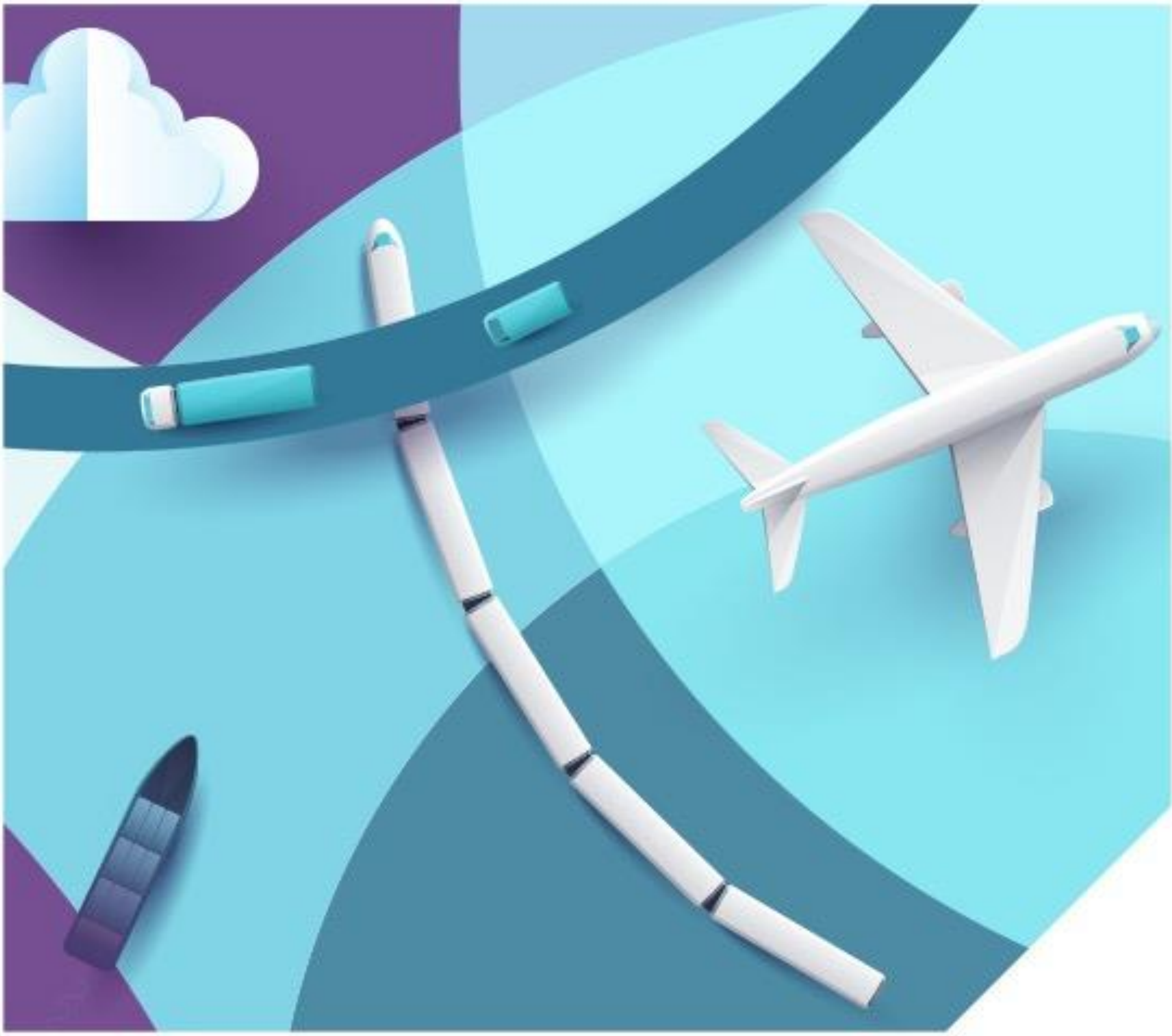
Australian Supply Chains: State of Play

AUSTRALIAN CEO SURVEY 2021-2022



Foreword

Innes Willox
Chief Executive
The Australian Industry Group

There is a complex series of activities that ensure a supply chain works.

Retailers communicate with distributors, distributors connect with manufacturers, and manufacturers engage suppliers of materials and components. On the transport side, there is involvement with shipping lines, airlines, trucking and delivery companies, all of which are facilitated through ports, airports, warehouses, and distribution centres[1].

The COVID-19 pandemic has exposed weaknesses in the operations of global and domestic supply chains and laid bare many Australian vulnerabilities as an island nation with 98% of trade and most jobs connected to or reliant on sea freight in some way[2]. The increase in global demand for goods, lengthy lockdowns and infections of workers, the global shipping container shortage, reduction in shipping services and port skipping, Australian industrial actions, and rising costs, have been creating supply chain chaos, which is not projected to so much as moderately ease until 2023 and beyond.

These pressures can undermine our economic recovery from the pandemic and ultimately dampen economic growth[3].

