

19 April 2012

Committee Secretary
Senate Economics Legislation Committee
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Business
Council of
Australia



Inquiry into Bills Referred 22 March 2012 (Shipping Reforms)

Dear Committee Secretary

Thank you for the opportunity to comment on the shipping reform Bills currently before the parliament.

The Business Council of Australia (BCA) has made two public submissions that have highlighted our concerns that aspects of those reforms could lead to higher costs to users and poorer service quality, thereby harming the competitiveness of shipping users. Principally, our concerns relate to the proposed approach to temporary licensing and the tightening of access to the coastal trading market by foreign vessels compared to the current regime.

Two separate reports provide analysis that backs up those concerns. First, the government's regulatory impact statement finds worsening economic impacts as foreign vessels are replaced with higher-cost Australian ships. Secondly, a report by Deloitte Access Economics found shipping freight costs could increase by up to 16 per cent and GDP and employment could be lower, along with other potential negative impacts from reduced competition.

Both the BCA's earlier submissions have recommended that:

- the government tasks the Productivity Commission with assessing the economic and productivity impacts of the shipping reforms, in particular the impacts on shipping users, and to assess the proposals against alternative reform options for the sector
- a key objective of any legislative reform of Australia's shipping industry should be to increase the competitiveness of the coastal shipping market and ensuring globally competitive costs of transporting Australian goods by ship. We have recommended that this objective be made explicit in any legislative reforms being considered.

The object of the Act

To address whether our concerns have been reflected in the legislation, we note that the exposure draft of the Coastal Trading (Revitalising Australian Shipping) Bill 2012 lists the following objectives:

"The object of this Act is to provide a regulatory framework for coastal trading in Australia that:

- (a) promotes a viable shipping industry that contributes to the broader Australian economy; and
- (b) facilitates the long-term growth of the Australian shipping industry; and
- (c) enhances the efficiency and reliability of Australian shipping as part of the national transport system; and
- (d) maximises the use of vessels registered in the Australian General Shipping Register and the Australian International Shipping Register in coastal trading."

These objectives are essentially geared towards developing Australian shipping businesses. A broader set of objectives is needed to ensure the subsequent reforms do not lessen the competitiveness of the market, negatively impact the interests of shipping users or result in lower employment and GDP outcomes for the wider Australian community. The BCA's recommendation that the Bill should have as its objectives the development of a competitive market for coastal shipping services and to ensure globally competitive shipping costs and services for users of coastal shipping has not been reflected in the legislation.

In our view all legislated instruments in the Act should be designed to support a globally competitive coastal shipping market that contributes to a productive and growing Australian economy.

Providing a definition for 'Australian shipping' and 'Australian shipping industry'

The terms 'Australian shipping' and 'Australian shipping industry' in the objectives above are not defined in the Act, yet their meaning is important for interpreting the objectives of the Act. For instance, where the objects of the Act refer to 'Australian shipping', it is not clear if this means only domestic providers of shipping or a broader definition of the industry, inclusive of both foreign and domestic operators providing services in Australia. For instance, the meaning of object (c) could be interpreted differently depending on how 'Australian shipping' is defined.

While we have not raised this previously, it is our recommendation to the committee that it should ask for these terms to be defined in the Act.

Referral of reforms to the Productivity Commission

The BCA is strongly of the view that the Productivity Commission – the Australian Government's principal advisory body on all aspects of microeconomic reform – should be asked by the government to analyse the economic impact of the shipping reforms and to provide advice on whether they are the best policies in this sector to support the growth of Australia's economy.

If the reforms lead to higher cost and poorer quality shipping services they will be counterproductive. Users would have an incentive to choose alternative, land-based transport options or to source products from overseas rather than to manufacture product in Australia and ship interstate. As a price taker for most products in global markets, any increase in domestic transport costs not able to be passed on by Australian businesses results in lower domestic profits and lower capacity to pay wages to Australian workers.

Policy reforms that support productivity and economic growth are particularly important at a time of global economic uncertainty and in light of other competitive pressures facing Australian trade-exposed industries due to the high Australian dollar, sluggish productivity growth and the imposition of the carbon price.

Yours sincerely

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