Uncovering and minimising the impacts of COVID-19 logistics disruption

Short-term logistics disruption report

October 2021
## Project scope and objectives

### Project objectives

- Minimise the impact of COVID-19 logistics disruption on agricultural export supply chains.
- Conduct ongoing analysis of logistics disruption by assessing market impacts and providing timely and accurate information to select rural industries.
- Improve the resilience of rural industries to logistics disruption, by providing information to support businesses to make strategic decisions.

### Project scope

- Develop short-term logistics disruption assessment reports on a monthly basis, including general agriculture logistics information and three industry case studies.
- Develop medium-to-long-term logistics assessment reports on a quarterly basis, to investigate longer-term factors such as geopolitical impacts, customs and market access regulations.
Cross-industry insights
A summary of the October 2021 key logistics disruption insights with the potential to impact producers

October 2021 logistics disruption insights may be used to guide industry participants in their supply chain strategic decision making over the short, medium and long term.

- Extreme weather and COVID-19 outbreaks continue to worsen backlog at key Chinese and US ports, with addressing congestion at Long Beach and Los Angeles raised as a White House-mandated priority to avoid detrimental goods shortages ahead of Christmas. Temporary relief measures such as increased hours of operation may help reduce long lead times experienced by global exporters and importers.

- Some Australian states have introduced mandatory vaccinations for port workers, with some terminals experiencing forced temporary closures due to COVID-19 outbreaks. A persisting absence of national contingency planning to minimise the disruption of ongoing outbreaks on port productivity remains a concern as economies begin to re-open and plan to trade at higher volumes. Australian ports are planning significant investments to increase freight capacity in the coming years.

- Industrial action at ports in Sydney, Brisbane and Melbourne continues to reduce productivity, with strikes planned to continue through to the end of year as part of the Maritime Union of Australia’s (MUA) ‘pre-Christmas industrial campaign’.1

- The global red meat trade continues to be disrupted by China’s ban on Brazilian beef imports, creating potential short-term supply gaps for Australian producers to fill – however, significant competition from the US persists. China has revoked the export licence of another Australia meat processing facility due to claims of biosecurity incursions, demonstrating the sensitivity of current trade relationships.

- Australian grains exports continue to be impacted by domestic border bottlenecks and labour shortages. However diversified export customers, supply gaps left by a poor Northern Hemisphere season and a strong production outlook provide potential favourable trade opportunities for upcoming grains exports.

- Citrus exporters are undergoing trials to enhance supply chain efficiency, including a traceability pilot designed for high-value exports and a new automated export property inspection system. These programs are intended to help reduce lead times and mitigate the impacts of trade volatility.

1 Port strikes threaten to cripple Christmas | Australian Financial Review
China’s ongoing energy crisis and regional weather events are impacting global trade flows

Key insights

• China’s Yantian Port in Shenzhen suspended pick-up and drop-off of containers due to tropical cyclone Kompasu about the 12 October 2021. Similar suspensions were placed in Hong Kong and ports along the Pearl River Delta, all of which have experienced backlogs as a result.2
• These closures are causing further delays to China’s trade as import and export customers worldwide prepare for further supply chain complications.1
• China’s ongoing electricity shortage caused by increased coal prices is set to cause further impacts on global trade due to factory closures and sporadic power outages, threatening Australia’s import of agricultural inputs as well as export of agricultural products such as wool.

Shenzhen, Hong Kong port closures

• Operations at both Yantian and Hong Kong ports largely resumed on 14 October, 2021, however ongoing backlogs are expected to continue. Delays are expected to add weeks onto shipments from the region, which already require double the standard travel time.
• Ports in Shenzhen and Hong Kong, as key thoroughfares for trade in the region, hit a record level of 109 ships waiting to enter as of 15 October 2021.4

