16 February 2022

Productivity Commission
GPO Box 1428
Canberra City ACT 2601

Re: Inquiry into Australia's Maritime Logistics System

GrainGrowers is a voice for Australian grain farmers with grower members across Australia. Our vision is to build a more sustainable and profitable grains industry for the benefit of Australian grain farmers.

The Australian grains sector is a powerhouse of regional Australia with over 22,300 farm businesses growing on average 45 million tonnes of grains, oilseeds and pulses each year for domestic and global customers. The Australian agricultural sector is striving to reach $100 billion farmgate value by 2030, up from the forecast value of $73 billion for 2021-22, with the broader agribusiness supply chain striving to reach $300 billion. As Australia's second largest agricultural industry, the grains sector will be critical in reaching that ambitious goal.

Impacts of Australia's maritime logistics system of the Australian grains Industry

GrainGrowers welcomes the inquiry by the Productivity Commission into Australia's maritime and logistics system. With around 70 per cent of Australian grain being exported, improvements to the system will significantly benefit grain growers and the broader grains industry. The use of containers for export grains is a small but important pathway for the industry, providing access into different, and often high value markets. Any reductions in containerised grain exports due to supply chain constraints is detrimental to the sector. Further, grain growers rely on a range of imported inputs and if they cannot be sourced in a timely and cost-effective manner then the level of production and productivity is impacted.

It is important that the analysis undertaken reflects the degree to which these issues will be recurring and identify options to reduce disruptions as well as increase transparency and competition in freight markets. Maritime freight is an important component of the overall Australian freight system, and the interface between maritime freight and other freight modes must be a consideration. A successful outcome of the inquiry will be to secure efficient freight supply chains for future growth and ensure that there is resilience to shocks to the system.

The international competitiveness of Australia's grains industry relies on an efficient and effective logistics system, and that the many components of the system work well together. Australia has higher relative costs of production and domestic transport compared to our international competitors. While Australia's geographic proximity to its key Asian markets has allowed the grains industry to enjoy a competitive advantage in recent times, it is critical that we continue to develop and maintain an efficient and competitive maritime logistics system.

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The COVID-19 pandemic has placed additional pressure on Australia's logistics system, including maritime logistics, and highlighted many points of weakness. The Productivity Commission's Study Report into Vulnerable Supply Chains concluded that very few imports are vulnerable to concentrated sources of supply and that many of those are not 'essential'. GrainGrowers, however, believes that there have been significant impacts to agriculture arising from or being exacerbated by issues within the supply chain such as heavy reliance of goods and pre-cursors sourced from particular locations, such as China. We must address the points of weakness in our national logistics system and use this opportunity to ensure the system can deliver now, can increase its resilience and meet future demands.

GrainGrowers has been involved in the development of submissions to this inquiry made by both the National Farmers' Federation and Grain Trade Australia and supports the messages outlined in those submissions. Further, the Grains Research and Development Corporation (GRDC) has commissioned the Australian Grain Export Innovation Centre (AGEIC) to undertake a containerised grain study. While this work is not yet completed, AEGIC would have valuable insights from this study which will help better understand the specific issues relating to containerised grain and its interaction with the maritime supply chain.

This submission covers: issues from the pandemic; structural trends in maritime logistics and the grains industry; the need for better information; and, long term planning and investment to support logistics.

GrainGrowers would also like to highlight for following key points:

- Access to empty 20-foot food-grade containers is currently a critical issue for the industry that needs to be addressed. Future access and availability of these containers to Australian exporters and implications on trade, must be assessed.
- There is an ongoing need for data and analysis to understand the performance of the maritime logistics systems, including global trends and how they impact Australian supply chains and our competitiveness.
- There is an ongoing need for price transparency regarding costs to ensure that they are commensurate to timeliness and level of service provided.
- Industrial relations arrangements must be managed to ensure goods can be imported and exported through the most appropriate port, avoiding delays and increased costs.

Issues from the pandemic

The COVID-19 pandemic has highlighted Australia's exposure to the cost of international freight supply chains. The pandemic introduced many impediments to global supply chains, with shortages in agricultural inputs such as necessary chemistries, fertiliser and machinery parts. At the beginning of the pandemic demand for shipping services declined with global production and international trade being subdued. However, by October 2020, this trend had reversed and the requirements for containerised goods increased along with shipping demand.

Costs of container freight from 2019 to 2021 has skyrocketed. For example, the cost of exporting pulses in containers from Melbourne to India in late 2019 would have been around US$600 per container, or US$30 per tonne. Now they are at around US$2400 per container or US$120 per tonne. This is a 400 per cent increase and does not include a myriad of other fees and charges.

