management. Our members complement this work through the delivery of direct 'grass roots' member services as well as state-based policy and commodity-specific interests.

Statistics on Australian Agriculture

Australian agriculture makes an important contribution to Australia's social, economic and environmental fabric.

Social >

In 2019-20, there are approximately 87,800 farm businesses in Australia, the vast majority of which are wholly Australian owned and operated.

Economic >

In 2019-20, the agricultural sector, at farm-gate, contributed 1.9 per cent to Australia's total Gross Domestic Product (GDP). The gross value of Australian farm production is forecast to reach $78 billion in 2021-2022.

Workplace >

In 2021, the agriculture, forestry and fishing sector employ approximately 313,700 people, including over 215,800 full time employees.

Seasonal conditions affect the sector's capacity to employ. Permanent employment is the main form of employment in the sector, but more than 26 per cent of the employed workforce is casual.

Environmental >

Australian farmers are environmental stewards, owning, managing and caring for 49 per cent of Australia's land mass. Farmers are at the frontline of delivering environmental outcomes on behalf of the Australian community, with 7.79 million hectares of agricultural land set aside by Australian farmers purely for conservation/protection purposes.

In 1989, the National Farmers' Federation together with the Australian Conservation Foundation was pivotal in ensuring that the emerging Landcare movement became a national programme with bipartisan support.

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Summary

The National Farmers' Federation (NFF) wishes to thank the Productivity Commission for the opportunity to respond the Maritime Logistics System review. As an industry that exports more than 75% of farmgate output, and one that is a price taker, inefficient and globally high costs for international freight services puts the viability of the agriculture industry into question, and its ability to meet its ambitious target of becoming a $100 billion industry by 2030.

The NFF and its members seek that the Productivity Commission take a broad lens with respect to the review of the productivity of Australia's maritime logistics, including:

- Containerised freight;
- Bulk freight;
- The transport of livestock; and
- Landside movements and infrastructure that facilitate maritime freight.

The examples provided in the current submission focus on containerised freight. In February, the NFF and members provided significant verbal feedback directly to the Productivity Commission on issues and concerns across the full spectrum of maritime logistic chains. We will provide case studies of issues and concerns in non-containerised movements in subsequent submissions.

Australia's maritime logistics system, and international freight supply chains more broadly, is high cost and inefficient, including in comparison with other high wage global jurisdictions. This has been the case prior to the exponential cost in shipping in 2021, where the per-kilometre cost of freight from Australia is 3-4 times higher than competitors such as Canada, and Australian ports are, on the whole, in the bottom quartile in terms of productivity globally.

The high cost and low productivity of our international freight supply chains has many causes, including:

- a lack of market forces governing a highly concentrated international shipping line sector, including section X exemptions from *Competition and Consumer Act 2010;*
- stevedoring and port services being effective monopolies that have very little incentives to improve productivity or manage input costs;
- the high cost of labour, and an maritime industry that can pass this high cost to end users through higher prices;
- industrial relations disruptions and delays; and
- landside issues including first and last mile journey issues.

The negative impacts of the inefficiencies and disruptions in our international freight supply chains has the potential for significant impact on the provision of goods and services domestically, including food and groceries. As such, solutions need to look beyond the maritime logistics system, including shortening supply chains or onshoring parts of the supply chain for critical inputs, where the risk of high cost and unreliable international supply chains are too great.

To this end, the NFF recommends:

1. The narrowing of Section X exemptions provided to international shipping lines
2. The introduction of economic regulation on infrastructure owners, including restrictions against stevedores having the ability to impose ad-hoc levies and charges on freight users;
3. Working with other national governments to bring potential anti-competitive behaviours under control in international shipping;
4. Industrial relations reforms to reduce disruptions;
5. $2.5 billion over the four years to address the substandard state of Australia's international freight supply chains;
6. The establishment of a comprehensive, long-term, cross-portfolio industry-government council on trade and international supply chains;
7. Funding from Modern Manufacturing Strategy and the Supply Chain Resilience Initiative be allocated to creating more robust and resilient food, fibre and inputs supply chains; and
8. The establishment of shared services for local governments, guidelines, and good practice frameworks for heavy road vehicle road access decisions made by local government.

