



Australian Government  
Simplified Trade System  
Implementation Taskforce

# The State of Global Shipping: Consolidation, Carbon and Conflict

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Michael Byrne

Advisor to the Simplified Trade System (STS) Implementation Taskforce

# Disruption on a global scale

The world was already changing, but the events of the past 3 years have accelerated disruptions on a global scale...



## COVID-19

- Border closures
- Labour shortages
- Change in labour power base
- Broken supply chains



## Geopolitical Shifts

- Conflict
- Nationalism & protectionism
- Diversification & new markets
- Distorted supply chains



## Climate Change

- Global boiling
- Fires, floods & landslides
- Decarbonisation
- Immigration

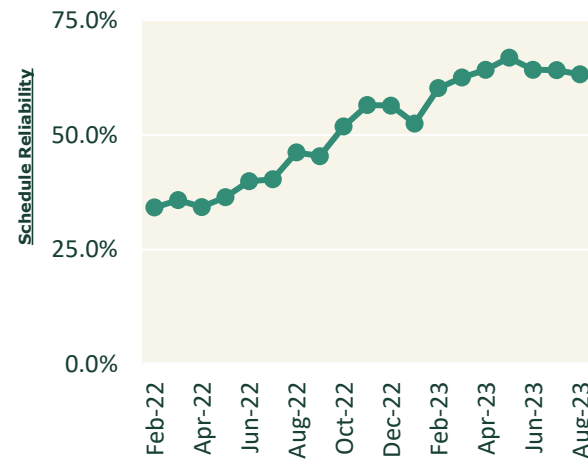
# State of sea freight

Six months into the COVID-19 pandemic, sea freight became heavily congested, highly unreliable and prohibitively expensive. Conditions have slowly been improving, but are changing.

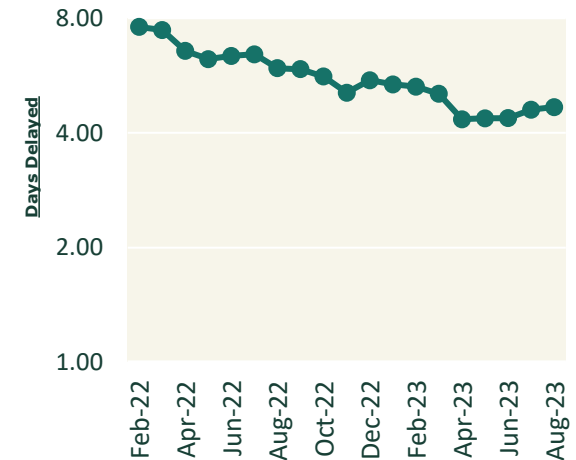
## Global Schedule Reliability & Delays (as at 5 October 2023)

- Global schedule reliability declined in August 2023 by -0.9 month-on-month to 63.2%.
- Apart from a slight increase in May, schedule reliability has been ranging within 2 percentage points since March 2023.
- On a year-on-year level, schedule reliability was 17.0 percentage points higher.
- In August 2023, the average delay for late vessel arrivals increased by 0.07 days month-on-month to 4.67 days.
- Despite the increase, the average delay for late vessel arrivals is still -1.23 days better off than at the same point in 2022.

### Global Schedule Reliability



### Global Schedule Delays



Source: Sea-Intelligence

# State of sea freight

## Cancellations (as at 20 October 2023)

- From 23 October - 26 November, 43 out of a total of 660 scheduled sailings will reportedly be cancelled across major shipping lanes.
- This represents a 7% cancellation rate but is still significantly down compared to the 21.5% high in January 2023.

Source: Drewry

## Pricing (as at 20 October 2023)

- As of 19 October 2023, *Drewry's World Container Index (WCI)*, a benchmark for 40-foot ocean container spot rates across various trade lanes, was \$1364.
- This is 60% less than at the same time in 2022, and well below the \$10, 377 peak recorded in September 2021.
- The *Shanghai Containerised Freight Index (SCFI)*, a measurement of export spot rates out of Shanghai, sat at US\$917.66/TEU on 20 October 2023.
- The index peaked at over US\$5,000/TEU in 2021-2022.

