Importers Association of Australia

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Australian Competition & Consumer Commission

Part X Investigation

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

Issues Paper

Submission in response prepared by
Importers Association of Australia

FREIGHT RATES

Discounting of freight rates by individual member lines of the AADA

Have rates announced by the AADA been undercut by any of the member lines? Is there evidence of pressure on members to adhere to published rates?

All lines have increased rates. The impact on the shipper may vary according to the size of its business.

Is there evidence of AADA members discounting from rates published by the AADA?

There are no published discounted rates, but, depending on size, importers may seek to negotiate rates.

Can shippers procure new contracts with AADA lines at rates discounted below those that have been announced?

The lines are not prepared to give extended contracts beyond three months. The shipper is thus currently facing regular increases in rates.

COORDINATED INCREASES IN FREIGHT RATES BY PARTIES TO THE AADA

Were rates internationally competitive 3 years ago? Are current rates internationally competitive now?

Yes, rates were internationally competitive. They are now uncompetitive.

Have rates from NE Asia to Australia risen sharply relative to rates from NE Asia to other destinations?

We are not aware that rates to Australia have risen less sharply than to other destinations.

EFFECT OF INCREASED FREIGHT RATES ON IMPORTERS

What effect have the AADA's recent rate increases had on importers?

Importers have in general been forced to accept increased costs and reduced profitability.

For importers, how has the current increase in rates affected your business? Can you increase your prices and pass on the rate increase or do you have to absorb the increase? Can you change your sources of supply away from North East Asia at short notice in response to the rise in rates?

The rapid increases have not allowed shippers the opportunity to cover the increases in their own prices. Food importers generally enter into longer terms contracts of purchase from overseas and supply to the Australian market. It is extremely difficult to change pricing arrangements during the life of a contract or to find an alternative acceptable source from a country with a more attractive shipping cost. The result is that the importer generally has to absorb any freight increase, with obvious impact on its profitability.

Has the supply/demand picture changed in the world market for liner shipping services in the late 1990s and what effect would these changes be expected to have on freight rates to Australian importers, which source goods from North East Asia? How have these changes affected demand?

There has been a significant increase in world trade and so, demand for liner shipping services. In this environment, prices for shipping could be expected to rise. But, the current predicament for importers is that price rises are frequent and substantial, with no pattern of predictability that allows the importer to build the increase into its own prices.

IMPOSITION OF PEAK SEASON SURCHARGES

Shipping lines have adopted the practice of implementing Peak Season Surcharges in addition to the freight rate for the duration of the high import season. What is the purpose of these charges?

We see no justification for this practice.

Do importers receive any benefits in return for these surcharges and / or do these cover any additional costs due to the peak season?

Importers do not receive any additional benefits and, as far as we are aware, there are no additional costs for the lines.

Are decisions concerning the imposition and removal of peak season surcharges subject to negotiation between the AADA and the Importers Association of Australia?

No

What factors are behind decisions to withdraw peak season surcharges and when in the peak season are these decisions taken?

No factors have been explained to importers.

STABILITY OF FREIGHT RATES

Has the operation of the AADA contributed to stability in freight rate setting for liner cargoes from North East Asia since April 2000? If so is this likely to continue in the future?

Given the frequency and unpredictability of increases, it is hard to conclude that the freight rate settings have been stable.

Does the AADA have a greater influence on stability of freight rates in a market where there is excessive demand or excessive supply of liner services?

Where there is an excessive supply of services.

If the AADA did not exist would there be more or less stability in the pattern of freight rates for imports from North East Asia observed in the market? Given that the current market is one of high demand, in which freight rates in a competitive market would be expected to increase do you believe that freight rates would have risen as quickly or by the same magnitude if there were no AADA?

In our view, the AADA provides a platform for price increase and rates would not have risen as quickly if there were no AADA.

DECISION MAKING REGARDING FREIGHT RATES

To what extent are overseas principals currently involved in setting freight rates for Australian importers for imports sourced from China, Taiwan and Hong Kong? Has this changed recently?

The overseas principals seem now to be in total control of the setting of freight rates. This has come about over 2003.

If overseas principals do have a significant role in determining freight rates does this-

- *enhance or inhibit the competitive environment of inward liner cargo shipping services?*
- *enhance or inhibit the potential for importers to obtain competitive rates for inward cargo?*
- *represent a restriction on ocean carriers taking part in negotiations?*

The participation of overseas principals inhibits the competitive environment for importers.

SERVICE STANDARDS PROVIDED BY THE AADA

Have service levels changed since the registration of the AADA in April 2000?
Does the AADA contribute to the provision of stable liner services from North East Asia?
Please comment.

Service levels have fallen in 2003. The AADA does not provide stable services in peak periods, where rates are increased, but container delivery is unreliable.

Would the provision of liner services be as stable or as adequate to the needs of importers if there were no AADA, but ANZESC and the other consortia agreements remained?

It is difficult to say, but, currently, the AADA does not provide adequate services.

To what extent do Australian importers currently have continued access to inward liner cargo shipping services of adequate frequency and reliability?

Importers from regions covered by the AADA do not have access to adequate shipping services.

