



The Customs Brokers and Forwarders Council of Australia Inc. response to the *Review of Port Competition and Regulation in NSW*

September 2007

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1. CBFCA and its involvement in the subject of the Review

1.1 Introduction as to the submission

The Customs Brokers and Forwarders Council of Australia Inc (CBFCA) welcomes the opportunity to make this submission into the *Review of Port Competition and Regulation in NSW* (Review). The CBFCA acknowledges that the reform of activities at Australian ports represent one of the most significant aspects of infrastructure reform before the Australian Federal, State and Local Governments and those who use the ports. Clearly, the businesses of the members of the CBFCA and the clients of those members (being importers, exporters, transport companies and others in the supply chain) rely heavily on the efficiencies of the ports and related services. To this end, the CBFCA acknowledges that the recent report dated July 2007 issued by the House of Representatives Standing Committee on Transport and Regional Services emphasises the need for urgent additional infrastructure investment in and around the ports (together with other related services).

1.2 Introduction as to the CBFCA

The CBFCA is the peak industry association representing service providers in international trade logistics and supply chain management. The CBFCA represents its members and industry in a diverse spectrum of international trade logistic committees, forums and discussion groups. The CBFCA website at www.cbfca.com.au provides more information. Through its constituency and its activities, the CBFCA and its members represent a significant presence for those involved in the supply chain.

1.3 Involvement of the CBFCA in supply chain reform and regulatory reform

(a) General

In addition to the activities of its members, and the activities of the CBFCA on behalf of its members, the CBFCA has been involved in many government and public policy forums. These include, without limitation:

1. representation and submissions to international organisations such as the World Customs Organisation ("WCO"), the Federation of International Customs Brokers Associations and FIATA;
2. industry representative consultative bodies convened by the Federal Government departments such as the Australian Customs Service, the Australian Quarantine and Inspection Service and the Department of Transport and Regional Services;
3. state representative and consultative bodies including, (in New South Wales), the Sydney Ports Users Consultative Group, the Sydney Ports Cargo Facilitation Committee, the NSW Sea Freight Council and Sydney Ports Transport Workshops;
4. submissions to Parliamentary Inquiries conducted both by Federal and State Governments; and
5. ad hoc actions to represent the interests of members (including, for example, action on behalf of the members at the time of difficulties at the various ports around Australia following the introduction of the Integrated Cargo System ("ICS") for import transactions).

(b) *Specific submissions and commentary on port related issues*

Of recent time, the CBFCA has been involved in investigations and inquiries regarding the use of port infrastructure around Australia. This has included regular meetings with Industry and Government authorities in various forums. Further, the CBFCA made a submission dated 8 June 2007 to the Independent Pricing and Regulatory Tribunal Review of the "Interface between the Land Transport Industries and the Stevedores at Port Botany and Other Industries – Issues Paper May 2007". Representatives of the CBFCA also appeared at public hearings of that Inquiry.

1.4. Contact Details

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1.5. Conclusion

As stated above, the CBFCA recognises the importance of the current debate regarding the use of ports in New South Wales. Improvements of the use of New South Wales ports are important for broad national interest but are also important for the interests of the CBFCA, its members and the clients of its members.

2. Referral sources

For the purposes of this Submission, the CBFCA has drawn on its extensive experience in dealing with the ports and in particular, the CBFCA will refer to the following reference material:

- a) The CBFCA submission to the Independent Pricing and Regulatory Tribunal Review (IPART) of the *Interface between the Land Transport Industries and the Stevedores of Port Botany* dated 8 June 2007 (IPART Submission).

A copy of the IPART Submission is annexed marked "A".

- b) The Stage 4 Report and Implementation Plan in relation to the *Business Activity Harmonisation Study* dated December 2005 (BAHS Report).
- c) The report dated July 2007 (House Report) issued by the House of Representatives Standing Committee on Transport and Regional Services.
- d) *Container Stevedoring Monitoring Report No 8* issued by the ACCC on 8 November 2006.
- e) The NSW Sea Freight Council report *Development of an Open Access Intermodal Terminal in Western Sydney* dated March 2007.

While some of this material is not specific to the Review, the CBFCA believes that many (if not all) of the commentary contained in this documentation represents important reference material for the Review. In particular, much of the commentary in the IPART Submission is relevant to issues of access to and use of the New South Wales ports.

3. General observations on the nature of the Review

3.1. Port Botany and Sydney Harbour

The CBFCA recognises the importance which Port Botany in particular (and other New South Wales ports) plays in the supply chain for goods entering and leaving Australia. For these purposes, we would refer to paragraph 3.31 in the House Report which states:

"The total number of containers passing through Sydney continued to grow and reached 1.445 million TEUs, 5 per cent more than the previous year. Other trade grew more slowly, a 2 per cent increase. The containerised trade showed a continuation of the growing trade influence of Asia. Of the total containers imported, 61 per cent were from Asia. Similarly, containerised exports increased 8.4 per cent, reflecting the high level of demand from Asia.

3.2. Port Kembla and Newcastle

Further, we note that New South Wales is well served by two other major ports (Port Kembla and Newcastle). For these purposes, the CBFCA welcomes and endorses measures being taken to augment the operations and services provided at these ports.

3.3. Relevant services the subject of the review

The CBFCA is of the view that the following services constitute the main focus of the Review:

- a) stevedoring;
- b) road freight transport;
- c) rail freight transport;
- d) the use of Intermodal Hubs; and
- e) related services.

Clearly, both competition and planning policies significantly impact on the provision of these services.

4. General recommendations

As will be seen from the comments above, the CBFCA has been involved in the provision of services at and around New South Wales ports and has also been involved in various forums to discuss reform of the ports. Accordingly, the CBFCA wishes to endorse the commentary and recommendations found in earlier submissions, including (without limitation) the following:

- a) recommendations numbered 1 to 7, 10 and 12 to 25 in the House Report; and
- b) comments in paragraphs 4.1.2, 4.1.4, 4.1.5, 4.1.6, 4.1.6, 4.2.2, 4.3.4, 4.3.5 (under the heading "Container Examination Facilities ("CEF") impact on storage charges"), 4.5.2, 4.5.3, 4.5.6, 4.5.8, 4.5.9 and 4.5.10 of the IPART Submission.
- c) all recommendations in the BAHS Report;

For these purposes, the CBFCA recommends that appropriate steps be taken to consider these comments and recommendations and implement corresponding reforms whether by way of reforms to competition policy or by way of reforms to planning policy.

5. Additional commentary and recommendations

Without limiting the generality of the recommendations in the documentation described in section 4 above, the CBFCA wishes to raise the following concerns and specific additional recommendations to accommodate the Terms of Reference.

5.1. Concerns

(a) Increasing vertical integration in the industry

It is self-evident that through market acquisition and corporate re-organisation, there is increasing vertical integration in the provision of relevant services to New South Wales ports (indeed to Australian ports). This is referred to specifically in the IPART Submission. Clearly, increasing vertical integration of service provision decreases the competition in the marketplace which can have an adverse effect on the ability to use the port infrastructure and may have an adverse impact on pricing to use the port infrastructure. For these purposes, the CBFCA recommends that:

1. the State Government (in conjunction with the Federal Government) look at means to encourage other service providers to establish operations within the port precincts. This may require associated planning concessions such as opening up additional area adjacent to the ports to be available for commercial development rather than being given over to other developments. There should also be thought given to providing financial incentives to those wishing to establish operations in the relevant areas; and
2. the ACCC should be requested to carefully monitor the market for services associated with the ports. For these purposes, the CBFCA specifically recommends that the ACCC undertake a review of the way in which fees are levied and recovered by shipping companies to account for container detention charges; and
3. the Review should take into account the comments of the ACCC in the ACCC Stevedoring Report endorsing the need for increased competition in the provision of Stevedoring services.

(b) "Natural" barriers to entry

The CBFCA is aware that there are a number of "natural" barriers to entry which restrain others from entering the market. These include a number of factors such as the prohibitive cost of securing plant and equipment for operation at port infrastructure, the limited availability of land, and the competition from existing and established service providers (including, without limitation, the duopoly of stevedoring operations) and related restrictions. These barriers to entry need specific attention and to be addressed in terms of competition and planning initiatives. For example, Governments should give consideration to financial incentives and other concessions.

(c) A third stevedore

As outlined in its IPART submission, the CBFCA supports the introduction of a third stevedore at Port Botany. Accordingly, the CBFCA recommends that the New South Wales Government should note the introduction of a third stevedore at the Port of Brisbane and consider discussions with the Queensland Government as to the circumstances in which a third stevedore was able to enter the marketplace.