## Current & Emerging Issues: Climate Change

- As weather events increase in severity and frequency, they pose a significant risk to global supply chains.
- Major economic losses caused by extreme heat events averaged 1.5% of gross domestic products (GDP) per capita for wealthy regions and 6.7% GDP per capita for lower income regions. **Source:** Deugro
- Global shipping is particularly impacted by disruptions and delays from rising sea levels and tropical storms.
- This includes damage to port infrastructure, disruptions to port operations and shipping losses at sea, as well as the costs of adapting to new emissions-reductions targets.

## Spotlight: Panama Canal Drought



- The Panama Canal connects the Atlantic with the Pacific Ocean and is one of the most important waterways in global shipping, responsible for moving 40% of the world's cargo ship traffic. **Source:** CBS
- In June 2023, the Panama Canal Authority (ACP), introduced restrictions on the number of transiting vessels as a result of severe drought.
- Ongoing impacts of the restrictions – particularly if they remain in place over peak season – include lower throughput, increased delays and higher costs due to reduced capacity and rerouting.

# Driving factors

There are numerous driving factors contributing to the current state of global shipping. These include:



## High fuel costs

Saudi Arabia's one million barrel per day cut and Russia's 300,000 barrel per day export limits have been extended to December 2023. Sources suggest cuts may be deepened.



## Geopolitical uncertainty

The war in Ukraine continues to impact operations. Conflict in Israel may further destabilise the region. Additional ADF personnel and aircraft deployed to the Middle East as part of Operation Beech. Maritime encounters in the South China Sea are back in the media.



## Consumer behaviour

Inflation, rising costs of living, slowing economic growth and decreasing demand for goods is impacting shipping.



## Extreme weather

Increasing extreme weather events such as flash flooding, fires and droughts are impacting global and domestic supply chains and driving up costs.



## Emissions reduction

The International Maritime Organisation (IMO) has set a goal of reducing shipping emissions by 40% by 2030 and 70% by 2050. New rules were introduced in January 2023.



## Labour costs & availability

Re-negotiated employment agreements and a competitive job market are impacting labour costs and availability of skilled workers. The balance of power has changed.

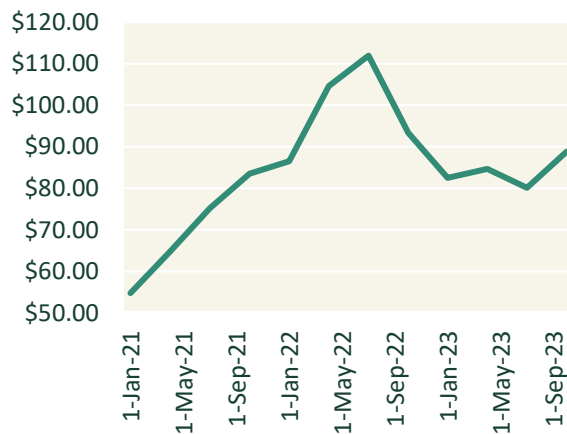
# Impact on Australia

Australia contributes less than 2% of global containerised trade, but as a trading nation, we are heavily impacted by global disruptions.

## Increased fuel costs

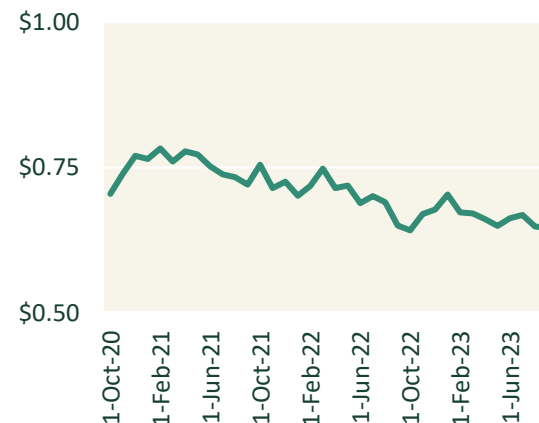
- Increased fuel costs have significant flow on effects, impacting input costs along the supply chain and increasing uncertainty.
- For Australia, increasing uncertainty impacts investment, which in turn drives down the value of the dollar.
- A less competitive Australian dollar increases input costs further (for example, for equipment), as these are typically paid in foreign currencies.

Average Brent crude oil price (USD per barrel)



Source: Statista & Nasdaq

Exchange Rate (vs. USD)



Source: Reserve Bank of Australia



### Oceana Port Delays

As at 24 October, vessel delays for the majority of East Coast terminals average 0-0.5 days. Fremantle is averaging 0-2 days, and Auckland 1-2 days.



