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COMPETITION TO PROVIDE THE NEXT WAVE OF REFORM IN AUSTRALIAN STEVEDORING

The Australian Competition and Consumer Commission has released the 14th Annual Container Stevedoring Monitoring Report. "Australian stevedoring has dramatically lifted its performance since the 1990's. Now, increased competition can provide the spur for even higher levels of efficiency and service," ACCC Chairman, Rod Sims said. Reforms to the Australian stevedoring industry in the late 1990's mean that the industry has been well placed to meet the strong growth in container throughput at Australia's ports. Both the equipment and the workforce have become more productive, which has led to a fall in the average cost of handling containers. As a result, shipping lines now receive a better service and face lower real stevedoring charges. Since 1998, the stevedores have increased the efficiency of their operations, and as a result real unit costs have fallen by 45 per cent. Much of this cost saving has been passed on to shipping lines, with unit revenues (a proxy for stevedoring prices) falling by 38 per cent over the same period. The stevedores' productivity has also improved over the last 14 years, with cranes moving 30.1 containers per hour in June 2012 compared to 18.7 in June 1998. Similarly, the productivity of the stevedores' work-forces has improved considerably over the last decade. However, in 2011-12, industrial disputes, including strike action and reported 'go-slow' strategies, disrupted stevedoring performance. If this sort of disruption were to continue, it could undermine expected future gains from greater capacity and competition. Negotiation of new enterprise agreements across several terminals *(Continued on Page 2)*

AUSTRALIAN CUSTOMS PROCEDURES LEAD THE WORLD

Australian customs procedures are among the best in the world, a leading international expert believes. Susanne Aigner, the Deputy Director Compliance and Facilitation for the World Customs Organization (WCO) in Brussels spoke at the recent CBFCA national conference in Victoria. "Globally and from an international perspective, Australia is often used as one of the best examples of modern procedures," Mrs Aigner said. "For example, in terms of cooperation between agencies. we can see customs and transport agencies are cooperating more closely than many of our other members." She said it was important for modern customs procedures to be based on partnerships between agencies including those with different perspectives. However, many of the WCO's member states were enduring reduced resources while also having to be ever more alert to increased security threats. She talked of one threat arising, just as another had been dealt with. "Initially we focused very much on maritime security – now aviation is very high on the agenda," she said. She described the importance of being "not just reactive but proactive" in identifying issues. "For us, and I think Customs would agree, their objectives wouldn't be different from the objectives of trade. "There should be clear and precise standards for trade to comply with."

INSIDE

(Continued from Page 1) during 2011-12 also coincided with significantly higher labour costs, which increased by 7.5 per cent, the highest annual percentage rise (in nominal terms) in the history of the ACCC's monitoring program. The ACCC has monitored stevedoring services at six Australian container ports since 1999. Container stevedoring involves lifting containers on and off ships. Patrick and DP World operate at four of the monitored ports, Brisbane, Fremantle, Melbourne and Sydney. Flinders Ports is the sole operator at the Port of Adelaide. At the remaining monitored Port of Burnie, no container stevedoring services are currently provided (Patrick exited its operations in May 2011).

SLOWER THAN EXPECTED GROWTH FROM CHANNEL DEEPENING

A review into channel deepening by the Victorian Auditor-General has noted slower-than-expected growth in the number of large ships visiting Melbourne. The Auditor-General has just released a full report into the Channel Deepening Project (CDP) to coincide with the third anniversary of its completion. "As it is only three years into the 25-year life of CDP, its full benefits cannot yet be determined," the authors stated in their summary. "However, early CDP performance data highlights the recent effects of the global financial crisis on trade and shipping companies." Specifically, it noted "slower than originally projected growth in visits by larger vessels –around 1560 such visits occurred over 2010 and 2011 compared to the forecast of 1668." It also noted "the current oversupply in shipping capacity is resulting in less-than-expected use of the extra draught capacity of these vessels". Adverse market conditions for ship owners and operators are currently precluding any practical realisation of cost savings as a result of the CDP and the use of larger ships. They also reported lower growth in trade volume post CDP than was originally forecast.

INEFFICIENCY STILL DOGS PATRICK AT PORT BOTANY

"Considerable scope" for efficiency improvement at Patrick's Port Botany terminal contributed to a 0.8% drop in container lifts for the Australian stevedore in the first quarter of the current financial year. Despite a lift in volumes in Patrick's Fremantle and Fisherman Islands (Brisbane) terminals, a drop at East Swanson Dock (Melbourne) and Port Botany resulted in an overall decline. Across the country, Patrick terminals conducted 494,000 container lifts in the first quarter, down from 498,000 lifts in the first quarter last year. A three-day shutdown at Botany, as well as "40 vessel omissions and voided sailings", contributed to the decline. But efficiency problems, which have dogged the stevedore since the nearly year-long negotiations for the current labour agreement between Patrick and its workers, also remained an issue. "Efficiency measures at Port Botany have improved following the completion of the enterprise agreement," the stevedore said, "although performance remains below East Swanson Dock giving considerable scope for improvement." In contrast to the decline in box moves, Patrick Autocare moved 5.7% more vehicles in the first quarter than it did last year. In the September 2012 quarter, the stevedore's auto business made 259,000 vehicle moves, up from 245,000 in quarter one last year.

