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TOMAX NEWS

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Freight Rates Will Continue To Surge

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MARKET SUMMARY

• The ongoing COVID lockdown in several major Chinese cities is resulting in reduced demand for shipping services, thereby resulting in downward pressure on freight rates on the China-Australia trade lane. Lines remain buoyant about rates being very high in this years peak season, likely to start early once the Chinese economy is back in full swing.

• As reported previously, warehousing space around the country remains at critically short levels with many businesses left in dire situations with excess stock and no where to place it. Tomax operated warehouses around the country are all at capacity and we are working with customers in an attempt to find options to fill their requirements.

• The Tomax Shanghai office remains in lockdown but staff are operating normally from their homes. The lockdown is likely to continue for several more weeks, but operations are unaffected.

• Importers with cargo on the water from any ports in Russia or Belarus, or importing cargo that has come from a different country but is of Russian or Belarussian origin, should read the article in this week's newsletter carefully and contact our customs team with any queries.

TARIFF CONCESSIONS GAZETTE

Tariff Concession Orders (TCOs) are an Australian Government revenue concession that exists where there are no known Australian manufacturers of goods that are substitutable for imported goods. The weekly Tomax Client Newsletter will contain a link to the latest Gazette document so that you can stay updated.

CLICK TO VIEW LATEST GAZETTE

LATEST NEWS

2022-23 FEDERAL BUDGET TO BOOST PORTS, FREIGHT AND SUPPLY CHAIN INFRASTRUCTURE

The strength of the national supply chain is a focal point of the 2022-23 Federal Budget, which was announced on Tuesday evening. A record investment in infrastructure and a commitment to regional development will see rail freight terminals, port infrastructure and export industries benefiting from the plan. For this year's budget, $7.1 billion will be committed towards regional industries and a further $17.9 billion will go towards both new and existing infrastructure projects. Under the new Energy Security and Regional Development Plan, regional economies will receive funding support in a bid to revamp key regions across Australia into next generation export hubs. Investments in areas such as regional infrastructure, energy production, low emissions technology, resources extraction and processing and water infrastructure will boost opportunities for production and growth.

According to Barnaby Joyce, Deputy Prime Minister and minister for infrastructure, transport and regional development, the investments consist of $1.5 billion towards projects in the Pilbara region, $750 million towards projects in the Hunter region, $2.6 billion toward Northern Territory projects and $1.7 billion for projects in North and Central Queensland. The statement said, "these regions will drive our economy, strengthen export markets and support the growth of existing and emerging industries, including mining, agriculture, energy, critical minerals and advanced manufacturing.

PILBARA REGION INVESTMENTS

• Through its investment in the Pilbara region, the government intends to support new industries and establish the region as a major export hub.

• Port of Dampier will see a $285-million investment in infrastructure upgrades.

• New low-emissions manufacturing facilities in the Pilbara region will receive $200 million in funding to enhance the nation's supply chain security.

• Additional infrastructure will be constructed at Lumsden Point at Port Hedland to better facilitate imports with a $280 investment.

• Onshore processing and value-add of iron ore exports will increase with a $200-million investment to support low emissions steel production in Indo-Pacific customer countries such as Japan and Korea.

HUNTER REGION INVESTMENTS

• The government's $750 million investment in the expansion of the Hunter region will be allocated toward new export industries while continuing to support traditional industries, strengthening the local economy and its position as a leading global exporter.

• Notably, $100 million has been committed to support early works to make the Port of Newcastle "hydrogen ready".

QUEENSLAND INVESTMENTS

• In Queensland, a $1.7 billion investment in large-scale infrastructure will help the state's north and central regions become major suppliers of food and fibre.

• The Inland Freight Route will receive $400 million in funding to better connect regional mining and agricultural businesses with domestic and international markets.

• Port of Bundaberg will benefit from $7.7 million committed to the construction of a new common-user infrastructure as part of the Hinkler Regional Deal, building on the government's existing $10 million commitment to the project.

NORTHERN TERRITORY INVESTMENTS

• In the Northern Territory, the government will invest $2.6 billion in infrastructure projects to transform the NT into an industrial hub for next generation exports.

