



## PRODUCTIVITY COMMISSION VULNERABLE SUPPLY CHAINS INTERIM REPORT

### International Forwarders and Customs Brokers Association of Australia Response Submission

#### Introduction

##### International Forwarders & Customs Brokers Association of Australia Ltd. (IFCBAA)

IFCBAA is Australia's leading peak national body, representing members' interests in international trade logistics and supply chain management service provision.

We are committed to being the single voice for international freight forwarders and licenced customs brokers, operators of premises licensed by the Australian Border Force for the holding and movement of goods subject to customs controls, and other associated groups involved in international trade.

IFCBAA represents its members and industry in a diverse spectrum of domestic and international trade committees, forums and discussion groups. In representing its members,

IFCBAA also represents the interests of the customers of its members being importers and exporters and those providing goods to importers and exporters.

As will be clear, IFCBAA represents (whether directly or indirectly) all parties in the international and domestic supply chain and has done so for many years.

IFCBAA was recently established through the merger of the Customs Brokers and Forwarders Council of Australia Ltd. (CBFCA) and the Australian Federation of International Forwarders Ltd. (AFIF).

Further details of IFCBAA, its credentials and its involvement in the movement and clearance of goods in and out of Australia are available at [www.ifcbaa.com](http://www.ifcbaa.com)

#### Contact Details

All enquiries and responses may be directed as follows:

Stuart McFarlane  
Air & Sea Freight Forwarding Manager  
International Forwarders & Customs Brokers Association of Australia Ltd

A: 8C/443 West Botany St. Rockdale NSW 2216

T: (02) 9587 1986

E: [smcfarlane@ifcbaa.com](mailto:smcfarlane@ifcbaa.com)



## Background

IFCBAA was invited to participate in a stakeholders webinar and requested to provide a submission to the Productivity Commission's Vulnerable Supply Chains Interim Report.

IFCBAA attended the stakeholders webinar and includes the following observations and commentary in our formal response.

## Productivity Commission's Interim Report and Webinar Observations

### *This interim report focuses on imports*

*In response to the terms of reference, the Commission has prepared an interim report that focuses on how disruptions to imports might affect Australians' access to essential goods and services.*

*The interim report develops a framework to identify risks that might affect supply chains, and ultimately Australians' wellbeing.*

- *The Interim Report is focussed on imports, but also relates to **transport and logistics vulnerabilities***
- *Products in a market are vulnerable if inputs are produced by a small number of firms, or if they **must pass through a small number of facilities, such as ports***
- *Timing - Focus on short-term disruptions to the supply of critical inputs of up to 6 months.*
- *Industries – Focus on goods and services that are essential to meeting the basic needs of Australians*

## IFCBAA Response

IFCBAA provides the following response to the interim report, focussing on transport and logistics vulnerabilities in moving goods internationally and through the ports, across Australia's border.

### International Movement of Goods to Australia

There are a number of vulnerabilities impacting transport and logistics movement of goods into Australia affecting importers, including capacity constraints and escalating costs.

As an island nation, Australia relies on ships and aeroplanes only, to transport goods into and out of Australia.

International Shipping lines serving the Australian market are 100% foreign-owned.

The lack of local ownership of shipping lines, exposes a transport vulnerability to Australia in accessing large volumes of essential goods, should market forces or geo-political tensions impact a trade lane. Air cargo is unable to provide the necessary large capacity of ships.

Shipping lines are obtaining 2-3 times the rates per km from Asia to USA & Europe where the largest vessels move major volumes. Australia will continue to be at the mercy of global competitive forces, with smaller vessels and higher freight rates serving the Australian market.

Shipping lines continue to increase rates significantly and have added surcharges to boost revenues.

Delays of up to several weeks are being encountered obtaining a container booking confirmation on a vessel ex Asia, Europe and USA, impacting just-in-time supply chain reliability.

Port congestion overseas and locally has led to shipping lines rearranging schedules and omitting port calls, leading to additional delays and costs as containers are moved from the next port back to the omitted port of destination of the goods.

A build-up of empty containers has overwhelmed empty container parks (ECPs) and port stevedores. Container volumes are over-capacity, leading to redirections and a build-up of empty containers at importers and transport companies premises, awaiting to return the empty containers – adding more costs in delays and demurrage fees in returning empty containers to depots and port stevedores.