Supply chain problems should be assessed by how essential the goods are to the wellbeing of Australians and how critical they are to the production of an essential good or service whether for domestic consumption or for export. For example, while Australia is self-sufficient in food production, we do require essential inputs for the agricultural, food processing and transport industries to maintain supply to consumers. Freight constraints can also undermine other areas of policy, such as the strain felt by recyclers who are struggling to manage the rising cost of material exports. This is running us the risk of losing some recycling capability and jobs altogether, given we are lacking in capability to process and/or markets for these materials.

There is also increasing concern about geostrategic tensions, trade conflicts and their associated unknowns. This creates real risk for businesses reliant on distant suppliers and

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[1] 'The global supply chain crisis that stole Christmas,' Caleb Scanlon and Vinh Thai, RMIT (November 2021)
[2] Value of Ports, Ports Australia
[3] 'The global supply chain crisis that stole Christmas,' Caleb Scanlon and Vinh Thai, RMIT (November 2021)

generates an incentive to change the way they do business, and to avoid over-dependency on particular countries or regions (especially those where trade or diplomatic tensions exist).

This document seeks to explore current business experience associated with supply chain pressures (particularly as they relate to sea freight), connected impacts in other areas of policy, and aims to identify possible and constructive pathways forward.

While we may not be able to control the global factors negatively impacting supply chains, we should not shy away from looking inward and improving our own domestic performance and efficiencies.

Innes Willox

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Chief Executive
The Australian Industry Group

State of Play

Supply Chains in 2021 and 2022

The state of global supply chains has been under pressure for some time which has been exacerbated by the COVID-19 pandemic. Freight rates have reached unprecedented levels, with rates on key global trade routes around seven times higher than they were about two years ago[4].

Australian importers and exporters are struggling with rising rates and a lack of space on ships, leading to extra costs for priority loading, which still does not guarantee on-time delivery[5]. This is impacting the ability for many to meet contractual obligations or the expectations of their customers. Some are being pushed out of the market altogether due to eroding margins and ability to deliver on time.

We asked businesses whether their ability to source inputs in 2021 had changed compared to 2020 and almost two-thirds (65%) reported that sourcing their usual inputs was much more difficult in 2021 than in 2020.

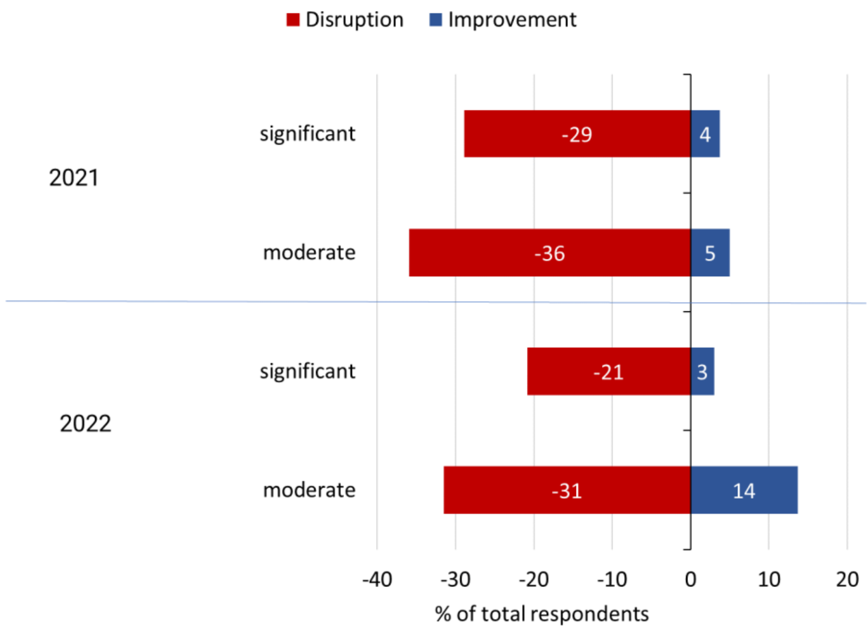
Given the disruptions in 2021, just over half (52%) of Australian businesses expected their ability to source inputs would continue to be disrupted in 2022, with 17% feeling more optimistic about sourcing supplies in 2022. 27% expected no change to their ability to source inputs in 2022 compared to 2021, but it is unclear whether this is a cause for optimism, or an indication businesses are expecting the same problems and pressures to continue.

Businesses[6] have reported a wide range of factors affecting their operations since the start of the pandemic in 2020. One of the factors regularly mentioned during this time has been the impact on supply chains. In October 2021, supply disruption was mentioned by 16% of businesses, the same proportion as in March 2020.

Other primary factors impacting businesses in October 2021 included: activity restrictions (24% of businesses), increased demand (27% of businesses), COVID-19 (8% of businesses) and input cost increases (8% of businesses).

[4] 'Container Stevedoring Monitoring Report 2020-21', ACCC
[5] Ibid
[6] Over the course of 2020 and 2021 we have collected over 1900 pieces of feedback from businesses reporting the main factors impacting their business in the past month.