China electricity shortage

• China’s ongoing electricity shortage caused by soaring coal prices is set to further complicate global trade due to factory closures, production cuts and disruptions to other key operations activities.
• Louis Kujis, Senior Asia Economist at Oxford Economics, reported that the electricity crisis will extend outside China to create yet another factor causing supply-side trade challenges.3 Economists have warned that China’s energy crunch stands to slow global post-pandemic economic recovery by causing higher inflation for consumers globally.5
• Among record demand for Chinese exports, the situation places further pressure on global importers, who are already struggling with delays and container shortages due to unpredictable Chinese port closures.
• Near-term solutions to the crisis are not apparent as factories across China have been told to prepare for continued power supply disruptions and production cuts.
• The crisis is however creating opportunities for Australian supply chains as China has partially relaxed its unofficial ban on Australian coal, which has been released from bonded storage to plug the current supply gap. Despite a lack of policy changes, coal industry executives and diplomats have reported they are hopeful this move is the first of a general easing of restrictions imposed close to a year ago.6
• As a result of the energy crisis, Australia may experience impacts to both its import of key fertiliser inputs from China and export of agricultural products. Australian Wool Innovation chief executive Stuart McCullogh reported some Chinese mills that import Australian wool had this week reduced production by up to 40 per cent because of power cuts. Chinese wool buyers are expected to experience shutdowns for up to six months, which will reduce their demand for Australian wool, timed during peak Australian season.7

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1 Cyclone Closes One of World’s Busiest Ports, Creating Ship Traffic Jam | Bloomberg
2 Yantian, Hong Kong and Other Ports Closed as Tropical Storm Approaches | The Maritime Executive
3 China’s energy crisis poses another challenge for global supply chain | MHD Supply Chain News
4 Port traffic in Southeast Asia is the worst it’s been in over 6 months – and could create even more chaos for US supply chains | Business Insider Australia
5 China’s Energy Crisis Puts Global Economic Recovery at Risk | VOA News
6 Power crisis forces China to ease Australian coal ban | Australian Financial Review
7 China’s power crisis shocks Australia’s wool industry. Price of farm inputs also tipped to rise | ABC News
Congestion challenges at US ports have been escalated to presidential priority, resulting in implementation of major relief measures

Key insights

- The Biden administration is addressing freight challenges directly through its Supply Chain Task Force, recently mandating increased hours of port operations at Los Angeles and Long Beach to avoid goods shortages ahead of Christmas. The administration’s direct involvement in the issue has been reported by Bloomberg as a rare intervention in what is typically considered a private sector issue.
- The ports are now offering more off-peak night-time shifts and weekend hours, to enable faster unloading of cargo.
- Given the two ports collectively handle 40% of all cargo entering the US, it is hoped these extensions will positively impact freight capacity and ease the impacts of flow-on supply chain disruptions worldwide.
- The Australian Government is also taking steps to ease supply chain strains, through its Simplified Trade Systems (STS) agenda, which will simplify border processes and reduce regulatory costs for 57,000 Australian exporters and more than 380,000 Australian importers.

United States

- Operating hours extensions are intended to also unlock capacity in the rest of the US supply chain, including highways, railways and warehouses, which may reduce lead times for Australian exporters delivering products to regions outside the US West Coast area.
- These changes are part of the White House’s proposed major investment in US ports, however the US$1 trillion infrastructure bill is still yet to pass the Senate and Biden’s slim majority in Congress indicates approval of the plan is not guaranteed.
- These investments plan to address the supply chain weaknesses exposed by the pandemic and reduce reliance on foreign inputs, and could create more stable supply chains for Australian goods into the country, particularly as trade partnerships between the two countries continue to strengthen.

Australia

- The recently established STS Implementation Taskforce will review international trade regulations and streamline outdated ICT systems.
- This will complement the $1.2 billion Digital Economy Strategy to help drive a jobs-led economic recovery and continually automate processes.
- The Taskforce will work with the Simplified Trade System Industry Advisory Council, the Deregulation Taskforce, other border agencies, and Australian businesses to review and improve regulations and trade systems.

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1 LA port to open round the clock to tackle shipping queues | BBC News
2 Australia’s international trade: Toward a resilient and robust economic recovery | Across Borders Edition Two 2021: Freight Trade Alliance
3 Biden races clock and holds few tools in supply chain crisis | Bloomberg
4 New taskforce to simplify trade | Minister for Trade, Tourism and Investment
Industrial action and COVID-19 outbreaks are resulting in uncertainty for Australian ports

Key insights

- Ports Australia continues to call on the Government for more clear planning around management of outbreaks in supply chain workforces to minimise disruptions to operations, before these instances significantly increase in frequency. The primary point of concern is disruption caused by the mandated two-week quarantine periods for port workers who come into contact with a COVID case, regardless of vaccination status.¹

- Strikes continue to cripple port productivity as the Maritime Union of Australia (MUA) escalates industrial action for the remainder of 2021, with ongoing delays expected to continue given failure to reach an agreement amid what has been called the MUA’s ‘pre-Christmas industrial campaign’.

