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23 April 2021

Vulnerable Supply Chains study
Productivity Commission
Locked Bag 2, Collins St East
Melbourne Vic 8003

supplychains@pc.gov.au

Dear Commission,

SUBMISSION REGARDING INTERIM REPORT ON VULNERABLE SUPPLY CHAINS

Port of Newcastle notes the Productivity Commission's study to examine the nature and source of risks to the effective functioning of the Australian economy and Australians' wellbeing associated with disruptions to global supply chains, identifying any significant vulnerabilities and possible approaches to managing them. Port of Newcastle is pleased to provide the following brief written submission to assist the Commission's analysis, particularly where it relates to identifying significant vulnerabilities and possible approaches to managing them.

Background on Port of Newcastle

Port of Newcastle is a deepwater global gateway, the largest on the nation's East Coast. The port exists to build Australia's prosperity with responsible, integrated and innovative supply chain solutions. With trade worth about $26 billion to the national economy each year, Port of Newcastle enables Australian businesses to successfully compete in international markets. Port activity also creates many flow-on benefits. In 2020, economists HoustonKemp analysed the contribution Newcastle's port activity[1] makes towards the Hunter, state and national economies. The port's direct and flow-on contribution to Australia's gross domestic product (GDP) is almost $1.5 billion and it also underpins almost 9,000 full-time equivalent jobs nationally. Driving Port of Newcastle is the knowledge that when Australia's largest east coast port is providing reliable, efficient, and competitive access to global markets, the benefits flow well beyond the port boundary.

The port currently handles 4,400 ship movements and 164 million tonnes of cargo annually. With a deepwater shipping channel operating at 50% of its capacity[2], significant port land available and enviable access to national rail and road infrastructure, Port of Newcastle is positioned to further underpin the future prosperity of the Hunter, NSW and Australia. As custodians of the region's critical asset, Port of Newcastle is diversifying its trade as it strives to create a safe, sustainable and environmentally and socially responsible future.

Port of Newcastle plays a critical role in the New South Wales economy, supporting numerous industries involved in the importation and exportation of a range of commodities, including coal, fuel, wheat, grains, fertiliser, general and project cargo, roll-on roll-off, and mineral concentrates.

The Port also plays an important role in the future of New South Wales, as both freight movements and population increase, and as the state works to repair its economy following the COVID-19 pandemic.

[1] https://www.portofnewcastle.com.au/news/report-shows-port-of-newcastle-an-economic-powerhouse-for-nsw-and-australia/
[2] https://www.portofnewcastle.com.au/wp-content/uploads/2019/09/ECO-011-Port-of-Newcastle_Economic-Impact-Report_V4-_-SK_v6.pdf

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The strategic location, channel capacity, and land development opportunities at the Port of Newcastle adjacent to the central population growth areas, and the strategically important northern regional areas of the state, provide significant opportunities for growth and are a strategic advantage for NSW importers and exporters.

The landside linkages between shippers and the Port are also important for continuing to improve the efficiency of supply chains and NSW's productivity into the future.

EXECUTIVE SUMMARY

- There are a number of structural and capacity barriers to supply chain efficiency and risk-mitigation
- Australia must consider alternative container port options to reduce supply chain risk and improve international competitiveness
- There is a need for a sustained shift to rail, reducing congestion from over-reliance on trucks
- There is interdependency between import and export trade

Structural barrier to supply chain efficiency and risk-mitigation

The Commission's interim report analyses a number of key supply chain risks. Port of Newcastle notes the following structural and capacity-related risks identified in the interim report:

- A lack of flexibility and geographic clustering contribute to market level risk.
- Reliance on unique infrastructure (such as a port or IT system)
- Bottlenecks in transport links, including a reliance on a port or a specific maritime, land or air route
- Imports in Australia are dependent on a small number of domestic ports, each with limited capacity, and thus are at risk of significant delay in the event of a natural disaster or infrastructure failure.

Australian container shipping trade is dependent on imports. Across the five main container ports (Brisbane, Sydney, Melbourne, Adelaide, Fremantle) in 2019, 47% of containers were full imports, compared to 23% empty exports[3].

Some container ports have experienced prolonged terminal congestion in recent years. For example, industrial action[4] at Port Botany created significant disruption during 2020. This resulted in shipping lines introducing congestion charges[5], adding to the cost of goods for Australian businesses and consumers. The supply chain also changed as a result, with some vessels bypassing Sydney[6] and instead visiting Port of Brisbane or Port of Melbourne with cargo bound for NSW. This created unnecessary landside transport of these goods, as customers were required to pay to transfer their cargo from interstate instead of receiving it in Sydney. There were delays to customers receiving their goods, with risks of shortages. This is an example of congestion that has a negative impact on supply chain reliability and adds unnecessary costs for Australian consumers.

