

Supermarket Pricing Inquiry

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Submission – Parliamentary Inquiry into Supermarket Pricing



1. Introduction

We would like to thank the Supermarket Pricing Select Committee for the opportunity to respond on behalf of Sea Swift – the major sea freight provider to remote coastal and island regions of Queensland and Northern Territory. I also acknowledge the traditional owners of the regions in which we operate.

In this submission, Sea Swift will respond to the Inquiry Terms of Reference as follows:

Terms of Reference	Sea Swift Submission
a) Rising grocery prices in Queensland and discrepancies between retail and wholesale and farmgate prices, including difference sized businesses	Sea Swift are not in a position to respond on this topic.
b) Variability in supermarket offerings and pricing across the State, particularly in regional Queensland and in remote Aboriginal and Torres Strait Islander communities	This submission describes the operational and economic challenges of operating a freight service to remote coastal communities in Northern Australia with reference to Sea Swift business performance and rationale for historical pricing decisions
c) Long-term trends in profits accruing along the supply chain for perishable produce, with particular regard to impediments to the profitability of primary producers	
d) Conduct of retailers in negotiations with Queensland producers, and the prevalence and effects of information asymmetry between these parties	Sea Swift are not in a position to respond on this topic.
e) Improvements to Queensland's policy environment to increase transparency for producers, including what data will reduce information asymmetry, and/or reduce prices for consumers	Sea Swift are not in a position to respond on this topic.
f) Any other reviews or inquiries occurring in Australia regarding this matter, with a view to complement these analyses by focusing on potential Queensland Government responses	Sea Swift are not in a position to respond on this topic.



2. Overview

Sea Swift notes some misconceptions and misunderstandings in the public commentary regarding Sea Swift's pricing practices in the OTSI. The cost to provide freight to remote communities is high because:

- *Lack of economies of scale:*
 - Small population size and geographical distribution - the population is small and widely distributed across 16 islands
 - Low freight volume - the overall volume of freight is low because of the population size and the modest economic activity
- *High costs and complexity:*
 - Capital equipment - the service requires significant and complex equipment (vessels, forklifts, containers)
 - Additional steps in supply chain – the complex supply chain steps all add cost to deliver
 - Infrastructure – marine and shoreside infrastructure in the OTSI is in poor condition and is harmful to Sea Swift's fleet

The factors above in combination lead to higher costs, when compared to services to a mainland metro area. Sea Swift's prices for this service do not lead to super profits, indeed the OTSI services do not make a profit.

3. Sea Swift Background

Sea Swift is Northern Australia's largest shipping company, playing a prominent role in the development and sustainability of economic and social life in the regional communities of Far North Queensland and the Northern Territory.

Founded in 1987, with headquarter operations in Cairns and Darwin, Sea Swift has one simple goal: Keeping Northern Australia connected. The company operate 8 remote and coastal depots throughout the region, including 5 in Queensland; Cairns, Seisia, Horn Island, Thursday Island and Weipa. Sea Swift leverages this network as the exclusive provider of freight services to the Outer Torres Strait Islands ("OTSI").

To service its customers, Sea Swift employs ~550 people, 9.6% of which are First Nation's people, and operates 24 vessels across it's network. These vessels operate in some of the country's most challenging marine environments.

As the sole shipping provider in the OTSI, Sea Swift has built genuine and long-standing relationships with these remote communities. The ~45 staff dedicated to servicing the OTSI work diligently all year round in some of Australia's most challenging weather conditions. Sea Swift continues to support communities through local and First Nations traineeship and sponsorship programs, contributing generously to the communities it services.

4. Operational Complexity

The regions Sea Swift serves in both Queensland and the Northern Territory are remote. Access is often restricted by prevailing weather and tidal conditions, particularly through the monsoonal trough season from December to April.