To what extent has the involvement of overseas management in the decision making on Australia/NE Asian freight movement affected the quality and provision of inward liner cargo shipping services?

The extent would appear to be significant.

Investment in new tonnage

INCREASES IN DEMAND AND ADEQUACY OF LINER SERVICES

In your opinion is the current increase in demand for imports from China, Taiwan and Hong Kong temporary? Are demand levels for imports expected to remain above those achieved in the recent past?

The current increase in demand is not temporary and demand levels are expected to remain high.

Is the current level of liner services offered by the parties to the AADA adequate to the current needs of Australian importers for this liner trade?

No. Price increase are frequent and unjustified, whilst there is often insufficient space on ships for uplift at the port of export or there are considerable delays in transshipment ports.

INVESTMENT IN NEW CAPACITY BY SHIPPING LINES IN RESPONSE TO RISING DEMAND

If there is increasing demand for imports from North East Asia relative to liner supply resulting in upward pressure on freight rates, in your opinion have the members of the AADA increased or tried to increase capacity to cope with the higher levels of demand?

Not to our experience

Is there evidence of new investment in shipping capacity by competitors to the AADA?

No

If the AADA members have not alleviated demand pressure by chartering in new tonnage into the trade, how attributable is this to the AADA? What is the role of the parties to the other registered agreements such as the Australian New Zealand Eastern Shipping Conference (ANZESC) in determining new investment in tonnage for the trade?

Demand pressure has not been alleviated, but the lines have not provided a reason for their inactivity.

COST OF INCREASING CAPACITY AND AVAILABILITY OF SUITABLE SHIPPING

We do have information for these questions.

NEGOTIATION PROCESS

What is the nature of the negotiation process involving AADA member lines and shippers?

Shippers, especially small to medium operators, have little opportunity to negotiate in a meaningful way.

Are the operations of the shipping lines structured in a way that is conducive to negotiations?

It would that this is not the case.

Have some importers preferred to negotiate individually rather than adopt a collective negotiation stance as envisaged in Part X? What effects has this had on outcomes?

Importers negotiate individually.

To what extent does the involvement of overseas management to decision making concerning NE Asian – Australian freight rate setting affected the negotiation process?

Overseas involvement basically negates any negotiation process.

ACCESS TO IMPORT MARKETS

Have the actions of shipping lines allowed importers to have stable access to import markets in North East Asia?

Yes, but not in peak seasons.

Are there specific cases to demonstrate that the AADA has affected the scale of shipment of inward cargo from NE Asia since 2000?

Not that we are aware of.

COMPETITION AND TRADE AGREEMENTS ON THE NE ASIAN TRADE ROUTE

Is there competition for inward cargo (a) between conferences and independents within AADA? and (b) between the AADA (including independents) and non-AADA members?

Not to any significant degree.

Is there any evidence of price competition to the AADA offered by non-AADA slot charter services such as Gold Star Line and APL which use AADA vessels?

Not that we are aware of.

To what extent have discussion agreements hindered or enhanced competition for inward liner cargo shipping services on the NE Asian- Australian liner trade route?

They have hindered rather than promoted competition.

Do the AADA members offer a significantly superior service to alternatives, such as the break bulk service offered by Project Asia Service or transhipment services through Singapore? To what extent do you consider these alternatives to be viable substitutes?

A significant proportion or the AADA trade is transhipped through Singapore. Currently those other options are not viable substitutes.

EASE OF ENTRY BY SHIPPING COMPANIES INTO THE NORTH EAST-ASIA AUSTRALIA LINER TRADE

Are there any significant regulatory or other cost barriers to new entrants contributing new services and tonnage to the southbound liner trade?

If not why has there been no entry on a significant scale in response to the current demand increase? Given that there are sixteen major shipping lines operating in the AADA, are there suitable new entrants that could enter the trade in the near future? Could it be expected that lines that have recently vacated this trade could rejoin in the near future?

Do the parties of the AADA and other interested parties expect a significant entrant into the North East Asia-Australia liner trade in the near future? Does this affect any plans to further increase freight rates?

Do you believe that the parties to the AADA have significant incumbency advantages over new entrants in the form of market presence, customer loyalty, market knowledge, lower costs and better service?

Recent experience suggests that new entrants to the trade have joined the AADA soon after entry. What are the reasons for this?

We do not have detailed information on the ease or otherwise of entry by shipping companies into this trade. We believe that incumbency does provide advantages and do not expect any major new entrant.

REGULATORY JURISDICTIONAL ISSUES

We do not have information to assist on this issue.

CONCLUSIONS & RECOMMENDATIONS

The IAA considers that over the course of 2003 the AADA has not delivered real benefits to importers. The IAA would like to see service levels on the liner trade improve, with better carrier, customer relationships and efforts by the lines to facilitate service levels in this period of booming demand, rather than just increasing rates.

In advance of the forthcoming review of Part X of the Trade Practices Act 1974, the IAA does not call for the deregistration of the AADA. The IAA does, however, request that the part of the Agreement allowing the lines to discuss and agree on pricing should be revoked. Rather, the AADA should:

- address service standards in order to ensure that there is sufficient capacity and frequency to meet importers needs.

- consult on service standard with Inward Peak Shipper Body such as the Imported Association of Australia.