Supply Chain Tested

By Eimear McDonagh, Australian Cotton Shippers Association

The term 'a perfect storm' can be over-used or at least used to over-dramatise a situation, however I have to say that the recent events at Port Botany have been just that - 'a perfect storm'. Government support payments during COVID-19 caused an increase in consumer spending and containerised imports in the months of July and August, adverse weather conditions and high winds shut down port operations from time to time. This was further exacerbated by a coordinated national campaign of industrial action which saw go slow activity and reduced overall productivity at the port terminals.

Shipping lines held vessels off-shore waiting to get a slot to discharge and reload, but many made the decision to bypass Sydney and go to Melbourne to discharge both Sydney and Melbourne cargo; this forced exporters to either relocate cargo to Melbourne or wait for the next available vessel and pay the cost to store full trains and containers at the port precinct. Importers were similarly impacted, having to relocate thousands of containers from Melbourne to Sydney via truck and rail. Chronic congestion at container parks in Sydney resulted in park closures and importers being unable to return containers; shipping lines charged importers detention fees for that privilege. Certain shipping lines have completely cancelled bookings as they look to return to a normal rotation for their service.

The flow on effect to our industry is twofold. Firstly, the uncertainty and inability to confirm shipping schedules from Sydney exposes exporters to potential breach of contract if they cannot achieve the shipping period guaranteed. This damages our international reputation at a time when global cotton consumption has almost halved, and competition from other growths is fierce, so our position in Australasia as a 'just in time' deliverer is threatened.

Secondly, shipping lines who are struggling globally saw an opportunity to assist their bottom lines by imposing congestion surcharges of between US$550-US$600 per 40' container, or US$5-US$6 a bale. This charge cannot be passed on in export contracts and it certainly can't be deducted from growers' pricing either.

Depending on the duration of this congestion and return to normal rates of productivity, it can also impact merchants' decisions on how they price the supply chain to Sydney and this may impact pricing to growers.

Although the MUA have agreed to return to the negotiating table and resume work, the whole event turns the spotlight on the supply chain from regions to port and through to final destinations. All decisions regarding shipping services to Australia are made offshore, consolidation of shipping line services has reduced optionality when making bookings and all ports are privatised meaning fees can be increased without much consideration to the impact of exporters and importers.

Exporters and importers have been dealing with increased 'access charges' being levied by the stevedores to the transport party. The transport operator passes these through to the exporter or importer. These increases are essentially a cost recovery by the terminals due to consolidation of shipping line services and fewer but larger vessels calling the ports. As exporters, we don't contract to the terminal, we only deal with the shipping line and therefore must deliver to the terminal that the vessel calls to. We have few options to vote with our feet as in reality there is a duopoly between DP World Australia and Patricks at Australian ports.

Under the ACCC Act, Part X gives a level of guarantee regarding service provision to Australian ports and notice periods required to make any substantial changes. This section of the Act is to be reviewed and ACSA, as a board member of APSA (Australian Peak Shippers Association), will be participating in the discussions on how to repeal the terms of this legislation in order to provide adequate protection for exporters and importers. We will be working to ensure that capacity is not reduced or unfairly compromised and that appropriate notice periods are in place for any pricing restructure by shipping lines. We don't want a return to a highly regulated port environment but there is a fine line between ensuring capacity of shipping service and bearing the costs associated with consolidation and port privatisation. Transparency in this space is critical to allow us as exporters to confidently trade forward, and though this is happening in Sydney now, the potential for it to spread to other ports is a reality. If it were to occur in the peak shipping period of May through August - particularly when we return to larger crop sizes – it would be catastrophic.

A note that I am writing this from the cotton industry perspective, but in fact it effects all agricultural exports. Most of our cotton growers will also be growing grain or pulses, or producing beef, lamb or pork all bound for the export market. As supply chain costs continue to creep up, we need to be very mindful of our place in the international market when many products from other countries may receive support that our growers do not.

We need shipping lines, terminal operators and unions to work with us to ensure we all survive and thrive as we emerge from COVID-19 restrictions and from the effects of prolonged drought.   We will be keeping our eyes wide open to the impacts of supply chain costs and be ready to voice our concerns and participate fully in any discourse that allows us to positively influence the outcome for the cotton industry.

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Ends