International freight supply chains and impacts on agriculture

Agriculture's exposure to the cost of international freight supply chains

Australian agriculture exports more than 75% of farm-gate output and thus is heavily reliant on international freight supply chains, and in particular, international shipping. Given the low value by weight of agricultural commodities, fluctuation in international freight charges can severely dent Australia's international competitiveness and viability.

To put this vulnerability in context, according to a 2020 LEK Consulting benchmarking study, up to 50% of the final price of grain can go towards freight and logistics, and those Australian producers pay significantly more per kilometre of grain freighted than grain producers in competing countries.

As an example, it costs the same to ship a container of grain from South Australia to Indonesia as it does from Canada to Indonesia. This is despite the Australian journey being some 10,000 km shorter (one-third the journey as compared to Canada).

The NFF suggests that the PC refer to previous benchmarking studies commissioned by governments across various commodities, including agricultural commodities, for a detailed breakdown of the relative cost of logistics in Australia and how they compare internationally.

The exponential increase in the cost of international freight

The cost of international freight rose exponentially throughout 2021 as compared to pre-COVID prices. In 2019 carrier charges were as low as **$USD550 for 20ft containers**, and **$USD850 for 40ft** containers (not including fuel adjustment surcharges). In 2021 price peaked:

- For 20ft containers at $USD3000 (excluding fuel adjustment surcharges) + destination congestion charges ($USD300) + domestic congestion charges ($USD360) – **Total $USD3660 per container.**
- for 40ft containers at $USD3500 (excluding fuel adjustment surcharges) + destination congestion charges ($USD500) + domestic congestion charges ($USD442) – **Total $USD4442 per container**

The exponential rise in costs were not limited to shipping lines, with stevedoring companies also raising prices exponentially. Over the past four years, stevedoring costs have increased from **$25 per container in 2018** to $122 per container currently. In January 2022, stevedores added further levies to freight users of up to $30 per container to cover costs associated with COVID-related disruptions, bringing the total to **$152 per container in 2022.**

Cost to industry beyond the cost of international freight

The cost to industry has been amplified by the inefficiencies and unproductivity of our ports and landside freight networks, creating needless cost for Australian agriculture. Australian ports are consistently in the bottom quartile for productivity according to the World Bank, further exacerbated by industrial relations disruptions between infrastructure owners and maritime workers.

In the climate of severe shortages in shipping line services, Australia's unproductive waterfront, slow unloading and loading times, and industrial disruptions translated into shipping lines charging freight users congestion levies for the inconvenience of servicing of Australian ports, and often simply skipped ports where disruptions were deemed to be too grave. This has meant:

- perishable agricultural commodities have missed the opportunity to export their products that have been left at ports to rot;
- delays involving livestock can cause significant animal welfare concerns;
- additional cost to dispose or find alternate uses for the products; and
- farm inputs, such as machinery and fertiliser, ending up at the wrong port and being freight over land at millions of dollars in additional cost.

These avoidable costs are a function of an inefficient domestic freight supply chain and cannot be apportioned to international supply and demand drivers for international shipping.

Inefficiencies of Australia’s international freight supply chains

The total cost of container freight has risen 633% in the space of four years. The NFF is not suggesting that historical prices for freight services represents the market or fair value of services - what the NFF is highlighting is that such exponential rises have come about through the subversion of market forces, noting:

- International shipping lines do not operate in a competitive market and are exempt from *Section X of the Competition and Consumer Act 2010*, allowing the coordination of supply and sharing of price data, not circumstances that usually govern competitive markets.
- The higher price paid by Australian freight users for international freight services, even in comparable high wage jurisdictions.
- The effective monopoly like status of our port infrastructure and stevedoring services.
- The disproportionate cost of labour, and the lack of innovation or introduction of productivity improving technologies.

Noting the interconnectedness of landside issues with maritime trade, inefficient road and rail freight networks also must be addressed as part of this review.

<u>International shipping not a competitive market</u>
The providers of shipping line services do not operate in an open competitive market, with significant barriers impeding the operation of a functioning market:

- The supply of services is heavily concentrated, dominated by three alliances that make up more than 80% of the market;
- There are significant barriers to entry through large upfront capital investments that prohibit new entrants joining the market; and
- There are provisions providing shipping lines exemptions from competition and anti-trust laws, including in Australia, allowing coordination of supply and the sharing of price information.