• New port infrastructure including a wharf, an offloading facility, and dredging of the shipping channel will be funded by a $1.5 billion investment to boost the region's importing and exporting ability.

• A new logistics hub at Alice Springs, Katherine and Tennant Creek will be built under a $440 million investment to f acilitate more export activity out of the Northern Territory.

• The region's supply chains will be strengthened by a rail spur and a new road network, with $200 million committed to developing the Middle Arm Sustainable Development Precinct.

THE BROADER ECONOMIC PLAN

Prime Minister Scott Morrison said the provision of record funding for road and rail projects is a key part of the government's economic plan, saying, "by investing in these projects, we are delivering the infrastructure that the Australian economy needs to grow, to get Australians home sooner and safer, and generate thousands of jobs and new opportunities for small businesses right across the country."

Additionally, the Deputy Prime Minister said the investments would drive the growth of industries that generate the nation's wealth. He said, "getting more commodities to ports and sending them overseas will generate more export income, making our nation wealthier and stronger. Better roads and infrastructure will enable that."

Moreover, Treasurer, Josh Frydenberg said the measures in the budget will secure Australia's supply chains against the impact of uncertain and unexpected circumstances.

"By enhancing transport connectivity, we're strengthening our supply chains against challenges such as COVID-related disruptions and the impact of natural disasters. This gives businesses and consumers the confidence and certainty they need in uncertain times", he said.

Williams, A. (2022). BUDGET HIGHLIGHTS PORTS, FREIGHT, AND SUPPLY CHAIN INFRASTRUCTURE. Retrieved from https://www.thedcn.com.au/news/bulk-trades-shipping/budget-highlights-ports-freight-and-supply-chain-infrastructure/on 30th March, 2022.

NEW BUDGET ANNOUNCEMENT WELCOMED BY THE AUSTRALIAN LOGISTICS COUNCIL

The Australian Logistics Council (ALC) is delighted to hear of the Federal government's additional budget commitment to investing in intermodal freight infrastructure.

The ACL had called for a national approach to planning and developing Australia's freight and logistics infrastructure, with a key focus on the intermodal systems and future freight requirements. They support the increasing focus on intermodals and their huge involvement in the movement of freight in order to achieve end-to-end supply chain efficiency, improve sustainability and alleviate road congestion. They welcome the Melbourne intermodal terminal package as they believe the investment in new freight terminals will assist in achieving the modal shift from road to rail, facilitating a nationally connected, productive and efficient freight and logistics sector.

ALC C.E.O, Brad Williams says, "Investment in intermodal infrastructure is critical to the national economic interest. Modal shift is changing the way freight is moved in Australia, including doubling the volume of freight transported on rail between Melbourne and Brisbane from 30 per cent to 62 per cent by 2050 and maximising the efficiency gains from the Inland Rail's operation."

Through the National Intermodal Corporation, a coordinated approach to enable access for multiple supply chain participants, which help drive increased efficiency and productivity across all freight modes, will be possible. Brad Williams added, "this budget commitment is an important step in modernising Australia's freight network and maintains the focus on delivery of the National Freight and Supply Chain strategy. The ALC looks forward to all governments working together to deliver new intermodal infrastructure to address the challenges and opportunities of growth over the coming 20 years."

Fully Loaded. (2022). ALC RAPT WITH MODAL SHIFT IN BUDGET ANNOUNCEMENT. Retrieved from https://www.fullyloaded.com.au/logistics-news/2203/alc-rapt-with-modal-shift-in-budget-announcement on 30th March, 2022.

NEW VIC TO TEXAS AIR ROUTE SUPPORTS US-AUS TRADE

Qantas has recently announced a new route and expanded services between Melbourne and the US, to boost trade with Victoria's second-largest trade partner. This December will see a new direct passenger route flying between Melbourne and Dallas Fort Worth, four services a week - the first time a flight has connected Texas with Victoria. The service follows the success of Qantas' long standing Sydney-Dallas Fort Worth route. Qantas' flagship Los Angeles to Melbourne service will also double in flights, from 4 to 8 flights per week. The 12 flights to the US each week will expect around 105,000 visitors from the US to Melbourne annually and create more than 800 local tourism and aviation jobs in Victoria. The additional flights are designed to support the trade partnership between Victoria and the US, with the value of two-way goods trade being at $12.2 billion in 2020-21 and a key source of investment in Victoria.