- Periodic closures and mandated quarantine disruptions due to positive COVID-19 cases at ports in Botany and Melbourne are creating logistical and financial setbacks to port productivity.

Sydney, Melbourne, Brisbane industrial action

- The Port of Botany continues to experience rolling 48-hour strikes at Patrick terminals, while in Melbourne, workers stopped supply for 12 hours every Monday, Wednesday and Friday for the entire month of October.³

- Patrick CEO Michael Jovicic stated the effect on Melbourne had been detrimental, given one-third of container capacity had been impacted by COVID-19 this year.

- Shipping Australia Chief Executive Melwyn Noronha stated that the disruption had cost a typical container ship almost $140,000 for every day of delay and would have repercussions for many Australians consumers.

- Industrial action has to date forced vessels to wait up to 18 days to berth in Sydney, nine days in Melbourne, eight days in Brisbane and three days in Fremantle, impacts that will likely continue with a lack of prospects of reaching agreements at all ports in the near future.³

Sydney, Melbourne COVID-19

- The Port of Melbourne was forced to shut its automated Webb Dock terminal for deep cleaning multiple times in late September due to a positive case of coronavirus. It has since reopened on restricted operations.

- Around this time, DP World was also forced to isolate more than 100 staff at its Port Botany terminal, including 36 employees for two weeks, due to a positive coronavirus case.³

Western Australia

- The Western Australia Government has now mandated vaccinations for ‘at-risk’ port workers, providing greater certainty for the state’s supply chains. Workers were required to have obtained at least their first dose by 15 October 2021 and both doses by 12 November 2021.²

- Mandatory vaccinations were introduced in a staged approach to mitigate impact on productivity, with a pop-up vaccination clinic introduced at Fremantle Port to support the requirement.

- While select private terminal operators have mandated vaccinations at ports in Sydney and Melbourne, Ports Australia has called on other jurisdictions to implement similar measures to enable stability and consistency across Australian freight movements.¹
Freight industries in NSW and Victoria are looking to expand capacity through diversified infrastructure investments

Key insights

- The Port of Melbourne’s recent Container Logistics Chain Study has indicated that Melbourne’s freight industry is continuing to grow, particularly in the west of the city, where freight investment will be targeted in coming years.

- The Port of Newcastle is reporting a wide scope of infrastructure investments to increase capacity in coming years, with a particular focus on diversification to reduce the cost of exporting for producers and manufacturers.

<table>
<thead>
<tr>
<th>Victoria</th>
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</thead>
<tbody>
<tr>
<td>The Port of Melbourne’s recent study showed that the west of the city is accounting for about 21% of regional export containers.</td>
</tr>
<tr>
<td>The study also demonstrated there was a need for more investment in metropolitan freight rail networks so that imported containers can be shifted to rail.</td>
</tr>
<tr>
<td>The report declared that strategic planning was needed to meet freight requirements across metropolitan Melbourne and to ensure that land supply and support infrastructure is enabled in the right locations. The report also supported the location of an interstate terminal in Melbourne’s west.¹</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NSW</th>
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</thead>
<tbody>
<tr>
<td>The Port of Newcastle represents significant freight expansion opportunities for NSW given it has a deep-water shipping channel operating at 50% capacity, significant port land available and valuable access to national rail and road infrastructure.</td>
</tr>
<tr>
<td>Recent investments include a $28.4 million purchase of two mobile harbour cranes and associated infrastructure, through which containerised trade is expected to increase in coming years.</td>
</tr>
<tr>
<td>Further, the ‘multi-purpose Deepwater Terminal investment’ is expected provide a viable alternative and a more cost-effective export route for regional NSW farmers and manufacturers.</td>
</tr>
<tr>
<td>Port of Newcastle CEO Craig Carmody claims new infrastructure will create a broad mix of new trade opportunities and enable Australian producers to compete more successfully in global markets.²</td>
</tr>
</tbody>
</table>

¹ Container Logistics Chain Study indicates Melbourne’s freight movements are growing in the west | Across Borders Edition Two 2021: Freight Trade Alliance
² Port of Newcastle sets sights on future diversification | Across Borders Edition Two 2021: Freight Trade Alliance
Global demand for air freight capacity continues to rise, and key global ports are experiencing a surplus of containers due to slower processing of freight.