CMA CGM INTRODUCES THE WORLD'S BIGGEST BOXSHIP

CMA CGM is taking delivery of the world's largest containership. For CMA CGM, which has four loops between Asia and northern Europe, one missed sailing accounts for a capacity cut of around 20% in any given week, depending on ship size."Entry into service of the 16,000 teu CMA CGM Marco Polo will not represent a big net increase in capacity," said Nicolas Sartini, Senior Vice-President of the company's Asia-Europe trades. The ship will replace an 11,000 teu vessel that is being transferred to the Pacific trades.

ULTRA-LARGE BOXSHIPS SET TO CHALLENGE PORTS AND TRADE

Although the expanding global fleet of ultra-large containerships can save unit costs due to economies of scale, the vessels pose challenges to the shipping industry as ports struggle to handle them and as a cascade effect hits the intra-Asia trade, major players have warned. With more than 130 ships larger than 10,000 teu to be delivered in the next three years - equivalent to roughly half the existing capacity on the Asia-Europe trade - the industry has turned its attention, recently, to the impact of ultra-large boxships on container shipping. Speaking at the Asian Logistics and Maritime Conference, Hutchison Port Holdings Deputy Group Managing Director, Eric Ip, said big investments would be necessary to enable ports to receive large vessels and yet the economic returns to those ports were not obvious. "There are challenges but we are not sure about benefits," Mr Ip said. As an example, Mr Ip pointed out that berths for 5000 teu vessels only needed an overall length of 300m and a breadth of 40m. However, berths for 18,000 teu ships require an overall length of 400m and a breadth of 59m. "When we built a berth normally it would cost us about $200m, and we could handle one ship, - now we have to build two berths to handle one [giant] ship," Mr Ip said. On top of that, port and terminal developers will need to spend much more on improving dredging operations, adjusting drafts, expanding support backyards and purchasing more quay cranes. “Every super post-panamax crane will cost $5m-$8m and for a 400m long ship, at least eight quay cranes, are needed” Mr Ip said. Despite having the capability to handle the largest class of boxships at its Felixstowe, Rotterdam and Yantian terminals, HPH has long been a vocal critic of the industry’s rush to deploy ultra-large boxships. HPH group Managing Director, John Meredith, said last year shipping lines had ordered too many ultra-large boxships, suffered bad margins and showed reluctance to cover higher investment spend for terminal operators.

CONCERNS RAISED ABOUT THIRD STEVEDORE AT BRISBANE

Port of Brisbane Chief Executive, Russell Smith, has admitted to concerns about whether three container stevedores can be viable. Hutchison Port Holdings is set to join Asciano/Patrick and DP World at the largest Queensland container port, a key test case in stevedoring and competition in Australia. Mr Smith, who spoke at the recent AusIntermodal 2012 conference in Melbourne, answered a question from QUBE and former Patrick executive, Maurice James, on whether he had concerns about “excess capacity”. “Yes ... I do,” Mr Smith told the conference. “I wasn’t involved when the decision was made [to bring in a third stevedore]. “I think the financial health of our stevedores is important and while Melbourne approaching 3m teu makes sense, in Brisbane, approaching 1.1m teu, doesn’t make a lot of sense.” Patrick executives have themselves raised concerns about the long-term viability of three container stevedores in competition, suggesting the market is simply too small. On the other hand, the Australian Competition and Consumer Commission has long argued a third stevedore would boost productivity, with former head, Graeme Samuels, referring to a “cosy duopoly” on the waterfront.

AUSTRALIAN PMI®: MANUFACTURING CONTRACTION CONTINUES IN OCTOBER

Continuing softness in new orders and a more than ten year low in the selling price sub-index contributed to the eighth consecutive month of contraction across the manufacturing sector in October according to the latest Australian Industry Group **Australian Performance of Manufacturing Index (Australian PMI®)**. The seasonally adjusted index was up 1.1 points in the month to 45.2. (Readings below 50 indicate a contraction in activity with the distance from 50 indicative of the strength of the decrease). The new orders sub-index dropped a further 0.4 points to 43.9 in October while the only sub-sectors to expand in the month were paper, printing & publishing (51.1) and transport equipment (52.5). Manufacturers cited the high Australian dollar, stronger import competition and rising energy prices as factors inhibiting growth in October. Australian Industry Group Chief Executive, Innes Willox, said: “Manufacturers continue to find the going very tough in the face of the strong dollar, weaker demand in export markets and flat conditions across the non-mining sectors of the domestic economy –particularly in commercial and residential construction which has strong linkages with domestic manufacturing. “For quite some time, the sector has faced a squeeze on margins with prices for non-labour inputs and wages rising steadily while selling prices have been weak. In October the squeeze intensified with the selling price sub-index recording its lowest level since being introduced into the **Australian PMI®** over a decade ago. “The current contraction in Australian manufacturing is comparable to that being experienced by manufacturers in the recession-hit Euro zone even though the Australian economy is growing relatively strongly overall. Spurred in part by their lower currency, manufacturing is faring more strongly in the United States despite operating in a considerably weaker domestic economy than Australian manufacturers,” Mr Willox said.