(d) Dealing with empty containers

As identified in the BAHS Report and referenced in detail in the CBFCA IPART submission, one of the significant restraints on port operations is represented by the need to store and move empty shipping containers. The Federal and State Governments should expedite measures to assist the handling and clearance of "empty container parks" including providing for additional land appropriate for these purposes. This should include the development of existing Intermodal Facilities and development of new facilities. This will require appropriate planning reforms in areas other than adjoining port precincts.

5.2. Additional recommendations to address Terms of Reference issues

In addition to the comments made above, the CBFCA wishes to make the following additional recommendations regarding the specific Terms of Reference.

(a) Development of Intermodal Terminals

Both the BAHS Report and the House Report make reference to the importance of development of Intermodal Terminals. In the IPART submission, the CBFCA also clearly endorsed the need for intermodal terminals and specifically an increase in rail utilisation to meet the projected growth in trade volume.

Having stated that, the CBFCA has concerns that the vertical integration of stevedore interests to extend management of intermodal terminal facilities may have a detrimental effect on the transport logistics process. It is essential that the trading community and its service providers maintain control of the transport logistics process. More specifically, the CBFCA does not support the potential for shipping lines and / or stevedores to be able to use intermodal terminals as simply "an extension of the wharf" and be in a position to determine stage movements of international freight.

The CBFCA recommends that this issue be taken into consideration in relation to associated policy development by the NSW Government.

(b) Protection of port precincts against urban sprawl

As has been mentioned in a number of the reference documents, there is increasing pressure on port precincts from urban and light commercial development (ie that which is not related to the ports). Clearly, there is significant interest for development of residential accommodation in and around the port precincts. However, it is the view of the CBFCA that priority should be given to developments required to augment and improve existing port services. Those councils with planning powers over port precincts and intermodal facility areas should amend their planning schemes to reserve relevant areas for important port and other infrastructure developments.

(c) Additional rail and road infrastructure

The CBFCA notes that in the House Report that there is reference to a number of road and rail projects which need to be implemented to maximise the efficiencies of the port operations in New South Wales. Again, these will require appropriate planning accommodations to be made which should now be expedited.

(d) Review Foreign Investment Review Board ("FIRB") restrictions for new entrants

In our commentary above, reference has been made to the natural barriers to entry for new service providers in and around the New South Wales ports and the risks associated with increased vertical integration in the provision of services to

a small number of competitors. Given the size of the investment required to provide services, it is clear that the appropriate financial support may only be available from overseas resources. For these purposes, the CBFCFA recommends that the State Government request the Federal Government to consider relaxing any FIRB restrictions which may have an impact on the ability of overseas service providers to enter the Australian marketplace.

For these purposes, the CBFCFA also recommends that in any negotiations for improving existing free trade agreements (FTA) or the entry into new FTA, there should not be a specific "carve out" so that the regime for provision of port services and related services is not excluded from liberalisations offered by the various FTAs. This should apply both in respect of direct investment in port services but also in related areas. For example, at the present time, the cabotage regime is confined to Australian operators. There would seem to be merit in expanding the category of potential operators to include overseas operators, subject to appropriate security and regulatory processes.

(e) Availability of additional funding

At the moment, barriers to entry may be caused by the need to secure capital for possible new market entrants. The State and Federal Governments should consider the availability of alternative types of funding, not just for State and Federal Governments to invest in infrastructure but also for potential new entrants to invest in infrastructure. For these purposes, the State Government should consider requesting the Federal Government to review the operation of existing sources of funding such as Infrastructure Bonds and CPI Bonds which confer benefits on investors who provide money to those who may then use those funds to assist new entrants to the marketplace. The availability of Direct and Indirect Infrastructure Bonds has, over the years, been extensively used by private investors to raise funds enable them to provide infrastructure projects throughout Australia.

(f) Statutory rates and charges

It is noteworthy that those operating in and around port precincts pay substantial levels of local Government, State and Federal taxes. This includes local rates, contributions for capital works and payments on account of land tax (or the equivalent). Accordingly, the CBFCFA would recommend that the State Government seriously consider whether it is appropriate to continue to impose such substantial (and often complicated) rate and charges.

(g) Creation of special precincts

Following on from some of the recommendations above, the CBFCFA would recommend that the State Government give thought to consideration of special precincts in and around ports in New South Wales which would be available for the exclusive use of port infrastructure and those providing services at the various ports. This would include precincts around ports and areas for Intermodal Facilities as contemplated by the House Report.

(h) Availability of ports other than Port Botany and Sydney Harbour

The CBFCFA recognises that New South Wales has the benefit of other ports in addition to Port Botany and Sydney Harbour. For these purposes, the CBFCFA would endorse local and State Government authorities adopting programs which allow for sufficient land to be made available for the expansion and development of those ports and for the associated planning regime to preserve the primary use of those areas for port infrastructure and related services which enables other investors and entrants to operate within those precincts.

(i) Competing levels of regulation

The CBFCA recognises that there are a number of different competing levels of regulation at the various ports. This includes local Government, State Government and Federal Government and includes regulations for such issues as planning, environmental issues, use issues and, transport and security-related issues. These operate on many levels and create a complex web of regulatory compliance obligations for those operating in and around the ports and their precincts. For these purposes, the CBFCA would recommend that State Government work closely with local Government and Federal Government to ensure that regulation (not just activity) is harmonised at and around the port precincts potentially with a view to establishing one authority with relevant regulatory powers over such areas (such as that which exists at airports).

Conclusion

As discussed above, the efficient use and improvement to access and use of the New South Wales ports is vital for those at all levels of Government, those trading in and out of Australia including parties such as the CBFCA and its members.

The CBFCA recognises that there are a series of competing interests which lead to a complicated series of "balancing acts". These include the need to balance environmental interests against additional development and dredging of port areas, the need to balance continued urban residential expansion against the need to preserve areas for port and related infrastructure, the need to balance a return on investment for those already providing services in and around the port against the need to attract new entrants and the potentially competing needs of border security and transport regulations against the need to have ready access and use of the port precincts.

All of these things impose pressures on the use and operation in and around the port. However, the CBFCA believes that, on interest, national, state, local and private interests to improve access to the ports and improve competition at the ports exceed the interests of those who would wish for the ports not to be developed or for entrants not to be allowed into the marketplace. Accordingly, the CBFCA would endorse and recommend all steps necessary to ensure that the aims of the Terms of Reference are achieved.

The CBFCA looks forward to the ability to continue to discuss these issues with Government and to provide the benefit of its lengthy involvement in the Australian supply chain.

Annexure A



Position Paper Independent Pricing and Regulatory Tribunal

The Customs Brokers and Forwarders Council of Australia Inc. response to the Independent Pricing and Regulatory Tribunal *Review of the Interface between the Land Transport Industries and the Stevedores at Port Botany, Other Industries - Issues Paper May 2007*

June 2007

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1. EXECUTIVE SUMMARY

The Customs Brokers and Forwarders Council of Australia Inc. (CBFCA) support the initiatives taken by the New South Wales Minister for Ports and Waterways in:

- convening the Logistics Roundtable meeting on 14 September 2006
- the subsequent formation of a Taskforce, and
- commissioning the Independent Pricing and Regulatory Tribunal (IPART) *Review of the Interface between the Land Transport Industries and the Stevedores at Port Botany* (the Review)

The CBFCA sees the following as key issues to the Review:

- The Port Botany redevelopment to provide the option for a third stevedore to ensure appropriate competition in stevedore services
- The development of intermodal hubs (including Enfield) together with appropriate rail infrastructure is essential to meet future containerised transport growth for the export and import trade through Port Botany
- A review of policy and operational work practices (involving all port stakeholders) to ensure barrier clearance processes and transport logistics can be managed with a high level of predictability and visibility before vessel arrival and cargo availability
- The interface of stevedore operations to road and rail transport (including cost and service models) be assessed as to competitive price structures and freight movement efficiencies, and
- That increased automation be utilised to facilitate improved operational efficiencies and transparencies applicable to container tracking with the aim of maximising efficiencies of road movements

2. INTRODUCTION

2.1. *Customs Brokers & Forwarders Council of Australia Inc.*

The CBFCA is the peak industry association representing service providers in international trade logistics and supply chain management. The CBFCA represents its members and industry in a diverse spectrum of international trade logistic committees, forums and discussion groups. Details as to the CBFCA and its representative credentials are set out in Attachment A.

2.2. *Position Paper*

The CBFCA Position Paper has been structured :

- in response to the thirty-one (31) issues listed at Appendix 3 of the Review, and
- addresses each item in context of sub-headings (each which correlate to points within the Review's terms of reference).