A key element to improving the flow of empty containers and minimising redirections, is ALL shipping lines providing pre-advice information (electronic delivery order e-D/O) in ECP booking systems. Some shipping lines do not have electronic delivery order e-D/O and use manual documentation.

An imbalance of empty containers held in Australia has led to shortages in Asia ports, impacting the availability of certain container types for shipments to Australia and exports from Australia.

In late 2020, shipping lines introduced shipping surcharges and a Port Congestion Surcharge (PCS) in response to the congestion build up within the NSW container supply chain, caused by a range of factors including: protected industrial action at some Port Botany container terminals over an extended period of time, COVID-19 disruptions, weather related port closures, port development activities to improve port capacity and productivity, and the closure of Sydney's largest empty container park (24% of Sydney's empty container capacity) to make way for construction of the Sydney Gateway road.

The Port Congestion Surcharge was introduced at Port Botany and across all Australian container ports of US\$285-\$350 per TEU.

Vessels omitted Port Botany, or suspended bookings to Port Botany, whilst other shipping lines cancelled some vessels to Australia or suspending bookings on certain services to Australia or coastal services within Australia.

Some importers were forced to transport their container cargo overland from Melbourne and Brisbane to Sydney, at substantial cost, with others having to wait an extra 3-4 weeks to receive their cargo by sea from Melbourne.

Empty container parks in Sydney were full as ships were not evacuating, or able to evacuate, the full complement of empty containers due to servicing delays.

Vessel servicing time deteriorated by up to 80% with containers spending extra time waiting on the port terminal.

## **Container Detention Fees**

The current disruption to stevedores' operations at Port Botany and the stockpile of containers in empty container depots has exposed instances of shipping lines intransigence to extending container detention free periods, when containers cannot be accepted by an ECP due to capacity constraints.

IFCBAA refutes any shipping line that seeks to take advantage of a crisis situation not of the importer/exporter/agent's making and are forced to pay additional fees and charges, such as port congestion surcharges, container detention, container holding costs and redirections.

IFCBAA commends FIATA and the FMC for producing a Ruling and a practical guide to members in dealing with shipping lines on unjust container detention and demurrage. IFCBAA supports the establishment of a FMC style Commission in Australia to address this issue and related shipping charges issues.

[Best Practice Guide on Demurrage and Detention on Container Shipping](#)

[toolkit on the US Federal Maritime Commission \(FMC\) Final Rule on Demurrage and Detention](#)

## Stevedores Terminal Access Fees

IFCBAA has been lobbying Federal and State Governments and the ACCC over several years, to intervene and take action in addressing the continued uncontrolled and opaque increases in the stevedores infrastructure surcharges.

The stevedores justification for increasing the Infrastructure Surcharge is a partial recovery of costs: capital investments on infrastructure and equipment; increased property costs – rent, rates and taxes; maintenance and operational costs, etc. etc.

Extract ACCC [Container stevedoring monitoring report 2019-20 | ACCC](#)

- *Stevedores' total revenues at monitored ports increased by \$38.9 million, or 2.8 per cent, despite a significant drop in container volumes.*
- *It appears the main driver of increased revenues, despite a moderate reduction in costs and reduced volumes, was further increases in Terminal Access Charges (TACs, formerly called 'infrastructure charges'). TACs on aggregate have increased by \$87.6 million, or 51.9 per cent, since 2018–19.*
- *The ACCC is concerned that the benefits of greater competition between stevedores to provide services to shipping lines will be eroded by increasing TACs, although any regulation of these charges is a matter for state and territory governments.*
- *Because importers and exporters contract with shipping lines to send cargo and the shipping lines then choose the stevedore, TACs are to some extent a 'take it or leave it' proposition. Since landside port users cannot directly choose their stevedore there is little effective constraint on these rising charges.*

An entity is allowed to apply charges as they see fit, provided they don't contravene competition legislation. The issue becomes one of increased costs which have to be passed through the supply chain - ultimately the consumer pays higher costs for goods.

