



**Container Transport  
Alliance Australia**

*Dedicated. Connected. Better.*

28 July 2017

The Chairperson  
National Freight and Supply Chain Priorities Inquiry  
Department of Infrastructure and Regional Development  
GPO Box 594  
Canberra City ACT 2601

[freightstrategy@infrastructure.gov.au](mailto:freightstrategy@infrastructure.gov.au)

Dear Sir/Madam,

## **Re: Submission to the National Freight and Supply Chain Priorities Inquiry**

Container Transport Alliance Australia (CTAA) is a national Alliance of companies engaged in the international container logistics chain. Across all container ports in Australia, CTAA Alliance companies comprise approximately 60% of the volume of containers transported through ports, transport yards, import/export premises / 3PL warehouses, and empty container parks.

CTAA understands the commercial, operational and regulatory environment under which companies in the container logistics chain operate.

CTAA Alliance companies appreciated meeting with the National Freight Strategy Team from DIRD in Melbourne on 7 June 2017 to express their views verbally, and we are now grateful for this opportunity to reinforce those views in writing.

### **1. The Changing Nature of the Container Supply Chain**

Recently, the two major stevedores in Australia have introduced/increased Terminal Infrastructure Surcharges (Surcharges) in the major ports in Australia. These Surcharges are collected through an impost on container transport companies.

CTAA has publicly stated that the introduction of these Surcharges has fundamentally shifted the conditions under which the container supply chain operates. CTAA believes the National Freight and Supply Chain Strategy should be cognizant and informed by these changes.

#### **1.1. Background**

Last year, the ACCC found that since 1998–99:

- *Unit revenues (a proxy for average prices for users of stevedoring terminal services) are also 43.0 per cent lower since 1998–99. Increased investment in stevedoring assets including additional capacity—the value of assets employed in container stevedoring has increased substantially since 1998–99.*
- *Industry profitability has risen and then fallen—after rising significantly over the monitoring period and peaking in 2011–12 at 29.2 per cent, profitability levels (as measured by earnings before interest, tax, depreciation and amortisation divided by average tangible assets) have decreased every year since. In 2015–16 this profitability measure for the stevedoring industry was at 8.0 per cent, which was the lowest rate of return reported since monitoring commenced.*

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Under any normal commercial arrangements, where efficiency improvements become ever increasingly harder to find, stevedores would seek to improve their return on assets through increasing revenue (i.e. charging their customers more). However in a sign that the system is broken, stevedores are not going back to their customers, but rather are imposing a “tax on shippers”, collected through container transport companies.

In responding to the question of why they were taking this circuitous route and not just charging the customer, DP World Australia told trade newspaper *Lloyds List Australia* in March this year:

*“Given the way shipping lines are performing at the moment, they have no appetite — or capacity — to absorb the additional costs.”*

This comment would suggest that shipping lines are sharing the ‘pain’ of others in the Australian container supply chain, presumably as a result of lower freight rates being charged. Is that true?

## **1.2. Freight Rates**

While there has indeed been downward pressure on freight rates across the World since the Global Financial Crisis (GFC), suggesting this is the result of efficiencies inside the Australian landside container logistics chain isn’t consistent with an understanding of how global shipping operates.

Freight Rates are driven by shipping line capacity, and to a lesser extent by the terms of trade (Incoterms) under which goods, in this case inside containers, are traded globally.

Leading up to the GFC, shipping lines placed orders for new and increasingly bigger ships, based on a belief of ever growing global demand for goods traded in containers. Over the past 10 years, these ships have come into service and created significant over capacity in the market. The accompanying poor financial returns associated with this over-investment has seen a global rate war among shipping lines, leading now to a significant number of high profile shipping line mergers, acquisitions and liquidations.

In addition, often the sea-going leg of the container supply chain is managed by an overseas party, particularly in relation to China. In these cases, particularly where State owned shipping lines are involved, a component of the freight rate can be ‘hidden’ in other costs. The extent to which this occurs and how it impacts on Australia’s international competitiveness warrants investigation in its own right.

In summary therefore, the focus on freight rates as any measure of shipping lines sharing in the cost of Australia’s import/export efficiency gains is misplaced.