2.3. *Contact Details*

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3. BACKGROUND

The CBFCA is aware issues relating to traffic congestion, subsequent environmental concerns and strategies to increase the utilisation of rail have been addressed in a number of reports in the past, such as the:

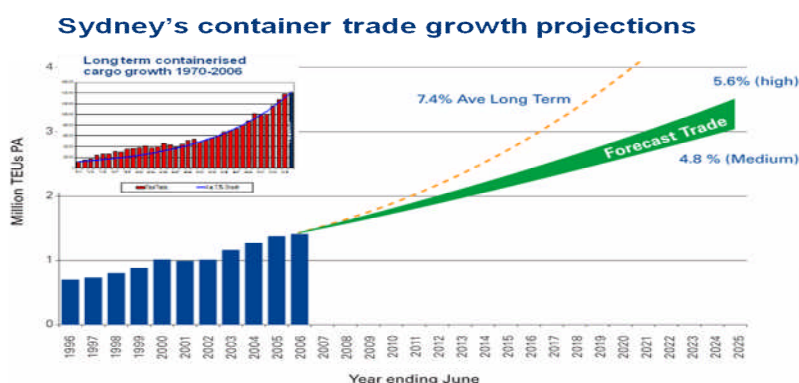
- *Commission of Inquiry into the Kyeemagh - Chullora Road* (1981), and
- *Efficiency of the Interface between Seaports and Land Transport, Warehouse to Wharf* (1995)

While the historical key outcomes of these reports remain valid, the CBFCA notes the terms of reference of the Review and its focus on the Freight Infrastructure Advisory Board (FIAB) recommendations as outlined in *Railing Port Botany's Containers - Proposals to Ease Pressure on Sydney's Roads* (July, 2005).

A key Recommendation of the FIAB being:

*"The 40 percent rail share target must be met and if possible exceeded."*¹

As a key issue to the Review (and also a FIAB Recommendation) this is clearly an ambitious target and can only be achieved through enhanced rail infrastructure, appropriate development of intermodal terminals and improved operational work practices. Should the target for rail movements of forty percent (40%) be achieved, road transport movement of containerised cargo direct to and from Port Botany would still increase based upon the Sydney Ports Corporation's (SPC) projected growth as referenced below:



SOURCE : Presentation from Mr Greg Martin (CEO Sydney Ports Corporation)
CBFCA NSW Regional Convention 31 March 2007

Projected container trade growth through New South Wales is anticipated to be at a rate of approximately seven point four percent (7.4%) per annum. Placing this into context, 2006 container volumes were approximately one point five (1.5) million twenty foot equivalent units (TEU), of which approximately twenty percent (20%) was moved by rail (0.3 million TEU) and eighty percent (80%) by road (1.2 million TEU). Assuming the forty percent (40%) rail target is achieved by 2020, this would still leave the road element at sixty percent (60%) of a projected three (3) million TEU (1.8 million TEU).

¹ P12 Railing Port Botany's Containers Proposal to Ease Pressure on Sydney's Roads (2005)

Whilst it is important to note that measurement of trade is expressed in TEU such data does not provide a direct correlation to actual truck movements, terminal lifts and related operational issues. It does however highlight trade growth and the need for ongoing reform in the landside logistics process in addressing long term efficiencies through Port Botany.

4. CBFCA COMMENTARY AS PER IPART TERMS OF REFERENCE APPENDIX 3

4.1. EFFICIENCY OF LANDSIDE LOGISTICS

The efficiency of the landside logistics chain at Port Botany, noting the work already done by the Freight Infrastructure Advisory Board

4.1.1. Issue 7 - Freight forwarder and customs broker work practices

Freight forwarders and customs brokers are service providers contracted to their clients to ensure that internationally traded goods move from point of origin to point of destination at the right place, at the right time, and at the most economic cost. The process requires expertise across a wide variety of sectors:

- barrier clearance through regulatory authorities - Australian Customs service (Customs) and the Australian Quarantine & Inspection Service (AQIS),
- international freight forwarding (import and export),
- transportation - all modes (sea, air, rail, road), and
- total supply chain management (warehouse, distribution etc).

Current work practices of customs brokers and freight forwarders embrace utilisation of electronic systems for the efficient transfer of data with clients, commercial release and statutory clearance of containerised cargo. There are however many outstanding issues affecting the efficiency of customs brokers, freight forwarders and transport operators such as:

- overseas supplier's incorrect documents or information,
- increased border security and the introduction of Customs x-ray processes,
- inefficiencies of current Customs systems and processes,
- mismatch of operating hours between stevedores, transport and logistics service providers, government authorities, importers, exporters and other stakeholders involved in the international supply chain, and
- road transport processes including slot availability via the vehicle booking systems
- rail transport processes including capacity, booking arrangements and transparency

4.1.2. Issue 5 - Regulatory authorities

The key regulatory authorities which impact on international trade logistics and supply chain management in the Australian context are Customs and AQIS. In terms of border security, whether it is for customs or quarantine requirements, these processes require integration with those of industry to facilitate international trade and

ensure cost efficient and cost effective process management from all service providers in the integrated supply chain.

Customs - Integrated Cargo System

In October 2005, Customs introduced the Integrated Cargo System (ICS) to replace the legacy import processing systems. The flawed introduction has been well documented and captured extensive media attention. Customs commissioned an independent review by Booz Allen Hamilton which was released on 16 May 2006. A separate review was also conducted by the Australian National Audit Office which was released on 7 February 2007.

Customs accepted the findings of both reviews and have implemented a range of initiatives to improve associated systems issues and processes. Having stated that, a range of authorised *workarounds* affecting all industry sectors remain in place to overcome systems deficiencies until longer term remedial solutions are implemented. Based on feedback from formal consultative processes with Customs, through the Industry Action Group (IAG), the CBFCFA conservatively estimates that another two (2) to three (3) years of systems development is required to address ICS incidents (technical faults) and revision of systems functionality to meet fundamental user requirements.

Customs - Container Examination Facility

The CBFCFA has, since the introduction by Customs of its Container Examination Facilities (CEF) X-ray strategy consistently stressed to Customs and Government the need for appropriate key performance indicators (KPI) for Customs and stevedore service providers to the CEF.

As well the cost cross subsidisation to all containers (importers) as to those containers selected for CEF processing (which based upon Customs public statements are only selected on the basis of intelligence driven outcomes rather than random sampling) has added costs to all import containers, goods contained therein and eventually to end consumers. The magnitude of this issue is significant when taken in context that Customs' aim is to process 133,000 TEU per annum nationally being seven percent (7%) total import containers.

The CEF process has been subject to ongoing commentary from the CBFCFA and key cost and KPI issues have been raised in the Senate Legal and Constitutional Legislation Committee as well as other forums. While there have been improvements in CEF processing the following comments by the Auditor General from Audit Report No. 16 2005-05 as it relates to CEFs may be of interest to the Tribunal:

"It would appear that Customs has little understanding of the complex and time consuming nature of the logistical task ²"

"The ANAO recognises that Customs can not determine the effectiveness or efficiency of the CEF solely by the number of containers it has inspected and examined. Additional managers could for example, include the average turnaround time of containers compared within and across regions for particular time periods. This

² P13 ANAO Report No. 16 2004-05

*would enable Customs to identify any inefficiency at the CEFs and the reasons for it. Targets could be developed for turnaround times*³"

Of particular interest from the ANAO report is the issue of KPIs which are not only relevant for Customs and its CEF but more so for stevedores and their clients as to vehicle turnaround times which appear to differ markedly between the parties. The following comment on KPIs should be noted:

*"The Review also noted that the operational realities and contrasting interpretation of priority by Customs and its individual contractors had created considerable confusion. There are also inconsistencies in how KPIs are measured by the contractors*⁴"

Furthermore, the CBFA notes that the contractual operational movements of containers to and from the CEFs are, in the main, undertaken by a related party to the stevedore. The question as to operational efficiencies, competitive outcomes and KPIs are issues which need to be addressed as to these related party arrangements. The CEF process has further exacerbated problems in the landside delivery processes and notwithstanding improvements to the CEF considerable operational costs are still being incurred by service providers, importers and consumers.

Further to the commentary outlined at *Issue 28 Paragraph 4.3.5*, container storage and costs are referenced in the *Australian Competition and Consumer Commission Container Stevedoring Monitoring Reports No. 6-8 (November 2004 - November 2006)*. There is a considerable body of evidence on file with the CBFA and in the public domain as to cost efficiency issues relating to the CEF and its impact on the trade logistic process at Port Botany (and other ports).

AQIS

As part of Government policy, AQIS is responsible to ensure that all cargo, packaging material and containers meet all biosecurity and quarantine import conditions. This is achieved by way of pre-border, border and post border measures. The majority of cargo and packaging material is cleared on documents and is thus not impeded within the immediate waterfront system. Non AQIS compliant consignments are identified well before delivery from terminals and directed for quarantine treatment / inspection to *off-wharf* Quarantine Approved Premises (QAP).