**Key insights**
- Container flows through the Port of Singapore appear to have returned to a balance of containers entering versus leaving, while Los Angeles is still seeing a substantial surplus of containers entering. Shanghai is moving away from a balanced flow, experiencing a surplus of containers entering the port.

### Container Availability Index (CAx) October 2021

- **CAx 0.5** same number of containers leave and enter the port
- **CAx > 0.5** more containers enter than leave
- **CAx < 0.5** more containers leave than enter

**CAx 0.5**
- Shanghai Port: weekly average 0.57, 3% decrease on August 2021 levels
- Singapore Port: weekly average 0.50, 6% increase on August 2021 levels
- Los Angeles Port: weekly average 0.89, no change on August 2021 levels

### Inbound and outbound air freight movements August 2021*, compared with one month, one year, and two-year benchmarks

**Takeaways:**
- While both inbound and outbound global air freight movements appear to have decreased on July 21 levels, inbound air freight volumes appear to now be aligned with August 2019 pre-pandemic levels, driven by the further opening up of commercial air travel.
- Strong inbound freight movement is reflective of increasing global demand for goods ahead of Christmas, and as passenger air travel continues to be reinstated, air freight supply will be able to more closely align with this demand and also start to resemble pre-pandemic levels.

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1 Bureau of Infrastructure and Transport Research Economics, 2021. International Airline Activity monthly publications, most recent available is August 2021.
2 Container Availability Index, 2021.
Total container throughput has decreased at most major Australian ports compared with July 2021 levels

Key insights

- Total throughput of both empty and full containers at Port of Botany has decreased in recent months, indicating wavering freight capacity, while throughput at the Port of Fremantle improved on July 2021 levels. A significant surplus of imports over exports and full containers over empty containers at the Port of Melbourne remains.

Containerised exports and imports at major Australian ports

<table>
<thead>
<tr>
<th>Port</th>
<th>Containerised Exports</th>
<th>Containerised Imports</th>
<th>Total Throughput</th>
</tr>
</thead>
<tbody>
<tr>
<td>Port of Botany</td>
<td>112</td>
<td>114</td>
<td>226</td>
</tr>
<tr>
<td>Port of Melbourne</td>
<td>55</td>
<td>29</td>
<td>84</td>
</tr>
<tr>
<td>Port of Fremantle</td>
<td>34</td>
<td>32</td>
<td>66</td>
</tr>
</tbody>
</table>

Full vs empty containers at major Australian ports

<table>
<thead>
<tr>
<th>Port</th>
<th>Full</th>
<th>Empty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Port of Botany</td>
<td>157</td>
<td>68</td>
</tr>
<tr>
<td>Port of Melbourne</td>
<td>194</td>
<td>72</td>
</tr>
<tr>
<td>Port of Fremantle</td>
<td>47</td>
<td>13</td>
</tr>
</tbody>
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August 2021

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<th>Containerised Exports</th>
<th>Containerised Imports</th>
<th>Total Throughput</th>
</tr>
</thead>
<tbody>
<tr>
<td>Port of Botany</td>
<td>109</td>
<td>111</td>
<td>220</td>
</tr>
<tr>
<td>Port of Melbourne</td>
<td>55</td>
<td>34</td>
<td>89</td>
</tr>
<tr>
<td>Port of Fremantle</td>
<td>32</td>
<td>32</td>
<td>64</td>
</tr>
</tbody>
</table>

Full vs empty containers at major Australian ports

<table>
<thead>
<tr>
<th>Port</th>
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<th>Empty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Port of Botany</td>
<td>152</td>
<td>68</td>
</tr>
<tr>
<td>Port of Melbourne</td>
<td>190</td>
<td>70</td>
</tr>
<tr>
<td>Port of Fremantle</td>
<td>51</td>
<td>15</td>
</tr>
</tbody>
</table>

1 NSW Ports, 2021. NSW Ports Monthly Trade Reports.
2 Port of Melbourne, 2021. Monthly Trade Reports.
3 Fremantle Ports, 2021. Trade Reports.
Air freight volumes on all Australian top flight routes increased on last month, barring Sydney to Auckland

Key insights
- Freight volumes carried on all Australian top flight routes increased in August 2021 on July 2021 levels, barring Sydney to Auckland, reflecting slowly increasing air freight capacities in line with demand, which are anticipated to surge upon the imminent reopening of Australia’s borders.
- Overall container freight movements have not changed substantially in recent months of 2021, indicative of relatively strong export performance despite global volatility.