## **1.3. Port Fees**

In attempting to measure the benefits to shippers of container landside efficiencies, it is more critical to focus on the Port Fees charged by shipping lines.

Port Fees constitute a bundled tariff charged by shipping lines, and are predominantly made up of a Terminal Handling Charge – THC (stevedoring, storage truck load/unload), Port Charges (wharfage etc.), and other associated costs (e.g. empty container management).

Unit revenues being down 43% over the past 20 years is a reflection that shipping lines have been able to get a better deal from the stevedores. Surely, Australian shippers are seeing this benefit from a corresponding reduction in Port Fees?

Based on research undertaken by CTAA, it would appear, despite all the cost reductions by stevedores, shipping lines have continued to increase port fees to shippers well above CPI.

## **1.4. Port Leaseholders**

The other key player is the Port. Among other sundry revenues, Port leaseholders, both public and private, derive their major revenue through (a) charges on the shipping lines (e.g. wharfage, berthing, etc.), and (b) collecting rents (being the landlord). The former is regulated, while the later not.

The first major Terminal Infrastructure Surcharge to be introduced by the stevedores occurred in Brisbane some six years ago, coinciding with rent hikes introduced prior to the privatisation of the Port's leasehold.

More recently, both DP World Australia and Patrick have argued the need for the implementation of additional Surcharges in Sydney and Melbourne based on either real or anticipated rent increases by the private owners of these ports.

### **1.5. Impact on an efficient container supply chain**

It would appear that shipping lines and port leaseholders have added costs to the container supply chain. Now stevedores are doing likewise.

CTAA Alliance companies believe the National Freight and Supply Chain Strategy should take into account the changing commercial structure of the container logistics supply chain and promote a Productivity Commission investigation into who the current 'winners and losers' are, and what strategies need to be adopted to ensure Australia's economic and social best interests are being served.

## **2. Changing the Geographical Location of Traditional Container Supply Chain Activity**

With the exception of Brisbane, all Australian Ports are land constrained by significant urban encroachment.

In the case of Sydney, Melbourne and Fremantle in particular, consistent and increasing urban development/renewal in close proximity to the port has created significant operational and commercial pressure on the container logistics supply chain.

Whereas historically, the vast majority of container logistics activity (e.g. Cargo Freight Station pack/unpack, bonded warehousing, empty container management) occurred in, or around the Port, today these activities are increasingly occurring tens of kilometres away.

Changing the geographic location of traditional port activity comes at a cost.

### **2.1. Mismatch of Hours**

The mismatch of operating hours and customer demands within container transport logistics sees well over 90% of import and export containers 'staged' through transport yards/depots.

As such, container transport companies operate in two 'shuttle' environments – wharf to yard/yard to wharf, and yard to customer and empty container park (ECP) / ECP to customer to yard.

Container transport vehicles undertake multiple trips to the ports during the day, night and weekends.

The additional vehicle kilometres travelled is a cost borne by the container logistics supply chain.

In the case of the wharf to yard/yard to wharf shuttle, stevedores, for their own operational benefit, often will only make available either import or export time slots, thereby negating the opportunity to "two-way run" – i.e. deliver an export and pick up an import in the same movement to/from the wharf. This can result in container vehicles travelling tens of kilometres without a load – an unproductive 'dead leg'.

Unlike many other sectors of the transport industry, container transport operates within a strict time slotting environment - at container terminals, ECPs and increasingly at 3PL consignee sites. Added to this, opening hours of these parties in the chain are not consistent.

There is relationship between required travel distance, available appointment times, travel time, delays and container vehicles required to service task.

## 2.2. Urban Renewal / Encroachment / Resident Action

The urbanisation of suburbs adjacent to capital city ports has created an environment in which residents have been, and continue to be, actively engaged in agitating for the removal of transport vehicles from traditional port related freight routes. This successful political activity has seen the introduction of truck bans, curfews and other operational restrictions.

There is a clear conflict between the economic needs of States, and Australia overall, and the social amenity desires of increasingly middle class, politically active, port surrounding residents.