Chart 1: Changes to sourcing inputs 2021, and expected 2022



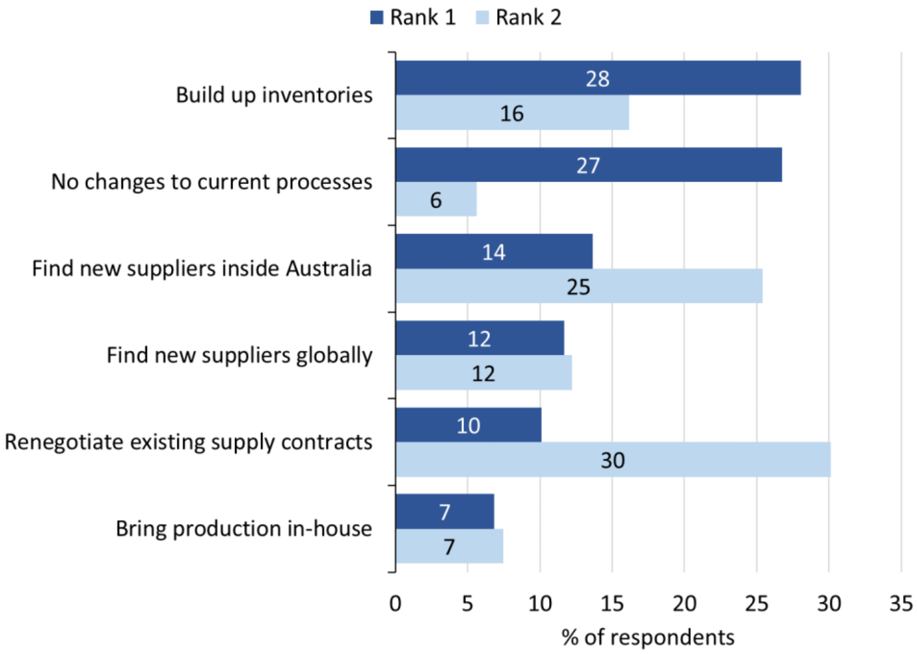
Strategies to improve the reliability and resilience of supply chains in 2022

Ai Group asked businesses to rank their priorities for improving the reliability and resilience of their supply chains for 2022.

While the problem is obvious, the solutions are less so, with 28% of businesses relying on increasing inventories to ensure inputs are available and in stock when needed. Just over one quarter (26%) will not take any action, which is due in part to the longevity of existing contracts, difficulties finding alternative suppliers, no improvement from finding alternative suppliers, existing processes delivering satisfactory results and having not yet reached a level of critical inconvenience. Reports of onshoring may be overstated with only 14% of businesses choosing to find new suppliers within Australia and even less, 12%, conducting a search for suppliers globally. 10% of businesses plan to renegotiate existing supply contracts as their first priority, and for 7%, the first response is to bring production in-house.

When asked what their second action would be, just under a third (30%) of businesses indicated they would look to renegotiate existing supply contracts. Finding new Australian suppliers was the second step for a quarter of respondents (25%) and building inventories a second priority for 16% of respondents.

Chart 2. Priorities for improvements to reliability and resilience of supply chains in 2022, ranked first and second



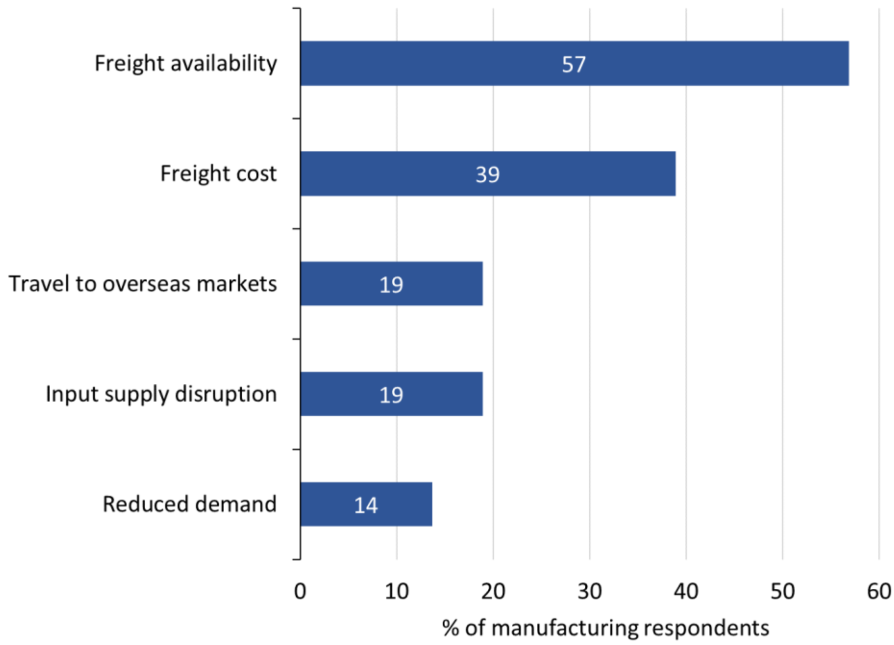
Supply chain and transport factors impacting exports

With the COVID-19 crisis, fundamental changes in consumer behaviour, supply chains, and channels to market are knocking businesses off balance. Responding to the pandemic has underscored the need for exporters to review their business model, adopting agile ways of working and value chain transformation to manage uncertainty and challenges caused by these disruptions. Closed borders meant physical separation from customers, suppliers and strategic partners compounded with global pressures on air and maritime logistics industries. These unprecedented disruptions and circumstances call for exceptional measures to help businesses adjust their product offerings and export business models to meet the changing global business environment. Many companies are also keen to re-engage existing international markets, protect their existing markets, and stay afloat, while fostering stronger engagements through new channels to market. However, many lack the skills, knowledge, resources, and connectivity to adapt to post-COVID freight logistics and export recovery.

