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Freight and Supply Chain Inquiry
Department of Infrastructure and Regional Development
GPO Box 594
CANBERRA CITY ACT 2601

By email to: freightstrategy@infrastructure.gov.au

Submission to the National Freight and Supply Chain Priorities Inquiry

About Shipping Australia Limited

1. Shipping Australia Limited (SAL) is a peak shipowner association with 36-member lines and shipping Agents and 50 corporate associate members, which generally provide services to the maritime industry in Australia. Our member lines are involved with over 80 per cent of Australia's international trade and car trade as well as over 70 per cent of our break-bulk and bulk trade. A small number of our members are also actively engaged in the provision of coastal cargo services to Australian consignors and consignees; this number has reduced since legislative changes in 2012.

2. A major focus of SAL is to promote efficient and effective maritime trade for Australia whilst advancing the interests of ship-owners and shipping agents. SAL also provides secretariat services to the liner companies and agencies that are members of conferences, discussion agreements, consortia and joint services that have their agreements registered under Part X of the Australian Competition and Consumer Act 2012. These agreements specifically seek to facilitate and encourage growth of Australia's liner shipping trades.

3. To contribute to this Inquiry to improve freight and supply chain efficiency and capacity and to reduce the costs of transporting goods through our major national containers ports, SAL has identified the following key objectives and will elaborate on these in this submission:

- **Priority One: Remove all barriers to shipping containers**
- **Reduce freight cost: Cheapest capacity is the latent capacity**
- **Bolster productive businesses and local jobs**
- **Business Case Analyses: Strategic thinking and planning applied to multimodal supply chains**
- **A fit-for-purpose transport mode hierarchy for optimising the freight task**

4. Responses to some of the select questions to this inquiry in the context the Australian Transport Assessment and Planning (ATAP) Guidelines Oct 2016 are provided at Annex A.

Introduction

5. Australia might be girt by sea but the nation's economy is not using its ocean-going infrastructure as efficiently as it could be.

6. Infrastructure Australia's 15-year plan (Australia Infrastructure Plan 2016) uses the word 'reform' 345 times. If it was ever appropriate to conclude that a paradigm shift is required, this report makes the argument for such a shift. Arising as a recommendation of the report, the Inquiry into National Freight and Supply Chain Priorities is therefore a unique opportunity to lead change. On behalf of its members, Shipping Australia Limited (SAL) appreciates the opportunity to contribute to the important work of the Inquiry.

7. The Australian freight and supply chain must undertake a fundamental change. This requires a re-evaluation of the business-as-usual practices of the Australian freight and logistics sector and the historical provision and utilisation of infrastructure.

Priority One: Remove all barriers for shipping containers

8. Australia is an international trading nation and the foundational element in the freight landscape in this country, and the lifeblood of Australia's economy is international shipping. Australia is well serviced by international shipping and there is substantial spare capacity travelling between Australia's coastal ports but not carrying domestic cargo due to regulatory impediments. One of the fundamental changes that is required is removal of the barrier to accessing coastal shipping, thus allowing domestic shippers to integrate with the international supply chain. Prudent and authoritative advice to this effect is clear:

i. "The Australian Government should amend coastal shipping laws to substantially reduce barriers to entry for foreign vessels" (Productivity Commission's Agriculture Review, 2016);

ii. "Cabotage restrictions on coastal shipping should be removed" (Competition Policy Review/The Harper Review, 2015);

iii. "Coastal shipping regulations are undermining the incomes and jobs of many onshore businesses and workers" (Industry Innovation and Competitiveness Agenda, 2014); and

iv. "More efficient coastal shipping services could help lift Australia's competitiveness and lower prices for consumers" (Australian Competition and Consumer Commission, 2014).

9. The weight of evidence for the benefit of removing this barrier is clear. Significant reform of the coastal shipping regime has been thwarted by the political process and is unlikely to be possible with the current parliament. However, the current Minister has the power to exempt container ships from the Coastal Trading Act (as the legislation allows) just as the former Labour Minister did for the cruise shipping sector in 2012.