The political and often emotionally charged nature of any debate regarding container transport access through suburbs adjacent the port has seen the container logistics supply chain come-off second best.

The National Freight and Supply Chain Strategy should acknowledge the tension between efficient supply chains and community amenity and seek to address the necessity for better urban planning, freight land use buffering and freight corridor protection.

## 2.3. Tolls

Historically, the prime operating costs associated with container transport are in order:

1. Labour
2. Fuel
3. Maintenance
4. Other associated running costs (tolls, registration etc.)

Today, the order has changed and for the majority container transport companies is:

1. Labour
- 2. Tolls**
3. Fuel
4. Maintenance
5. Other associated running costs

It is important that the National Freight and Supply Chain Strategy be cognisant that container transport companies are not averse to paying for amenity which provides clear and demonstrable efficiency savings.

However, the current, and proposed future, tolling structures for the container transport sector are punitive and only add cost to the supply chain.

## 3. Information Flow

Despite all the technological advancement in electronic information flow, the container logistics supply chain still experiences a significant amount of re-keying of data and the physical, or scanned, transfer of paper documentation.

Much of this is driven through the non-connectivity between proprietary systems, international trading security requirements and, to a lesser extent, sheer reluctance by some stakeholders in the chain to change.

It is a regular occurrence within the container supply chain for a container vehicle to travel past an empty container park (ECP) to which a container needs to be de-hired (returned to the ownership of the shipping line) to collect a paper de-hire delivery order from their transport yard, to return back to the ECP. All because several shipping lines that call to Australian Ports controlling approximately 30% of the container trade see no 'need' to provide EDI information directly to ECPs.

The inefficiency in the container supply chain due to the lack of EDI transfer is significant.

A national strategy should set a goal for Australia's container logistics supply chain to become 100% EDI across all parties in the chain within 2 years through regulation of this requirement.

#### 4. Performance Measurement:

With the privatisation of all of Australia's capital city container ports, except for Fremantle, Governments are further removed from the operational performance of the commercial interfaces which are key to the efficiency, productivity and effectiveness of these vital international gateways.

The only jurisdiction which has regulated the interface between container stevedores and landside transport operators is NSW through the Port Botany Landside Improvement Strategy (PBLIS) Mandatory Standards (NSW *Ports and Maritime Administration Regulation 2012*).

These Mandatory Standards were introduced following a 2008 NSW Independent Pricing and Regulatory Tribunal (IPART) finding that:

- Bottlenecks at the port caused congestion on the wider Sydney road network;
- Waiting times for trucks were often unreasonably long;
- Stevedores were unable to service trucks within the timeslot booked due to a lack of clear rules around terminal delays;
- Ineffective working relationships between stevedores and truck drivers were hurting supply chain operations; and
- There was no performance data available about landside operations.

A consequence of the regulation is that Transport for NSW monitors and reports on performance metrics on a transparent published basis for the three international container stevedores in Port Botany:

- Combined Stevedore Container Volume – per day in the reporting period;
- Truck Turnaround Times (TTT) – published for each stevedore;
- Combined Truck Trips per Time Period (*Peak, Shoulder, Off-Peak, Weekends*);
- Truck Trip Arrival (*On-Time, Early, Late, Extended Late (2+hrs), No Show*);
- Truck Density (*Containers Per Trip (Imp & Exp)*) and Truck Turnaround measured against the allowable TTT under the Mandatory Standards for each container;
- Slot Performance (*Bookings Completed, Carrier Cancelled, Stevedore Cancelled, No Show, Total Listed (in Pool), Remaining on Offer, Unforeseen Event*)

The distribution of performance “penalties” is also measured and managed, for such issues are (sample):

- Carrier Non-Service
- Early, Late and Extended Late Arrivals
- No Shows
- Stevedore Cancelled Slot
- Stevedore Non Service
- Truck Turnaround Time (TTT) Exceeded

These performance monitoring statistics are collated and published independently by the NSW Government (through the Cargo Movement Coordination Centre (CMCC), Transport for NSW.

The other major container transport logistics interface that is not measured in an independent and objective manner is the landside logistics / empty container park (ECP) interface.