While the historically high freight rates might have undermined the international competitiveness of Australian goods exporters, for the majority (57%) it was the sheer availability of freight that was the biggest factor that inhibited their ability to maintain or grow exports in 2021, including the inability to negotiate routes or departure times. However, all cannot be immune to the dramatic increase in container rates[7] and almost 40% of exporters cited the cost of freight as the biggest barrier to their business. With one in five jobs in Australia connected to trade[8], it is important to remember that many exporters are also importers and 19% of exporters found that the disruption to imported inputs restricted their exports.

Unsurprisingly, restrictions on travel to overseas markets hampering the ability to service overseas clients; build overseas networks; or move staff to new or existing projects was identified by 19% of exporters. More broadly, the closed borders, both internal and international, also exacerbated staff shortages, which constrained the ability to meet increased demand.

Chart 3. Factors affecting Australian manufacturing exporters in 2021



[7] Drewry World Container Index (9 December 2021)
[8] 'Australian trade liberalisation: Analysis of the economic impacts,' The Centre for International Economics (2017)

Impacts

Business

The COVID-19 pandemic has disrupted the global container freight supply chain and pandemic-induced lockdowns, border closures and travel restrictions have re-directed consumer demand from hospitality services towards manufactured household goods (typically transported in containers)[9].

As discussed in an earlier section, 65% of businesses Ai Group surveyed reported a level of disruption to their ability to source inputs in 2021 compared to 2020. This is corroborated by a less formal web-poll taken during an Ai Group webinar which found that 61% of respondents had experienced freight cost increases of more than 100% in 2021 compared to 2020[10]. 51% of respondents in the same poll indicated they had changed their businesses models because of increases[11].

The strain being felt due to these disruptions by businesses is well documented beyond our member research. The ACCC have noted that delayed shipments and rapidly rising freight rates are putting intense pressure on Australian exporters and importers.[12] The Retailers Association have warned 'it's the season to shop early[13]' over Christmas 2021 stock availability concerns, and the construction industry have also been hit with supply chain problems causing delay.[14] There are many other reports of individual businesses and entire industries struggling with supply chain pressures, with a dominant view that we won't see so much as a moderate easing in these conditions until as late as 2023.

Strategies used by businesses to deal with supply chain pressure include stockpiling, diversification of suppliers or markets, contingent contracting, developing domestic capability, or tolerating the residual risk, among others[15]. However, whatever the strategy, managing these issues comes at a cost[16]. Some businesses can pass at least some higher costs to their customers (whether business or household), competitive conditions mean that many cannot.

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[9] 'Container Stevedoring Monitoring Report 2020-21', ACCC

[10] 141 attendees voted in the following poll: ''What approximate percentage have your freight costs increased by in 2021 compared to 2020?' (multiple choice)

[11] 156 attendees voted in the following poll: 'Have the increased shipping costs caused you to change your business model, for exports or imports?' (multiple choice)

[12] 'Global container trade disruptions leave Australian businesses vulnerable,' ACCC (November 2021)

[13] 'Yuletide logjam: how supply chain woes could ruin Christmas for Australian shoppers,' Tory Shepherd, The Guardian (November 3, 2021)

[14] 'Construction feels COVID-19 delays in supply chain,' Michael Bleby for the Australian Financial Review (March 2020)

[15] 'Vulnerable Supply Chains: Productivity Commission Study Report,' Productivity Commission (July 2021)

[16] Ibid.

Absorbing costs and building up inventories (stockpiling)

28% of our respondents indicated that building up inventories was their number one plan to ensure inputs are available and in stock when needed to improve the reliability and resilience of their supply chain. While this may be viable for some, it will come at an increase in costs including warehousing and the increased working capital requirement and signals a possible change in strategy from just-in-time production to just-in-case storage. The cash flow impacts could include scaling back on chasing new markets or investing less in R&D/innovation, training for staff, or creating new jobs.

Meanwhile, 26% did not plan to change current processes, which is due in part to the longevity of existing contracts, difficulties finding alternative suppliers, no improvement from finding alternative suppliers, and existing processes delivering satisfactory results relative to the costs of alternative courses of action. Where businesses are feeling pressure but not changing processes, they are likely absorbing costs or passing costs on, both of which are of concern. A reduction in profit risks negative flow-on impacts such as reductions to investment in business development, innovation, training, and job creation. Long term, and particularly for low margin businesses, it may also undermine the viability of operating at all.

Finding local suppliers

Finding local supply is a great option when possible and/or practical. One surveyed member reported that their sales had been trending up for a 'while,' mostly due to customers looking to buy local for certainty in supply chain by reducing reliance on overseas suppliers. They are likely not the only business to benefit from customers looking closer to home to shore up supply.

