



Submission to: inquiry into policy, regulatory, taxation, administrative and funding priorities for Australian shipping

**CENTRE FOR SUPPLY CHAIN
AND LOGISTICS**

**A PRELIMINARY RESEARCH PROPOSAL PREPARED FOR
PARLIAMENT OF AUSTRALIA, SENATE RURAL AND REGIONAL
AFFAIRS AND TRANSPORT REFERENCES COMMITTEE
5 MARCH 2019**

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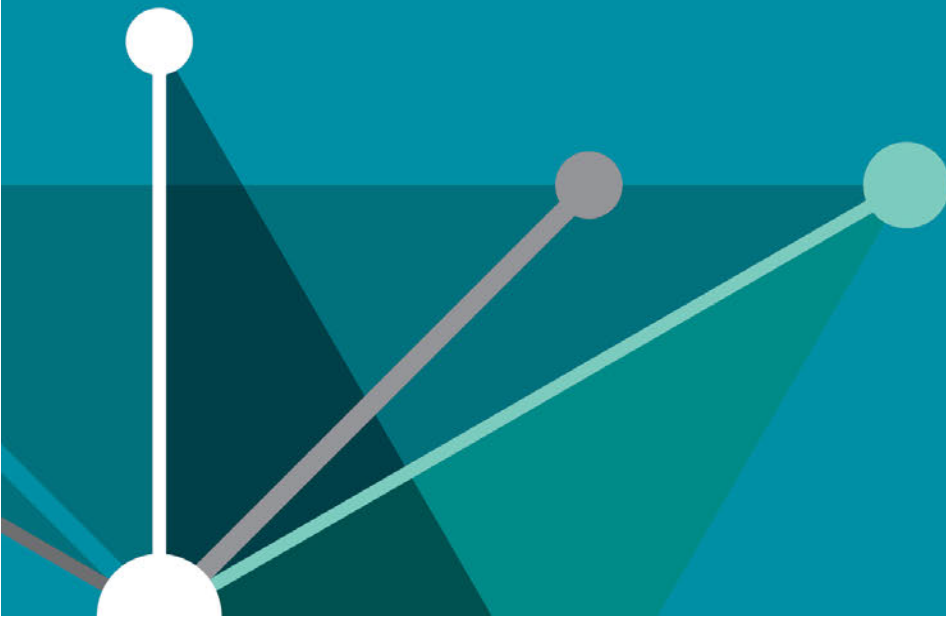
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About the Centre for Supply Chain and Logistics

The Centre for Supply Chain and Logistics at Deakin University is Australia's leading research centre focusing on freight logistics and value-added supply chains. We aim to optimise public and private sector decision-making to achieve a better and more sustainable future.

CSCL's activities are built on three pillars: innovative and rigorous applied research; industry engagement throughout Australia, Asia and the Pacific region; and capability building through the provision of practical education programs, including Doctoral and other postgraduate programs.

All CSCL's activities are underpinned by the diverse and extensive expertise of its people and partners, including extensive operational, strategic and academic experience.



Inquiry into Australian shipping

Submission to:

Committee Secretary
Senate Rural and Regional Affairs and Transport References Committee
PO Box 6100

Parliament House
Canberra ACT 2600

Australia

Introduction

On 5 December 2018, the Senate referred the following matter to the Rural and Regional Affairs and Transport References Committee for inquiry and report by 13 August 2019:

The policy, regulatory, taxation, administrative and funding priorities for Australian shipping, with particular reference to:

- (a) New investment in Australian ships and building a maritime cluster in Australia;
- (b) The establishment of an efficient and commercially oriented coastal ship licensing system and foreign crew visa system;
- (c) The interaction with other modes of freight transport, non-freight shipping and government shipping;
- (d) Maritime security, including fuel security and foreign ship and crew standards;
- (e) Environmental sustainability;
- (f) Workforce development and the seafarer training system;
- (g) Port infrastructure, port services and port fees and charges; and
- (h) Any related matters.

The Centre for Supply Chain and Logistics (CSCL) at Deakin University, whilst not a stakeholder with direct involvement in Australian shipping, believes it has the knowledge and expertise to offer valid comments to the Committee.

CSCL at Deakin University is a specialist-applied research, education, capability development and knowledge exchange Centre, with more than 10 years' experience, and our team includes senior executives from the shipping industry. CSCL prides itself on delivering practical customised solutions that help government, industry and community stakeholders think differently about supply chains and logistics to foster better decision making.