[3] https://www.bitre.gov.au/publications/2019/waterline-65
[4] https://www.afr.com/work-and-careers/workplace/ports-still-experiencing-huge-delays-despite-mua-ceasefire-20201021-p5675x
[5] https://www.thedcn.com.au/2020/09/14/opinion-congestion-and-other-charges-choking-trade-at-port-botany/
[6] https://www.thedcn.com.au/2020/09/15/congestion-blamed-for-ship-shuffling/

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Ultimately this impacts the productivity and efficiency of the national economy and is a supply chain risk. The recent disruption and price increases in container shipping has led to some commodities, such as steel, switching from containers to break bulk. This shift has placed greater pressure on demand for port side storage for weather-sensitive cargo, and has resulted in increased shipment costs to domestic and international markets.

The Commission may also wish to examine the capacity of empty container storage at major Australian container ports. Transport for NSW (TfNSW) found in 2020 that there is inadequate Empty Container Park (ECP) storage in Sydney[7]. This leads to inefficient movements and extra costs as empty containers are double-handled, adding to congestion around ports. During periods of major port disruption vessels often depart port leaving the empty containers behind. This exacerbates the empty container situation leading to inefficiencies and additional costs.

Australia's reliance on just-in-time supply is also worth further analysis. This trend has increased the impact on consumers in times of disruption, such as container port congestion, and impacts on shipping supply chains. In future, additional warehousing and storage capacity will be required to accommodate a shift to holding greater inventory levels as a means of reducing supply chain risk.

Need for alternative port options

Port of Newcastle has long advocated the role of secondary ports developed for the purposes of supporting the existing supply chains and reducing congestion, particularly around landlocked metropolitan ports. The experience around the world is that secondary ports can provide much-needed competition and help reduce supply chain inefficiency by creating alternative pathways for export and import products[8]. For example, the Port of Tauranga in New Zealand saw a 1000% increase in container trade between 1999 and 2019[9], operating in competition with Port of Auckland, located about 200 kilometres to its north-west. Secondary ports also create trade opportunities where they may otherwise not exist or not to the same scale as they would with longer journeys to a major port. In this way, secondary ports can act as a back-up to existing ports, provide an opportunity to grow the overall market and help reduce supply chain risk.

Australian freight is predicted to double over the next 40 years and beyond[7]. Port of Newcastle is well-placed to support this growth in freight and help to reduce road congestion in Greater Sydney.

Port of Newcastle's proposed Multi-purpose Deepwater Terminal (MDT) is an important investment to manage and support this growing freight task. Subject to the removal of penalties currently applying on container movements above a low threshold, the MDT is set to increase the container port capacity in NSW. This critical infrastructure will enable NSW businesses to be more globally competitive by providing more efficient access to international markets. It will have direct ship-to-rail capability, reducing freight time and costs and double-handling of cargo. It will have a throughput capacity of 2 million Twenty-Foot Equivalent Units (standard twenty foot containers or 'TEUs') per year, and ensure that Australia is prepared for the future of container shipping and the industry's continued transition to the much larger Ultra Large Container Vessels (ULCVs) now operating around the world.

[7] https://www.transport.nsw.gov.au/system/files/media/documents/2020/empty-container-supply-chain-study-web.pdf
[8] https://www.parliament.nsw.gov.au/lcdocs/other/12148/HoustonKemp-report---Containerised-trade-trends-and-implications-for-Australia-31-Jan-2019.pdf
[9] Port Trade and Statistic Information, Port of Tauranga, August 2020, page 5

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The MDT project will complement the Inland Rail project currently being led by Australian Rail Track Corporation (ARTC). These projects support each other and together can maximise the benefits to NSW, by providing potentially lower cost import and export supply chains, particularly for regional areas. This can be achieved through:

- providing regional importers and exporters with access to the increased economies-of-scale from accessing larger container ships and longer freight trains, which can be more readily accommodated at Newcastle; and
- providing readily accessible container port facilities closer to key population growth and regional areas of NSW.

These investments in combination have the potential to significantly contribute to the economic growth of regional communities in NSW, and create the opportunity for containerised trade currently moving across the border into and out of Queensland via road, to transit through a port within NSW.

Need for a sustained shift to rail, reducing congestion from an over-reliance on trucks

Port of Newcastle supports the need to decrease Australia's current over-reliance on road transport to meet the future freight task.[10] Replacing road with rail to transport freight has several advantages:

- Metropolitan road congestion will decrease as the trucks carrying freight are replaced by trains.
- Relieving pressure on Australia's regional highways is important as the population increases, and therefore passenger use rises also.
- Reduction in safety impacts. Heavy vehicles are much more likely to be involved in a serious crash.[11] Estimates suggest that, just through the addition of Inland Rail, up to 15 serious crashes will be prevented every year.[12] This also serves to reduce supply chain risks.
- Reductions in the cost of road maintenance and new road investment
- Superior environmental outcomes. Compared with road transport, rail is four times more fuel efficient when moving freight and generates less pollution. For example, for the Inland Rail project, carbon emissions are expected to be cut by 750,000 tonnes per year from 2050.[13]

These advantages of moving freight by rail will result in cost savings and increase the efficiency of supply chains, thereby increasing Australia's competitiveness in the global market, as well as improving domestic freight movements and outcomes.

