

Infrastructure Capacity Constraints and Competition

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Introduction

During the recent drought that affected much of Australia, particularly in Queensland and New South Wales, the volume of containerised imports through the Port of Brisbane increased significantly. Indeed as far as containers are concerned, Brisbane is now predominately an import port.

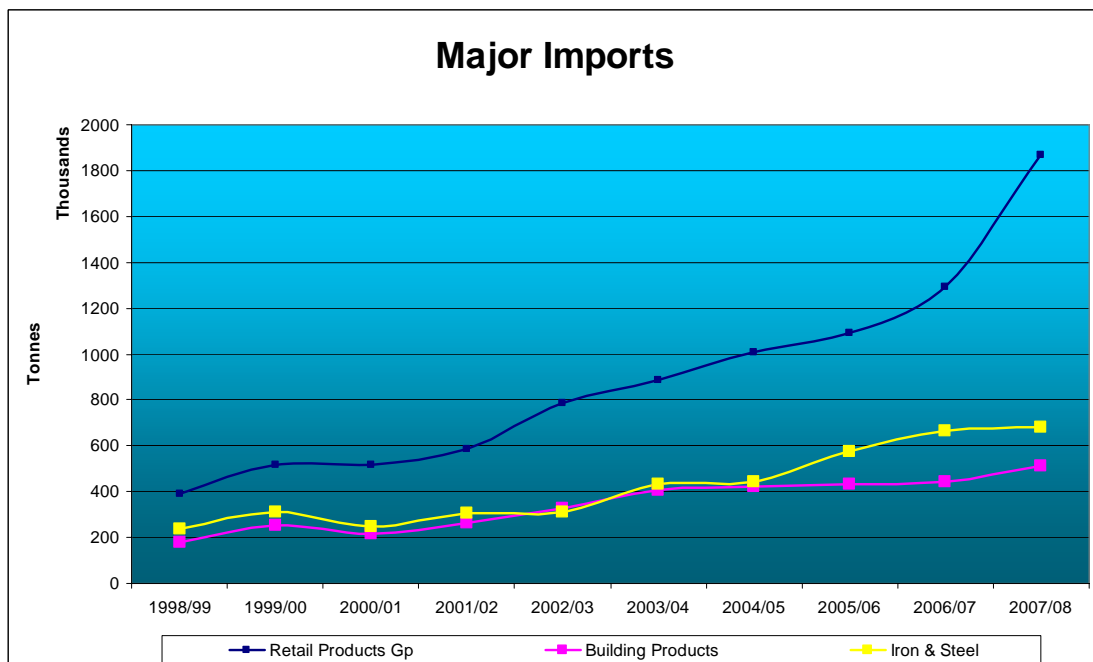
This fundamental transformation has led to changes in what were traditional options for exporting cotton out of Brisbane. These changes, and other developments at the Port of Brisbane, are detailed in this paper, and will hopefully aid the cotton exporter, in the next and foreseeable seasons.

Specifically, the Corporation will look at recent changes to cargo trends, container supply and type, shipping services, changing cotton destinations, warehousing, and road and rail connections.

