

ESTABLISHMENT OF A STRATEGIC FLEET EXPORT COUNCIL OF AUSTRALIA SUBMISSION

The Export Council of Australia welcomes the opportunity to submit its views on the establishment of a strategic fleet for Australia.

We are supportive of this initiative. The establishment of a strategic fleet will be especially beneficial for small and medium sized Australian exporters.

Global trading conditions have become particularly challenging in recent years. We expect such conditions to persist, if not worsen, due to geopolitical instability and climate change induced events.

Below is our submission. It follows a format of questions and answers as outlined in the Strategic Fleet Taskforce Discussion Paper.

Our submission starts..

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Part One – Nature of business and nature of shipping needs

- 1. Are you a cargo owner moving freight by sea?** No
- 2. Are you a Freight Forwarder?** No
- 3. Are you a ship owner/operator?** No
- 4. Are you representing an industry or other peak body?** Yes

If yes, please answer the following:

- **Who do you represent?**

In the context of this submission, the Export Council of Australia is representing Australian exporters, especially small and medium sized exporters across a diverse range of industries. In the last few years, Australian SME exporters suffered significantly from the high cost of containerized sea freight, and unreliability of delivery, especially due to limited space on vessels and/or cancellations of sailings.

- **What is your group's interest in the strategic fleet?**

The risk of a major crisis occurring in the near future, leading to the disruption of shipping services, is highly probable. When this occurs, we hope that the government can activate the services of the strategic fleet to supplement diminished commercial services.

A strategic fleet should be designed in a way that ensures there is ample supply of reliable shipping, and that price increases are minimised, in both ‘good times and bad’. In the activation of ‘emergency’ strategic fleet services, the ECA would be willing to assist where appropriate, including in coordinating exporters utilisation of those services.

- **Why are these of interest?**

During 2020-2022, we saw the disastrous impact of constrained shipping supply on Australian exporters. It was a period in which Australian exporters (excluding bulk commodities) could have benefitted from increased global demand for its products, but exporters were instead constrained by the lack of availability and high cost of shipping.

Rather than benefiting from booming global demand, many exporters lost customers and contracts, and many suffered losses in revenue. Some even stopped exporting altogether. The high cost of shipping also contributed to broader economic woe, including by feeding (high) inflation.

Shipping constraints were not due to so-called ‘port or landside inefficiencies’, rather due to the ‘profiteering’ attempts by the shipping industry. The lack of competition in the industry allowed the shipping lines to manage supply, including through ‘blank sailings’ and slow investments in new ships. The recent change in circumstances (i.e. the return of average shipping prices to pre-2020 levels) is not due to any effort by the shipping industry, but rather due to the drastic slowing of the global economy.

When global economic growth resumes, unless there are changes to the shipping industry, high prices will again be a feature, especially as fuel and environmental factors add to input costs.

5. Are you another stakeholder? No

Part Two - Strategic needs

What is the strategic need?

6. If there was a major disruption that means shipping ceased for more than a few weeks what would be the financial and non-financial consequences for:

- **your business**
- **your customers**
- **the economy**
- **the community**

The impact of a major shipping disruption on individual exporters would vary. For smaller exporters, they are likely to lose their customers, lose income (both in the short and long term), stop exporting altogether, potentially close their business, lose their livelihoods, their employees lose their jobs, and their suppliers lose their contracts.

The impact on the Australian economy would include slow-down in GDP growth, inflationary pressure, loss of revenue for governments, closure of businesses, and increased unemployment. Australian global competitiveness would be diminished.

What are the benefits from the fleet during ‘business as usual’ or other scenarios?

7. Benefits to you or your stakeholders.

- **If a fleet of Australian flagged and crewed vessels was established, would you see benefits from the fleet for your business or your stakeholders during periods of ‘business as usual’?**
- **What are these and who would benefit?**

Yes, we believe the establishment of a fleet of Australian flagged and crewed vessels would be beneficial to exporters and importers. The expansion of shipping services by new (Australian-owned) entrants to the market would introduce greater competition in the industry. Increased competition would put downward pressure on cost of freight, and improve services.

We expect that there will be attempts of fearmongering by existing (foreign-owned) players. They will suggest that they would abandon Australia. But even if they did, that would provide greater opportunity for new entrants to fill the gap.

It is also likely that existing cashed-up shipping lines will seek to demolish new entrants by driving down prices to unsustainable levels. It is therefore important for the government to put in place or apply mechanisms that would promote fair competition (such as mechanisms similar to anti-dumping).

We believe the establishment of Australian-owned shipping lines would be welcomed by security partners, such as the United States, which also lack sovereign international shipping capabilities.

- **Do you have any data or research that quantifies these benefits?**

We encourage the government to undertake appropriate economic studies. However, it should avoid relying on data from existing players in the market (i.e. shipping lines). It should also extend the scope of such a study to the benefits likely to accrue to exporters and the broader Australian community.

8. Broader benefits

Recent high cost and unreliability of shipping have made many Australian exporters consider setting up operations closer to or in markets. Increased competition, including by establishing Australian-owned shipping lines, might reverse this thinking. Moreover, other partners (e.g. European firms) might begin to see benefit in establishing ‘hub’ operations in Australia to service our near neighbours, such as South-East Asia and the Pacific Islands.

Encouragement of Australian-owned ships to service the Pacific Islands would boost Australia’s engagement with the region, as well as help counter any geopolitical competition there. Currently, despite significant Australian investments in entrepreneurship and business capability building in the Pacific Islands, they are unable to take full advantage of cross-border trade, because they are unable to transport their goods in any cost-effective way.

Part Three – any other information

Please provide any other information that you think would assist the Taskforce in its deliberations on identifying the strategic needs a fleet of vessels could address.

In light of the changed global security and trading environment, we believe the development of Australian-owned ships and shipping services is a prudent initiative to undertake.

In addition to being better prepared for potential security-related risks, such action would address the current lack of competition in the global shipping industry, which in the last few years has negatively impacted Australian exporters (as well as importers).

With many of our key trading partners experiencing significant economic slowdown, there is an even greater imperative to find ways to reduce the costs and improve the reliability of shipping from Australia.

From our perspective the core benefit of a strategic fleet is to make transport not just affordable, but potentially an advantage for Australia – a trading nation so far from many of its key markets. A strategic fleet may subsequently enhance the competitiveness of Australian exporters.

In its deliberations, we would encourage the Taskforce to consider, among other things:

- (i) that an Australian strategic fleet include containerised (and not just bulk) shipping;
- (ii) the consequential (positive) impact on exporters, especially SME exporters;
- (iii) that a focus on so-called critical goods does not come at the cost of supporting other goods from across different industries and sectors that underpin the livelihoods of many;
- (iv) a range of Government support (including funding) for new start-ups or fledgling Australian-owned and operated shipping lines;
- (v) aligning this initiative with efforts being pursued in regional negotiations e.g. Indo-Pacific Economic Framework;
- (vi) extending the offerings of an Australian fleet to our neighbours in New Zealand and the South Pacific; and
- (vii) exploring potential strategic partnerships with allies (including the United States and Japan) to optimise resourcing and commercial sustainability.

We would be pleased to elaborate on the above, and look forward to engaging with the Taskforce on its work ahead.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Arnold Jorge', with a horizontal line extending to the right.

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