Reduce freight cost: Cheapest capacity is the latent capacity

10. When the barriers are removed, Australia's freight supply chains will need to change and become port- focused and for the supporting infrastructure projects to change and become port centric. This can be done quickly by redirecting infrastructure resources committed to networks parallel to the coast line to create hyper-efficient and resilient networks perpendicular to the coast. On this conversion, the new national land transport networks will be complimented by an abundant freight capacity which has evolved with civilisation for the last 5,000 years – shipping. The most environmentally efficient, cost efficient and safest mode of long haul freight transport.

11. In 2013 the first such freight and supply chain strategy published by NSW quoted then BHP Billiton CEO Marius Kloppers "The cheapest capacity that you can normally find is latent capacity."

12. Currently there are numerous hands closing off the tap of this latent capacity, and these hands will have to be removed if domestic shippers are to access it. In a well-functioning economy, the transport sector serves productive industries for the benefit of the wider community. However, in Australia the situation is reversed as noted by the joint Australian and New Zealand Productivity Commissions in 2012:

- "Australian cabotage can directly benefit local shipowners and maritime workers, [but] it does so at the expense of the wider community".

Bolster productive businesses and local jobs

13. Australian businesses that currently supply domestic markets are restricted from utilising shipping and this removes an important stepping stone that is required for those businesses to become exporters. The risk created by this situation was identified in the Productivity Commission's Trade & Assistance Review 2013–14:

- "Policies that seek to direct resources and effort according to priority sectors unavoidably risk disadvantaging other firms or sectors that may be more competitive and have better prospects in global markets".

14. The imperative to support businesses who currently only supply domestic markets to develop into exporters is highlighted in the 2016 Australian Industry Report by Office of the Chief Economist. This report found that, compared to non-exporters within the same industry and jurisdiction, Australian firms that export are larger in measures of employment, value-adding and capital expenditure. It is also worth noting the finding by the 2014 Australian Industry Report that, between 2003/04 and 2013/14, 52,000 and 92,000 jobs were lost in agriculture and manufacturing, respectively.

15. There is little doubt that integration of coastal shipping in the domestic supply chain will dramatically reduce the transport cost. Unfortunately, no business case has been conducted to measure these savings. However, when the international and domestic freight rates are compared, a conservative estimate would conclude a 'double digit' percentage reduction in cost. In this context, consideration should be given again to the modelling in the 2016 Australian Industry Report which demonstrates that a 5% decrease in transport cost would result in cross-industry benefits of:

- $5.6 B in reduced costs,

- $971 M of added value, and

- 6,658 full-time equivalent jobs.

Business Case Analyses: Strategic thinking and planning to prioritise supply chains

16. The inability for government to act on best advice and in the interests of the wider community represents a case of regulatory failure. The beneficiaries of this failure are local shipowners and maritime workers; its advantages also extend to the assessment of Infrastructure Investment Projects (IIPs) that support the business models of road and rail freight transport sectors.

17. While it is mandatory for an IIP of over $100 M to have its business case scrutinised by the Infrastructure Australia as an independent body, no assessment of any business case to date has examined coastal shipping as an alternative option when calculating the greatest benefit to the Australian community and economy.

- **Priority disorientation: road**

18. A notable example is the recent announcement of a $515 M upgrade to a section of the Bruce Highway 50 km south of Townsville including the Haughton River bridge. The upgrade aims to ensure that road freight transport will only be disrupted in the future by the largest floods. This example is notable as it contrasts government policy and the recommendation of the Productivity Commission's 2015 Natural Disaster Funding Inquiry: In regard to infrastructure project selection, the specific recommendation was for all governments to have in place "stronger processes for project selection that incorporate requirements for cost–benefit analyses".

