Vertical integration in LOGISTICS

Sal Milici considers whether the vertical integration trend is a game changer or a threat to competition

The logistics industry has seen significant transformation in recent years, and vertical integration has emerged as one of the most critical trends. While this model can theoretically provide savings to customers and achieve economies of scale, it also raises serious concerns.

Vertical integration has the potential to erode competition and create an environment where unfair commercial practices can flourish. These concerns have taken centre stage in the wake of the proposed acquisition of Silk Logistics Holdings by DP World Australia, one of Australia's major stevedores.

THE ROLE OF STEVEDORES IN THE SUPPLY CHAIN

Stevedores occupy a privileged position in Australia's logistics landscape. They hold long-term leases at major containerised ports, enabling them to manage the loading and unloading of cargo carried by foreign-owned shipping lines. Stevedores provide landside access to third-party rail operators and a highly competitive road transport sector. This critical role in the supply chain gives stevedores significant market power, which can be further amplified through vertical integration.

The expansion of stevedores into landside logistics activities – such as road and rail transport, freight forwarding and customs brokerage – poses significant risks. When stevedores enter these markets, they may gain opportunities to discriminate against competitors by leveraging their dominant position in port operations. This creates an uneven playing field, raising concerns about competition and transparency in the logistics sector.

HISTORICAL CONTEXT AND LESSONS FROM THE PAST

The risks associated with vertical integration are not new. These issues were carefully considered by the Australian Competition and Consumer Commission in 2016 during the acquisition of Patrick Stevedores by a consortium including Qube, Brookfield Infrastructure Partners and global investment funds. The ACCC ultimately did not oppose the acquisition, but only after significant modifications were made. These included the restructuring of the bid to ensure that ACFS (a major transport operator) would no longer be vertically aligned with Patrick and a reduction in Qube's interest to 50%.

These past decisions highlight the importance of regulatory oversight in preventing anti-competitive outcomes. However, the current proposed acquisition of Silk Logistics by DPWA represents a new escalation in vertical integration that demands close scrutiny. Unlike the 2016 case, the scale and scope of this proposed deal could significantly alter the competitive dynamics of the logistics sector.

KEY CONCERNS AND SYSTEMIC RISKS

The proposed acquisition raises serious, multi-faceted concerns that threaten competition, transparency and fairness, raising several systemic risks.

Reduction in competition: The acquisition has the potential to substantially lessen competition, allowing DPWA to dominate both port and landside logistics operations.

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Sal Milici, general manager – trade policy & operations, Freight & Trade Alliance

Increased costs: Vertical integration of this scale could lead to higher costs for Australian businesses, as fewer competitive pressures would exist to regulate pricing.

Leveraging sensitive data: There is a risk that DPWA could use commercially sensitive data gained through its stevedoring operations to gain an unfair advantage in the broader logistics market.

Discriminatory practices: Stevedores already face minimal constraints in setting landside and ancillary charges. The ACCC's *Container Stevedoring Monitoring Report 2023-24* highlights concerns about unregulated price increases and discriminatory practices. Vertical integration could exacerbate these issues.

RECOMMENDATIONS FOR REGULATORY ACTION

Freight & Trade Alliance and the Australian Peak Shippers Association have made a formal submission urging the ACCC to take decisive action to protect the interests of Australian businesses and consumers. To address the risks associated with vertical integration, the following measures are recommended.

Reject the acquisition: The ACCC should oppose the proposed acquisition of Silk Logistics by DPWA to prevent further market concentration and protect competition.

Regulate slot allocation: Introduce regulated oversight of rail and empty container park slot allocations to ensure competitive fairness.

Protect sensitive data: Implement safeguards to prevent vertically integrated entities from misusing commercial information for anti-competitive purposes.

Monitor pricing practices: Enforce stricter oversight of terminal access charges, vehicle booking system fees and storage incentives to prevent discriminatory practices. A mandatory code of conduct, as recommended by the Productivity Commission, could establish clear guidelines for pricing transparency and fairness.

Ensure competitive neutrality: Mandate that DPWA's operations provide equal access to all logistics providers and avoid preferential treatment for its subsidiaries or affiliates.

BROADER IMPLICATIONS AND NEXT STEPS

The ACCC's recent Container Stevedoring Monitoring Report underscores the urgent need for reform. The report reveals how stevedores have leveraged their market position to raise landside charges, contributing to inefficiencies in the container freight supply chain. Allowing further vertical integration could entrench these practices, reducing competition and driving up costs for Australian businesses.

DPWA's apparent strategy to "own the customer" by integrating domestic transport, freight forwarding and customs brokerage services further highlights the stakes. This approach could enable stevedores to favour shipping lines that use their terminals, creating ripple effects throughout the supply chain.

As Australia continues to grapple with supply chain challenges, ensuring competitive neutrality and fair market practices is essential. The ACCC has a pivotal role to play in safeguarding the interests of the logistics sector and the broader economy.

By rejecting the proposed acquisition and implementing the recommended reforms, the ACCC can help foster a competitive, efficient and transparent supply chain for all stakeholders. ■