

STATEMENT FROM THE

NATIONAL BULK COMMODITIES GROUP INC

TO

SENATE ECONOMICS LEGISLATION COMMITTEE

IN RELATION TO

THEIR INQUIRY INTO

SHIPPING REFORM BILLS

15 MAY 2012

THE NATIONAL BULK COMMODITIES GROUP (NBCG) WELCOMES THIS OPPORTUNITY TO PROVIDE EVIDENCE TO THE SENATE ECONOMICS LEGISLATION COMMITTEE'S INQUIRY INTO THE SHIPPING REFORM BILLS.

IN RELATION TO DOMESTIC SHIPPING SERVICES, NBCG MEMBERS SUPPORT SHIPPING REFORMS THAT:

- 1. PROVIDE COMPETITIVE RIGOUR (CHOICE OF SHIPS AND FREIGHT RATES);**
- 2. SUPPORT SHIPPING AVAILABILITY;**
- 3. ADOPT CONSISTANT NON-DISCRIMMINATORY REGULATIONS; AND**
- 4. DELIVER SUSTANABLE EMPLOYMENT OPPORTUNITIES TO DRY BULK MANUFACTURERS AS WELL AS SEAFARERS WHO CREW DRY BULK SHIPS.**

THE NBCG IS OF THE OPINION THAT THE SHIPPING REFORM BILLS FAIL TO ACHIEVE THESE FOUR OBJECTIVES.

THE NBCG ARTICULATED ITS POSITION IN ITS 18 PAGE SUBMISSION TO THE COMMITTEE. SUMMARISED, THE GROUP'S CONCERNS ARE:

- 1. THERE ARE SEVERAL PARTIES WHO HAVE A COMMERCIAL INTEREST IN THE PASSAGE OF THE SHIPPING REFORM BILLS. HOWEVER DRY BULK SHIPPING USERS AND THE NBCG WERE EXCLUDED FROM THE DETAILED CONSULTATION PROCESS, RESULTING IN THE DEPARTMENT OF INFRASTRUCTURE AND TRANSPORT GIVING NO CREDENCE TO THE NEGATIVE COMMERCIAL CONSEQUENCES THAT WOULD RESULT IF THE REFORM PACKAGE WAS PASSED WITHOUT AMENDMENT.**
- 2. IT IS FOR THIS REASON THE NBCG HAS CONTINUED TO ADVOCATE THAT THE SHIPPING REFORM BILLS MUST BE REVIEWED BY THE PRODUCTIVITY COMMISSION.**
- 3. FREIGHT COSTS ARE A DIRECT IMPOST ON DRY BULK MANUFACTURERS. FREIGHT RATES NOT ONLY DETERMINES THE PROFITABILITY OF A SHIP OPERATOR, BUT ARE ALSO A SIGNIFICANT COST CENTRE FOR DRY BULK MANUFATURERS AND ARE AN INPUT THAT ULTIMATELY DETERMINES WHETHER A LOCALLY BASED ENTITY CAN COMPETE WITH INTERNATIONAL COMPETITORS.**
- 4. CURRENT ARRANGEMENTS (PART VI OF THE NAVIGATION ACT 1912) HAVE BEEN A FEATURE OF THE *NAVIGATION ACT 1912* FOR 100-YEARS. THE RATIONALE FOR INTRODUCING THE SHIPPING REFORM BILLS HAS NEVER BEEN EXPLAINED, DEBATED, OR AGREED TO BY NBCG MEMBERS DURING MEETINGS WITH THE DEPARTMENT OF INFRASTRUCTURE AND TRANSPORT.**
- 5. THE ORIGINAL TIMETABLE FOR THE INTRODUCTION OF THE SHIPPING REFORM BILLS WAS 1 JULY 2013. PROVIDED THE CONCERNS OF INDUSTRY RECEIVED A FAIR HEARING AND**

AMENDMENTS AGREED, THIS TIMETABLE WAS CONSIDERED REASONABLE BY NBCG MEMBERS.