As part of the Increased Quarantine Intervention (IQI) regime introduced by Government in 2001 all import containers are subject to six sided external inspection at terminal exit gates. Containers with high level external contamination that cannot be removed by AQIS staff at the exit gates are directed to QAPs for cleaning before release from AQIS control notwithstanding they have been Customs cleared. This involves double handling, additional cost and delay for the importer. The number of non compliant containers that required *off site* cleaning in 2005/06 was in the vicinity of point five percent (0.5%).

These AQIS inspection costs are fully recovered by way of a fee per import container As previously stated these arrangements, together with those relating to Customs, add

³ P70 ANAO Report No. 16 2004-05

⁴ P83 ANAO Report No. 16 2004-05

an additional complexity to an already time deficit trade logistics process through all ports for containers that do not comply with external cleanliness import conditions. AQIS also undertakes random surveillance inspection of cargo and packaging material.

As to exports, inspections to ensure AQIS compliance are carried out prior to containers being delivered to terminals and thus have little impact on the receipt of containers provided the export conditions are met in a timely manner by the exporter.

4.1.3. Issue 6 - Role of Sydney Ports Corporation

The CBFCA sees that the SPC performs an essential role in managing consultative forums at both operational and strategic levels.

It is important to acknowledge the work being carried out through the SPC Facilitation Committee, the SPC Consultative Group and associated ad hoc forums to address shipside and landside logistics issues. The CBFCA is of the view that the SPC must maintain its role as facilitator to ensure a collaborative relationship between all port related stakeholders.

4.1.4. Issue 29 - Stevedore vertical integration

Patrick has related subsidiaries that offer a range of services including freight forwarding, customs brokerage, rail, depot and container transport operations. DP World similarly provide depot and transport logistics services.

As outlined in IPART Issues Paper, the CBFCA is aware that the Tribunal is not considering issues pertaining to change in stevedore asset ownership as these are being separately addressed in terms of the ACCC juridical mandate to assess the relevant competitive concerns. These issues are however relevant to overall port efficiency.

In order to address ongoing ACCC concerns, the CBFCA considers it appropriate for stevedores to implement measures to demonstrate that competitive service levels and costs are offered to all entities as to those which may be provided to related parties.

4.1.5. Issue 2 - Stevedore hours of operation

Stevedores operate on a 24 x 6 basis for the receipt and delivery (R&D) of containers to maximise the effective use of resources. This however does not mean that the stevedore will work the vessel and complete R&D simultaneously at the same levels of output. The CBFCA anticipates that, with increased container volumes required to be handled, stevedores will progress to a 24 x 7 operations.

A *mismatch of hours* exists as the majority of importers and exporters do not operate after business hours or week-end due to a range of administrative, security, occupational health and safety issues and resource costs.

Further detail and references in relation to this issue are contained in:

- *Freight Supply Chain - Coordination of Working Arrangements (Mismatch of Hours)* commissioned by the Sea Freight Council of NSW,

- *Efficiency of the Interface between Seaports and Land Transport, Warehouse to Wharf* (1995), and
- *Business Activity Harmonisation Study* (BAHS) commissioned by the Victorian Freight Logistics Council (VFLC)

4.1.6 Issue 30 - Industry hours of operation

As referenced above at *Issue 2 Paragraph 4.1.5*, with 24 x 6 operations by stevedores (and potential to move to 24 x 7) the *mismatch* of operating hours has been exacerbated as many importers and exporters limit their operations to receive and deliver containers during *normal* business hours. This mismatch of operating hours extends to the majority of empty container parks.

As most empty container parks only open ten (10) hours per day during normal working days (weekends and public holidays excluded), it is often difficult to de-hire empty containers on the same day that the unpack is completed and this requires companies to return containers at a later stage. Further to the commentary outlined at *Issue 19 Paragraph 4.3.4*, the CBFCA supports in principle the concept of a port based charging regime in potentially subsidising empty container yards' costs in order to maintain extended operating hours.

In order to meet demands in the current environment, transport companies are forced to co-ordinate the staging of the importers' empty containers to accommodate these time constraints. Such staging incurs additional cartage, container lifts and yard storage fees. Staging also absorbs *detention free* time that may be left after the unpacking of containers has been completed.

From a CBFCA perspective, an issue requiring significant review within the landside logistics sector is *container detention*, which again, is substantially linked to the issue of industry hours of operation.

Container detention is a charge applied by shipping lines for the *late* return of empty containers to a nominated container park. In the majority of cases the return period is ten (10) calendar days from first day of *availability*⁵ at the container terminals. This varies with some shipping lines allowing only seven (7) calendar days and less for refrigerated containers.

Further impacting on the available *detention free* time are the additional complexities and delays in regulatory cargo release after cargo availability. More specifically, these delays have been generated by ongoing limitations in the ICS, late *targeted* containers for Customs examination and an increase in containers selected by Customs for x-ray and unpack requirements.

It is also important to note that Australia's full import container volumes far outweigh exports, hence the majority of de-hired empty containers sit idle in empty container parks. During this time the shipping lines pay fees to the empty container parks to store containers until they are relocated overseas. While it is acknowledged that

⁵ Availability is the date nominated by the stevedore as the commencement period of free storage. It is important to note that this definition of availability does not necessarily have a direct correlation to the container being physically available for collection as it may be off site for up to several days at CEF processing.

shipping lines require an appropriate mechanism to effectively manage empty containers, the CBFCA questions whether the charges are appropriate.

The SPC trade report for July 2006 to April 2007 highlights the large volume in empty containers being exported :

	Import	Export
Full Containers	669800 TEU	307250 TEU
Empty containers	16800 TEU	326000 TEU

The CBFCA is of the view that detention charges should reflect the costs to shipping lines in regard to non availability of containers for shipment. The CBFCA has advocated that shipping lines apply a consistent *rule* of ten (10) working days from the last day of container availability. This would remove weekends and public holidays from the calculation of detention days. Shipping lines currently charge detention on a per diem basis (including weekends and public holidays) and it should be noted that empty container parks are not open during these periods. .

As to invoices for detention, these are at times received by consignees weeks or in some cases months after the event. CBFCA member feedback indicates that this causes undue administrative and costly difficulties for all involved in the import process. Industry would benefit if shipping lines could issue invoices [promptly and no later than fifteen (15) days after the late return of container.

Industry would also benefit if shipping lines were to notify the consignee within seven (7) days of the commencement of detention that a container has begun to incur detention charges. It would also benefit if there was an online portal that all industry participants could access to view container de-hire information (i.e. time, date, place that the container in question was de-hired and by whom). This would save hours of investigation in the verification of detention invoices.

4.2. COST BASE - VBS and other stevedore services

The cost base underpinning the provision of the vehicle booking system (VBS) and other services provided to industry by the two stevedores

4.2.1. Issue 13 - VBS capital and operating costs

The CBFCA noted in the Australian Competition and Consumer Commission (ACCC) report, *ACCC Container Stevedoring - Monitoring Report No 8 (November 2006)*, that approximately fifteen percent (15%) of total stevedoring revenue for 2005-06 was obtained from *other revenue* outside of actual stevedoring revenue charged direct to shipping lines.

"The proportion of revenues earned from activities other than stevedoring has increased from eleven percent (11%) to fifteen percent (15%) in the four (4) years since 2001-02. In that period revenues from other activities has more than doubled to \$123.3 million. ⁶"

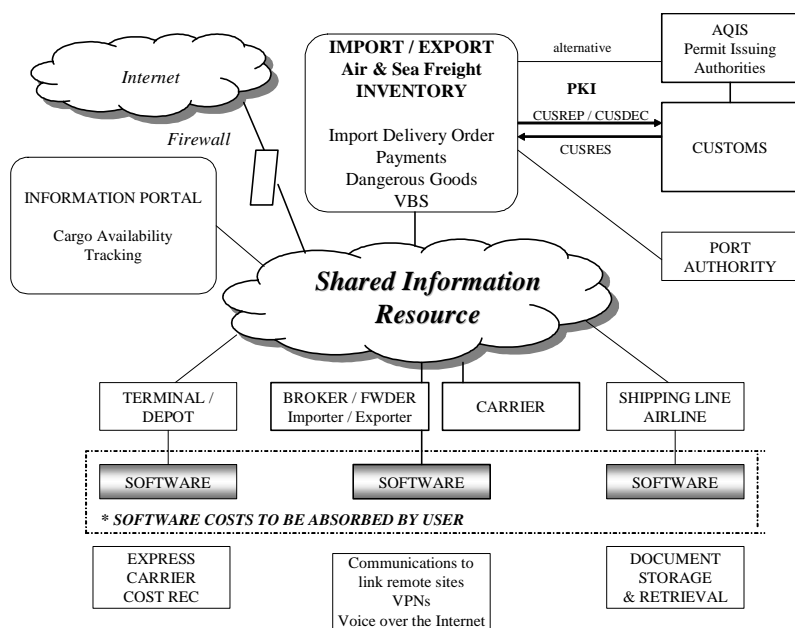
⁶ P15 ACCC Container Stevedoring – monitoring report no 8 (November 2006)

As outlined in the ACCC report, six point six percent (6.6%) of *other revenue*, being approximately \$8 million in 2005/06, relates to VBS activity. It is therefore anticipated full cost recovery for the VBS as well as a return on investment is achieved.