Port of Newcastle already has the necessary connections to national road and rail infrastructure that would enable it to lessen the burden on Sydney's landside freight task, which would reduce congestion. Other regional ports may have similar benefits. Projects such as the Inland Rail project will further enhance the competitiveness of freight transport between regional New South Wales and global customers. Port of Newcastle is uniquely connected to Inland Rail at Narrabri and Narromine via ARTC's Hunter Valley Rail Network. This creates the opportunity for regional importers and exporters to take advantage of the

[10] ARTC, *Attachment A: ARTC 2015 Inland Rail programme business case*, Group report, 2015, p 69.
[11] Bureau of Infrastructure, Transport and Regional Economics, *Heavy truck safety: crash analysis and trends*, Information sheet, 2 August 2016, p 1.
[12] Inland Rail website, https://inlandrail.artc.com.au/what-is-inland-rail/benefits/, accessed 8 December 2020.
[13] Ibid.

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connection to the Port of Newcastle to expand trade opportunities. This also reduces singular dependencies on port infrastructure, lowering relative supply chain risks.

Inland Rail connects all ports on Australia's east coast to each other and to regional areas. This means exporters and importers in Australia will have greater choice in ports, facilitating greater competition and increased returns to producers as a result.[14]

Currently the vast majority of containerised cargo in NSW goes through Sydney's metropolitan transport network. The proposed MDT at Port of Newcastle, in conjunction with the Inland Rail project, increases the opportunities for the use of rail for containers.

Port of Newcastle is served by the ARTC high-capacity Hunter Valley dedicated freight rail network, connected directly to each of the Port's berths. The Port's network is directly connected to both the North-South and East-West lines. The network is designed for significantly higher volumes than are currently transiting the Port.

Interdependency between import and export trade

As the Commission identified in its interim report, Australia's domestic and export industries are dependent on the quality and reliability of the import supply chain. In simple terms, import disruptions can negatively impact the export supply chain. For example, a number of key import cargoes moving through Port of Newcastle are susceptible to supply chain disruption. These include fuel, aluminium inputs, cement, fertiliser and steel. These import cargoes are important support industries for exports from the port. About 158 million tonnes of coal – with a trade value of $17 billion – was exported from the Port of Newcastle in CY2020[15]. These exports depend on reliable import supply chains for a broad range of products, including but not limited to fuel, cement, magnetite, machinery and explosives.

Similarly, aluminium production in Newcastle depends on a reliable import supply chain for alumina and petroleum coke, along with electricity supply. Domestically, steel and cement imported into Newcastle are key inputs to support continued infrastructure and investment activity in NSW.

In the agriculture sector, a number of fertiliser importers have a presence at the Port of Newcastle, supplying the local industry. Fertiliser application supports key export commodities including grains, cotton and beef. Over 500,000 tonnes of wheat with a trade value $170m were exported from Newcastle in the first two months of 2021.

As noted earlier, there are risks to a number of industries – particularly mining – from disruption to Australia's imported fuel supply. Port of Newcastle notes the Australia's Government's interest in additional fuel storage capacity to accommodate any strategic reserve requirement. It is expected that Port of Newcastle could accommodate additional fuel storage capacity across the Port in a number of ways. Port of Newcastle represents a strategic location for distribution of fuel reserves across the Eastern Seaboard and beyond, with significant heavy rail capacity servicing all areas of the Port. It also has direct connections to the highway network without urban congestion. In addition, Port of Newcastle has significant channel capacity for additional ship movements and potential interconnection direct to the Newcastle-Sydney fuel pipeline. Port of Newcastle is uniquely positioned to be able to support projects that could accommodate additional fuel storage capacity across the port. The Port can leverage its position, infrastructure, partnerships and development capacity to secure Australia's strategic fuel reserves. Port of Newcastle continues to support the Commonwealth's efforts to improve fuel security and is engaged in the processes underway. Port of Newcastle supports the Boosting Australia's Diesel Storage Program and will act further as the Commonwealth's preferred structure for fuel security becomes apparent.

[14] ARTC, *Attachment A: ARTC 2015 Inland Rail programme business case*, Group report, 2015, p 127.
[15] https://www.portofnewcastle.com.au/wp-content/uploads/2021/01/20201201-External-Monthly-Trade-Report-December-2020.pdf

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Port of Newcastle appreciates the opportunity to make a submission and would be pleased to provide support to the Commission in its analysis.

Yours sincerely

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