What does this mean for...

**Red meat**
- Continuing strong performance in the Sydney to Hong Kong and Singapore air freight routes are favourable for high-value red meat exports, while freight volume to other top high-value red meat market Los Angeles remains stagnant.
- Melbourne to Singapore air freight volumes increased significantly, indicating opportunity for Victorian-produced exports.

**Grains**
- Marginal increase in container exports through Botany bodes well for ongoing harvest. However, decrease in exports out of Fremantle may indicate less freight capacity for WA.

**Citrus**
- Strong container flow through Botany is a positive sign for freight capacity to export the end of this season’s harvest.

**Cross-industry**
- Shipping schedules should be monitored closely as global demand continues to rise in the lead up to Christmas, and further pressure on freight capacity may lead some shipping lines to make changes sporadically in favour of more lucrative destinations.

Comparison of freight quantities carried on top Australian flight routes June-August 2021¹

<table>
<thead>
<tr>
<th>Route</th>
<th>Jun 21</th>
<th>Jul 21</th>
<th>Aug 21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sydney to Singapore</td>
<td>8</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>Sydney to LA</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Melbourne to Singapore</td>
<td>6</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Sydney to Auckland</td>
<td>5</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Sydney to Hong Kong</td>
<td>4</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

¹ Bureau of Infrastructure and Transport Research Economics, 2021. International Airline Activity monthly publications, most recent available is July 2021.
Red meat: Industry snapshot
Australian beef exporters are experiencing short-term supply gaps with longer-term export competition in China

**Update**
- Global bans on Brazilian beef due to mad cow incursions persist – a resumption date is not yet identified

**Context**
- China is still yet to announce when it will end bans on Brazilian beef imports, with Egypt, Indonesia and Saudi Arabia also continuing bans. The US and Kazakhstan have continued imports.
- Excess beef products remaining at Chinese ports or in transit are being redirected to Hong Kong or Vietnam, with labelling and certification complications preventing any other markets from accepting the product.
- Redirecting 100,000 tonnes of Brazilian beef currently in transit to China will likely worsen logistical challenges at Chinese ports.
- Australian industry may see short-term export opportunities to plug supply gaps, however with China’s strong pork supply stocks and the fact that beef is not a staple protein, there is no urgency to resume Brazilian imports.

**Insight**
- Major short-term changes in global beef market share may increase opportunities for Australian exporters.

**The US is set to continue overtaking Australia’s historic market share of beef exports into China, reflective of shifting trade relationships**
- The introduction of Phase One trade agreements between the US and China continues to enable the US to overtake Australia’s once-dominant share of the imported beef market in China.
- Global beef exports into China continue to evolve as the US takes advantage of reduced Australian supply. The US exported US$240 million worth of beef to China in July and August 2021, compared with US$195 million for the whole of 2020.
- Combined with China’s impending recovery from African swine fever, which will reduce demand for beef, the growing US market share may continue to cause Australian exporters to look at alternative markets, or otherwise face downward pressure on prices.

**The international outlook for Australian red meat exports over 2022 is strong**
- The Department of Agriculture, Water and the Environment’s recently released September quarter forecasts and outlook report showed that Australian herd restocking rates are expected to slow in the first half of 2022 – beef production is predicted to rise 7.2% across 2021-22, with increasing slaughter and slaughter weights.
- International outlook is favourable, with beef and veal demand expected to remain high in key export markets.
- Australian export volumes are forecasted to rise by 3.4% across 2021-22. However, high freight costs and limited supply of refrigerated containers may impact these export volumes.
- Beef and veal are also forecast to experience a 1% increase in price, which although minimal may ease the impact of high freight costs.