19. Given that coastal shipping is available and is a mode of transport that is impervious to flooding it is difficult to imagine that a cost–benefit comparison of the Haughton River bridge upgrade would trump Stage 1 of the proposed Port Expansion Project for Townsville which remains unfunded. The Haughton River bridge upgrade represents a $515 M investment in a single section of the Bruce Highway so it may remain open during intermittent days of flooding; the Townsville Port Expansion Project is a $520 M investment to widen the Port of Townsville's shipping channel, enabling the port to handle similarly sized international vessels that call other Australian ports every day.

- **Priority disorientation: rail**

20. Another notable project in which the business case does not consider coastal shipping amongst the range of individual risks with the potential to impact its viability, is the multi-billion-dollar Inland Rail project. Plans for the Inland Rail project make no reference to the potential impact of coastal shipping expansion. This is despite the rail industry's Freight on Rail Group identifying in 2015 that the then-proposed amendments to coastal shipping legislation would "damage the domestic land freight industry through a loss of revenue and a reduction in the capacity of the rail freight industry to invest in infrastructure".

21. These glaring omissions in the assessment of IIPs highlight why it is imperative for coastal shipping to be considered a domestic supply chain option.

A fit-for-purpose transport mode hierarchy for optimising the freight task

22. The penny must drop. As a society, Australia cannot afford to continue to subsidise the land freight transport sector and continue to be denied access to such an abundant resource as coastal shipping. Not only does it commit taxpayers to the funding of tens of billions of dollars in infrastructure construction and maintenance annually, it denies cost savings to domestic

businesses and removes the stepping stone required for them to become exporters and more prosperous.

23. When the barrier to accessing coastal shipping is removed and the Council of Australian Governments' agreed principles of Australian Transport Assessment and Planning are applied, domestic and international supply chains will integrate. Once recognised, the latent capacity of coastal shipping will cause IIPs to become port-centric and the freight transport landscape in Australia will be dramatically altered to the benefit of the community, environment and the economy.

24. Australia's freight supply chain priorities require fundamental realignment to assign container shipping to the primary carrying capacity for long haul freight between capital cities and Townsville. The year before the barrier to coastal shipping was raised in 2012, shipping's share of the domestic containerised freight task (non-bulk) was 6.5 per cent. The latest available data shows this share diminished to 4.5 per cent in 2013-14. Shipping's share of the container freight task conflicts with its 20 per cent share of the bulk freight task. This underutilises the capacity of Australia's coastal shipping lanes which are an abundant renewable resource that is unhindered by the congestion, capacity limitations, construction and maintenance of other modes. A strategic plan for Australia's supply chain which prioritises and consigns all modes within a fit-for-purpose hierarchy will optimise the freight task to provide Australians with the best economic, social and environmental outcomes - a triple bottom line focus.

Submission Authorised by:

Rod Nairn, AM

CEO

Feedback to some of the select questions to this inquiry in the context the Australian Transport Assessment and Planning (ATAP) Guidelines Oct 2016.

Q 1. What infrastructure is used in your supply chain and how well does it perform?

Ans: We directly use Shipping channels and ports and related infrastructure. These modes also rely absolutely on the connectivity of the cities and rural areas to the ports by road and rail.

Q 2. What changes would you like to see to make your supply chain work better?

Ans. **Integration of the most environmentally and cost-effective modes of transport**
Utilisation of the coastal shipping would enable the 'latent capacity' of international container ships on voyages between Australian ports and integration of the domestic and international supply chains.

The benefits of shipping are increased by the leveraging economies of scale. The opportunity to increase the volume of cargo carrier on voyages between Australian ports would reduce the per unit freight cost of all cargo. It would also reduce greenhouse gas emissions, congestion on interstate highways road accidents and deaths.

This would also enable integration of the domestic and international supply chains resulting in increased public exposure to international trade and attention to vital transport bottle necks at Australian ports.

Q 3. What data gaps are you aware of in relation to Australia's freight and supply chains?

Ans. a) Cost benefit analysis of disaster mitigation funding of infrastructure.
b) The Annual BITRE – Australian Statistics Yearbook has in consecutive years neglected to present the modal shares of Australia's domestic freight task. The most recent example is in the 2016 yearbook as shown in the following table below.