As container volumes have grown, this interface is increasingly under strain, particularly during peaks, with truck delays, futile truck trips, and other productivity inefficiencies.

It is recommended that a National Freight Strategy Priority should be to establish objective, independent productivity monitoring of key interfaces in the container transport logistics chain in all Australian container ports. You can't improve what you don't measure.

## 5. Road and Rail Productivity, Connectivity & Technology

The National Freight Strategy should promote the sensible improvement of rail / intermodal connectivity and productivity, as well as road transport productivity, holistically.

The truth is that to meet growth demands in container transport, we need improvement in connectivity and productivity in both modes – road & rail.

In recent years, there have been noteworthy improvements in road access for Higher Productivity Freight Vehicles (HPFVs) in various jurisdictions that must continue to be encouraged if the transport industry is to meet the growth in container transport demands.

International container freight is characterised nowadays with the prevalence of 40' containers (import & export), rather than 20' containers. The ability to carry two loaded 40' containers on one productive vehicle combination is a necessary productivity measure if we are to reduce the number of trucks required for the freight task.

An exemplary example of the use of HPFVs is access by “A-double” configurations operating at 85.5 tonnes Gross Vehicle Mass (GVM) carrying vital agricultural export products from Toowoomba to the Port of Brisbane, resulting in:

- Up to a 50% reduction in number of trips for the same freight task
- More than 40% savings in fuel
- More than 40% reduction in greenhouse gas emissions
- Improved safety – fewer trucks on the road
- Savings across the entire supply chain

These vehicles meet the national Performance Based Standards (PBS), are Intelligent Access Program (IAP) route compliant, and are fitted with (interim) on-board mass monitoring devices. In this way, government has a high degree of safety and infrastructure protection compliance assurance.

Another example is the continued improvement in HPFV access in Victoria, with heavy vehicle combinations between 30 metres to 36.5 metres having broad access in metropolitan and regional areas for cubic / volumetric freight (up to 68.5 tonnes GVM), and increasingly improved access towards their design-weights as access routes are assessed, and critical bridge infrastructure is upgraded.

However, there is a considerable way to go in gaining similar access standards in some other jurisdictions.

It is imperative that the recent finalisation of the technical specifications for approved On-Board Mass Monitoring (OBM) devices translate into approved equipment being available in the marketplace, with government policies and regulations that actively encourage greater payload productivity outcomes.

The growth in rail / intermodal operations is also vital and supported by CTAA. Indeed, as intermodal terminals are designed, developed and regulated, we need to ensure that the interface between road and rail encourages the most efficient vehicle type for the task of moving freight to/from intermodal terminals.

Governments need to be encouraged to set policies that do not discriminate against one landside mode over another in an attempt to promote modal shift.

The National Freight Strategy should also advocate the support of *inventiveness*.

For instance, this should include supporting new design in trailers and trailer combinations (including automated twist locks), and improved visibility and operational planning capability based on real time container movements.

## 6. Road & Rail Pricing

Finally (and briefly) CTAA encourages a robust process to review and implement changes to road and rail access pricing.

The container transport logistics task is predominately a metropolitan task (i.e. the vast majority of import containers move less than 50 km from the port, while a lesser, yet significant proportion of export containers are packed in metropolitan locations).

As a result, container transport operators are currently disadvantaged by the current PAYGO model for the calculation of fuel excise and registration charges for heavy vehicles. This is because the PAYGO model averages distances travelled, heavy vehicle mass and the types of roads used.

A reformed road pricing mechanism that applied a Mass, Distance and Location (MDL) formula would likely see heavy vehicles engaged in the metropolitan haulage of containers pay less as a percentage of the overall revenue contribution by the heavy vehicle industry.

Access pricing and price structures for rail also need to be investigated and adjusted to encourage certainty and commercially viable outcomes for rail intermodal operations.

Yours sincerely,



Gerard Langes  
Director, CTAA



Neil Chambers  
Director, CTAA

### **About CTAA:**

***Container Transport Alliance Australia (CTAA) is strong Alliance of leading businesses engaged in the container transport logistics industry. CTAA Alliance companies account for the majority of containerised freight handled in capital city ports in Australia.***