**Beyond 2021, Australian exports can expect stronger competition for a smaller segment of the Chinese beef market.**

**Production, exports and prices for red meat may alleviate some impact of trade volatility in recent years.**

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1. Brazil’s Meatpackers Curb Output as China Beef Ban Lingers | Bloomberg
2. Where’s the beef? China meat ban leaves Brazilian officials baffled | Financial Times
4. What beefed up US exports to China could mean for Australian cattle prices | Rural Bank
5. Agricultural forecasts and outlook September quarter 2021 | ABARES
The success of Australian red meat exports continues to be dictated by volatile global dynamics

Key insights
- Exporters continue to see compromised market access into China, once a key premium market for Australian beef, due to both increased competition from other nations and recent claims of biosecurity incursions. Some industry members fear Australian exporters could be permanently pushed out of Chinese markets.2
- Exporters continue to pivot toward alternative markets in response, increasing their resilience against demand shocks.

Flow-on impacts and minimising disruption

Emphasis continues to be placed on traceable supply chains to support Australia’s biosecurity and protect export markets.
- China’s ban on beef exports from Brazil has served as a reminder to Australian exporters of the importance of stringent quality assurance processes as a means of protecting market share.
- Further, Chinese authorities revoked the export licence of an Australian meat processor on 18 October 2021, claiming frozen beef products had been contaminated by chloramphenicol, epitomising the reactivity of key export markets and the speed with which action can be taken regardless of the validity of claims.1
- The Department of Agriculture, Water and the Environment stated that there have been no reports of contamination by other export customers of the abattoir, including Japan and Korea. Federal Agriculture Minister David Littleproud stated that efforts had been undertaken at a governmental, departmental, diplomatic and counsellor level. But despite these, suspensions for the meat processor remained in place as of 20 October 2021.3

1 Beijing bans beef from Brisbane abattoir amid souring Australia-China relations | Sky News
2 US edges out Australia for bigger stake of China beef market | Australian Financial Review
3 Brisbane’s Australian Country Choice meatworks suspended from exports to China | ABC News
Grains: Industry snapshot
### Domestic supply chain issues and high input prices are concerns for an otherwise strong grains export outlook

#### Update

**Domestic labour shortages and supply chain bottlenecks continue to be monitored**

- Harvest labour shortages persist, particularly for skilled roles such as header drivers and mechanics, for grain crops such as wheat, barley, oats and canola, where a significant portion of contracted skilled staff for harvest have typically come from overseas.

- Combined with domestic border restrictions limiting the speed with which both grain inputs, products and labour resources are moved, the situation is continuing to impact the Australian agricultural supply chain. For example, moves by Queensland to stop every vehicle and check multiple documents at borders is adding an estimated six hours of delays per day.

- With each day that grain deliveries are late, the yield and price of final grains product decrease, posing risk to export performance.

#### Context

- Rabobank’s just-released winter crop forecasts estimated that Australia will harvest 52.87 million tonnes of winter grains, oilseeds and pulses this season. Total grains exports are forecasted to increase 5% year on year.\(^1\)

- Short global supplies of grains and oilseeds are predicted to continue to create favourable price outcomes for Australian exporters.

- Strong export performance into Southeast Asia is expected, with Australian wheat continuing to be a price setter in the region. Supporting this success will be Australian exporters’ lower freight costs compared with other grain exporters in the area, which will continue to benefit Australia as increased shipping costs remain.\(^1\) However, industry remains mindful of the increasing presence of other grain exporters in the region.

#### Insight

- Hurricane Ida, elevated European gas prices and China’s rising costs of coal are causing global fertiliser plants to curb production, increasing prices to a 13-year high.\(^2\)

- Key chemical input DAP increased from $899 per tonne in mid-August 2021 to $970 following Hurricane Ida in early September, while urea rose from $468 to $585.

- While the majority of Australian grains producers import key fertiliser inputs from the Middle East and China, volatility in all fertiliser production markets has had flow-on impacts that have tightened global supply.

- Production costs will increase as a result, adding vulnerability to industry’s bottom line, especially with continued record high freight prices. Congestion-driven delay risks will also place pressure on supply chains for next season, causing most of industry to lock in supplies early.\(^3\)

- Lower freight costs for Australian grains exporters trading into Southeast Asia will continue to support export growth in 2022, although competition in the region remains.

- An insecure labour supply and long domestic lead times may impact the price and quality of Australian grains exports.

- High fertiliser prices are expected to continue in the short term, highlighting the importance of supply chain planning to secure imports early.

