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SUBMISSION TO THE ACCC FOR THE AHEA.

1. The AHEA

The Australian Horticultural Exporters' Association Inc. has a Membership of more than 70 active exporters responsible for around 85% of all horticultural exports out of Australia. It represents its' collective Member's interests and focuses on the most important issues including International Markets Access, Quarantine matters and Shipping Freight monitoring/negotiations

It has recently been recognized by the Federal Department of Transport as the Peak Body for the Horticultural Industry and currently holds the status of Designated Relevant Shipper Body. This was granted by the Federal Department of Transport in March of this year.

Prior to this AHEA was a Designated Secondary Shipper Body appointed by APSA
(Australian Peak Shippers Association of which AHEA is a Member) to negotiate freight matters on behalf of the Horticultural industry,
The change in Status ensures that the AHEA must be consulted by all shipping groups of any changes to services and rates prior to their implementation.

Under the previous arrangement consultation had not always been the case and particularly in recent times when the "Rate Restoration" program by shipping groups gained momentum, this was absent.

2. Background

Shipping Lines

For many years up to the mid 1990's freight rates to South East Asia were at "premium" levels and generally controlled by the Conference in place at that time. The limited number of individual shipping lines competing with the Conference were able to offer usually 10% less in freight rates and shipping lines all retained good support due to the limited shipping tonnage on the South East Asian shipping runs.

Competition were attracted to the profitability of the South East Asia runs due as a result of the "premium" rates obtained at the time and a number of "outside "additional shipping lines felt it was opportune to enter the trade and share in the spoils. With the introduction of a number of new players the route became "overtonnaged" or over supplied and fierce competition for cargo was the result.

Freight Rates

Over the next few years in the late 1990's freight rates tumbled as competing shipping lines regularly reduced their rates against competition to gain customer support. This was beneficial for exporters, but at the time this was happening the Asian Crisis hit and cargo levels dropped, which compounded problems for shipping lines.

Most Australian horticultural products were affected by the Asian crisis and global competition saw to it that any freight reductions were quickly passed on and reflected in CIF prices to customers to make sure we remained competitive in the Asian market place.

Shipping Rate Stability

Today all 18 lines servicing the South East Asian destinations have found it advantageous to agree on freight rates and have joined the TFG and decided they should stabilize rates. The horticultural export Industry too recognized this was inevitable and in fact support rate stability which in turn ensures the services we need remain in place with sufficient specialized equipment to meet Industry needs. (If the rate slide had continued there was a real chance that some shipping lines would withdraw, and those left with unprofitable business may not be in a position to convince their principals outside of Australia to maintain equipment stocks which would thereby impact on their ability to provide adequate services..)
After almost beating each other to death by mid 1999 the members of the TFG under the protection of the Trade Practices Act part X, then set about stabilizing and subsequently restoring freight rates, to those "premium" levels enjoyed in the early 1990's.

3. Current TFG Actions

Freight Rate Negotiations process

In the past freight rate negotiations between shipping lines and exporters conduct invariably resolved to agree to a rate and fix it for a 12 month period. However since mid 1999 the TFG have imposed increases on a quarterly basis, often without official notification to the AHEA. Together with this they have also introduced various fees for service such as Documentation Fee of $25.00, increases in Lifting fees, Port service fees and the introduction of an emergency Bunker Surcharge. In a further attempt to break down the rate structure the TFG have now introduced Terminal Handling Charges as a separate charge within the rates. As they claim, this is revenue neutral at present, however exporters have no control over this fee as it is negotiated between shipping lines and terminals and in time to come how do exporters have any influence over this charge. It will simply be agreed to by shipping lines and passed on to exporters.

Failure to follow the process

The TFG shipping line members have collectively implemented and imposed these increases despite our calls not to do so without adherence to the process, with full consultation, and at a time when we are finding great difficulty to remain globally competitive, and to pass on rate increases. Reasonable increases brought in over a longer period can be accommodated by exporters, however we have found that the shipping lines are misusing their collective power and seek to impose quarterly increases which are far too hasty and done with little or no consultation with or regard for the customer, the exporters.

As stated by the TFG Agreements between member shipping lines, their rate discussions and subsequent implementation are technically non-binding on members. However the commercial reality in the current environment is they have all collectively insisted on applying these increases, with no outside competition, and no member breaking ranks. Our experience in recent years has been that when we meet for negotiations we are at a distinct disadvantage. One could hardly call it a negotiation as, when we are unable to reach agreement on rates, the TFG simply misuse their collective position to impose their rates upon us and claim they have met their obligation to have meaningful discussions. We have no recourse to other shipping opportunities as they are all members of the TFG. We are continually in a lose/win situation.

Our Recommendation

The developments in the shipping environment over the past 2 or 3 years has seen TFG members competing with each other, and with non members in a healthier environment where the TFG adhered to the spirit of the Trade Practices Act part X, and followed the agreed process of consultation and negotiation.
Today the AHEA recognizes that with the removal of healthy competition from non member shipping lines, the TFG is now arrogant, as there is less pressure on competition and have allowed the development of a non consultative process and the imposition of freight rate increases to exporters from a position of strength and misuse of power allowed under the Trade Practices Act part X.

This action on the part of the TFG begs the question; do they deserve to hold the status of "Trade Facilitation Group" .The members of the AHEA think not. The AHEA is of the opinion that the ongoing conduct of the TFG with regard to imposed increases of Freight Rates and ancillary charges is not within the guidelines or spirit of Part X and therefore the AHEA believes that the TFG should be deregistered.

Should you wish to clarify any aspect of the AHEA submission, or require further information please contact me through our AHEA offices on Telephone 03 92109380 or facsimile 03 92109381, or email: ahea@ahea.com.au

Yours sincerely,

Doug Walsh

Mr A.G.Walsn/ Chairman AHEA