The Issues

Imports

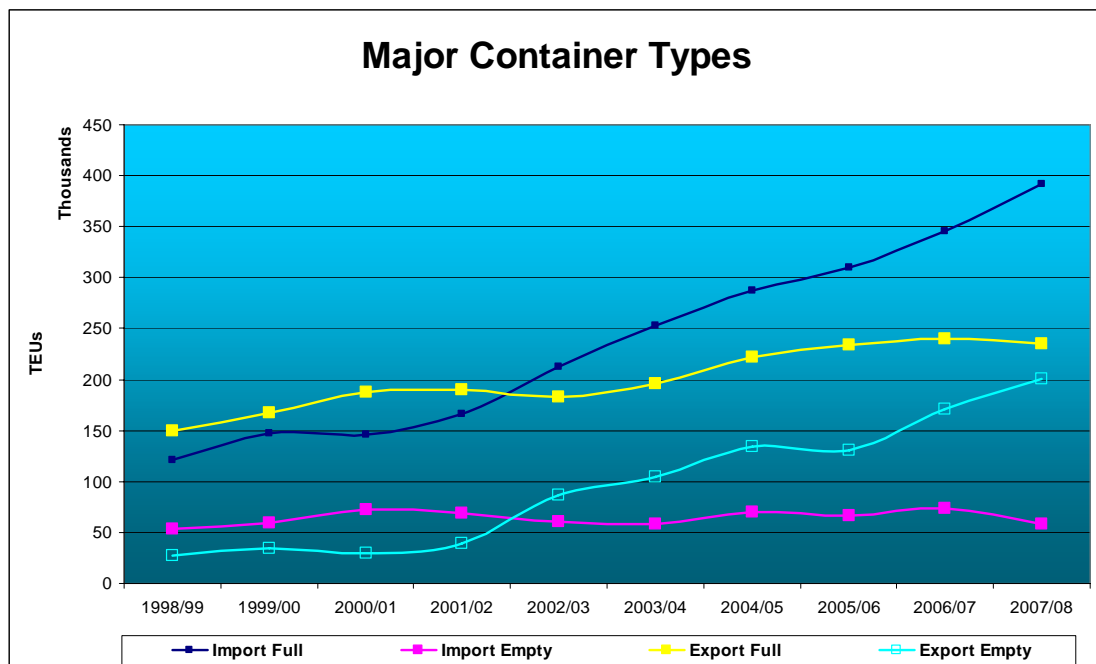
Over the last decade, a booming South East Queensland economy and fast growing population has led to considerable increases in the volume of goods being imported through the Port of Brisbane. We've seen high growth in commodities such as retail products, electrical goods, white goods, furniture and the like. Also, imports of building products, iron and steel, and other equipment to support housing and infrastructure have recorded significant increases.



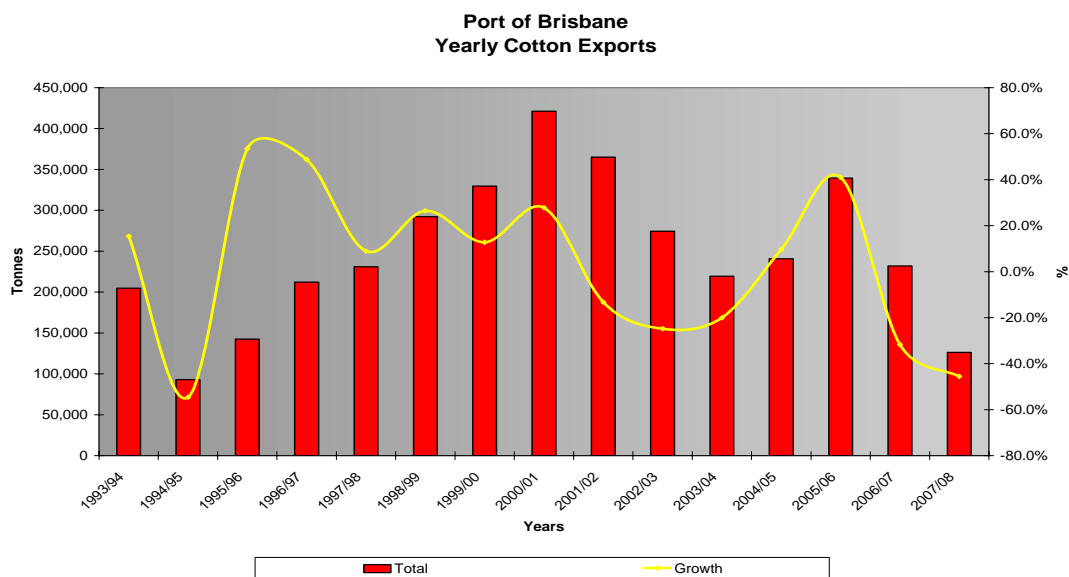
Along with the increased import volumes, we have seen an increasing use of 40 foot containers to carry the goods. Of these, many are 9'6" high-cube containers.

