Regional producers facing escalating logistics costs

Freight and Trade Alliance and the Australian Peak Shippers Association conducted a study on containerised grain exports. **Paul Zalai** outlines its findings

FREIGHT & TRADE ALLIANCE and the Australian Peak Shippers Association recently conducted a focused case study examining the financial impacts of the current shipping crisis on high volume/low value grain exporters from regional New South Wales.

The study found several significant issues in the supply chain. But, despite the adversity faced by exporters, the Australian containerised grain sector has continued to survive this season, primarily due to a low-production season in the Northern Hemisphere.

Asian buyers have little choice today than to buy from the Australian market as there are limited offers in the world. What is highly concerning is the ongoing viability of the Australian containerised grain sector if/when the world sees a normalised production season.

The sector cannot afford to maintain these inflated supply chain costs.

SCHEDULE DELAYS/CANCELLATIONS

A lack of vessel capacity and equipment limits exporters' ability to make bookings with any certainty. Exporters that make bookings face vessel rerouting, cancellations and port omissions. These cause significant delays to existing booked shipments.

Failure to meet contractual obligations can cost exporters. They can be subject to hefty fines from customers for late shipping. Three members collectively paid more than US$117,000 in contract breaches in the past three months alone.

Due to the lack of capacity, exporters physically have not moved as many tonnes this year as anticipated. This has caused an even bigger carry over of grain stockpile heading into another bumper harvest. Packers and transporters have consolidated to reduce risk and exposure to the volatility of the shipping industry. The reduced incentive to move grain is likely to cause bottlenecks for the upcoming harvest, leaving farmers potentially limited options to unload produce.

LACK OF CAPACITY

Shipping lines are understandably aiming for the best financial return on their assets. The use of an export grain container by one company for sometimes weeks is increasingly unattractive.

We are seeing shipping lines make decisions to reposition empty containers back to China for use on more attractive trade lanes (China-US, for example, at about US$15,000 per container) placing extra pressure on equipment capacity.

Export shipping rates are now at record highs and space is extremely difficult to secure. To put this in perspective, several grain exporters over the past 12 months collectively have been impacted by an estimated additional cost of US$37.5 million resulting in diminished financial returns to farmers and regional communities that are still recovering from years of drought, fire and the pandemic, only to face another economic crisis.

LANDSIDE LOGISTICS

Grain exports commonly travel to the port in containers on rail. The above referenced items only add to the inability to secure a train booking with any certainty that the vessel booked will match with the train arrival at the port. Failure to do so incurs excessive double handling costs.

Trains often operate on a take-or-pay method, meaning you either use the slot or pay for it anyway, even if the slot remains empty. The decision for exporters then becomes whether to double handle the container in Botany and pay for storage for the week or pay for the empty train slot and rail it again the following week. Between three exporters, data revealed more than $2 million in double handling and staging costs was paid over a three-month period.

INDUSTRIAL DISPUTES/STEVEDORES

Stevedoring performance and industrial relations negotiations, which have impacted most stevedores nationwide over the past 12 months, have had a profound impact on exporters and landside logistics costs.

In July 2021, the Maritime Union of Australia took protected industrial action at Patrick Terminals in Port Botany resulting in the stevedore closing most rail windows for regional NSW customers. This in turn forced freight to be double handled through third-party Sydney intermodal terminals. The containers were being delivered to the port by road. This type of congestion and uncertainty has caused shipping lines to revaluate Sydney and how they price and offer available equipment and space. Some shipping lines are omitting Sydney with multiple vessels a month. Between four exporters, a reported $495,000 was paid in double handling and staging costs over a three-week period.

The sector cannot afford to maintain these inflated supply chain costs and compete against Australian bulk shippers or Northern Hemisphere grain origin offers.

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