4.2.2. Issue 12 - ICT and automation

The CBFCA supports the increased utilisation of information and communication technology (ICT) and automation to reduce turnaround times of transport and containers to further improve supply chain efficiency. In a discussion paper titled *Documentation Flow - Efficient Communication in the Import Chain*, commissioned by the SPC Facilitation Committee (and prepared by the CBFCA and the SPC in March 2003) a number of opportunities have been identified as assisting to promote a *Shared Information Resource Model* to facilitate functionality such as VBS, Dangerous Goods notification, Import Delivery Order, cargo availability, tracking, and payments. The CBFCA considers the concept as retaining its validity in a contemporary operational environment.

SHARED INFORMATION RESOURCE MODEL FOR IMPORT CARGO



The CBFCA has since been actively involved in the Victorian Freight Logistics Council (VFLC) *Business Activity Harmonisation Study* (BAHS) the report of which was released in December 2005. The BAHS promotes the need for the provision of visibility of important operational information such as :

- vessel estimated time of arrival,
- cargo availability dates,
- cargo time up date,
- date empty containers to be returned,
- 24 x 7 operational patterns, and
- a central information portal

To enhance the outcomes of the BAHS the Victorian Government's Department of Infrastructure *Smart Freight* initiative is seeking to fund a range of ICT and

automation developments. The CBFCA sees merit in a coordinated and national approach between stakeholders to minimise duplication of processes and systems development to enable the development of integrated management systems.

As highlighted in BAHS, the CBFCA envisages the use of Electronic Import Delivery Order (EIDO) as being a significant step towards achieving the desired outcome of obtaining operational efficiencies.

4.2.2. Issue 9 - Turnaround times

The CBFCA recognises the potential benefits able to be achieved through subsequent phases of the EIDO project. The direct interface between Customs and AQIS (via the ICS) and the commercial release via the EIDO provides an opportunity to automate stevedore R&D processes, reduce associated costs and improve truck turnaround times. The CBFCA is of the view that the operational cost benefit for these initiatives should be reflected in reduced charges across a wide sector of service providers including stevedores.

Whilst the long term benefits of increased automation are supported by industry, it is important to note that ongoing technical problems exist at the stevedore / ICS interface which is affecting timely cargo release.

4.2.3. Issue 10 - Turnaround times measurement

The CBFCA notes referenced container turnaround times in the Bureau of Transport and Regional Economics (BTRE), Department of Transport and Regional Services, *Waterline Issue no 41 - December 2006*.

The BTRE provides data based on average truck turnaround time in a quarter (data supplied by stevedores) divided by the average number of containers on a truck in a quarter. Based on this performance indicator, the CBFCA highlights the substantial regional variation indicating that Melbourne truck turnaround times are approximately thirty percent (30%) below those of Sydney . The CBFCA sees merit in a formal benchmarking exercise to identify solutions to achieve process improvements in turnaround times.

Truck turnaround times are routinely recorded by stevedores, individual transport operators and the SPC based on a variety of data as follows:

- arrival at rank,
- time vehicle's time slot becomes operative,
- arrival at terminal in gate,
- access to terminal after completing documentation at terminal office,
- time container is loaded onto truck within terminal,
- time truck is checked out through terminal gate, and
- time truck is actually leaving the terminal after AQIS inspection etc. securing load etc

Variations from differing determined time frames have resulted in considerable debate as to the validity of data at forums such as the SPC Facilitation Committee. The CBFCA understands that the SPC is undertaking an extensive truck movement survey

in May 2007 designed to record times at a wide range of control points. The CBFCA anticipates that this survey will provide a true picture of truck movements through both Port Botany stevedores.

4.3. STEVEDORE CHARGES - structure and framework

The structure and framework of stevedoring charges and penalties (however described) payable by road and rail operators

4.3.1. Issue 23 - Different VBS pricing schemes of two stevedores

VBS charges apply to both Port Botany stevedores :

- Patrick invoices for their time slots booked via 1-Stop. Transport operators also pay a national subscription fee of \$770 per annum to 1-Stop.
- DP World charges transport operators a yearly subscription fee (choice of 3 categories) to allow time slot bookings via ePorts.

The table below provides a comparison of the two VBS pricing schemes at Port Botany (as listed in the IPART Issues Paper).

DP World (DPW) Slots via ePorts	Patrick Slots via 1-Stop	DP World subscription comparative break even point
B carrier \$29,221.50 pa	\$4 per slot booking + \$10 monthly access fee	7275 slots booked pa Approx 140 per week
A carrier \$1334.00 pa		303 slots booked pa Approx 6 per week
AB carrier \$667.00 pa		137 slots booked pa Approx 3 per week

Transport operators with container volumes through DP World that are lower than the *break even point* noted in the table above, are better off under the Patrick pricing scheme. The A Carrier pricing would certainly appear attractive to those transport operators that book between 6 and 130 slots per week with DP World.

Other related issues are :

- VBS time slots are not required for *stack runs* at either stevedore. Timings and processes are separately negotiated with the relevant stevedore primarily based on the volume of container movements and related operational considerations.
- All other container collections at Patrick are via the VBS time slot only. Patrick charges carriers a flat fee for every time slot booked (currently \$4ea).
- Container collection at DP World is via a VBS time slot or the *standby queue*. The *standby queue* is available as an option for those who do not have a Time Slot booking..

The CBFCA sees the *standby queue* as a positive alternative (although it is understood that there are no guarantees on service levels) for carriers who missed out on obtaining a time slot. Furthermore, the CBFCA is of the view that Patrick should also offer a *standby queue*.

Transport operators have to make a cost / benefit analysis in choosing their DP World subscription category. As an example B carriers pay more than twenty (20) times the registration fee of that paid by A carriers. The benefit to B carriers is that they have access to a maximum of four (4) slots per zone compared to A Carriers who have access to a maximum of two (2) slots per zone, *during their respective exclusive booking periods* each morning.

Transport operators who average 100 time slots per week at DP World, could register as an A carrier (average time slot cost \$0.26) or register as a B carrier (average time slot cost \$5.62). Their decision would be based of the benefits associated with being a B carrier (eg a possible 2 extra slots per zone during the exclusive booking period).

Feedback from CBFCA members indicated that during 2001 it was relatively easy for B carriers to each obtain their maximum 4 slots per zone during the exclusive booking period (if required), as there were in the vicinity of ten (10) registered B carriers at Port Botany.

In 2006 it appears mathematically impossible for B carriers to each obtain their maximum 4 slots per zone during the exclusive booking period (if required), as there were more than thirty (30) registered B carriers at Port Botany, meaning over one hundred and twenty (120) slots per zone would have to be placed in ePorts VBS to meet maximum allowances.

4.3.2. Issue 8 - The number of time slots made available

There is no visibility within either VBS to determine how many slots the stevedores place in each zone. Based on previously released stevedore figures, it would not be unreasonable to suggest that stevedores could each average sixty (60) slots per hourly zone.

The CBFCA is uncertain about:

- how many slots per zone DPW release into ePorts VBS,
- the breakdown between B carrier slots released during the exclusive booking period, compared to A & AB carrier slots.

For the purpose of the exercise assumptions have been made as per the following hypothetical example:

- *B carrier total slots released per hourly zone: 40*
- *A & AB total slots released per hourly zone: 20*

Using the above hypothetical figures and assuming there were some 30 registered B carriers, then in theory B carriers could only hope to average 1.33 slots per hourly zone. Which would mean that since 2001, stevedore revenue from B carrier registrations has increased over three hundred and fifty percent (350%) but B carriers have less chance of securing four (4) slots per hourly zone, due to the increased number of B carrier registrations.

Feedback from CBFCA members indicates that it is more difficult to obtain time slots at Patrick than at DP World. The CBFCA acknowledges that this may be attributable

to the larger share of the market being at Patrick (the CBFCA understands that Patrick handles approximately 55% of Port Botany container volumes).

The CBFCA has a greater underlying concern in relation to overall operational efficiency of both stevedores at the landside interface. The CBFCA notes with interest that the IPART Issues Paper (Chart 2.3) shows that the Port of Melbourne clearly releases considerably more daytime VBS slots than Port Botany.

