



AUSTRALIAN FEDERATION OF INTERNATIONAL FORWARDERS Ltd.

Submission

to the

**Australian Competition and Consumer
Commission**

Part X investigation

into

**Asia - Australia Discussion Agreement
for
Australian Southbound Liner Trades from
North East Asia**

April 29th 2004

a. Overview of AFIF

The Australian Federation of International Forwarders Ltd (AFIF) is the peak industry Association representing service providers covering the total international logistics chain.

AFIF was created in July 1996 following the merger of two distinct organisations, namely: The Australian Federation of Airfreight Forwarders ('AFAFF'- formed in 1977) and The International Forwarders Association of Australia ('IFAA' - representing Seafreight Forwarders - formed in 1976).

AFIF has a membership of 204 corporate entities, ranging from organisations that operate several branch offices across Australia, to small and medium enterprises in a single location.

The membership includes in excess of 85% of organisations offering global logistics services to and from Australia, including almost all of the large multi-national companies. Percentage representation in terms of cargo moved is difficult to quantify, nevertheless it is generally acknowledged that in terms of sea cargo (by shipment numbers), Forwarders would provide services for between 65 - 70% of import and export manufactured items, transported in seafreight containers. We believe that these facts and figures indicate the significant role that Forwarders have in the global logistics industry.

A Forwarder is required to provide a variety of services ranging from acting as agent to organise international transport on behalf of their importer or exporter customers, right through to taking on the role of 'principal' in the transaction. The latter requires a Forwarder to provide and/or procure services for the total movement of goods from seller to buyer including: pre-shipment order follow up and inventory control; transport trade & shipping documentation; sea or air transport; cargo tracking; customs & quarantine reporting formalities; depot facilities, plus warehousing and land based distribution of the goods, all whilst taking on full legal responsibility as 'contracting carrier' in the transaction.

Due to concerns in relation to the power of the shipping consortia and issues regarding representation relating to general oceanfreight matters, AFIF sought and was granted status as a *Designated Secondary Shipper Body (DSSB)* by the Federal Minister for the Department of Transport in 2001.

b. AFIF view regarding the current investigation

The Australian Federation of International Freight Forwarders views the Part X Investigation with an element of concern.

The purpose of Part X of the Trade Practices Act 1974 is as valid now as it was during the period of its inception. International shipping, without liner conference (or similar) agreements to rationalise capacity and drive a common policy of Government, shippers operators and the lines, have in the past and would again, lead to gross inefficiencies, short-sighted developments and prohibitive freight rates.

Conversely, history has also proven that stringent regulation of the liner trade has not served a country in the way it was intended and the US Government decision to partially deregulate the FMC points in the right direction. Agreements, to which all stake holders have access to raise opinions, influence development and policy, sanctioned by Government, have proven to be the best mechanism to meet a dynamic and constantly changing shipping world.

It is evident that major factors have contributed to the current impasse, the most important being the continuing level of increased demand for shipping space from mainland China. At the same time the Asian crisis has drifted into history, placing the development of trade within Asia as a major driving force behind the lines' decisions to meet capacity. This aspect does not only affect the trade to Australia but has global implications.

The considerable recovery of the Australian Dollar against the US dollar is clearly another main driver for the current development, in particular since the freight rates are predominantly expressed in US currency. *The Australian Federation of International Forwarders* is of the opinion that the psychological impact of this aspect must not be underestimated. The current level of increase is unsustainable and appears to be an attempt, by the lines, to recover from an equally unsustainable period of freight rate price cutting at the other end of the scale. *The Federation* agrees with the investigation that both developments were not in the overall interest of all parties and an improvement to the checks and balances for this trade is of utmost importance.

Unlike other trades, for example the European and the North American trade from North Asia, the checks and balances for the Asia/Australia trade appear to be less pronounced and in particular, the impact on the medium to smaller importers.

Europe

The prime occupation of the balancing act of import versus export trade is exposed to considerable pressure from powerful interests, presenting their opinions, ideas and grievances, in coherent interest groups, such as the manufacturing industry with its

dependency on exports (and also on imports). The impact of financial institutions and industry on the supervisory boards of the major lines must not be underestimated.

North America

The North American Import Trade Lane from North Asia provides an interesting comparison in so far as the open trade to Canada, dominated by the lines organised in the CTCA, also experienced volatility in freight rate fluctuations in the last few years.

In comparison, the FMC regulated US trade lane was less volatile, however it is a known fact that overall the Canadian trade attracts lower rates and a large portion of the trade handled through British Columbia is destined for the US market.

Members of the CTCA are lines also participating in the Australian trade. COSCO, who are not members of the CTCA, recently increased capacity with the result that supply and demand are more stable and so are freight rates.

The port of Vancouver's vast hinterland, Ontario and Quebec, but also the mid-west USA, has resulted in the large transit forwarder group being an important part in representing industry concerns in discussion with the CTCA. The other powerful group is the Canadian Retailers Association.

It stands to reason not to look at things strictly from a 'final vision' or an 'island solution' of the Australian trade and compare and always draw comparisons with similar developments. Specifically the Canadian trade lends itself to being a good benchmark.

Conclusion

The Australian Federation of International Freight Forwarders seeks an opportunity for dialogue with the Government, in order to inform its members of the intentions of Government. In addition, the Federation desires to constructively participate with other interest groups to assist the Government to find the best solution for the current impasse. In requesting this we conclude the following:

- that the rate increases affect only a small amount (about 12 - 13%) of the total trade, as all other cargo is under contracts, most of which are made in other countries by foreign companies who are not subject to Australian law nor are subject to the general rate increases.
- that this is a genuinely "free market" as the pricing results of fluctuations in supply and demand have shown during the last several years.
- that the radical fluctuations in pricing recently experienced is bad for everyone involved in the trade (users and providers).

- that the most essential outcome for the future is to try to bring some stability into the market so that rates, surcharges and all other forms of price increase happen on a planned basis over an acceptable period of time. To achieve this, the trade must have a forum to facilitate open discussion on pricing and supply of service.
- that we believe the ACCC proposed action of deregistration of the Asia/Australia Rate Agreement (AADA) would not serve the desired purpose. In fact we suspect that it may have the reverse effect of removing the ability of all to have meaningful discussion with the lines in the future and in so doing, inhibit efforts to achieve rate (price) stability.

We thank you for the opportunity to present our views and points in regard to this investigation and look forward to further dialogue on the issues under review.

Yours sincerely,

Australian Federation of International Forwarders Ltd.

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