Martin Pakula, Victorian minister for industry support and recovery/Minister for trade believes more international flights are the key to Victoria's economic growth saying, "today's announcement will help boost visitor numbers from the US and create more jobs in our tourism and aviation sectors. The new flights will also provide more opportunities for Victorians to do business with companies based in one of the US' fastest growing state economies."

The US economy provides Victorian businesses with significant export opportunities in digital and medical technologies, pharmaceuticals, goods and agriculture, defence and aerospace, and tourism.

Qantas Group Chief Executive of Customer Services, Stephanie Tully said, "as well as being a destination in its own right, Dallas Fort Worth is one of the biggest hub airports in the United States and is located less than a four-hour flight from every major US city. These new flights...allow Melbourne to tap into an enormous inbound tourism market from cities like New York, Chicago, Boston, Houston, Washington DC, and Miami, as well as saving hours of travel time."

Williams, A. (2022). NEW TEXAS TO VIC AIR ROUTE SUPPORTS US-AUS TRADE. Retrieved from https://www.thedcn.com.au/news/law-regulation-trade/new-texas-to-victoria-flight-route-supports-us-australia-trade-partnership/ on 30th March, 2022.

AUSTRALIA TO IMPOSE A 35% TARIFF ON IMPORTS FROM RUSSIA AND BELARUS

The Australian Logistics Council (ALC) is delighted to hear of the Federal government's additional budget commitment to investing in intermodal freight infrastructure.

The Prime Minister has announced that Australia will impose an additional 35% tariff on imports from Russia and Belarus, from the 25th April 2022. The move is the latest trade sanction in response to Russia's invasion of Ukraine. The move is facilitated by Australia revoking the most favoured nation status of Russia. Russia, being a member of the World Trade Organisation, is entitled to the lowest tariff Australia offers other WTO members. Australia was only able to impose the 35% tariff if Russia's most favoured nation status was revoked. As Belarus is not a WTO member, it does withhold the most favoured nation status.

In conjunction with the 35% special tariff, normal customs duties will apply. For a great number of imports, this means a duty rate of 40%. However, where a tariff concession applies, this will only apply to the general 5% duty and not the new 35% duty. There is uncertainty whether the tariff will apply to both goods originated from Russia/Belarus as well as goods exported from Russia/Belarus regardless of origin. Practically, it will create little impact as the Australian Border Force will take an extended time to believe that goods exported from Russia originated from a different country.

ISSUES TO CONSIDER:

GOODS ON THE WATER

There will be goods already on the water from Russia that will arrive after 25 April. These goods will be subject to the 35% duty unless the Government drafts an in-transit provision. These imports will be risky for freight forwards as the consignment may no longer be economically viable, resulting in the risk of the consignment being abandoned. Freight forwarders should be contacting any clients with Russian goods on the water and making them aware of this new duty, as the client will choose to discharge the cargo in another port that is not imposing the high duty.

ORIGIN OF THE GOODS

Australia's has a relatively low level of customs fraud, largely because duty rates are low. However, a 35% duty rate will motivate parties to lie about the origin of the goods. Where you have reason to suspect the goods are of Russian/Belarus origin we recommend requiring strong proof of the claimed origin. Although a free trade agreement may not apply, you may insist on a certificate of origin or a declaration of origin from the actual manufacturer. Be very suspicious of goods that have previously been shipped from Russia and now have a new country of origin. While the details are not yet known, we expect that goods of Russian origin shipped from a third country will be subject to the 35% duty.

VALUE OF THE GOODS

Just as there is motivation to lie about the origin of the goods, there will be the temptation to provide a false value to reduce the impact of the duty. Customs broker's should consider seeking proof of payment for goods of Russia/Belarus origin. This may also help satisfy you that the transaction does not breach the restrictions on dealing with Russian banks.