6. BRINGING THE LEGISLATION FORWARD BY 12-MONTHS IS RUSHED, WITH MANY ISSUES STILL BEING DEBATED WITHIN GOVERNMENT. THE FINAL COMPOSITIONS OF THE BILLS ARE UNKNOWN RESULTING IN 19 OF THE 22 RESPONDENTS TO THIS COMMITTEE'S INQUIRY REQUESTING AMENDMENTS, WITH A MAJORITY TOTALLY OPPOSED TO THE LEGISLATION PROCEEDING IN ITS CURRENT FORM. THE NBCG IS OPPOSED TO THE COASTAL TRADING BILLS BECOMING LAW ON 1 JULY 2012.
7. THE MARITIME UNION MOVEMENT IS DIVIDED IN ITS SUPPORT FOR THE *BILLS*. THE MARITIME UNION OF AUSTRALIA IS SUPPORTIVE WHILST THE INSTITUTE OF MARINE AND POWER ENGINEERS IS OPPOSED.
8. THE GOVERNMENT'S REGULATION IMPACT STATEMENT WAS UNDER-TAKEN BY THE BUREAU OF INFRASTRUCTURE TRANSPORT AND REGIONAL ECONOMICS (BITRE), WHICH IDENTIFIED A LOSS OF NPV IN THE "OTHER DRY BULK" CATEGORY. THIS POSITION WAS SUPPORTED BY DELOITTEE ACCESS ECONOMIC'S ("DAE") REPORT, COMMISSIONED BY DRY BULK SHIPPING USERS. DAE'S REPORT ALSO IDENTIFIED A NEGATIVE GDP CONTRIBUTION TO 2025 OF 242 TO 466 MILLION DOLLARS. ADDITIONALLY, DAE CALCULATED THAT THERE WOULD BE A PEAK LOSS OF 570 FULL TIME EQUIVALENT JOBS IN THE DRY BULK MANUFACTURING SECTOR, WHICH WOULD REDUCE TO A MORE MODEST 200 FULL TIME JOBS OVER THE LONG TERM.
9. THE NBCG PROVIDED FINANCIAL MODELLING FOR THE DAE REPORT AND ARGUES THAT THE METHODOLOGY USED BY DAE TO REACH ITS CONCLUSIONS WAS MORE TECHNICALLY ROBUST THAN THE MODELLING UNDERTAKEN BY BITRE.
10. THE NBCG HAS PROVIDED THE COMMITTEE WITH A "COMMERCIAL-IN-CONFIDENCE" FINANCIAL MODEL, WHICH ILLUSTRATES THE RELATIONSHIP BETWEEN FREIGHT RATES, IMPORT SUBSTITUTION AND ALTERNATIVE ROAD TRANSPORT. THE PRODUCT USED IN THE ILLUSTRATION IS UNDER INTENSE COMPETITIVE PRESSURE FROM BOTH SOURCES. THIS MODEL HAS BEEN UP-DATED. A NEW MODEL WILL BE DISTRIBUTED AT THE MEETING.
11. A SHIPPER / CHARTERER IS RELIANT ON COMPETITIVE FREIGHT RATES TO ENABLE THE SELLER / BUYER TO WITHSTAND COMPETITION FROM IMPORT SUBSTITUTION. THE CONCERN OF NBCG MEMBERS IS THAT FREIGHT RATES WILL INCREASE AS A CONSEQUENCE OF THE SHIPPING REFORM PACKAGE THROUGH CURTAILMENT ON THE USE OF TEMPORARY LICENCES (CREWS PAID SIA PART B RATES). SHIPPERS WILL HAVE NO ALTERNATIVE BUT TO CONSIDER USING GENERAL LICENSED VESSELS (CREWS PAID TYPICAL EBA RATES). THE NBCG IS OF THE VIEW THAT THIS OPTION IS NOT SUSTAINABLE, BECAUSE OF THE LENGTH OF THE AUSTRALIAN COASTLINE AND THE LACK OF SUITABLE GENERAL LICENSED VESSELS.