Table T 2.1b Domestic freight by transport mode—non–bulk

Financial year	Goods moved (billion tkm)				
	Road	Rail	Coastal shipping	Air freight	Total freight task
2010–11	121.4	28.0	10.5	0.3	160.2
2011–12	123.7	30.7	7.8	0.3	162.5
2012–13	127.0	30.8	7.8	0.3	166.0
2013–14	130.3	30.1	7.6	0.3	168.2
2014–15	133.8	32.2		0.3	

9,10 See end notes.
Note: Data are not readily available for missing years.
Source: BITRE (2015b), BITRE (2015c), BITRE(2016b), BITRE (2016c) and BITRE estimates.

This year's omission of coastal shipping data is perplexing as it is mandated that a temporary licence application provides detailed voyage and cargo volume data to the Department of Infrastructure's Shipping Business Unit. This is also disappointing as this process incurs a significant administrative cost to the applicants.

In the development of a national freight strategy such data is vital in monitoring trends and the implications of policy decisions.

Q 4. In your view, is Australia's freight system internationally competitive?

No.

Q 5. What are the key indicators which tell us this?

Effective modes of transport—including quality roads, railroads, and ports enable businesses to get their goods and services to market in a secure and timely manner. On these measures, the World Economic Forum's 2014/15 Global Competitiveness Report ranked Australia's railroads, ports and roads was ranked at 32nd, 38th and 43rd, respectively.

Another key indicator is the Liner Shipping Connectivity Index (LSCI) which demonstrates that Australia has quite a bit of ground to make up. The LSCI is published by the United Nations Conference on Trade and Development (UNCTAD) in its annual Review of Maritime Transport and in 2016 ranked Australia at 50th place.

Q 6. Are regulatory factors affecting productivity for your business? How could this be improved?

a) Yes. Productivity will be improved if the *Coastal Trading Act (Revitalising Australian Shipping) Act 2012* is amended by the *Shipping Legislation Amendment Bill 2015*.

b) Refer to Q.3

c) Better access for high productivity vehicles to the cities and ports.

Q 7. What are the key issues for freight in Australia's major cities?
What are the critical last mile issues you face in urban areas?

Traffic congestion in the major cities. Hyper-efficient port connectivity is an opportunity to prioritise a holistic approach that accounts for all interactions within the transport system as well as with closely related systems (e.g. land use, environment) to provide economic, social and environmental outcomes.
Better connectivity with the ports coupled with efficient stevedoring practices reduces dwell of containers which in turn reduces the average dwell time of ships in port.
Connectivity is relevant performance indicator for port authorities (de Langen et al. 2007). Ports create value by connecting shippers and consumers in the hinterland of a port with overseas markets and products. The better the connectivity of a port, the more value it creates for its users.

Q 8. How can Australia's urban networks better prioritise passenger and freight services in the most effective manner possible?

The development of dedicated freight rail lines from intermodal terminals direct to the port is the only way to deconflict passenger and freight – this is an investment that must be done now. Freight rail corridors need to be preserved and protected from urban encroachment.

Utilising coastal shipping and investing the money saved in to urban networks coupled with off peak access of heavy vehicles for freight movements in urban areas.

Q 9. How are our cities and supply chains being impacted by changing consumer behaviours such as online shopping?

The increasing ability to deliver from warehouses directly to the customers provide the opportunity for greater consolidation of supply chain hubs and leveraging economies of scale. From a shipping perspective the customers for imports are becoming more diverse with more containers being packed at overseas consolidation depots and shipped direct to retail stores rather than goods being send to national distribution centres and then being unpacked and consolidated locally for store delivery.

Q 10. Do you face, or expect in the future to face, problems moving your freight through Australian air, land or sea ports?