IS THIS LEGAL

WTO members do not have an unrestricted right to remove the most favoured nation status of a country. However, such a step is permitted on national security grounds. Russia has claimed that similar acts by other countries are illegal. The removal of a country's most favoured nation status on security grounds is an interesting position where there has been no declaration of war by Australia and Australia and Russia are not combatants. If Russia successfully challenged the sanctions it would result in Russia having the right to impose retaliatory sanctions. It will be interesting to see if in future years this expansion of the "national security" exception is used to facilitate trade protection measures.

EXISTING CONTRACTS

Traders may now find themselves a party to a contract that is not commercially viable. If the trader is the importer it may wish to exit the contract. Where this is the case it will need to carefully review the contract to determine whether a new tariff provides a termination right. It will also be important to determine which party has the obligation to pay Australian customs duties. Importantly, most trade with Russia is still legal so it may be that the contract has not been frustrated. Advice should be sought regarding the right to terminate, and if there is no right, the consequences of breaching the contract.

ADVISING CLIENTS

In quickly changing times it is important for logistics professionals to keep their customers well informed. This includes advising about the increased duty rate, what transactions are prohibited and the likely impact on shipping times. No doubt goods that appear to be from Russia will be subject to more regular holds by border authorities. This could result in increased storage costs and container detention.

Wise, R. (2022). Australia to impose a 35% tariff on all imports from Russia and Belarus. Retrieved from https://www.ftalliance.com.au/data/news_attachments/russian%20tariff.pdf on 31st March, 2022.

FREIGHT RATES WILL CONTINUE TO SURGE

Research conducted from the International Monetary Fund (IMF) has found the inflammatory impacts of increasing freight rates will likely continue to build until the end of year and will continue to be exacerbated by the war in Ukraine.

The cost of shipping a container increased seven-fold in the 18 months since the pandemic took hold in early 2020, while the cost of shipping bulked commodities spiked even more.

The IMF studied data from 143 countries over the past 30 years and concluded that shipping costs are an important driver of global inflation. According to the data, when freight rates double, inflation picks up by around 0.7%.

Further to note, the effects are persistent, peaking after a year and lasting up to 18 months, which implies the increase in shipping costs observed in 2021 could increase inflation by around 1.5% this year.

The IMF researchers said, “our findings also reveal some of the mechanisms at work. Higher shipping costs hit prices of imported goods at the dock within two months, and quickly pass through to producer prices – many of whom rely on imported inputs to manufacture their goods.”

However, the impact on prices consumers pay builds up more gradually and hits its peak after 12 months. IMF researches added, “this is a much slower process than what is seen after a rise in global oil prices, which drivers feel at the pump within a couple of months.”

IMF assert its research shows shipping costs affect inflation in some countries more than others, and that the structural characteristics of an economy are important factors. “Countries that import more of what they consume see larger increases in inflation, as do those who are more integrated into global supply chains,” the researchers said, “similarly, countries that typically pay higher freight costs – landlocked countries, low-income countries, and especially island states – see more inflation when these rise.”

Research also illustrated how a credible monetary policy framework has the capacity to mitigate second-round effects from import prices and inflation. The researchers continued, “our analysis shows that keeping inflation expectations well-anchored is key to containing the effect of soaring shipping costs on consumer prices, particularly core measures that exclude fuel and food.”

As the inflammatory impact of shipping costs continues to build, the IMF expects the war in Ukraine to cause further supply chain disruptions. As a result, the conflict is likely to keep global shipping costs and inflammatory impacts higher for a longer duration.

Williams, A. (2022). FREIGHT RATES WILL CONTINUE TO SURGE. Retrieved from https://www.thedcn.com.au/news/bulk-trades-shipping/imf-research-suggests-continued-freight-rates-surge/ on 30th March, 2022.

STAFF SPOTLIGHT

MEET
WAYNE VAUBELL
TRUCK DRIVER
TOMAX TRANSPORT

What do you do at Tomax?
I am a truck driver who does deliveries from NSW to QLD.

What are your hobbies and interests?
I enjoy playing golf and watching the Rugby League.

If you could time travel, which decade would you choose to live in?
I would go back to the 60s and 70s where life was simple.

What is something you have always dreamt of doing?
Retiring from work!