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\(^1\) Another ‘golden year’ for Australia’s winter crop: Rabobank | Grain Central  
\(^2\) Fertiliser prices hit 13-year high | Grain Central  
\(^3\) Global supply disruption to see Aussie growers lock in ag inputs early for season ahead | Rabobank  
\(^4\) Market Morsel: Fert pricing pain | Thomas Elder Markets
Global fluctuations in grains trade are adding to concerns around labour availability for upcoming Australian harvest

Key insights

- Overall, global grains supply is compromised due to drought and high input prices, which is creating a favourable export outlook for this Australian season and the next. However, high fertiliser costs as well as freight instability are posing some risks to industry.
- Industry continues to diversify export markets, with Australian canola growers recently granted permits to export canola seeds to Pakistan following phytosanitary and technical import issues. However, given lower prices compared with other markets, this limits the ability to mitigate other disruptions.
- Australia continues to realise grains export opportunities in place of compromised northern hemisphere crops.

Flow-on impacts

High fertiliser costs are causing concerns for Australian production and are impacting next season plans

- Increasing fertiliser costs are causing producers in Canada and the EU to reduce plantings, raising similar questions for the Australian industry. Where possible, industry members may look to diversify the markets from which fertilisers are imported.

Expectations of quality issues with China’s imports of French wheat are increasing demand for bulk Australian exports in replacement

- One estimate is that China has purchased as much as two million tonnes of wheat from Australia to fill the gap left by a poor French harvest. Supply chain efficiency, however, has been flagged as critical to ensure Australian wheat quality remains high in line with China’s expectations. Limited availability of booking slots to move the wheat from Australia to China is expected to pose an ongoing risk that impacts quality.

Reduced Canadian supply is increasing demand for Australian wheat from the European Union

- Canadian durum exports to the EU from 1 July to 19 September 2021 totalled just 170,100 metric tonnes, down from 485,000 in the first 12 weeks of 2020-21. In the same period, Australian exports of durum wheat to the EU went from zero in 2020 to 65,000 metric tonnes.
- There is potential for significantly more trade once the 2021 current Australian crop is harvested, which will contribute to the industry’s ongoing diversification efforts.

Minimising disruption

Australia continues to realise grains export opportunities in place of compromised northern hemisphere crops

- Following recent changes in market access, Pakistan has been named as a potential export market for Australian grains exports due to its growing middle class. Australia’s agricultural exports to the country grew 35% year on year to $194 million in 2020 (with pulses a key contributor).
- As of 2 October 2021, Australian farmers are reported to have already sold as much as 20 per cent of industry’s total expected exportable surplus, providing supply chain contingency planning for many exporters in the instance of disruption.
- Strong demand from Asian markets provided the demand Australian grains producers needed to meet a large supply of Australian grains, which would likely not have been the case if the northern hemisphere had a strong season. Increased sales to high-demand markets is to some extent helping to offset current high costs of freight by increasing revenue.

Sources:
1. One person’s loss is another one’s gain | Grain Brokers Australia
2. Importers cast net for wheat supplies | Queensland Country Life
3. Supply chain latest warnings mount over fertilizer crisis | Bloomberg
4. Choked and gouged: story of NSW containerised grain exports | The Land
Citrus: Industry snapshot
Reduced production and average export prices are exacerbating labour and logistics challenges for citrus

**Update**

The citrus industry is experiencing export decreases due to reduced production and shifting trade relationships

Valencia orange exporters are preparing for increased transit times and ongoing labour shortages to prolong harvest

Moves by Citrus Australia to enhance the traceability of supply chains bodes well for future premium exports

**Context**

- Rural Bank’s recently released Australian Agricultural Trade 2020-21 report revealed that fresh fruit exports suffered agriculture’s largest decline in export value in 2020-21, down 25.8% on the previous year, driven predominantly by citrus and table grape exports.¹

  - The value of orange exports is reported to have fallen by $23 million (7.4%) in 2020-21 to $287.2 million following a poor citrus season with reduced production. Mandarin export value declined 21.2% over the same period.¹ Reported delays of up to 20 days at Chinese ports were a key contributor to the decline in export value for citrus in particular.

  - Comparatively, the strong season currently in progress will increase supply, with projections for mandarin harvest looking particularly positive. However, industry fears that reduced demand from China may pose challenges.²

- Valencia orange growers are reporting that average transit times to markets such as Asia and the US have increased from 20-30 days to 60-70.³ This means not only will lower volumes be exported but growers will also have limited opportunity to reach markets before they clash with northern hemisphere production and trade flows into Asia.