Yes.
Rail connectivity to ports handling bulk ports is inadequate especially for city ports such as Brisbane.
Landside port connectivity is not good enough to support competition between container ports.
Absence of a national strategic approach to the provision of container port connectivity infrastructure reduces exporters choices and competition between ports.

Competition provided by greater choice for customers should reduce the cost of imported goods and increase the competitiveness of export industries. Given that Australian ports are an essential link in the economy, providing choice for their users and customers is vital; however, providing this choice is challenging as Australian container ports are centrally located on a state by state basis, largely immobile and isolated by long distances. The level of port connectivity in Australian has a significant impact on the choices offered to port users and customers and on competitiveness. What Australia needs is to extend this framework to establish an index to monitor port connectivity. This would give clarity to the changing nature of competition, the level of competition, and be a step towards promoting greater competition between ports in Australia.

Q 11. How can Australia's maritime channels be appropriately maintained and able to accommodate bigger ships?

Appropriate maintenance is justified for accommodating of bigger ships when supported by the best available data and information (quantitative and qualitative, objective and subjective) to serve optimising Australia's freight task. When the national landside transport network can accommodate and facilitate very high capacity ships (>10,000 TEU) the benefits of the economies of scale for bigger ships will not be gained.
The 2016 UNCTAD report identifies three policy areas (which make excellent priorities for Australia's freight and supply chain priorities) to increase a networks ability to accommodate larger ships:

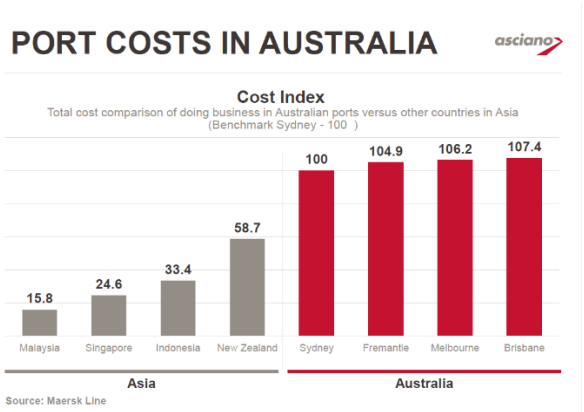
- widen the port hinterland;
- ensure competitive markets; and
- fulfil liner shipping demand for efficient and modern ports

Q 12. How are other countries dealing with the landside implications related to distributing cargo from bigger ships?

Utilising feeder vessels in hub and spoke model.
Improving port connectivity for rail services direct to port or road services with freeway access direct to ports. Some ports use a barge transport system using river systems.

Q 13. How effective is your supply chain at transitioning your freight between modes and across boundaries?

Poor. The low port productivity in Australian container ports contributes to shipping inability to integrate in to the domestic supply chain. The following graphic as presented by Patrick Stevedores at the Australian Logistics Council Forum 2015 demonstrates the lack competitiveness of the Australian container port sector.



An ambition of the National Freight and Supply Chain Strategy Freight is to deliver world-leading infrastructure that supports world-leading cities and regions. To improve port productivity to support world leading cities and regions future container stevedoring monitoring reports should be measured against international and regional benchmarks.

Q 14. Are empty containers a problem for you?

Yes. There is a cost to move empty containers. Utilising this carrying capacity would be reduce the cost to all stakeholders in the supply chain.

However, there is an imbalance between the imports to Australia generally in 40-foot containers and the greatest demand for commodity exports in 20-foot containers – so Australia exports and imports empty containers.

Q 15. What emerging technological trends do you think will impact on your supply chain?

Blockchain and smart contacts.

http://splash247.com/maersk-ibm-teams-supply-chain-solution/

Q 16. Do you feel you can make use of the technology you need?

Blockchain and smart contacts are applicable to the container supply chain. This should be a priority in the Australian Freight task. It will be a challenge to incorporate this evolving technology universally as for the previous 60 years container technology has been restricted to international trade. The full potential of containerisation has never been fully embraced for coastal shipping in Australia and the logistics of this supply chain is a largely unknown area among many domestic shippers.