12. NBCG MEMBERS ARE CONCERNED THAT THE PROPOSED SHIPPING REFORM BILLS COUPLED WITH CHANGES TO *FAIR WORK ACT 2009* HAVE WILL CONTINUE TO PLACE A BURDEN ON THE COST PRESSURES CURRENTLY BEING EXPERIENCED BY BOTH MANUFACTURERS AND DOMESTIC DRY BULK SHIP OPERATORS THAT WILL ONLY BENEFIT A MANUFACTURERS INTERNATIONAL COMPETITORS.
13. THE BILLS DO NOT IN ANY WAY ADDRESS THE COST DIFFERENTIAL BETWEEN GENERAL LICENSED VESSELS AND PERMIT OR TEMPORARY LICENSED VESSELS. IF THE DRY BULK MANUFACTURING INDUSTRY, WHICH IS THE PRIMARY USER OF DRY BULK SHIPPING IS NOT ABLE TO ABSORB OR TRANSFER THIS COST TO CONSUMERS THEN GENERAL LICENSED VESSELS WILL NOT HAVE EMPLOYMENT.
14. THE MECHANISM FOR A GENERAL LICENCE OPERATOR TO EXPAND IS UNCLEAR AND UNCERTAIN FOR A SHIPPER AND SHIP OPERATOR. FOR A GENERAL LICENCE OPERATOR TO MOBILISE A VESSEL THE OPERATOR WOULD NEED ADVANCE WARNING OF AROUND THREE-MONTHS TO OBTAIN A VESSEL AND CREW IT WITH A COMPLIANT CREW. A GENERAL LICENSED VESSEL WITH CREW COSTS OF AT LEAST AUD9,000 PER DAY WILL FORCE SHIPPERS TO SEEK ALTERNATIVES SUCH AS IMPORT SUBSTITUTION, WHICH WOULD UTILIZE FOREIGN FLAGGED VESSELS THAT HAVE A LOWER COST STRUCTURE. THE PROPOSED SYSTEM WILL ONLY PROVIDE A FEW DAY'S NOTICE TO THE GENERAL LICENCE OPERATOR AND PROVIDE NO COMMITMENT TO FURTHER EMPLOYMENT OF THE VESSEL SO IT IS NEAR IMPOSSIBLE TO DEPLOY A LICENSED VESSEL TO MEET A SINGLE SHIPPING REQUIREMENT. THERE IS A SIGNIFICANT RISK THAT IN OBTAINING A GENERAL LICENCE FOR A VESSEL AND THEN LOOKING FOR EMPLOYMENT A SHIP COULD BE POTENTIALLY UNEMPLOYED FOR MANY DAYS. ONE SCENARIO IS THAT THE GENERAL LICENSED OPERATOR WILL BE BURDENED WITH MORE REPORTING AND ADMINISTRATION RESULTING IN SVPS / CVPS VESSELS BEING REPLACED WITH ADDITIONS AND VARIATIONS TO TEMPORARY LICENCES. SUCH A DEVELOPMENT WOULD SEE NO INCREASE IN THE NUMBER OF GENERAL LICENSED VESSELS. THE OTHER SCENARIO IS SHIPPERS WILL BE FORCED TO INCUR MUCH GREATER COSTS ASSOCIATED WITH CHARTERING GENERAL LICENSED VESSELS FOLLOWING REFUSAL TO ISSUE TEMPORARY LICENCES – OR RESORT TO IMPORT SUBSTITUTION.
15. THERE IS NO CLEAR INDICATION AS TO HOW CARGOES WILL MOVE TOWARD GENERAL LICENSED VESSELS. THE BILLS WILL RELY ON GENERAL LICENCE OPERATORS INCREASING THEIR COSTS AND INCURRING RISK OF UNDER-EMPLOYMENT OF THEIR ASSETS (SHIPS) OR BEING USED BY SHIPPERS WHO ARE WILLING TO MEET HIGHER FREIGHT COSTS.
16. SINCE WRITING THE NBCG'S SUBMISSION TO THIS COMMITTEE (20 April 2012) THE GROUP'S FINANCIAL MODELS HAVE BEEN UP-DATED TO REFLECT CURRENT CREWING REMUNERATION ARRANGEMENTS FOR AUSTRALIAN REGISTERED SHIPS. AS A CONSEQUENCE, THE MODELS

SHOW A NEW COLUMN TITLED “TYPICAL EBA RATES”. THESE ARE THE RATES OPERATORS OF AUSTRALIAN LICENCED VESSELS CURRENTLY PAY THEIR CREWS AND REFLECT MARKET CONDITIONS FOR CREWS IN AUSTRALIA – TODAY.