4.3.3. Issue 14 - VBS access and penalty charges

In order to ensure disciplines are in place to manage the VBS, automatic monetary penalties are issued by the stevedores for late arrival (wrong time zone) and *no shows*. There are many factors that can contribute to failure in meeting time slots which are out of the control of the transport operator. A range of issues may disrupt schedules and affect maintenance of the VBS slot bookings such as:

- major traffic disruption
- delays at the stevedore themselves on earlier bookings (including equipment failure and adverse weather conditions) cause lengthy turnaround times
- importer requiring additional time in receiving or unpacking the container
- queuing in returning empty containers
- extended driver shifts not available due to Occupational Health and Safety requirements

While the CBFCA appreciates the need for disciplines to be in place with the VBS scheduling, appropriate engagement with stakeholders to identify reasonable cause circumstances and remove the existing automatic penalty regime is required.

To avoid incurring storage and to guarantee next day on time delivery service providers are increasingly utilising intermodal terminals and container holding yards for overnight pick up and next day deliveries. In a competitive commercial environment the extent of this practice is limited due to the additional costs associated with double handling of containers.

4.3.4. Issue 19 - Impact of peak pricing system

The CBFCA sees merit in the proposal for a peak pricing / charging regime with a full rebate for containers transported to and from the port by rail and for containers transported to and from the port by road during designated off-peak hours. The suggested \$30 Freight Infrastructure Charge (FIC), as proposed by FIAB, may not be sufficient as an incentive to change operational practices by importers or to offer a *level playing field* for service providers to arrange deliveries via overnight holding yards and intermodal terminals.

The CBFCA is aware that international ports such as Los Angeles and Long Beach provide benchmarks on a range of operational issues. Feedback in relation to their *PierPASS* (fee for container collection during peak times) was that whilst there was initial resistance to the concept, its introduction has changed the behavior of transport logistics practices and has provided efficiencies to all stakeholders.

The CBFCA supports further review into this concept in context of possible implementation at Port Botany. In particular, the CBFCA is of the view that if a charge is introduced, that this needs to be administered by the SPC or NSW State Government with appropriate utilisation of revenue to support initiatives directly related to improving the efficiency of containerised freight logistics, such as after hour transport functions and empty container park operations.

4.3.5. Issue 28 - Storage charges

Stevedores charge storage after three (3) days from containers being declared as *available*. More specifically, Port Botany arrangements have seen four (4) days of availability (Mon-Fri) reduced to three (3) days (Mon-Fri) and then to three (3) days (Mon-Sat, public holidays included).

It is understood that stevedores have reduced the days of availability to encourage early delivery in order to minimise container residency time and terminal congestion, therefore improving stevedore operating performance. The CBFCA understands that this policy has generated additional storage revenue for both stevedores.

"The reduction in the number of storage-free days in the industry may have contributed to higher storage revenue in recent years"⁷

As a result of this policy, transport operators are forced to work Saturdays and Public Holidays if they want the full three (3) days *availability*.

The timeline below demonstrates the effects of this policy in relation to the impact at Easter 2007:

- DP World made ten (10) vessels available between Thursday, 5 April and Tuesday, 10 April.
- DP World did not work on any shift on Good Friday (commencing road operations at 22:30 hours onwards) and provided R&D on a demand basis only on Sunday 8 April.
- Storage was not calculated for these two (2) days being 6 and 8 April 2007

Example of the impact of current storage charge regime

4 April Wed	5 April Thurs	6 April Good Fri	7 April Sat	8 April Sun	9 April Easter Mon	10 April Tues	11 April Wed
1 st day availability	2 nd day availability	No R&D	3 rd day availability	R&D <i>on demand basis</i>	Storage Commence		
	1 st day availability		2 nd day availability		3 rd day availability	Storage Commence	
			1 st day availability		2 nd day availability	3 rd day availability	Storage Commence
			1 st day availability		2 nd day availability	3 rd day availability	

CEF impact on storage charges

From a CBFCA perspective, a key aspect impacting on storage charges relates to those containers selected for Customs CEF processing. It should be noted that

⁷ P19 ACCC Container Stevedoring – monitoring report no 8 (November 2006)

containers selected for CEF processing are generally not available during the first of two (2) of the three advertised days of availability. In most instances, containers selected for CEF examination are identified prior to vessel arrival and upon container availability are promptly delivered to and returned from the CEF through the Customs contracted transport provider.

In 2006 Customs stated that ninety-four percent (94%) of containers are returned from the CEF with at least twenty-four (24) hours free storage remaining. (Australian Customs Notice (ACN) 2006/23).

Customs also stated, *inter alia*:

*"Customs clearly stated position is that slot times should **not** be booked in the CTO's vehicle booking systems before the cargo is cleared by Customs. "*

"The CTOs continue to advise Customs that there are plenty of vehicle booking slots available on each day. ⁸"

Reality is that this is not always the case and based on VBS data provided by CBFCA members for the period March / May 2007, when import volumes are lowest, Patrick had very few (if any) same day slots available.

Most service providers, while aware of the Customs requirements (as outlined in ACN 2004/33), need to have pragmatic delivery options as there is a need to obtain available slots in advance of any CEF process so as to avoid delays or incurring storage charges as a result of being unable to obtain time slots. More specifically, in the event that a customs broker identifies that a container has been selected for CEF processing, there is the anticipation that the process will be completed and the container returned to the stevedore within the first two (2) days of *availability*. Accordingly, the customs broker or transport operator will therefore arrange booking for a time slot for the third (3) day.

In the event that containers pass through the x-ray process and are selected for further examination, lengthier delays are incurred and if containers have not been processed and returned by the time of the vehicle booking slot times, no show and storage charges automatically take effect, and new time slots and delivery arrangements have to be organised.

As a result of ongoing formal requests by the CBFCA for improved processes Customs negotiated with stevedores to provide improved storage charging arrangements as well as provide for KPIs. As a result, in circumstances whereby containers are returned from the CEF to the stevedores with less than twenty-four (24) hours free storage remaining, the stevedores have agreed to provide one additional day's free storage once containers are available. This process came into effect at DP World on 1 June 2006 and at Patrick on 1 August 2006.

In practice, the allocation of free day free storage is not automatic as customs brokers, importers and transport operators frequently need to spend extra time contacting the relevant stevedores to explain the situation and request the manual over ride of the

⁸ Australian Customs Notice No 2004/33

automated storage charging processes. In many instances the free storage is not granted.

Compounding delays (since the implementation of the ICS in October 2005) are situations where cargo report data is provided to Customs in accordance with statutory timeline provisions, however, Customs undertake a further risk assessment on the import declaration provided by the customs broker, which results in the reversal of a clearance status through *late targeting* and selection for CEF processing. The CBFCA has been advised by stevedores through the Sydney Ports Cargo Facilitation Committee that late targeted containers are exempt from the revised arrangements outlined in ACN 2006/23.

The table below demonstrates, by way of hypothetical examples, the impact of the CEF / ICS processes when considered in the context of the limitations of VBS slot availability and associated storage policies.

Impact of CEF processes on Storage Charges

	20 May Sun	21 May Mon	22 May Tue	23 May Wed	24 May Thur	25 May Fri	26 May Sat	27 May Sun
EVENT	Cargo Report		Vessel Arrival	1 st day availability	2 nd day availability	3 rd day availability	Storage Commence	
<i>Example 1</i>	Container selected for CEF VBS booking generally made for Day 3 in anticipation of return with one free day storage remaining as per ACN 2006/23			If container is returned from CEF by 24 May, no problem proceeding with 3 rd day VBS booking		If container not returned, alternate VBS booking to be made, storage charges and no show fees administered - an extra day free storage may be provided by stevedore.		
<i>Example 2</i>	Clear Customs VBS booking made for 1 st or 2 nd day		Late targeted for CEF Cancel existing slot and obtain earliest new slot, most likely incur storage and no show fee				Storage Commence	

The CBFCA however is aware that Customs and stevedores have arrangements in place in Adelaide that provide the full three (3) days of free storage from the time containers are returned from the CEF to the stevedore. This difference in policy has not been explained to industry.

In summary, the CBFCA is of the view that :

- Accountability and transparency be provided by stevedores to justify the structure of existing storage charging regimes,
- Port Botany stevedores restore the previously applicable four (4) days of availability to match the services offered in Brisbane (whereby stevedores often provide four (4) and five (5) days of availability), and
- At minimum, the policy to allow three (3) working days of *availability* from the time that containers are physically available (returned from CEF to the terminal) should be built into VBS arrangements nationally.

4.4. IMPACT OF VBS - provision of services

The impact of the VBSs, and the manner of the provision of services, on road transport movements

4.4.1. Issue 25 - VBS structural issues

DP World administers the VBS via its in-house development referred to as *ePORTS*. During the latter part of 2005, Patrick migrated their legacy VBS operations to an Internet based service which has been developed and is managed by 1-STOP Connections (1-STOP).