However, despite these benefits of finding supplies onshore, it is a point of interest that our survey found businesses ranked finding Australian suppliers second (behind building up inventory). This hints that in many cases there may not a viable, competitively priced local solution, or at least, businesses do not perceive there to be one. It may also hint at an awareness of similar opportunity costs to this strategy as those discussed above regarding building up inventory.

The reality is that oftentimes, products and inputs are simply not economic to produce locally or are subject to component delays in their own supply chains, given many local manufacturers also rely on imports. Products and processes can't be viewed in isolation and it is frequently not as simple 'buy local,' which is not practical, possible, or viable for many inputs.

Innovation

Innovation, automation, and new technologies are not only useful in relieving supply chain pressures when applied to generating better efficiencies on our ports, logistics systems and their supporting infrastructure – they're also useful in growing local industry.

Innovation is a strength for Australia. We are recognised globally for high-quality research. Despite only having 0.3% of the world's population, we've contributed to over 4% of world research publications[17]. If Australia considers its strengths (like research) and invests in them, we have the potential to unlock many opportunities.

In time, automation, and other new and emerging technologies (digitalisation, artificial intelligence, robotics, 3D printing etc.) will dissolve many prohibitive cost issues and increase opportunities to localise production. The flexibilities these new technologies and innovations offer us, if properly managed, can decrease the need for seaborne movement of goods, reducing our need to source so many things from the across the globe and overreliance on at times volatile global supply chains. This is already happening.

A 2019 study by McKinsey found the intensity of goods trade is already declining in many global supply chains and predicts advances in technology could reduce the global goods trade by up to 10% by 2030.

Where it is not practical and appropriate to onshore, Australian businesses can still consider forming strategic partnerships, nearshoring (choosing suppliers in nearby regions to tighten supply chain coordination and reduce shipping costs and timing), or becoming multi-nationals by moving part of their operations overseas while maintaining a presence in Australia, leveraging the unique competitive advantages of each location they choose to operate in.

Offshoring and nearshoring

Although moving offshore is often seen as a loss for Australia, or as an undesirable solution, in some cases it may be positive. As discussed above, if an Australian business moves only part of its operations offshore, it becomes a multinational, and may unlock the ability to scale far greater heights through leveraging the competitive advantages of all locations.

Unfortunately, in some cases the high cost of doing business in Australia combined with constant and costly freight difficulties may lead to businesses leaving our shores entirely, which is an undesirable loss for the country.

Re-examining supply chain dependencies and restructuring flows and networks to build greater resilience or avoid over-dependency on particular countries or regions (especially those where trade or diplomatic tensions exist) could be of significant benefit to businesses[18], and is simply good risk management for all. Otherwise known as nearshoring, this strategy can lead to new or growing relationships with low-cost manufacturing environments in nearby regions[19] with more favourable conditions.

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[17] 'Partnering with Australia on Innovation, Science and Research,' Department of Industry, Science, Energy and Resources (2020) p.9
[18] 'Supply chains and manufacturing,' KPMG, accessed 29 November 2021
[19] Ibid

Policy and Regulatory Connections

Supply chain issues, particularly those that are freight based, should not be viewed in isolation. These issues have direct implications for many policy areas. They can cause businesses to fall foul of regulators through no fault of their own and can undermine government funding initiatives and targets.

Waste export bans, circular economy, and the environment

In March 2020, it was agreed that the export of waste glass, plastic (including processed engineered fuel), tyres and paper was to be regulated by the Australian government. Each type of waste has its own rules, but in the interest of simplicity it ensures that materials in these areas are sorted/value-added, or genuinely going to be processed elsewhere at the time of export.

While this is a positive step in terms of protecting the environment, particularly in disadvantaged areas which have been subject to dumping in the past, there are complexities and strains associated.

One such issue is that even when value added or sorted appropriately, these materials are usually lower value. Against high shipping costs and container scarcity, it may become unviable to export these materials at all. While it could be argued this may lead to upgrading facilities on shore, the reality is this would take years beyond the timeline in which we expect to see an easing on freight issues. Additionally, recycling markets have been strained for years, and it may simply never be economic to process some waste types in Australia.

While it is desirable to increase our onshore capacity to process these materials, the reality is we live in a globalised world and for some products, processing offshore will always make the most sense. This is not necessarily a negative thing, it's about finding efficiencies that drive circular activity and acknowledging that a wide scale circular economy does not exist in one city, state, or even country; it's achieved through interconnectedness, collaboration, and the commitment to make the best use of resources, whatever or wherever that involves.

However, when these supply chain/freight issues persist and with limited onshore capacity for many products and materials, more recyclers and scheme operators may be forced to landfill these items.

Export bans are not the only regulatory intervention impacted. In the case of items subject to landfill bans around the country (such as e-waste), inability to export or landfill can result in stockpiling, which can be dangerous to the environment and in some cases, also subject to penalties.

Where items cannot be viably exported, landfilled, or stored, there is the risk of a situation where we have collected items with absolutely no meaningful pathway for disposal, re-use or recycle and no companies willing to take it off the hands of consumers, councils, or businesses.