IS GOOGLE MOVING INTO LOGISTICS & CARGO SECURITY?

The US Patent and Trademark Office has granted Google a patent for securing, monitoring, and tracking cargo shipping containers. The abstract describes a two-way communication system supported by an electronic bolt, a network gateway, a Web-based platform, and a mobile device. The wireless system would augment the mechanical seals used today. It would enable nearly real-time, end-to-end monitoring of the location and status of secured shipping containers through a series of gateways connected to a network. Each gateway is associated with a location that would transmit information to a cloud server. If Google’s tablet and smartphone hardware meet the patent’s description of handheld devices, the electronics industry could see the emergence of a new logistics and shipping support line from the company. The tablets and smartphones would become the devices in which shipments of everything from raw electronic materials to finished goods are monitored through a Web-based application. The patent also would lend itself to software developers. An application programming interface would allow developers to build and customize mobile apps for shipping and logistics. Google could white label the platform as it continues to increase support for enterprise companies through mobile tools, cloud computing, and Web-based docs.

NZ TO REMOVE SHIPPING'S ANTITRUST IMMUNITY?

The New Zealand Minister of Commerce has asked the New Zealand Parliament Commerce Committee to remove antitrust immunity for the international shipping sector, placing it in a 'normal' competition regime governed by the Commerce Act 1986. It would mean shipping lines could no longer avoid prosecution under antitrust legislation. The Global Shippers Forum Secretary General, Chris Welch, commented: "It is impossible to treat as credible the continuing demands from the liner shipping operators for the continuation of exemption for price fixing on the ground that they are essential to ensure that international shipping lines continue to provide stable and reliable services to New Zealand's exporters and importers. Especially as the evidence, as conceded by the International Container Lines Committee (ICLC), is that 'historic conference agreements no longer operate in New Zealand."

AUSTRALIA TO PURSUE FREE TRADE AREA OF THE ASIA-PACIFIC

The Commonwealth Government will position Australia as a connecting rod between Latin America and Asia in pursuit of a Free Trade Area of the Asia-Pacific. Australia has been in talks with Mexico, Colombia, Peru and Chile about the possibility of a trade deal with these countries of the Pacific Alliance, as it is known, that could extend to other countries in the Asian region. Trade and Competitiveness Minister, Craig Emerson, said Australia would seek observer status in the ongoing trade negotiations involving the four Pacific-facing nations of Latin America. "These nations are like-minded with Australia as open traders and are interested in Australia connecting them to dynamic Asian economies through our familiarity with countries of the region," Dr Emerson said. Australia will also continue negotiations for a Trans-Pacific Partnership (TPP) agreement involving 11 Asia-Pacific countries. Mexico, Chile and Peru are also part of these negotiations. Australia already has a high-quality Free Trade Agreement with ASEAN and New Zealand. The Government sees these various negotiations as pathways to the vision of the Asia-Pacific Economic Cooperation (APEC) forum of a Free Trade Area of the Asia-Pacific (FTAAP). "Negotiations in each of these forums can add momentum to the others in a process of competitive liberalisation," Dr Emerson said. The White Paper sets a goal for Australia to increase the value of its trade links with Asia, from one-quarter of GDP in 2011 to at least one-third by 2025. The Government will continue with its bilateral negotiations with China, Japan, South Korea, Indonesia and India.

PATRICK BACKS DOWN ON SIDE-LOADER FEE

Crisis-hit Patrick has announced that it will not now go ahead with proposals to impose a $100 charge on sideloader trucks in what appears to be a climb down forced on it by the industry. "Patrick will defer a decision on a levy and will not impose the proposed fee of $100+GST per truck visit to the terminal" Ben Wicks, a terminal manager at Patrick Port Botany wrote in a high-level letter to carriers. Commenting on the reasons for the reversal, Mr Wicks wrote: "the publication of the proposed side-loader levy for Port Botany on September 24, 2012 was made on the understanding that the industry supported the proposed fee. "Our notification has led to concerns being raised by the industry. "These concerns largely relate to the possible impact of the levy on smaller businesses that only operate side loaders." And, Mr Wicks wrote, "accordingly" the charge was deferred.

SEASONS GREETINGS

Compliments of the season and best wishes for Christmas and the New Year are extended to all of our clients. Thank you for your support during 2012 and we hope that 2013 brings health, happiness and prosperity to all.

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