1-STOP is a joint venture company set up between DP World and Patrick to provide electronic solutions and user interface to both stevedores. DP World migration from ePORTS to 1-STOP has taken place in other major ports but to date has not been implemented in Port Botany.

Feedback from CBFCA members subscribing to both stevedore VBS services indicates that both systems are technically functional. There is no perceived preference of one application over the other nor does there appear to be any particular demand for an integrated VBS across both stevedores. The CBFCA concerns in relation to the VBS applications are not so much in relation to the technical architecture but in the underlying pricing policies and associated business rules. Accordingly, the CBFCA sees that an independent management of a VBS would provide transparency in slot allocation and availability of slots and costs.

4.4.2. Issue 22 - Costs of the VBS

The direct costs of VBS access are outlined in *Issue 8 Paragraph 4.3.2*. Significant indirect costs are also incurred due to the associated business rules underpinning both VBS arrangements, whereby transport operators are required to use labour intensive processes to manage actual slot bookings and monitoring of availability throughout the day to gain additional slots.

It is not uncommon for customs brokers and freight forwarders to incur a charge of \$10 to \$15 per container from third party transport operators to cover VBS administration costs.

4.4.3. Issue 24 - VBS non-price access issues

Stevedores appear to make available a number VBS slots per day per time zone based on available labour and equipment which may well be governed by the shipside operational requirements. This issue has been noted by BTRE as follows:

*"When shipping schedules permit and volumes demand, extra resources in the form of labour time and equipment can be deployed to the landside of a port terminal and extra time slots can be provided."*⁹

CBFCA member feedback suggests that periodically the allocation of time slots are insufficient to service demand.

4.4.4. Issue 11 - Container numbers nominated in advance on VBS

⁹ P5 Waterline issue no 41 – December 2006

The initial design of the VBS was to provide a *controlled vehicle arrival* system to manage the efficient flow of trucks to and from the terminals and thus alleviate lengthy ranks at peak times.

The CBFCA is of the view that the VBS should not require a container number as a part of the time slot booking process in order to allow the transport operator maximum flexibility in meeting and prioritising schedules.

Patrick require the container to be entered within two (2) hours of securing the slot. Failure to meet this requirement results in the slot being automatically revoked therefore creating operational problems and additional costs.

Perhaps the most significant impediment, to achieving an operational environment to support this initiative is the limitations to the existing Customs ICS system.

More specifically, the generation of an ICS release is reliant on timely cargo reporting by shipping lines and freight forwarders. Failure to achieve one hundred percent (100%) compliance in cargo reporting is due to a range of technical and administrative reasons primarily linked to the business rules underpinning the ICS.

As indicated in the table below, the April 2007 statistics indicate cargo reporting compliance in New South Wales to be eighty-seven point seven percent (87.7%).

		> or = to 96 hrs before vessel arrival	> or = to 48 and less than 96 hrs before vessel arrival	> or = to 24 and less than 48 hrs before vessel arrival	> or = to zero and less than 24 hrs before vessel arrival	After vessel arrival	% On Time
NSW	OBL	54.9%	41.7%	2.2%	1.0%	0.3%	96.6%
	HBL	52.3%	29.1%	7.9%	4.9%	8.8%	81.3%
	Total	53.4%	34.4%	5.5%	3.2%	5.2%	87.7%

**SOURCE : Data supplied by the Australian Customs Service
APRIL 2007**

As well as having a detrimental impact on Customs ability to risk assess import cargo of service providers in a timely manner, delays in obtaining cargo release adversely impacts on the ability to arrange time slot bookings with any level certainty.

Even in circumstances where cargo is reported in accordance with regulated time frames (forty-eight (48) hours prior to vessel arrival at the first Australian port) advance VBS slots are frequently difficult to manage due to the relatively short time frames between obtaining an ICS release status and the time of cargo availability.

Customs and industry (including CBFCA and stevedore representatives) are currently working collaboratively to examine an alternative cargo reporting arrangement aimed at reducing current ICS reporting and data inefficiencies. The Working Group is scheduled to prepare a formal business case for the required legislative and systems changes by December 2007. The CBFCA is of the view that these changes are imperative for Customs to meet its border security risk assessment requirements and to provide industry with the necessary advance / certain status for cargo release purposes. This initiative relies heavily on changes to work practices throughout the

international logistics chain with a focus on a more timely compliance with statutory reporting requirements.

Assuming the business case for an alternative cargo reporting is accepted by Customs the CBFCA does not envisage implementation before 2009 / 2010 due to the complexity of the process change.

4.5. CONTAINER TRANSPORT

The cost base underpinning the provision of the vehicle booking system (VBS) and other services provided to industry by the two stevedores

4.5.1. Issue 17 - Port Botany expansion plans

The CBFCA supports the Port Botany expansion plans to meet the demands associated with the projected growth in trade throughout New South Wales. These expansion plans in conjunction with recommendation 20 of the FIAB report which, once implemented, would see considerable improvements to the rail interfaces and shift from road to rail. This will have a positive impact on better road access to Port Botany.

4.5.2. Issue 26 - Third stevedore

The CBFCA is of the view that a portion of the increasing stevedore margins are attributable to increased fees and charges applied to landside operations. Accordingly, the CBFCA prefers an operational model of increased competition rather than continuation of the current duopoly arrangements and therefore supports in principle the introduction of a third stevedore at Port Botany. The ACCC makes the following observation :

"Apparent price increases for stevedoring services and the persistence of strong profitability reported by stevedores raises questions regarding the intensity of competition between the stevedores and incentives for investment."¹⁰

The CBFCA is of the view that a third stevedore would increase the likelihood of competition across the full spectrum of service offerings including an increased focus on landside KPIs.

4.5.3. Issue 1 - Shipping line and stevedore arrangements

By contract, the stevedore's prime responsibility is to the shipping line, not the importer, exporter or intermediary service provider.

The CBFCA on observation (and whilst not privy to contractual arrangements between shipping lines and stevedores) notes that service levels appear to be primarily focused on the shipside performance of container discharge and load (crane rates) to ensure that shipping schedules are met. The landside R&D appears an ancillary process to the working of the vessel. The CBFCA is not aware of landside KPIs being part of contractual arrangements.

¹⁰ P3 ACCC Container Stevedoring - Monitoring Report No 8 (November 2006)

4.5.4. Issue 31 - Misaligned incentives

There is a perception that stevedore resources, as to labour and equipment may be diverted from R&D functions to operating vessels to ensure *on time* ships' departures and thus maintaining global shipping schedules.

This in turn may reduce the volume of available VBS slots in a given period and thus lead to delays in deliveries and lead to increased storage.

4.5.5. Issue 3 - Road transport work practices

Whilst several customs brokers and freight forwarders have in-house container transport capability, the majority use the services of third party transport operators to service clients. These arrangements vary and are in most cases underpinned by service level agreements. It is not uncommon for customs brokers and freight forwarders to have commercial arrangements with multiple road carriers. In a competitive marketplace, road carrier processes are generally regarded as being effective and efficient.

It should be noted that most CBFCA members do not book time slots and therefore do not subscribe for access to the VBS (1-Stop and ePorts) to view the available slot numbers in the system. The CBFCA believes it would be beneficial if the VBS offered a free *view only* access for available slot numbers per zone, to customs brokers and freight forwarders.

Opportunity for improved transport work practices

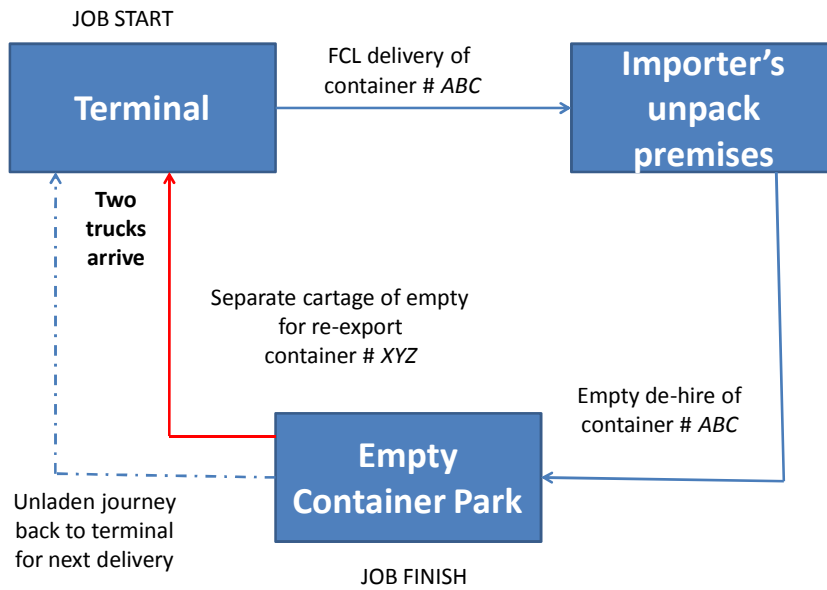
Current road transport work practices involve, by necessity, substantial unladen journeys which impact on cost efficiency and the volumes of trucks in the road system.