### Container availability

A weaker agricultural season will likely make Australia a less desirable container destination, keeping capacity and rates elevated.



### Pallet Shortages

Pallet shortages, which intensified during COVID-19, will likely remain an issue due to logging regulations in multiple Australian states.

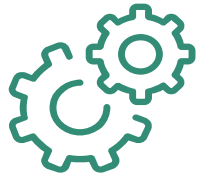


### Industrial action

Industrial action is affecting DP World Australia terminals in Brisbane, Fremantle, Sydney, and Melbourne until the 6th of November.

# What can be done?

Australia's commercial influence over global supply chains is limited. To help insulate us from the shocks of global disruption, we need to look at what we can control:



## Efficiency

- Businesses should look at opportunities to strengthen operations.
- State and federal governments need to review processes, procedures and frameworks to ensure they are fit-for-purpose.



## Collaboration

- We cannot turn to isolationism or protectionism, we have to keep engaging globally.
- Relationships are essential – industry and government must work together to solve structural issues.



## Innovation

- We need to increase our competitiveness in existing markets and diversify to new ones.
- We need to be creative and collaborative in our approach – think outside the box.

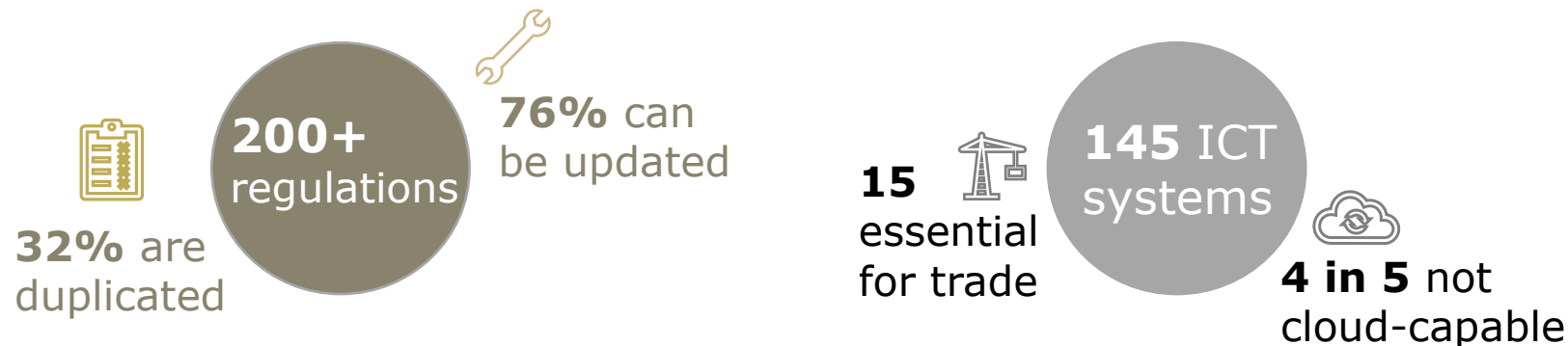
**Tactical intervention isn't enough – we need to invest in structural productivity reform.**



# The Simplified Trade System (STS)

Our current cross-border trade environment is **complex, fragmented and inefficient**:

- Duplicate information costs Australian businesses \$431m annually
- Processing and handling paper documents costs \$589m every year



**Co-designed with business, the Simplified Trade System (STS) is a major whole-of-government microeconomic reform to streamline Australia's trade regulations, modernise trade-related ICT systems and simplify trade processes.**



# STS Objectives & Outcomes

## Objectives



Simpler and more consistent trade rules



More integrated trade-related services



Higher levels of digitisation and data sharing



More modern ICT systems and processes



Skilled and adequately resourced workforce



Fair and sustainable funding models



Continued strengthening of Australia's border, biosecurity and community protections

## Outcomes



**Easier and cheaper trading for Australian businesses, lifting productivity and growing jobs**



**Improved supply chain resilience and reduced cost of living pressures**



**Increased Australia's global cross-border competitiveness**



**Increased efficiency and effectiveness of government administration**

# Potential benefits of STS

Integrated reforms will provide benefits to business, government and the economy:

- Time and cost savings
- Improved government administration
- Increased productivity
- GDP growth
- Job creation



**Simpler and faster  
cross-border trade**



**Higher trade volumes  
and revenue**



**National  
prosperity**

**Even a 1% growth in trade volume = extra \$10 billion every year.**

# Q&A



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