Even when items are not subject to export or landfill bans, we can see freight and supply chain issues resulting in negative environmental outcomes and missed opportunities for circular solutions.

Example: textile recycling and re-use

The impact of freight and supply chain issues on the recycling and reuse of textiles is acute. For charitable and commercial clothing recyclers, the impact of surging costs for containerised cargo is extremely concerning. Approximately 80% of all clothing that is collected in Australia is being exported for sale in developing countries, but the viability of this pathway is being challenged by rising costs.

Costs have doubled, with prices expected to rise further. Even if textile exporters could manage the cost, there is also an availability issue as demand for outbound ships has reached levels that mean vessel space is not guaranteed.

Consequently, overseas buyers are cancelling orders and recyclers are being forced to stockpile thousands of tonnes of clothing. For clothing recyclers, the increasing costs caused by global supply chain issues is having a negative impact on their ability to maintain current collection rates, and unless measures are implemented to provide relief, this could soon result in the suspension or withdrawal of collection services.

The withdrawal of these services will result in serious risks for local authorities and the Australian environment, as without a free collection service, clothing suitable for reuse will go into landfill. The impacts of this go beyond the recycling business and the environment.

Charitable organisations export 102,000 tonnes of wearable second-hand clothing each year for reuse in lower income countries, generating millions of dollars used to support disadvantaged Australians, while alleviating poverty and creating jobs overseas. Its ability to absorb further costs is limited by the low value of the commodity, and therefore the income used for social support locally is being threatened by rising freight costs.

These spiralling container costs without any commensurate reduction in operation costs risking the suspension or withdrawal of recycling services is not unique to textiles, the situation is playing out across other waste streams and product types.

Allowing products that are re-useable or have the potential to be given a meaningful second life to be sent to landfill is counterproductive to our commitments in the National Waste Policy Action Plan, and the significant funds that have been invested in stewardship and recycling over the last few years.

Example provided by the Waste Contractors & Recyclers Association of NSW

Modern Manufacturing Strategy and Initiative

The Modern Manufacturing Strategy is a whole-of-government strategy to help Australian manufacturing scale-up and become more competitive and resilient[20]. The four pillars of the strategy are to get economic conditions right for businesses, make science and technology work for industry, focus on areas of advantage, and build national resilience for a strong economy[21]. The strategy identifies areas of opportunity and competitive advantage for Australia, providing roadmaps for six priority areas including Resources Technology & Critical Minerals Processing, Food & Beverage, Medical products, Recycling & Clean Energy, Defence and Space[22].

Accompanying the strategy is a $1.3 billion Modern Manufacturing Initiative, $107.2 million Supply Chain Resilience Initiative and $52.8 million for the Manufacturing Modernisation Fund (Round 2)[23].

A whole-of-government strategy with a long-term vision provides an excellent signal for businesses and investors, however it is clear for the strategy and the money invested in it to achieve its full potential, we need to take seriously the supply chain pressures Australian businesses are facing, and the risk that unreliable, unaffordable, and unattainable sea freight can hold back business ability to scale-up, become more competitive and build resilience.

As is the case in the recycling example, the Modern Manufacturing Strategy is one of many strategic policy objectives whose success has a direct connection to our ability to cultivate an efficient, reliable, and cost-effective sea freight, transport, and logistics system.

[20] 'Our Modern Manufacturing Strategy,' Department of Industry, Science, Energy and Resources, accessed 29 November 2021.
[21] Ibid.
[22] Ibid.
[23] Ibid.

What can Australia do?

In 2012, Shipping Australia reported that Australia was 'losing ground' in terms of productivity and competitiveness in almost all areas of shipping[24]. They argued that key pinch points included sea/land interface (connections to/from ports, lack of harmonisation between states and territories, planning, and space issues), lack of skilled labour and increasing port costs exacerbated by inadequate infrastructure[25]. Almost a decade later, similar concerns are still in play, and now further exacerbated by the COVID-19 pandemic.

Although the operation of global supply chains will eventually stabilise (and freight rates will drop) there is evidence to suggest that Australia is running the risk of becoming a less attractive destination for shipping lines unless productivity, workplace relations, and supply chain inefficiencies are addressed[26]. This could result in higher than necessary costs, space restrictions and reliability issues staying around beyond the pandemic, or even indefinitely.

Easing pressure in these areas involves substantial complexity, with no silver bullet solution available. However, unavoidable global factors aside, there remains a good case for Australia to work on creating local efficiencies to ease pressure where opportunities exist to do so.

ACCC recommendations

A recent ACCC report[27] recommended that shipping congestion could be eased by addressing industrial relations issues and improving infrastructure to increase efficiency to better manage container volumes.

Ai Group agree with many of the key insights made in this report, including that:

- COVID-19 has caused major disruption to the container freight supply chain, but the supply chain was transforming even before the pandemic.
- Productivity has stagnated, despite substantial investment over the past decade.
- Industrial relations are hurting Australian container ports and contributing to their poor performance and stagnant productivity.
- Current port regulation is inadequate.

The ACCC observed that Stevedores' Enterprise Agreements contain provisions that limit their ability to automate, reduce labour costs and control their recruitment decisions. These provisions effectively stifle making the best use of available technology and have been agreed to because of protracted industrial actions[28]. These industrial relations issues need attention.