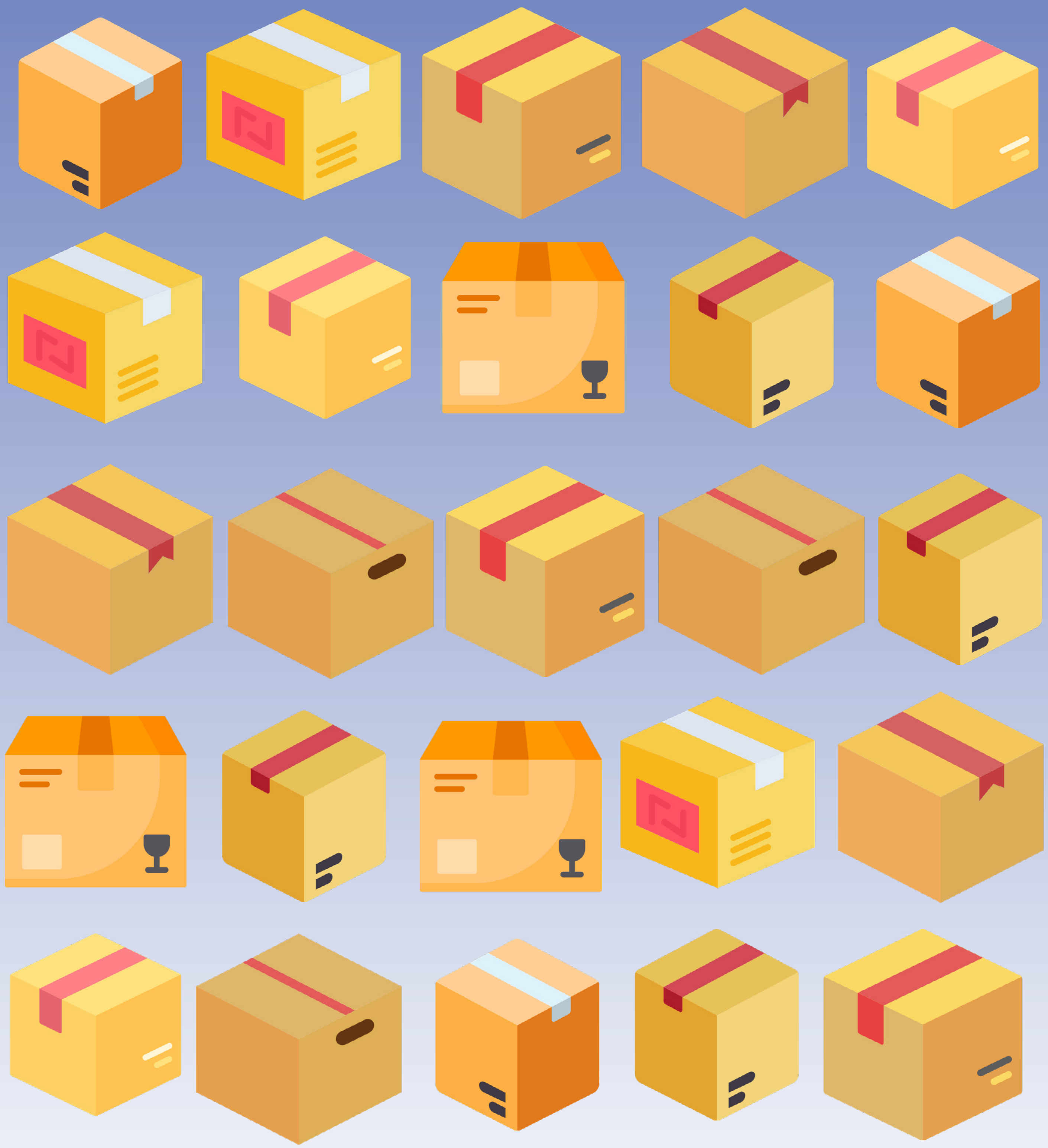
A song you enjoy singing to?
Anything from Joe Bonamassa.

Three words to describe yourself?
Reliable, relaxed and fun.

The greatest invention of all time?
The golf ball.

FIND 4 OF THE SAME BOX

See if you can find 4 delivery boxes which are identical!



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