As indicated in *Issue 30 Paragraph 4.1.6.* some 362000 empty TEU (made up of 98350 20 foot and 2131830 40 foot units) were exported from Sydney in the period June 2006 to April 2007. It is reasonable to assume that the majority of these containers were transported from empty container parks to terminals in bulk runs outside peak hours. Comments on existing and future strategic options are provided below:

Current position:

- It is a common practice for trucks to de-hire empty containers (from an importer's unpack premise to the empty container park) and return to the terminal unladen to commence a new job (another import container delivery).
- As a separate process, the shipping line will organise the movement of empty containers from empty container parks to terminals.

CURRENT PRACTICE – typically requiring duplicate truck movements



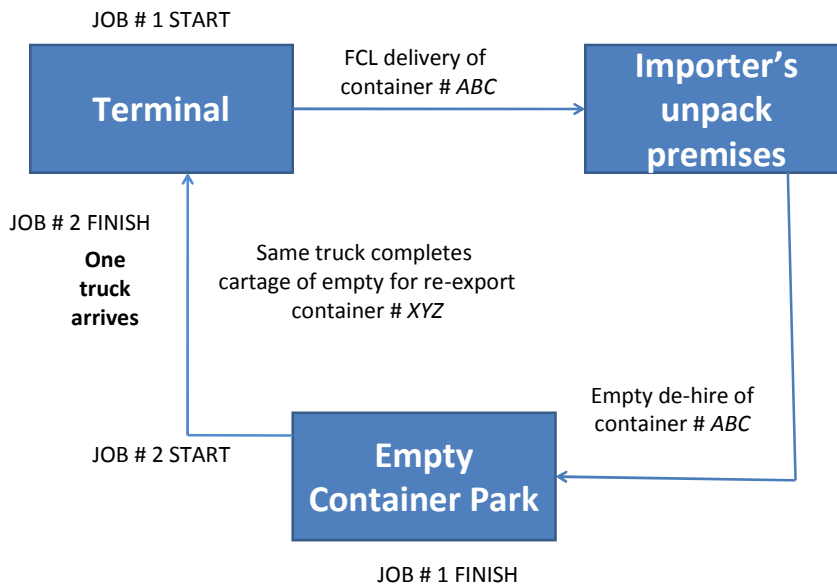
Strategic proposal:

An opportunity exists to increase the efficiency of road transport by minimising the duplication of truck movements. The CBFCA sees merit in introducing an online container management facility that promotes the utilisation of the unladen truck journey for the movement of empty containers for re-export. This would avoid duplication of truck movements into terminals and thus reduce the impact of bulk runs on the availability of time slots and other interface services.

The CBFCA notes that the following, initial proposal has been informally discussed by members of the SPC Facilitation Committee with reference to:

- Shipping lines register empty containers (within an online container management facility) required for movement to the terminal for re-export.
- A transport company that is de-hiring empty containers and then returning to the terminal unladen for its next import delivery could transport empty containers that have been registered for movement by the shipping line to the nominated terminal.

PROPOSED PRACTICE– requiring one truck



This proposal is in the very early stages of consideration and the CBFCA suggests that an opportunity exists for IPART to explore its validity and possible application as part of its review

4.5.6. Issue 4 - Rail transport work practices

The CBFCA anticipates that rail usage would increase through more targeted developments of intermodal terminals, improved rail infrastructure and improved operational processes.

Feedback from CBFCA members indicate mixed views on the effectiveness of the current arrangements that are in place between shipping line, stevedores and the intermodal terminal network.

The current arrangements require very early notification processes (forty-eight (48) hours prior to vessel's arrival) via shipping lines to stevedores. These communication processes have often failed and containers have not been conveyed in a timely fashion. Insufficient audit trail or process management have resulted in disputes as to responsibility in the process resulting in importers incurring late rail movement fees.

The main benefits of using rail and intermodal terminals are seen as:

- an avoidance of processes /delays etc that attach to the road transport arrangements to and from the Port Botany terminals, and
- provision of a more timely and predictable service to importers / exporters / warehouses (no delays due to terminal congestion) which provides better resource deployment (no labour standing by) and fixed land based costs (fixed cost structures of all logistics components)

The CBFCA is aware of a number of long standing arrangements where importers and exporters direct all their container traffic through intermodal terminals thus factoring in any costs and transit times into their supply chain. This facilitates a range of

benefits such as better planning and control of operational resources, warehouse space, distribution of goods and associated logistics functions.

These benefits can be mitigated from a lack of visibility and predictability as to when the container will be loaded onto the rail in the first instance and also where intermodal terminals have limited ability to deliver on extended week-day hours or weekends.

4.5.7. Issue 15 - Costs of rail windows

The CBFCA understands that DP World charge approximately \$550,000 and Patrick approximately \$400,000 per annum as flat annual rates (not referenced to volume throughput) for operators to access terminal rail windows.

The CBFCA is not aware as to the basis of these charges and sees such cost as a barrier to entry for new intermodal terminals and the use of rail generally as intermodal terminals have to recover these fixed costs from their clients.

4.5.8. Issue 27 - Rail charges

The CBFCA appreciates the need for stevedores to have advance notice to arrange the physical movement of containers direct from ship's side to the rail stack, however, it is unclear why there is a need to provide the rail movement request forty-eight (48) prior to ship's arrival to the shipping line.

Potential exists to streamline the existing high level and complex movement requests via the shipping lines by allowing customs brokers and freight forwarders to have a direct electronic interface with the stevedore.

In the event that circumstances change and importers require earlier delivery of freight, and hence request a change to a road movement, a fee is issued by the shipping line to cover the administration and downstream charging by the stevedore.

Feedback from CBFCA members indicate that shipping lines charges vary however are generally in the vicinity of \$250. This fee appears to be out of line with actual costs incurred which do not include any additional physical movements of containers but merely some administrative changes to the container yard placement upon discharge.

4.5.9. Issue 18 - Expansion of Intermodal network

Based on member feedback, the use of rail is limited to moving containers that are either destined to, or originate within, relatively short distances from intermodal terminals in comparison to direct deliveries to and from the stevedore. Existing facilities are provided at Camellia, Yennora, Villawood and Minto.

As outlined in the FIAB Recommendations the CBFCA supports the need for an increased intermodal network to ensure that there is an adequate coverage of services and that there is an appropriate level of market place competition.

The CBFCA notes that a number of inquiries and reports on intermodal issues have essentially come up with recommendations in line with those of the FIAB.

The *Commission of Inquiry into the Kyeemagh - Chullora Road* (1981) recommended compulsory railing of containers destined for the western suburbs which effectively would have halved the numbers of containers moving through the Bexley Road corridor and also reduced the residency times of containers at terminals considerably therefore also adding to terminal capacity and efficiencies.

4.5.10. Issue 16 - Development of intermodal terminals

The CBFCA supports the project currently being developed by the NSW Sea Freight Council on *Development of an open access intermodal terminal for Western Sydney*. More specifically, the CBFCA supports the view that the planning and transport policy arms of the state government need to provide support for the development of intermodal terminals in areas such as:

- locating suitable land and corridors,
- providing zoning for appropriate associated development,
- potential funding of the core development of the terminals

Accordingly, the CBFCA supports the announcement from the New South Wales Government on 31 May 2007 as to its commitment to a range of issues pertaining to intermodal terminals in accordance with its *Freight Plan*.

4.5.11. Issue 20 - Freight network expansion - congestion at port

Ideally, to maximise the potential for container freight movements to and from NSW ports, and thus address congestion issues, alternative, longer term, strategies should also be examined that include widening the horizon from Port Botany to include Port of Newcastle and Port Kembla. With the transfer of a number of shipping services from Port Jackson to these ports extension of rail facilities and linkages to include container freight should be considered to provide better service to the north, north-west, west and south of the wider metropolitan Sydney as well as outer -regions such as the Central Coast, Hunter, New England and mid North Coast and the Orange Bathurst area.

4.5.12. Issue 21 - Impact of ARTC managing metropolitan framework

In order to maximise freight logistic efficiencies on a national basis it is essential that rail transport initiatives are coordinated with a holistic view on needs on a metropolitan basis (including interface between the port and intermodal terminals) through to regional centres and national freight corridors.

In this context, the CBFCA supports in principle the continued and expanded management of the Australian Rail Track Corporation (ARTC), however, a need exists to engage with all industry sectors to provide an appropriate level of input into strategic planning.