  - Ahead of harvest, growers have been preparing to shoulder higher labour costs and are reducing pruning in an effort to cut costs and make it through the season.¹

  - A tight labour supply market has worsened the issue, with fruit and vegetable growers reporting more than $60 million worth of produce having gone unpicked over the past 10 months due to seasonal worker shortages.⁴

- Citrus exports may see strengthened supply chain transparency to bolster the security and quality of exports in the coming season.

**Insight**

A favourable 2022 supply outlook bodes well for exports so long as alternative export customers can be identified.

Citrus exporters are prioritising early supply chain contingency planning to alleviate the impact of delays and labour shortages.

- Agriculture Victoria is funding an innovative $770,000 traceability pilot for high-value exports called the ‘Food to Market’ program, led by Citrus Australia.

  - The project will leverage industry-leading track and trace technologies, isotope testing, cool-chain tracking and orchard mapping to increase traceability along supply chains.

  - Not only will this substantially improve supply chain efficiency and visibility, the project will more importantly protect the Australian brand reputation in market.

  - This will be critical at a time of uncertainty in trade and biosecurity circumstances, with many Australian agricultural industries fearful of sudden geopolitically driven demand shifts.⁵

¹ Australian agriculture trade report 2021 | Rural Bank
² Chinese relations impact table grape and citrus exporters with value drops | Good Fruit and Vegetables
³ Valencia orange growers face shipping delays and demand downturn ahead of harvest | Weekly Times
⁴ National farm workforce all sectors scrambling to fill positions ahead of harvest | Weekly Times
⁵ Citrus Australia spearheads innovative traceability project for high-value exports | Fresh Plaza
As Australian states open up, the citrus industry hopes to capitalise on increased local demand and labour access

**Key insights**

- Export supply chain issues are causing more citrus products to be reallocated to the domestic market. However, the closure of restaurants and cafes in Sydney and Melbourne during lockdown has also reduced local demand.
- Restricted market access is a long-term concern for compromised citrus exports due to labour shortages and reduced production. Significant domestic price increases may also occur, a negative outcome for consumers, however may help industry make up for reduced export volumes.
- A new automated property inspection system was trialled on citrus farms and achieved success in increasing efficiency of export supply chains.

**Flow-on impacts**

**Increased focus on domestic citrus market**

- As Sydney and Melbourne reopen hospitality sectors, the citrus industry hopes to see a resurgence in domestic demand, particularly considering a considerable share of fresh Valencia oranges are sold into food service and hospitality markets.¹
- Increasing focus on the domestic market in line with end-of-year demand increases could enable industry to circumvent high shipping costs and supply chain uncertainty for exports.

**Reduced crop quantity will have cross-supply chain impacts**

- In addition to potential market access consequences, the chair of the horticultural committee for NSW Farmers, Guy Gaeta, has claimed citrus crop losses may cause product shortages and subsequent significant rises in price for consumers.

**Minimising disruption**

**Quarantine arrivals from 1 November 2021 will increase access to overseas labour**

- Moves by state governments to increase access to overseas labour by opening borders are hoped to support harvest. These include NSW’s announcement to allow quarantine-free arrivals from 1 November 2021. However, uncertainty surrounding securing labour in such a short timeframe remains.²
- State governments have introduced additional measures to support labour gaps, particularly in the low-skilled areas needed by the citrus industry, such as NSW recently offering public servants paid leave to help farmers.³

**Department of Agriculture, Water and the Environment’s Plan Export Management System trial increases supply chain efficiency for producers**

- The department has recently piloted a change to how it validates accredited properties using the Plant Exports Management System (PEMS), which allows for automatic validation of a property at the time of inspection by replacing manual checks typically carried out later in the supply chain.
- The success of this pilot for the citrus industry will lead to the roll-out of this enhancement to other horticulture commodities.²

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¹ Valencia orange growers face shipping delays and demand downturn ahead of harvest | Weekly Times
² Plant exporters reap early benefits from digital reforms | Across Borders Edition Two 2021: Freight Trade Alliance
³ Labour shortages may cause farmers to lose crops and consumers to face food price hikes | The Guardian
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