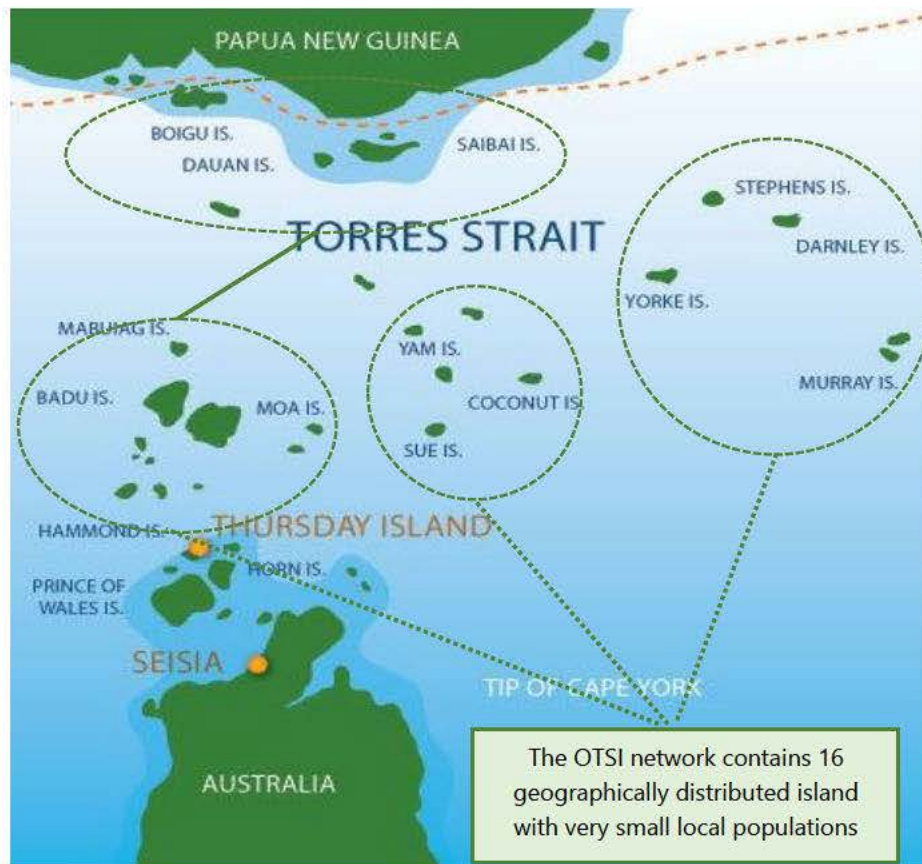
Figure 1: Sea Swift's operating network

Sea Swift's supply chain is complex, with scheduled services up and down the east coast of Australia arriving in Cairns, through the Torres Strait into depots in Weipa, Horn Island, Thursday Island and Seisa and then onto the various remote islands throughout Queensland and Northern Territory.

This is compounded when servicing the remote islands of the OTSI. The OTSI includes 16 vastly distributed remote islands, each with a small local population. These islands have relatively limited prospect of economic growth and are not capable of generating economies of scale in the near future to offset the significant complexity to the supply chain. In order to deliver perishable foods, the OTSI voyages are required to run weekly, with an additional cross-harbour service connecting Horn Island and Thursday Island operating multiple times per day.

OTSI populations

Badu Island	813 people	Murray Island	453 people
Boigu Island	271 people	Thursday Island	2805 people
Coconut Island	167 people	Saibai Island	465 people
Darnely Island	328 people	Ugar (Stephens) Island	69 people
Dauan Island	191 people	St Pauls (Moa Island)	242 people
Hammond Island	253 people	Warraber Island	274 people
Kubin (Moa Island)	151 people	Yam Island	275 people
Mabuiag Island	238 people	Yorke (Masig) Island	283 people



Figures 2: Map demonstrating significant geographical distribution of the OTSI region

Many of these islands also require “last mile” delivery service at the end of the already long and complex supply chain. This entails door-to-door delivery of critical food and medicines to remote retail stores, community members and other businesses adding time and cost to the overall delivery.

Northern Australia is particularly susceptible to extreme weather events. Sea Swift is regularly faced with balancing service continuity during natural disasters. As an example, Sea Swift continued all services during, and in the aftermath of, Tropical Cyclone Jasper (Dec-23), demonstrating its commitment to the customers and communities it serves.

All of these factors create additional processing and handling touchpoints that are considerably more onerous than a standard domestic retail supply chain. The flow chart below illustrates this contrast. The supply chain prior to receipt by Sea Swift is under the control and management of our customers and their suppliers, and in most cases food and groceries have travelled for multiple days prior to Sea Swift taking custody of the items and delivering to their destination.

