Shipping Australia Limited

20 June 2012

## For Immediate Release

## Shipping Australia Welcomes Ports Declining Productivity Survey

"Shipping Australia commends the National Peak Body Representing interests of government owned and privately owned ports in commissioning an independent analysis that clearly shows productivity in our major container ports has gone backwards in the last 10 years, potentially costing billions of dollars in lost GDP for the economy", Mr Llew Russell, Chief Executive Officer of Shipping Australia said today.

"Shipping Australia members have been complaining now for a number of years on declining productivity in our major container ports but the facts and figures in this survey carried out by Castalia provide a valuable contribution to the debate by setting out such well researched and comprehensive data.

"An additional cost factor that was not taken into account in the analysis was the massive costs that shipowners have had to bear because of increased congestion in some Australian container ports, particularly Sydney", he said.

Mr Russell pointed out that the deteriorating industrial climate over the last few years has significantly added to the effects of that congestion and declining productivity which in turn has resulted in shipowners bearing enormously increased costs, particularly in terms of increased fuel usage.

In a seven week period towards the end of last year, twelve member lines of Shipping Australia estimated that it had cost them just over $12 million in extra fuel costs to try and speed up and regain some schedule integrity. Exponentially over 12 months, this would be approximately $90 million.

These costs don't take into account the serious indirect costs impacting on Australian exporters and importers as a result of shipowners having to drop port calls or find other ways to alleviate the effects of delays such as using alternative ports of call. These costs would be added to the costs contained in the Ports Australia survey.

"Whilst we can all wring our hands and lament the situation to date, this is a clarion call to all stakeholders to work together, including the Maritime Union of Australia, the stevedores, and all those involved in the freight and logistics chain to now work together to improve that productivity on the waterfront and make Australia more internationally competitive.

Shipping Australia is certainly ready to play its part in achieving that essential objective", Mr Russell said.

Editor's note:

For additional information please contact Llew Russell, CEO on 0414 958 247. Attached is the Ports Australia press release on this issue released on 19 June, 2012.

*Shipping Australia is a peak national shipping association comprising 38 member shipping lines and shipping agents that will be involved with over 80% of Australia's container and car trades and over 60% of our break bulk and bulk trades.*

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# Media Release

## Labour productivity going backwards at Australia's ports

An independent analysis has found that while the wages of workers at Australia's five major ports have continued to increase, their productivity has gone backwards in the last 10 years, potentially costing billions of dollars in lost GDP.

The report also finds that efficiency in comparable countries is higher while labour costs are lower, and warns that the cost burden on the traded sector is unsustainable if Australian ports are to remain internationally competitive.

The ports of Melbourne, Sydney, Brisbane, Adelaide and Fremantle are analysed in the report, which was compiled by economic analysts Castalia for Ports Australia, the peak body which represents Australia's port authorities.

"Further wage increases without commensurate productivity gains would put an additional strain on the competitiveness of the Australian traded sector," the report says.

Because the vast majority of imports and exports must pass through ports, there is a greater temptation than in other sectors of the economy for enterprise agreements to lock in guaranteed wage increases independent of productivity improvements. However this can only be achieved by collecting more revenue from the users of port services than would have been available in a competitive market.

After initial improvements early this century and despite increasing cargo volumes, labour productivity at Australian ports has been declining for 10 years, a trend that is not sustainable in the long run. "This indicates that a period of wage restraint in the port sector may be required unless specific measures to promote productivity growth can be negotiated."

However, the warning comes hard on the heels of recent industrial unrest on the waterfront with unions negotiating wage agreements that limit productivity improvements.

Applying overseas research to Australia's situation suggests that higher port efficiency could increase our real GDP by between $30 billion and $100 billion.

Castalia benchmarked three measures of productivity – in absolute terms, in per employee terms and per real dollar of wages.

Castalia's analysis measured productivity per employee in relation to:

- The crane rate – the number of containers moved on or off a ship per hour
- The vessel working rate – the number of containers moved on or of a ship divided by the amount of labour time: and
- The ship rate – the rate at which a ship is unloaded

It expected to see increased productivity in each over the last 10 years because of technological improvements. However, productivity declined over the period.

"This finding is surprising as increasing returns to scale, and improved technology and systems should have made each employee more productive over the past 10 years. Even without taking into account technological change in the broader Australian context, port labour productivity appears to be lagging."

Castalia also benchmarked wage costs and competitiveness against two comparative countries – the USA and New Zealand.

It found Australian stevedoring salaries are substantially higher than comparable countries, particularly in relation to port productivity. While some this could be attributed to the high Australian dollar, the same analysis using 2005 exchange rates also showed a notable gap.

The report concluded: "These factors are imposing unnecessary costs on the tradable sector – a major portion of our economy – but also on Australian consumers generally. This combination of high costs and low productivity is also unlikely to help Australian ports as they seek to position themselves as transhipment hubs for the region.

"Our analysis shows that there is strong evidence that Australian port wage trends are at present not compatible with productivity trends. This is not sustainable in the medium term."

Ports Australia CEO, David Anderson, said the report was yet more evidence that unless productivity improvements accompanied wage increases, port costs would begin to seriously hamper the economy, particularly when the commodities boom inevitably slowed.

"All stakeholders need to focus on lifting productivity if we are to compete on the global market.
There is a danger that poor productivity will only serve to focus some organisations more on technological solutions, whereas in many instances a labour solution may be more beneficial and more effective.

"There must be a coordinated approach to address these issues and any initiatives taken need to be adopted as part of the National Ports Strategy objectives and be supported by governments at all levels."

20 June, 2012

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Ports Australia is the national peak body representing the interests of government owned and privately owned ports as well as marine regulatory authorities in Australia. The organisation provides leadership and support in areas of common interest related to ports in supply chain issues and in the achievement of their trade facilitation objectives.