Noting these conditions, current exponential increases in the price for international shipping, and record profits being recorded by these companies, cannot be deemed as purely market driven. As an example, in previous years shipping lines took a coordinated approach in retiring old fleet, in response to depressed market conditions, not an approach that is in keeping with the spirit of a competitive market. In certain circumstance, such as with livestock vessels, the retirement and turnover of fleet were as a result of regulatory changes and efforts to improve animal welfare outcomes.

The NFF is not suggesting that all price increases should be avoided and does note that buoyant market conditions have seen orders placed for new ships that would increase the global fleet by 20% by 2023.

<u>Australian exporters pay a high price per/km for freight compared to competitors</u>

The NFF acknowledges that international supply and demand conditions are contributing to the exponential cost of international freight, however, they are not the sole driver of price increases in Australia.

As previously highlighted, Australian exporters pay some of the highest prices for freight services on a per-kilometre basis, which translates to paying up to three to four times more than competitors, such as Canada. This discrepancy can only be attributable to domestic factors and inefficiencies and should not be dismissed as international market forces taking their natural course.

Infrastructure owners' effective monopolies

Infrastructure owners within Australia's international freight supply chain are effective monopolies, either through geography or due to practicalities of the freight system. Most Australian ports service a defined geographic footprint, and due to landside inefficiencies, rarely compete with each other to attract throughput from other geographies.

Similarly, stevedores are effective monopolies due to how international freight supply chains operate. Freight users have no choice as to which stevedoring service to use. Containers are taken to port at their allotted slot, and the available stevedoring company will handle the container. There is no selection of the stevedoring service based on price, reliability or quality.

The contention that stevedoring services are monopoly-like conception is evidenced by:

- the ability to pass on all costs (efficient or not) to end users via out-of-contract levies and surcharges, including to those who have no contractual relationship with the stevedore;
- the ability to increase price regardless of supply and demand dynamics (for example price per container and revenues for stevedores rose despite lower throughput in 2020);
- lack of discipline in reducing input costs, such as labour, and the ability to maintain margins regardless of this ill-discipline; and
- explicitly foregoing productivity improving technologies due to industrial relations negotiations without any consequence on margins or revenue.

Labour and industrial relations

With respect to labour costs, Australian maritime workers are some of the best paid workers in Australia, receiving salaries of $200,000 per annum on a pro rata basis, have restrictive labour supply practices including stipulations that a percentage of the workforce be sourced from family, friends and union members, and operational stipulations that forbid the introduction of productivity improving technologies.

Labour related industrial action led to significant disruptions at ports, including shipping lines bypassing ports due to these disruptions and go slows. This caused millions upon millions of dollars of additional costs for freight users. As an example, farm machinery destined for the Port of Fremantle was instead diverted to Port Melbourne, creating millions of dollars in additional costs to freight the machinery back to Fremantle via land, and weeks of delay.

In a competitive market environment, there would likely be more pushback from operators on what can only be described as unreasonable demands. However, in an uncompetitive environment, it is easier to pass on costs to the end user rather than push back against stakeholders that have the potential to create short-term disruptions to operations.

Landside issues

Maritime freight and logistics do not exist in a vacuum and is heavily reliant on the efficiency of landside freight. The inefficiencies of landside road and rail access into ports is well understood (last mile issues). The NFF would also like to put forward the importance of addressing first mile issues onto the agenda, particularly the utilisation of high productivity vehicles in freighting agricultural goods from the farmgate into the processing and logistics centres.

The local road network that these movements are reliant on, have an ad-hoc approach to access for high productivity vehicle, severely curtailing the use of such vehicles, and thereby increasing the cost and reliability of freight movements.

A key cause for this inappropriate road access is under-resourced regional local governments who have a high sensitivity to any potential road damage, noting their limited transport infrastructure maintenance budget, and under-resourced in terms of appropriate staffing (well-equipped and trained road managers). An imbalance between the rate-base of regional local governments, and the growing cost transport infrastructure maintenance and general service provision has meant that the efficiency of fist mile landside international freight movements has been compromised.

Similarly, urban encroachment is creating significant issues with respect to the 'last mile' of the journey in and around ports. This urban encroachment has placed restrictions on freight movements, including for livestock, where there is a lack of infrastructure to facilitate the movements within regulatory strictures (for example the availability of effluent dumps etc.).