IFCBAA is encouraged by the Ministers' decision at the Infrastructure and Transport Ministers meeting to refer this issue to the National Transport Commission as the national land transport reform agency, to lead this work.

*The NTC will 'develop voluntary national guidelines for applying stevedore infrastructure and access charges (both their introduction and increase) at Australia's container ports.'*

Whilst the guidelines are voluntary, IFCBAA expects that this national framework and approach will provide more transparency in the application of infrastructure surcharges increases.

IFCBAA's submission to the review of *Port Botany Landside Improvement Strategy (PBLIS) Mandatory Standards*, highlighted the need for government intervention in the conduct of stevedores.

## **Border Clearance Agencies**

IFCBAA, as the representative industry body for service providers engaged in border clearance, has a long history of engagement with government agencies at the Australian border.

The 2 major agencies are Australian Border Force (ABF) and Department of Agriculture (DAWE)

The primary IT system for Customs and Quarantine clearance - the Integrated Cargo System (ICS) - is a significant point of vulnerability in the transport supply chain.

The ICS was introduced in 2005 with major disruption and delays to the supply chain. There has been no modernisation upgrade to the ICS since its introduction. There are regular instances of points of failure, outages and delays in the ICS on the ABF side and DAWE side.

Further to the ICS issues, there are ABF delays in processing permits - the ABF represents 40 government agencies at the border.

The ICS needs to be replaced with a robust 'Single Window' cloud-based system, where all trade facilitation, interaction with government agencies, permits, Customs and Quarantine clearance can be processed in real time.

With an ageing Licenced Customs Broker workforce, the average age of 55, is not being replaced by enough younger entrants. IFCBAA provides Diploma vocational training for new entrants with an emphasis on school leavers who may not wish to attend university. IFCBAA is represented at many careers expos throughout Australia looking to foster a future in Supply Chain Logistics both Domestic and internationally.

## **Department of Agriculture, Water and the Environment**

A transport vulnerability is the current state of operations of the Department of Agriculture, Water and the Environment. (DAWE)

The Department is beset with managing major external biosecurity threats of Brown Marmorated Stink Bug and the Khapra Beetle, with a significant shortfall in manpower resources. There are considerable delays in processing import declarations and inspections. Inspections and release of shipments can take over 1 week.

IFCBAA has engaged with the Minister for Agriculture, Secretary and senior management to allow Licenced Customs Brokers to undertake low level functions on behalf of DAWE to reduce delays.

IFCBAA recommends greater use of shipper/consignee and consignment information intelligence for earlier intervention and the introduction of a 'DAWE trusted trader' program, as exists in the ABF Trusted Trader program, to 'shrink the haystack' of shipment processing by allowing more 'green lane' releases for trusted entities with a demonstrated secure biosecurity supply chain.

## Air Cargo

Since the closure of the Australian borders to overseas visitors in March 2020, there has been a major reduction in the number of passenger flights and associated cargo carrying capacity.

Some capacity has been provided by additional freighter aircraft and carriers converting passenger aircraft to carry cargo only flights.

The Australian Government (Austrade/IFAM) stepped in with a \$800 million grant program to provide temporary subsidised capacity for exports of horticulture, seafood, lamb, beef, pork and dairy sectors to support maintaining overseas markets – through until September 2021.

The Austrade International Freight Assistance Mechanism (Austrade/IFAM) has provided around 450 freighter flights per week to supplement the limited capacity provided by commercial operators.

Overwhelmingly, the current challenges with restricted capacity and meeting demand are driven by the lack of passenger flights.

Most flights are at capacity, the nature of the cargo depends on the capacity of the customer to pay, typically higher value items (apart from IFAM subsidised cargo)

E-Commerce is booming, especially ex USA with the major integrators adding capacity – DHL, Fedex, UPS, etc.

Market rates are sitting at 1.8 to 6 times pre-COVID depending on the destination.

Austrade/IFAM advises a return to normal pre-COVID flights is a long way off and even so, rates will never return to pre-COVID levels.

The high freight rates make it prohibitive for the movement of lower value cargo, thereby creating a vulnerability for importers if an ocean shipping lane fails or is beset with significant delays – airfreight is not a viable option.