The ACCC also flagged concern with ensuring that privatised container ports do not levy excessive land rents and other charges. It acknowledges that privatisation of our four major

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[24] Shipping Australia's view on increasing productivity/competitiveness of the Australian maritime industry, Ken Fitzpatrick Chairman (August 2012)
[25] Ibid.
[26] 'Global container trade disruptions leave Australian businesses vulnerable,' ACCC (November 2021)
[27] 'Container Stevedoring Monitoring Report 2020-21', ACCC
[28] Ibid.

container ports may have improved dynamism but found the current level of regulation of these ports to be inadequate[29], putting forth a suggestion for reform.

The report called for the repeal Part X of the Competition and Consumer Act 2010, which permits shipping lines to collaborate on prices, capacity, and schedules, among other things[30]. It argues the shipping industry has become more concentrated over the past decade and represents a growing risk of artificial elevation of freight rates in the future, and several other countries have already scaled back or removed equivalent exemptions. The ACCC has suggested Australia develop a class exemption, in place of Part X, which would allow for a more limited form of collaboration that would likely be in the public interest.

Acknowledging the significant importance of container freight supply chains to Australia, the report recommended industry and government make a range of investments in infrastructure to address broader inefficiencies in supply chains caused by larger ships, lack of rail access to our container ports and the shortage of space in empty container parks[31].

Productivity Commission Review into the efficiency of ports

Throughout 2021, Ai Group and over thirty different industry groups called for action on the performance of air and maritime logistics systems in delivering competitive, affordable, and reliable service to Australians. This group also came up with an agreed set of Terms of Reference for an inquiry into this matter (see appendix 1).

It has since been announced that there will be a Productivity Commission ('PC') inquiry into Australia's Maritime Logistics System. This is a positive development and Ai Group looks forward to contributing to this important inquiry. However, we note that while the collection of evidence is an important factor in good policy and regulatory development, there is no shortage of current, credible evidence related to this topic, or recommendations for improvement.

Therefore, the PC inquiry should be short and sharp, as these issues are serious, with obvious impacts beyond the productivity on our wharves, the reliability of our supply chains and the high prices faced by businesses and households.

We hope the PC inquiry and recommendations will lead to Parliament implementing necessary legislative and other reforms next year.

Upgrades to ports and landside infrastructure

It is clear Australia needs to invest in its ports and supporting infrastructure to address inefficiencies in our supply chains.

Most container ships that service Australia are smaller than those operating at the world's biggest ports. These larger ships (called Ultra Large Container Vessels or ULCVs) have a capacity of more than 14,000 TEU (twenty-foot equivalent units) and can replace up to three conventional container ships. A key benefit of ULCV's is that they steeply reduce *slot cost* (the

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[29] Ibid.
[30] Ibid.
[31] Ibid.

cost of shipping one container). For example, in Europe, slot cost on a ULCV is around 50% lower than that of a 5000 TEU vessel[32] (a size commonly used in Australia).

However, bigger is not always better.

There are practical and economic limits to how large container ships will be able to grow, reflecting physical constraints of port facilities, and the economic merits of using large container ships outside of the largest ports[33]. These ships require ports that can withstand the significant pressure of these higher volumes. They need equipment, technology and skilled staff that can process many containers in a short amount of time. They also need significant infrastructure in and around them (road, rail etc.) that can handle the congestion these volumes bring, and this capacity is simply not present or possible in many of our ports. If ports do not have the necessary characteristics to handle ULCVs effectively,[34] the negative consequences of using them could easily wind up erasing their economic benefits. This may well be the case for many of Australia's ports and their surrounding infrastructure.

That said, the trend towards larger ships is clear and many nations are investing in the infrastructure required to facilitate them. Ports in Europe, East Asia and North America have responded to the increase in ULCVs with radical infrastructure investment, and even New Zealand built a secondary port complete with the landholdings required to expand to ULCVs in future[35].

Australia also needs to invest in skills and resolve the industrial issues that currently constrain innovation and drag down efficiency to lift capability and complement investment in our physical assets.

Investment in uplifting our container port capability and performance to more competitive levels should be seen as essential to the economy. While the scale and tempo of these investments is up for discussion, with all but one of our container ports counted among 25% of the worst-performing in the world[36], Australia must act if we hope to compete on a global scale.

Coastal Shipping

Around 80% of Australia's population lives within 50km of the coast and we have around 80 ports operating around our coastline[37]. Ports Australia has referred to this coastline as 'The Blue Highway,' but note that less than 15% of our domestic freight is moved this way, instead we tend to move these goods primarily via road and rail.

However, our population and reliance on freight is growing, and with it, the cost of urban transport congestion (forecast to increase from $13.7 billion to $53.3 billion by 2031) unless significant infrastructure investment is undertaken[38].