Interrelationships between food, fibre and inputs supply chains

International freight considerations should look at the role of these freight services within broader supply chains and the economy as a whole. Decisions on optimising international freight supply chains must be taken in conjunctions with considerations of securing critical infrastructure and inputs, and the role of shorter domestic supply chains and manufacturing.

This integrated approach is vital in securing the viability of the agricultural sector with respect to critical inputs, such as fertilisers, ag-vet chemicals and farm machinery.

This holistic analysis is yet to be undertaken, and the NFF was disappointed with the findings of the Productivity Commission review into vulnerable supply chains, particularly in ruling out analysis of potential vulnerabilities in Australia's food and fibre supply chains. The PC noted that:

"*Food, while essential, is excluded from the analysis because Australia is a major and diversified producer of food. While food products may have vulnerable supply chains, food as a category is much less so."*

The NFF sought that food and fibre production be explicitly analysed as part of broader supply chain vulnerabilities, with the NFF submission highlighting food and fibre specific vulnerabilities including:

- *"the availability of ag-vet chemicals, fertilisers and seeds;*
- *reliance on overseas labour and expertise;*
- *availability of farm machinery and spare parts;*
- *reliance on diesel fuel;*
- *fragility of market access arrangements for agriculture; and*
- *the ability to manage biosecurity risk."*

Since this PC review, food and fibre production has had several near miss events that could have halted production and access to domestic and international markets, including Ad-Blue shortages that would have rendered farm machinery inoperable and hindered the ability to get food onto retail shelves, fertiliser shortages, chronic workforce shortages in the food supply chain, and pallet shortages jeopardising the supply of groceries to consumer (which demonstrates the importance of fibre production in terms of logistics and packaging).

The NFF understands and acknowledges that the PC used a narrow definition for the concept of vulnerability, however, this narrow conception has left many questions with Australia's supply chains unanswered.

As a part of this analysis, the NFF recommends that the interplay between containerised and bulk maritime freight and airfreight be explored, noting that many agricultural commodities rely on a combination of these channels to access international market. Grains rely on a combination of bulk and containerised freight, while perishables and semi-perishables (horticulture, seafood, red meat etc.) rely opportunistically on containerised and airfreight.

The inefficiencies, vulnerabilities and shortcomings of international freight supply chains should be addressed in the first instance. Where these issues cannot be addressed through freight and transport policies, a wider set of policy solutions should be used, including options to shorten supply chains, the need for strategic reserves, and the potential for and viability of domestic manufacturing.

Recommendations

1. **The narrowing of Section X exemptions provided to international shipping lines**: A 2019 ACCC study into class exemptions for Ocean Liner Shipping suggested that the class exemptions offered could be narrowed to improve competitive tension in the international freight supply chain.

   Part X exemptions for operational coordination (scheduling of services collectively, pooling vessels etc.) could be maintained. The view of the ACCC was that these bring operational and cost benefits without significantly reducing competition.

   However, other exemptions that could lead to price fixing or anti-competitive behaviour could fall outside of the exemption (price coordination, sharing of commercial data, and coordinating the allocation of market share between the three alliances). The narrowing of competition policy exemptions has been a common response to the spiralling cost of international shipping in most other jurisdictions around the world.

2. **The introduction of economic regulation on infrastructure owners**, particularly stevedoring service providers, noting their effective monopoly-like status. This would include forbidding the imposition of ad-hoc levies and surcharges, particularly on parties that have no contractual arrangements with the stevedore (the stevedore has contractual arrangements with international shipping lines and should negotiate any charges with them).
   Similarly, infrastructure owners should be compelled to provide a greater notification period (60 days) for price changes, to allow end users to adjust to price shocks.

3. **Working with other national governments to bring potential anti-competitive behaviours under control in international shipping***:* The spiralling cost of international shipping is a global problem and has gained significant regulatory and political attention amongst many national governments, including the United States. A potential option is to seek coordinated action across like-minded national governments to curtail some of the anti-competitive behaviours within the international shipping market, or a coordinated approach with countries like New Zealand to make North-South shipping routes more attractive to shipping lines.

4. **Industrial relations reforms to reduce disruptions:** Importers and exporters should no longer be held to ransom as a bargaining chip in negotiations between maritime workers and waterfront infrastructure owners. To this end, the NFF recommends that Federal Government as a matter of urgency refer any potential waterfront industrial relations dispute to arbitration, as

per the powers afforded to it by the Fair Work Act based on national interest considerations.