The combination of increased import volumes and the use of 9'6" high cube containers is good news for cotton exporters, as these containers eventually become the available stock of empty containers.

The below chart shows the point (circa end 2001/02) at which containerised imports exceeded exports at the Port of Brisbane. The margin between the two has steadily increased, and our forecasts suggest that this trend is likely to continue in the years to come.



The below chart shows overall cotton tonnes exported from the Port of Brisbane in the last 15 years. Note the comparatively low figures for 2007/08.

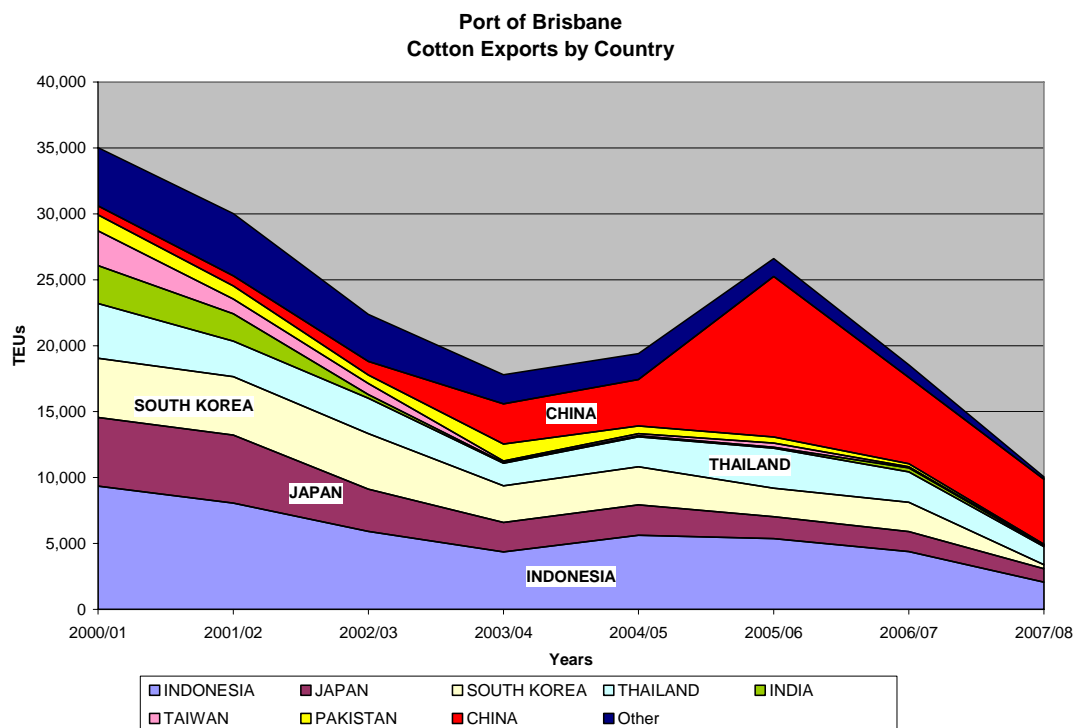


Shipping Services

The additional import volume has driven an increase in the number and size of ships deployed in the main trade lanes, specifically North and South China, East Asia and South East Asia. Additionally new entrants have joined the trades, increasing the level of competition between the shipping companies. Industry sources have suggested that in this year (2008) alone, new services, ships and entrants to the China-Australia liner trade have added at least 100,000 TEU, and perhaps as much as 200,000 TEU in each-way capacity per annum.

While this increased service and capacity is generally targeted at the import trade, the range of shipping options for exporters are of course similarly increased – and importantly, they are in the trade lanes that Port of Brisbane figures show are now primary for the cotton industry.

The below chart highlights the changing export destinations of cotton between 2000/01 and 2007/08. (Note: the significant increase of China.)



Warehousing

The growth rate in import cargo has generated a similar pattern in demand for warehousing and distribution space. Without the regular volume of cotton and other agricultural export products due to drought, Brisbane warehouse operators generally decided to accommodate the import cargoes. The rising volume of high-value fast

turnover imports seems likely to continue to be the focus of many port-related warehouses.