IFCBAA urges the government to continue funding the IFAM program beyond September 2021 to provide continued stability of capacity and rates in the market for importers and exporters to access.

## Domestic Freight Movement

Australia's domestic freight movement is heavily reliant on trucking. The rail network is an under-utilised resource. Movement of containerised goods via coastal shipping is limited, representing 0.1% of freight by volume - coastal shipping up and down the East coast in times of emergencies should be considered.

The heavy dependence on trucking is a transport and logistics vulnerability, as over 90% of Australia's fuel is imported and any disruptions or shortages will have major impact on the supply chain.

*Australia imports over 90% of its fuel. In January 2018, it was revealed that Australia has under 50 days' worth of fuel stocks. The current standard is three months for fuel reserves, but Australia has continually failed to meet those requirements.*

Further to this, the Australian Petrol Statistics cites Australia as having only **17 days' worth of diesel fuel**, 20 days of aviation fuel and 23 days of unleaded petrol in reserve in case of emergency.

Source [Bulkfuel.com.au](http://Bulkfuel.com.au).

ICBAA acknowledges the government has taken steps to address the low level of fuel storage with the introduction of the *Boosting Australia's Diesel Storage Program*, the Government will provide up to \$200 million in competitive grants over three years to support the construction of an additional 780 megalitres of onshore diesel storage.

<https://www.energy.gov.au/government-priorities/energy-security/australias-fuel-security-package>

Nevertheless, transitioning more freight movement from road to rail needs to be a priority.

IFCBAA is a participant on an industry collective representing Victorian exporters, rail operators, logistic businesses, councils, and industry associations on the future continuation of the *Victorian Government's Mode Shift Incentive Scheme (MSIS)* beyond the 2021 year.

Victoria accounts for almost a third of Australia's total food and fibre exports with \$26 billion worth of Victorian goods exported each year. Victoria also remains the nation's largest food and fibre exporter by value, accounting for 28 per cent of the national total product 1.

MSIS investment removes the equivalent of 46,000 truck trips off Victorian roads each year by providing support for railway freight operators to make rail transport costs competitive with road freight and allows exporters to move their goods more efficiently through to the supply chain.

IFCBAA is a member of the *NSW Minister for Transport Freight Logistics Advisory Council. (FLAC)* NSW has been critical to the function of freight productivity and in the movement of goods across borders.

IFCBAA notes that the 28 per cent rail productivity target in the *TfNSW Freight and Ports Plan* needs to consider market restrictions and other factors such as time, infrastructure and price.

Import rail from Port Botany has gradually declined with a 12 per cent modal share and there needs to be a modal shift across the network

Ports, rail and road transport are State government responsibilities and if anything is to be achieved on and off the wharf and connections to domestic transportation via rail, road and coastal shipping, it could only be done at the state governments level, with support from the federal government by way of infrastructure grants.

There are a number of forums in which industry and government can work together, however market forces have a strong influence over what can be achieved, ie. influence of COVID-19 on the market.

Previous reforms from a state and national perspective have considered movement of goods from rail and ports through changes to stevedore charges.

IFCBAA and FLAC participants and TfNSW are continuing engagement with stakeholders as part of the rail productivity strategy.

IFCBAA supports government initiatives to increase rail modal share of the freight task.

## Conclusion

The vulnerability areas outlined in the IFCBAA submission are causing a cumulative and significant impact on transport and logistics movement of goods into Australia.

The lack of adequate shipping capacity (all foreign owned); flawed land-based operations at ports and interface with domestic freight movement modal share including fuel supplies; delays in handling empty containers; lack of 100% paperless transport movement; significant rates and charges increases; inefficient government IT systems and processes, are areas of vulnerability requiring urgent attention from government.

IFCBAA believes government action on addressing vulnerabilities impacting transport and logistics movement of ALL goods into and out of Australia affecting importers and exporters - including capacity constraints and escalating costs - is as important as whether the supply of a particular good is vulnerable.

Thank you for the opportunity to provide this feedback in the IFCBAA submission

Please do not hesitate to contact the undersigned if you require and further information.

Yours faithfully,

International Forwarders and Customs Brokers Association of Australia Ltd



Paul Damkjaer  
Chief Executive Officer

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