Further work needs to be done to compile and better understand these costs, including understanding the extent to which prices will recover to more reasonable level post pandemic. In addition to the costs of maritime container movements, the cost to the grains industry has been amplified by inefficiencies and underperformance of our ports and landside freight networks. World Banks reports indicate that the productivity of Australian ports are consistently in the bottom quartile internationally, and this is exacerbated by industrial relations disruptions between infrastructure owners and maritime workers. The industrial disruption that occurred at Fremantle Port in October of 2021 lead to machinery and goods being shipped to ports in eastern Australia, resulting in significant additional costs and delays for grain farmers in Western Australia.

With limited availability of some critical farm inputs, prices have been rapidly increasing. This coupled with high transport costs and significant delays in international supply chains has created an environment of uncertainty and exorbitant prices. It is difficult for industry to separate the different price components associated with resource scarcity and increased charges along the freight supply chain, but we would welcome the opportunity to discuss these issues with the Productivity Commission and work through examples.

It is important that Australia learns from the experience of the pandemic and consider mechanisms that can assist in avoiding future shocks as well as identify opportunities to address the constraints that have become apparent in the maritime logistics system.

Structural trends in maritime logistics and the grains industry
As Australia recovers from the pandemic and measures are developed to address the shocks in freight supply, it is important that the nation plans for the future. To be effective and improve productivity in the longer term any measures adopted must recognise underlying trends in Australia's export industries as well as the freight and logistics system.

GrainGrowers published the report "State of the Australian Grains Industry"[1] in 2021 which reviews trends in the Australia grains industry including trends in production, trade and commentary on recent and future industry freight requirements.

At present the majority of grain is currently shipped as bulk exports, with around 15 per cent of grain exported by container. It is important to highlight that the use of containers varies by location and from season to season. Access to empty 20-foot food-grade containers has proven to a limiting factor to ongoing growth in this market. This situation has been exacerbated by the pandemic with food grade containers currently in short supply. There is a role for government, in conjunction with the agricultural industries, to analyse the future access and availability of these containers to Australian exporters and jointly consider the implications on trade.

In the longer term there are structural changes in the container trade, and increasingly 40' rather than 20' containers are being constructed and used in trade exchanges. This structural change is unlikely to reverse, with implications for the profitability of export grains and fodder. These trends need to be considered when looking at the future operation of maritime freight logistics, including how the larger containers can be dealt and how land side logistics networks can accommodate them.

[1] State of the Australian Grains Industry Report 2021 | The national voice for Australian grain farmers. (graingrowers.com.au)

The need for better information
There is a need for ongoing data collection and analysis of the maritime logistics systems and global trends to understand how they impact the Australian supply chain. Government in conjunction with industry should increase the level of data gathering and analysis and share and interrogate this data with industry to assist in the understanding and management of all shipping trends that may have a marked impact on the Australian economy.

Companies that provide port terminal services loading bulk grain onto ships operate under a mandatory Port Terminal Access (Bulk Wheat) Code of Conduct. The Code of Conduct aims to support competition by ensuring new exporters have access to port infrastructure while protecting the investments of incumbent bulk handling exporters. The code currently covers bulk wheat only and is monitored by the Australian Competition and Consumer Commission (ACCC).

It is important that the ACCC maintain its monitoring of port terminal access arrangements. With more ports becoming privately owned the risk of these entities acting as spatial monopolists is increasing. Accordingly, either encouraging greater competition between ports or regulating and monitoring the operations of ports is essential to discern monopoly rents and practices that lessen productivity gain.

With privatisation and inadequate regulation comes the risk of loss of access to timely and adequate information about the productivity and efficiency of maritime logistics. Without accurate benchmarking and monitoring of maritime logistics performance, the entire sector is at the mercy of ad hoc infrequent, rear looking investigations. This leads to reactive rather than proactive policymaking and regulation. Further, accurate longitudinal datasets on maritime logistics help underpin and de-risk strategic investment in the system.

Long term planning and investment to support logistics
Least-cost freight paths and corridors for containerised and bulk grain and fodder need better protection. Logistics are often a bundle of services that need to be well-managed and adequately resourced to respond to current and future needs and are underpinned by long-lived assets. Cost-cutting within a supply chain can, at times, be false economy because it can weaken the flexibility and reliability of that supply chain. Governments and the ACCC should commit to an integrated plan and timeframe to deliver regulatory change, suitable and aligned with the pace of change in the market environment.

GrainGrowers appreciates the opportunity to contribute to this inquiry and looks forward to meeting with the Productivity Commission to discuss as practicable. Should we be able to provide further assistance or if there are any enquiries relating to our submission, please contact our General Manager, Policy and Advocacy, Zach Whale.

Yours Sincerely,

David McKeon
Chief Executive Officer
GrainGrowers Limited