Supporting more coastal shipping to make better use of our coastline and port network (where it is practical and makes sense to do so) could help support sustainable and lower cost freight movement in Australia. It could also potentially increase commercial viability for shipping

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[32] Ports & Shipping Policy in Australia in the 21st Century – a 'Wicked Problem', Macquarie Lighthouse lecture series (March 2019)
[33] 'Containerised trade trends and implications for Australian ports,' HoustonKemp (January 2019)
[34] Ibid.
[35] About Port of Tauranga,' Port of Tauranga
[36] 'Dreadful performance of Australia's container ports is revealed,' Shipping Australia (June 2021)
[37] 'Using Australia's Blue Highway,' Ports Australia, accessed 29 November 2021
[38] Ibid.

companies to send available ships to Australia rather than other routes, which are more lucrative currently (leading to known service withdrawals)[39].

However, as with ULCVs, port and landside infrastructure would need to keep pace with an increase in volume to realise the benefits and avoid negative impacts. Additionally, there are some regulatory and system impediments to the increase of coastal shipping. Chief among them, licensing constraints under current regulation, lack of supply and demand visibility, infrastructure constraints and landside suitability to service, preferred coastal vessel types and the impact of distance of the commodity origin and destination to the port impacting landside transport costs[40].

Resources

- Ai Group Freight Fact Sheet
- Ocean Freight & Logistics amid COVID-19 (Webinar)
- Australian Ports: Discussion Paper (November 2020)
- Ai Group Export Remodelling for Freight and Logistics Resilience (Victorian Program)
- The Shipping Industry Disruption Workflow Infographic (2021)

About the Ai Group survey used in this document

Ai Group surveyed the CEOs of 346 private-sector businesses across Australia in September and October 2021. Together, these businesses employed 119,827 people (378 people in each business on average) and had an aggregate annual turnover of around $74 billion in 2021.

All Australian states and all major non-farm private-sector industries are represented in this year's CEO survey. The manufacturing sector contributed the highest proportion of respondents (59%). Manufacturing's share of this sample is higher than its share of national production (5.6%). Victoria was somewhat over-represented in the sample, relative to other states.

The services sectors represented in this year's sample include IT, communications and media services; transport, post and storage services; wholesale trade; retail trade; finance and insurance; real estate and property services; professional services; administrative services; health and welfare services; education; hospitality (food and accommodation services); arts and recreation services; and personal services.

The full survey report will be published in early 2022.

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39 'Container Stevedoring Monitoring Report 2020-21', ACCC
40 'Ports Australia Coastal Shipping Factsheet,' Ports Australia, Accessed 29 November 2021

Appendix 1

TERMS OF REFERENCE[41]

THE PERFORMANCE OF AIR AND MARITIME LOGISTICS SYSTEMS IN DELIVERING COMPETITIVE, AFFORDABLE AND RELIABLE SERVICE

The Taskforce should examine the efficiency and dependability of the air and maritime logistics system (including air and sea freight, container terminal operators and stevedoring, and landside freight providers) to deliver the required services for Australia. Considering the impact of the current air and sea freight crisis as well as the complexity and broad-ranging nature of the issues, it may be prudent to release a preliminary report at three months and a second report at six months.

The Taskforce should be led by two Chairs. One with broad industry experience and the second with policy and regulatory expertise. The Chairs should be supported by a secretariat from the Department of Infrastructure and Transport.

The Taskforce should undertake the following:

1. Review the level of market competition and examine firm-level market conduct of domestic and international firms in the freight industry.
2. Assess the market constraints of international freight supply chains, especially as it relates to belly, bulk and containerised air and sea freight and routes to and from Australia.
3. Drawing on case studies, assess the cost of delays, uncertainty, increased freight costs and cancellation of sailings and flights on exporters and importers, as well as the broader economic impact on Australian consumers and industries/businesses.
4. Examine the effectiveness of current arrangements and structures in the marketplace, so that all parties/stakeholders can communicate information effectively and efficiently and make informed decisions.
5. Determine complementary activities and reforms in port services (air and sea) to ensure increased activities by shipping and airlines are appropriately accommodated.
6. Identify potential initiatives and/or support programs that would promote increased competition in the freight industry, supporting infrastructure and supply chains.

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[41] Presented to Government by Australian Industry Group in October 2021, noting that 30+ industry associations were consulted in the drafting the terms of reference.

About Australian Industry Group

The Australian Industry Group (Ai Group®) is a peak employer organisation representing traditional, innovative and emerging industry sectors. We are a truly national organisation which has been supporting businesses across Australia for more than 140 years.

Ai Group is genuinely representative of Australian industry. Together with partner organisations we represent the interests of more than 60,000 businesses employing more than 1 million staff. Our members are small and large businesses in sectors including manufacturing, construction, engineering, transport & logistics, labour hire, mining services, the defence industry, civil airlines and ICT.

Our vision is for a thriving industry and a prosperous community. We offer our membership strong advocacy and an effective voice at all levels of government underpinned by our respected position of policy leadership and political non-partisanship.

With more than 250 staff and networks of relationships that extend beyond borders (domestic and international) we have the resources and the expertise to meet the changing needs of our membership. We provide the practical information, advice and assistance you need to run your business. Our deep experience of industrial relations and workplace law positions Ai Group as Australia's leading industrial advocate.

We listen and we support our members in facing their challenges by remaining at the cutting edge of policy debate and legislative change. We provide solution-driven advice to address business opportunities and risks.

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