17. THE UP-DATED SPREADSHEETS ILLUSTRATE THAT AN OPERATOR PAYING ITF MARKET RATES TO A CREW EMPLOYED ON A NOMINATED TRADE, RELEGATES LABOUR COSTS TO THIRD POSITION ON THE COST PROFILE – BEHIND FUEL AND NON WAGE OPERATING COSTS, BUT AHEAD OF PORT COSTS. HOWEVER, WHEN USING TYPICAL EBA MARKET RATES, LABOUR COSTS BECOME THE DOMINANT COST CENTRE (GREATER THAN FUEL COSTS) AND SUPPORTS THE ARGUMENTS THE NBCG IS MAKING BEFORE THIS COMMITTEE. THE FOLLOWING TABLES ILLUSTRATE THE RELATIVITIES IN CREW COSTS USING ITF MARKET RATES AS THE BASE:

MINI BULKER – 12 PERSON CREW

SOURCE	DAILY RATE	PERCENTAGE – MEASURED AGAINST BASE
ITF MARKET RATES	AUD1,494	BASE
SIA PART B RATES	AUD3,195	113.86%
SIA PART A RATES	AUD4,985	233.67%
TYPICAL EBA RATES	AUD8,939	498.33%

SOURCE: NBCG MEMBERS

HANDY SIZE BULKER – 18 PERSON CREW

SOURCE	DAILY RATE	PERCENTAGE – MEASURED AGAINST BASE
ITF MARKET RATES	AUD1,839	BASE
SIA PART B RATES	AUD4,198	128.28%
SIA PART A RATES	AUD6,492	253.02%
TYPICAL EBA RATES	AUD11,552	528.17%

SOURCE: NBCG MEMBERS

18. THE NBCG IS NOT CONVINCED THAT A SEAFARING CARRER IS AN ATTRACTIVE OPTION LIKELY TO BE EMBRACED BY YOUNG AUSTRALIANS. THERE IS A CURRENT WORLD-WIDE SHORTAGE OF CERTIFICATED MARINERS. THE ACCEPTED SHORTAGE IS BETWEEN 25,000 AND 50,000 OFFICERS. THE NBCG FORECASTS THAT AUSTRALIAN OPERATORS, TRADING GENERAL LICENCE AND AISR VESSELS WILL HAVE DIFFICULTY ATTRACTING AND RETAINING

AUSTRALIAN RESIDENTS, AS THERE IS NO EVIDENCE THAT YOUNG NATIONALS LIVING IN DEVELOPED ECONOMIES ARE ATTRACTED TO A CAREER AT SEA. CONSEQUENTLY, CERTIFICATED OFFICERS ON AISR VESSELS AND A PORTION OF THE GENERAL LICENSED FLEET WILL INEVITABLY BE FOREIGN NATIONALS HOLDING 457 VISAS.

19. AN IMPORTANT COMPONENT OF THE GOVERNMENT'S SHIPPING REFORM PACKAGE WAS RECOGNITION THAT THERE HAD TO BE INDUSTRIAL RELATIONS REFORM. AT THE COMMENCEMENT OF THE CONSULTATION PROCESS THE GOVERNMENT INDICATED ITS INTENTION TO REDUCE THE NUMBER OF UNIONS REPRESENTED ON BOARD AN AUSTRALIAN FLAGGED VESSEL FROM THREE TO ONE. INDUSTRY SUPPORTED THIS OBJECTIVE. UNFORTUNATELY THIS REFORM HAS NOT PROGRESSED AND THE MUCH TALKED ABOUT COMPACT BETWEEN EMPLOYEES AND EMPLOYERS IS STILL TO SEE THE LIGHT OF DAY. THE NBCG ARGUES THE PROPOSED SHIPPING REFORM PACKAGE CONCENTRATES SOLELY ON SHIP OPERATORS, AND, BY EXTENSION, SHIPPERS AND / OR CHARTERERS WITH NO ALTERNATIVE SUGGESTIONS IDENTIFYING MUCH NEEDED EMPLOYEE REFORMS.