CSCL serves a wide range of private and public sector clients throughout Australia and the Asia Pacific region. It provides independent advice and objective tested research and all of the Centre's activities are underpinned by the diverse and extensive expertise of its people and partners, including senior academic, government and private sector managers.

The role of shipping in the supply chain

CSCL believes that shipping is an integral, cost effective and sustainable part of the supply chain. Australia is an island nation with vast distances between population centres. More than 85% of the population lives within 50 kilometres of the coast. Ports are gateways to and from these population centres and should be utilised more to transport goods. Moreover, our main export commodities, including iron ore, coal and grain, are transported by sea.

Road-based transport has received a disproportionate amount of infrastructure funding which has provided it with advantages over rail and sea-based transport. Emphasis on solving domestic transportation issues has often led to sub-optimal outcomes in the movement of freight in the supply chain. A holistic view of the supply chain should drive investment in infrastructure including ports and inland linkages to meet the needs of importers/exporters and domestic customers. The proposed inquiry into Australian shipping offers the opportunity to reform the current transportation regime to ensure shipping takes its rightful place in the movement of the ever-increasing freight task around the country, and that it is done in a cost effective and environmentally sustainable manner.

Responses to the Inquiry

Whilst not being an active operator or direct stakeholder in shipping, CSCL offers the following comments on the issues raised in the inquiry:

- **New investment in Australian ships and building a maritime cluster in Australia**
New investment in Australian-flagged vessels is essential and a favourable investment strategy (including appropriate tax breaks) should be developed by government. A review of seafarers' remuneration in line with a general review of the current fiscal regime for vessels will assist in this process. Currently there are only 14 Australian-flagged vessels operating and a small number a foreign-flagged vessels with Australian crews. To maintain (of what little is left) and expand a maritime cluster of industries associated with shipping, such as vessel charter, insurance, crewing, providoring and legal services, there needs to be a larger fleet of Australian-flagged vessels.
- **Establishment of an efficient and commercially-oriented coastal ship licensing system and foreign crew visa system**
It is important that Australian shippers are able to move cargo on the Australian coast in an efficient and cost-effective manner so that coastal shipping can be a viable alternative to other modes of transport. It is not possible to move all cargo around the Australian coast on Australian-flagged vessels. Consequently, a fair and equitable licensing system needs to be developed to ensure that foreign-flagged vessels are only used to carry cargo if no suitable Australian-flagged vessels are available. These foreign vessels need to be fit for purpose and should not present a threat to our environment and/or security. A vetting system needs to be in place to ensure that these foreign vessels do not compete unfairly with Australian-flagged vessels and operate on an equal commercial footing.
- **Interaction with other modes of freight transport, non-freight shipping and government shipping**
Shipping (coastal or ocean going) is an integral, cost effective and sustainable part of the supply chain and should be given the support that will allow it to flourish. The general public seems to suffer from 'sea blindness' not realising that 90% of the world trade is

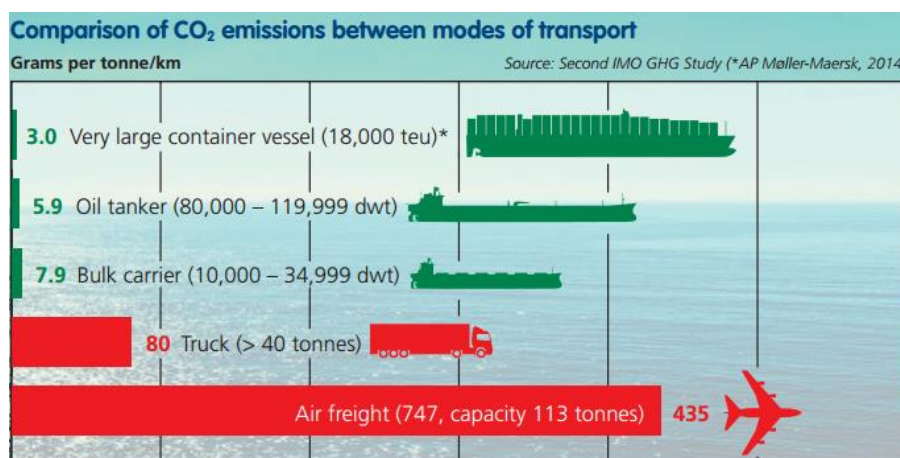
shipped around the globe and modern global supply chains would not exist without shipping.