The intention of this recommendation is not to dilute workers' rights or conditions, noting that arbitration may rule in favour of claims made by maritime workers, but avoid the millions of dollars in cost that disruptions and delays on our waterfronts create due to cynical industrial relations tactics.

5. **$2.5 billion over the four years to address the substandard state of Australia's international freight supply chains** through the establishment of an expedited Infrastructure Fund solely focused on productivity improvements within this supply chain. This will give immediate effect to much of the analysis and recommendations in the regularly updated National Freight Strategy.

   This should include the establishment of appropriate landside infrastructure for the transport of livestock (effluent dumps etc,) and alternate freight supply chains that are not reliant on movements through urban areas.

6. **The establishment of a comprehensive, long-term, cross-portfolio industry-government council on trade and international supply chains:** International freight is not a matter of cost or inconvenient disruptions, it can contribute to the breakdown of critical supply chains such as food and groceries. AdBlue, pallet and container (particularly refrigerated containers) shortages at various times in 2021 nearly broke down food supply chains. The examination of the effectiveness and robustness of freight supply chains will not provide Australia with a solution to these potentially fatal breakdowns. Similarly, general economic analysis will not provide meaningful insights into the nature of the next 'black swan' event (noting that the specifics of the event is unpredictable by definition), as the PC Vulnerable Supply Chains review demonstrated.

   The NFF continues to call on the establishment of an industry-government-civil society advisory council, bringing together experts across disciplines and society to identify potential risks in the coming twelve-months, and begin robust contingency planning.

7. **Funding from Modern Manufacturing Strategy and the Supply Chain Resilience Initiative be allocated to creating more robust and resilient food, fibre and inputs supply chains**: Despite assertions by the PC Vulnerable Supply Chains review, Australia's food and fibre supply chains are extremely vulnerable to shocks and breakdowns, particularly noting that a limited supply shock can quickly spiral into a crisis through panic buying given the essential nature of food and groceries.

The timely and cost-effective delivery of critical inputs such as fertilisers, ag-vet chemicals, fuel and fuel additives, farm machinery, fibre for grocery packaging and pallets are significant determinants of whether food and grocery supply chains will be disrupted.

Any review of the effectiveness and reliability of international freight supply chains must have a particular focus on critical inputs. This includes exploration of shortening supply chains and onshoring elements of the supply chain for critical inputs where the risk of disruption is too high for Australia's economy and society.

To this end, the NFF recommends that the Modern Manufacturing Strategy and Supply Chain Resilience Initiative be refocussed to undertake this very exercise for food, fibre and agricultural inputs.

8. The establishment of shared services for local governments, guidelines, and good practice frameworks for heavy road vehicle road access decisions made by local government.

While issues at our waterfront and with international shipping have preoccupied media headlines and policy responses, the first and last mile of the freight journey have always been a critical challenge in Australia, noting that every maritime freight journey begins with a landside journey.

From an agricultural perspective, the main issue is the inability to effectively utilise high productivity vehicles for the agricultural freight task due to inappropriate, ad-hoc and inconsistent local road access.

Road managers within local governments often have limited resources to dedicate to road access issues, are over risk averse to any perceived notion that access may cause, noting the financial impost of road maintenance for local councils. Feedback from NFF members suggest road access for HPVs on local roads are ad-hoc, inconsistent over time and local government jurisdiction, and assessments on road wear and tear skewed to minimising access.

The NFF recommends that the Federal Government provide $140 million over four years to promote consistent road access arrangement by resourcing and incentivising local road managers to make consistent good practice decisions on heavy vehicle access through the funding and development of guidelines, establishment of a shared services model for road management, and advice lines that could be administered through local government associations.

This recommendation is part of a broader proposal with respect to heavy vehicle road access, including:

- The ability to use historical permit applications to gazette frequently permitted roads.

- Provision of axle load tolerance of up to 10% for fluid dynamic loads, where overall mass is within limit.
- Allowing for documentation to be carried electronically.
- Establishing and enforcing timeframes for decisions on permits and access applications.

Provide resources within the NHVR to develop, vary and revoke guidelines and codes of practice at the request of industry, provide regular industry briefs on key issues and changes to regulation, and be the ‘one stop shop’ for access advice.

[redacted]

Yours sincerely,

[redacted]

Tony Mahar

CEO

National Farmers Federation