GIVEN ITS OBJECTIONS TO THE SHIPPING REFORM PACKAGE, THE NBCG RECOMMENDS THE FOLLOWING:

1. RETAINING THE CURRENT PERMIT ARRANGEMENTS;
2. ALLOW PERMIT VESSELS TO PAY THEIR CREWS ITF MARKET RATES – THIS WOULD INVOLVE MAKING APPROPRIATE AMENDMENTS TO THE *FAIR WORK ACT 2009*. THE NBCG NOTES THAT FOREIGN FLAGGED PASSENGER SHIPS OVER 5,000 GROSS TONS CAPABLE OF CARRYING 100 PASSENGERS AT A SPEED OF AT LEAST 15 KNOTS ARE EXEMPT FROM THE CURRENT LICENSE / PERMIT ARRANGEMENTS AND THE REQUIREMENT TO PAY THEIR CREWS SIA PART B WAGES. THIS EXEMPTION IS BASED ON THE NEED TO FOSTER THE TOURISM INDUSTRY. IN THE INTERESTS OF CONSISTENCY NBCG MEMBERS ARGUE THAT THESE ARRANGEMENTS SHOULD APPLY TO DRY BULK SHIP OPERATORS, SHIPPERS AND CHARTERERS BASED ON THE NEED TO SUPPORT THE MOVEMENT OF DOMESTIC DRY BULK CARGOES BY SEA.
3. THE NBCG SUGGESTS THAT ITS MEMBERS WOULD NOT BE AVERSE TO GOVERNMENT INTRODUCING A SEAFARERS' TRAINING LEVY THAT COULD BE USED TO SUPPORT YOUNG AUSTRALIANS SEEKING A SEAFARING CAREER. SUCH A LEVY WOULD BE MANAGED BY THE DEPARTMENT OF INFRASTRUCTURE AND TRANSPORT AND WOULD BE PAYABLE WITH EACH PERMIT APPLICATION.
4. THE CURRENT PERMIT SYSTEM PENALISES AUSTRALIAN OPERATORS WHO CAN BE READILY AUDITED TO CHECK THEY ARE PAYING THEIR CREWS' SIA PART B RATES. INTERNATIONAL OPERATORS TRADING ON THE COAST FOR SHORT PERIODS CAN AVOID THE EXTRA COST BY REDUCING WAGES ONCE THE VESSEL LEAVES AUSTRALIA TO COUNTER THE INCREASED

WAGES WHILST COMPLETING PERMIT CARGOES. THEY ADDITIONALLY DRAW COMFORT IN THE KNOWLEDGE THAT IT WOULD BE VERY DIFFICULT TO AUDIT A COMPANY BASED OVERSEAS. PAYING SEAFARERS ITF MARKET RATES WOULD REMOVE THIS DISCRIMINATORY PRACTISE.

5. THE NBCG SUPPORTS THE CREATION OF AISR. HOWEVER, AS MOST EXPORTED DRY BULK CARGOES ARE SOLD FREE ON BOARD (FOB), THE NBCG SUGGESTS THE TAKE-UP OF VESSELS IN THIS REGISTER WILL BE SLOW, AS BUYERS NOMINATE THE FIXTURES UNDER THESE (FOB) ARRANGEMENTS. UNDER THE PRESENT QUALIFYING CONDITIONS AN AISR VESSEL WILL HAVE A HIGHER COST STRUCTURE THAN ITS COMPETITORS.
6. FINALLY, THE NBCG ASSERTS THAT SHIPPING REFORM WILL NOT BE SUCCESSFULL UNLESS THE LINKAGES BETWEEN SHIPPING REFORM LEGISLATION AND THE *FAIR WORK ACT 2009* ARE UNDERSTOOD AND ALIGNED.

THANK YOU