- Interaction with other modes of freight transport, such as road and rail, is vital to ensure goods arrive at their destination in a timely and cost-effective manner. Ports play a vital role in facilitating vessels of all kinds to visit our shores to conduct trade or other activities and should act responsibly to ensure they do not stifle (by non-competitive pricing) these activities and offer encouragements (i.e. lower wharfage rates) to facilitate coastal shipping.
 - The cruise industry in Australia is booming and whilst most cruise vessels visiting Australia are foreign owned and flagged this trade is important for the industries associated with this activity as it offers many employment opportunities and enhances the development of ‘maritime clusters’.
 - Naval and Border Force agencies are a vital part of Australian-flagged shipping and should be given appropriate resources to maintain a level of alertness to protect our coastline.
- **Maritime security, including fuel security and foreign ship and crew standards**

History has shown us the importance of a merchant navy in times of conflict or natural disasters, consequently an adequate Australian flagged and crewed fleet is vital for the security of our country. This should include oil tankers for fuel security, cruise vessels for personnel transport or floating hospitals, and vessels suitable to move freight (roll on roll off type) and provide logistic support to ensure our supply chains are maintained. Foreign crews need to be properly vetted and foreign vessels entering Australian waters need to be checked to ensure they are adequately crewed with properly trained seafarers to ensure these ships do not pose a hazard to our coastline, with its unique and precious environment, or unfairly compete with Australian-flagged vessels.

- **Environmental sustainability**

Ships are very efficient for moving large amounts of freight over long distances (albeit slowly), with respect to both cost and the amount of greenhouse gases (GHG) emitted per tonne/kilometre (see Figure below). Ocean freight is used extensively for the movement of bulk commodities, such as coal, iron ore (e.g., Port Hedland in the Pilbara, the world’s largest iron ore export port exports nearly 500 million tonnes of iron per year), liquid bulk and agricultural product and containerised manufactured goods.



Ships currently use heavy fuel, which is at the bottom end of the refining process of crude oil, but this is no longer sustainable. To manage the ever-increasing volumes of goods being moved around the world (and associated increase of emissions) the International Maritime Organization (IMO) and its member states have agreed to reduce the sulphur content (presently at levels as high as 3.5% by mass in heavy fuel) to be capped at 0.5% by 2020. Furthermore, they have agreed to a reduction in GHG of 50% by 2050 or earlier. This will ensure that shipping remains one of the most environmentally friendly forms of transport.

- **Workforce development and seafarer training system**

More Australian flagged and manned vessels around our coastline will benefit our Naval and Border Force Agencies due to an increased availability of maritime skills. More Australians choosing seagoing careers will also assist in filling land-based positions that require maritime-related skills. Expansion and development of Australian educational institutions specialising in the provision of maritime-based training will address the current skills shortage. Labour relations and crew remuneration need to be addressed by government providing taxation incentives to seafarers, many of whom spend only a proportion of the year in the country, as well as by employers and unions adopting an approach to ensure Australian-crewed vessels are a viable option.

- **Port infrastructure, port services and port fees and charges**

Ports are a vital part of a trading nation, especially in Australia where 99% of trade takes place by sea. A port is where a change of transport mode occurs, from land to sea or vice versa. To ensure this mode change can occur efficiently and cost effectively, ports need to act responsibly in their pricing and charging policies. A number of ports in Australia have recently been privatised and there seems to be little oversight of their pricing mechanisms since privatisation. This has resulted in recent steep increases in charges levied by port companies and other port users operating in this environment. Most ports operate as a monopoly and to ensure they do not abuse this position, oversight by the responsible government agency is required.

Conclusion

Shipping is vital to the economy of Australia and the right decisions have to be made by government to ensure that Australian shipping is a viable and cost-effective alternative to road and rail transport. Our competitiveness in global markets relies on an effective shipping policy. It should form part of our *National Freight and Supply Chain Strategy* which is currently being developed by the federal government (note, CSCL has recently provided input to the draft strategy).

CSCL believes that a concerted effort is required to encourage Australian industries and service providers to see the value of an integrated sea-based operating supply chain. Currently there seems to be a general lack of buy-in by most stakeholders.

It is encouraging that the Labor party recently announced that, if elected to government, it will appoint a Taskforce to guide the development of a 'Strategic Fleet' of up to a dozen Australian-flagged and crewed vessels including oil tankers, container vessels and gas carriers, as well as re-establishing the Maritime Workforce Development Forum.

CSCL would appreciate an opportunity to make further comments on the inquiry and is available to provide to the Committee any research on these issues or other related topics if required.

Yours sincerely

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