Another factor impacting on warehouse operators is the increasing land values at the Port of Brisbane and the Australia Trade Coast region.

The implications for cotton exporters are clear – available warehousing capacity in Brisbane is reducing and costs are increasing!

Port of Brisbane

At the Port of Brisbane itself, the options for warehousing, sorting and grading cotton remain with the traditional operators P&O Trans Australia (POTA) and IPS. Both still handle cotton, though in a somewhat different capacity to previous years.

POTA operates purpose-built cotton warehouses, and will store, grade, sort and pack cotton, and also offer cross-docking.

IPS is more focussed on the cross-docking method, but will also warehouse cotton at market rates.

In addition to these operators, a new warehousing facility at the “Port Gate Estate” (just off Fisherman Islands) has been partially completed, and further development is currently being planned. The developer, Tzaneros Enterprises, has expressed interest in warehousing and handling cotton, offering exporters further options at the Port of Brisbane.

We suggest that exporters make direct contact with any of the port operators mentioned to discuss details further.

Cross-docking

Cross docking is a system whereby cotton is delivered to a warehouse by truck from the gin or rural warehouse, and simply off-loaded and immediately packed into a container for delivery to the export terminal. This reduces the risk of having large areas of under-utilised warehouse space during quieter periods.

Off-port warehouses

The off-port warehouses, traditionally used for cotton (such as AWH), are also busy with other non-seasonal cargoes. They have experienced increases on land values, but still remain an option for cotton exporters.

As with at port operators, we recommend exporters make direct contact with off-port operators as required.

Rail and Road

Rail

Rail connection with Western Queensland remains a viable option, with regular services to and from the Port of Brisbane to Toowoomba, Goondiwindi and Dalby. However, tunnel height on the track coupled with current wagon profiles excludes the use of 40' high cube (9'6") containers. As we saw earlier, the use of this equipment type for import cargoes is increasing, and will likely exceed standard height (8'6") containers in the future. Ultimately we may see a situation where 9'6" containers dominate the 40' container fleets of all shipping lines, and at this time rail on the Western Queensland service may cease to be a viable option.

We have alerted Queensland Rail (QR) to this trend, as have several of the cotton exporting companies and shipping companies. At the time of writing this remains an issue for QR to resolve.

In the longer term the proposed Melbourne to Brisbane rail line may well be the preferred option, but of course, completion of this project is years, if not decades away, and the current issues may well need to be addressed before this project is completed.

Road

A great majority of export containers are currently delivered to the Port of Brisbane via road transport. Clearly, the flexibility road offers and the relatively short distance from which most export cargo is originating makes road the preferred choice.

For cotton exporters, increases in truck weight limits on the B-Triple network between Northern New South Wales and Queensland and current trials on alternative trailer configurations may open further opportunities to deliver cargo to the Port of Brisbane. However increasing fuel costs have recently become a very serious factor, and its ultimate impact remains to be seen.

Conclusion

The growth of imports (particularly in 9'6" 40' containers) has, and will, continue to change the traditional logistics methods used by cotton exporters.

Warehouse costs have increased as have land rental rates. Warehouses that used to store cotton now store imported goods, and this trend does not appear to be changing.

The good news is that the shipping services carrying cargo to the destinations preferred by cotton exporters have also increased, adding competition, space on ships, and a huge supply of empty containers.

Transporting cotton to the Port of Brisbane via rail can, and will continue to, be an option though the increasing use of 40' 9'6" containers, which will eventually affect some services. Road transport has its own issues, most prominently increasing fuel costs, however, on-going developments in truck/trailer capacity may help over-come this to some extent.

The Port of Brisbane Corporation remains dedicated to the cotton industry, and makes no secret of the fact that we want to be the preferred port of choice for all exporters.

We hope this insight into the port's current infrastructure capacity constraint and competition helps exporters in future cotton seasons. We also remind the industry we are here to help in any way we can.

References:

- LLDCN Article – 25 Feb 2008.
- Port of Brisbane Container Origin-Destination Survey – March 2007 - <http://www.portbris.com.au/operations/road/cwd>