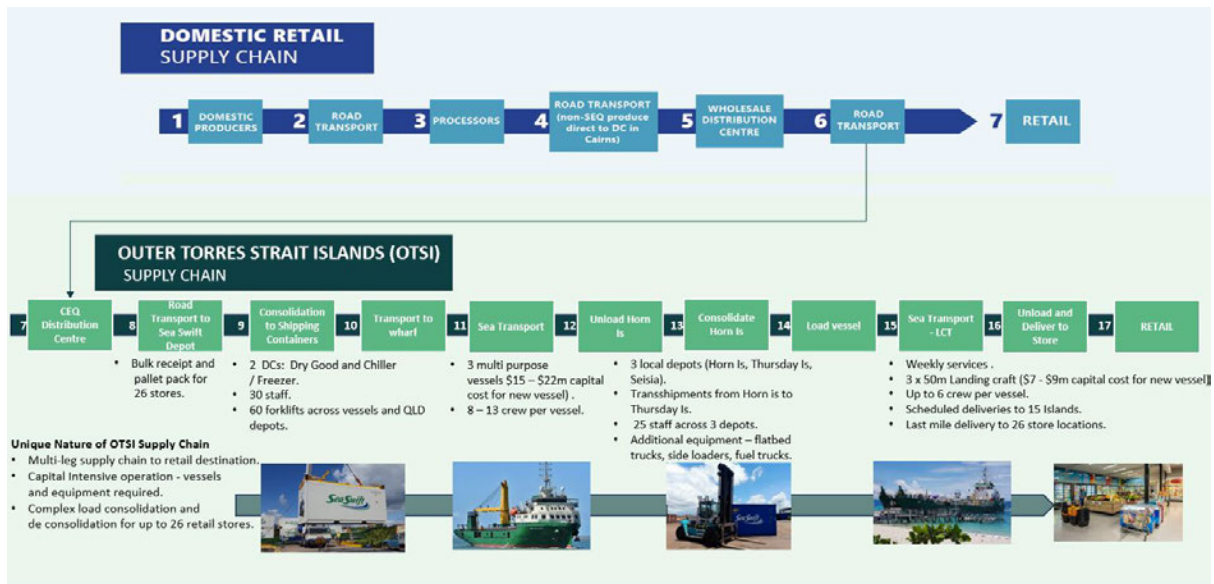


Figure 3: Illustrative comparison of Sea Swift remote island retail supply chain to standard domestic retail supply chain

5. Infrastructure

Transport infrastructure is limited in Far North Queensland. As a Cairns-domiciled company, Sea Swift derives limited supply-chain benefit from road and rail infrastructure, particularly when compared to the vast infrastructure networks that exist in the southern states of Australia. In relation to the OTSI, there are no alternatives to Sea transportation. Sea Swift's freight services are the only method of supply connecting these remote communities to mainland Australia. It is incumbent on Sea Swift to deliver essential goods 365 days a year, irrespective of the volatile weather and tidal conditions.

The marine and shoreside infrastructure in these remote communities has also been historically underinvested in, creating a hazardous environment for Sea Swift and the community, and is particularly harsh on vessels, machinery, and equipment. We welcome both the State and Federal Government's for their announcements with regards to investment to upgrade marine infrastructure in the OTSI region, and we are looking forward to working with all levels of Government to ensure these relevant funds can progress vital infrastructure upgrades to ensure we can continue to connect our vessels safely with the landing facilities.



Figure 4: examples of the poor road and ramp infrastructure in Duaun Island and Saibai Island

6. Sea Swift Business Performance

The complexity of Sea Swift's supply chain is a significant burden to business performance. Many of the voyages, particularly within the OTSI network, incur annual losses. Sea Swift has also been impacted by the same inflationary pressures felt throughout the broader economy.

Sea Swift's fleet of vessels and machinery are critical requirements of the core business. Sea Swift deploys 24 vessels, covering linehaul, landing craft and tug & barge assets, as well as heavy duty forklifts, standard forklifts, trucks, utes, other vehicles and containers to service its customers. Both the vessels and machinery require significant repair and maintenance, which is exacerbated by the harsh weather conditions in which they operate. The impact of underinvested infrastructure, particularly ramps and roads, adds to this burden.

The factors above in combination lead to higher costs, when compared to services to a mainland metro area. Sea Swift's prices for this service do not lead to super profits, indeed the OTSI services do not make a profit. Historical price increases have sought to recover some of these losses.

Despite these challenges, we are proud to service these remote communities 365 days of the year, regardless of the conditions, as we understand our service is vital for the communities we serve.

7. Shopping Prices

Sea Swift have compiled an estimate on the pricing impact of freight on a selection of everyday grocery items in the OTSI:

Dry goods

Grocery item	Size	In-store sale price	Freight % of sale price ¹
Coca-Cola	1.25L	\$5.50	17%
Baby wipes	0.5Kg	\$7.50	8%



Laundry liquid	2L	\$20.00	7%
Fruit in juice	0.7L	\$6.25	8%
Fruit & nut mix	0.2Kg	\$5.50	3%

¹includes port fees & fuel surcharge

Refrigerated goods

Grocery item	Size (KG / L)	In-store sale price	Freight % of sale price¹
Flora spread	0.5Kg	\$6.00	8%
Lemons	1Kg	\$5.99	16%
Sausages	1Kg	\$12.49	8%
Sweet potato	1Kg	\$3.69	26%
Lamb leg	1Kg	\$31.99	3%

¹includes port charges & fuel surcharge

Sea Swift commonly deploys a “per kilogram” pricing structure, which allows grocery chains to easily develop the retail prices inclusive of freight charges. The basis of a flat freight rate per kilogram results in a relatively low freight charge as a percentage of total grocery price for high price-per-kilogram goods (e.g. lamb leg), and conversely for low price-per-kilogram products (e.g. sweet potato).

Additional pass-through costs beyond our control include harbour dues (i.e. port charges) and fuel surcharges, which is an industry-wide practice to allow carriers to account for fluctuations in fuel pricing. Note that the estimates above include both pass-through costs.



As responsible operators of long standing in the region, Sea Swift would be happy to be engaged in further discussions to address some of the issues raised in this paper, or to discuss other initiatives or issues under consideration by the committee.



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