SUBMISSION

FROM

NATIONAL BULK COMMODITIES GROUP INC

TO

SENATE

ECONOMICS LEGISLATION COMMITTEE'S

INQUIRY INTO THE SHIPPING REFORM BILLS

20 APRIL 2012

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1.0 Overview

1.1 The NBCG[1] response to the Senate's Economics Legislation Committee inquiry into the Coastal Trading (Revitalising Australian Shipping) Bill 2012 and related bills is articulated in this submission. The NBCG's submission should be read in conjunction with submissions to the Department of Infrastructure and Transport (DIT) dated 30 January and 5 March 2012 responding to previous Exposure Drafts Bills. The *Bills* introduced into the House of Representatives contain amendments advocated by the NBCG, however the NBCG has fundamental concerns with issues previously raised with DIT, which have not been addressed and remain relevant to this inquiry.

1.2 The NBCG supports this inquiry being undertaken by the Senate's Economics Legislation Committee, because, in the opinion of NBCG members, the debate over the shipping reform package should have had its principle focus on the package's overall economic performance rather than the benefits, if any, for Australian based ship operators.

1.3 International competition from dry bulk shippers and ship operators play an increasingly important role in Australia's economic productivity. It is the view of NBCG members that the Shipping Reforms defined in the two bills namely: *Coastal Trading (Revitalising Australian Shipping) Bill* and *Coastal Trading (Consequential Amendments and Transitional Provisions) Bill* will result in the loss of commercial opportunities for domestic dry bulk shippers, charterers and ship operators.

1.4 The NBCG notes the BITRE[2] review of the proposed changes incorporated in the shipping reform package states: *"The regulatory reforms propose a more modern approach to regulating shipping that provides support to Australian registered vessels but while they are strictly inconsistent with [National Competition Policy] still continue reasonable and transparent access to coastal trades by foreign vessels."* (Department of Transport and Infrastructure, Reforming Australia's Shipping: Regulation Impact Statement).

1.5 The National Bulk Commodities Group supports a viable Australian shipping industry, but does not believe this can or should be delivered by restricting competition.

1.6 The *Bills* go too far in reducing access to alternative sources of shipping services through the added complexity of applying temporary licenses and through new restrictions on their operations. These restrictions will severely hamper the ability of consumers of shipping services to gain access to the vessels they need and such restrictions will inevitably lead to increased freight rates.

1.7 In Australia, foreign flagged vessels operating under the present Single Voyage Permits and Continuing Voyage Permits make up 37 per cent of the coastal shipping task[3]. The use of an alternative source of shipping options is vital for creating competition and

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[1] National Bulk Commodities Group Inc
[2] Bureau of Transport and Regional Economics
[3] BITRE – Australian Sea Freight Statistical Report 2009-10, September 2011

ensuring there is an adequate supply of vessels to meet the coastal dry bulk demand task.

1.8 The proposed shipping reform package will have a significant economic impact on smaller Australian dry bulk shippers and Australian based operators of foreign flagged dry bulk carriers. These issues will be discussed further in this submission. The evidence also lends weight to fears that there will be significant job losses in the manufacturing and ship operating sectors of the domestic sea-borne dry bulk trade should the proposed shipping reform package proceed.

1.9 Economic studies in the past have suggested that other reform measures, such as tax and financial incentives are more important for developing a national fleet[4]. Indeed, the Regulation Impact Statement on the Government's policy highlights that a competitive mix of Australian and foreign flagged vessels provides a superior economic outcome[5]. The Regulation Impact Statement suggests that should foreign flagged vessels be restricted in their access to temporary licenses economic loss would result.

1.10 The issue for NBCG members is: how do the proposed *Bills* assist in making their businesses more competitive? Once all the reviews have been completed and the *Bills* become law: what are the benefits? The Regulation Impact Statement determined that the shipping reform agenda was strictly inconsistent with National Competition Policy and NBCG members have expressed the same concern. An anti-competitive regime in the long run will lead to a decline in trade and higher costs for consumers.

1.11 When announced by Minister Albanese in July 2011; the Australian International Shipping Register (AISR) was accepted by NBCG members as responsible public policy. It should be noted that Australia's main dry bulk export shipments are sold free-on-board (FOB). Under FOB contracts it is the customer / buyer who charters / hires the ship. A number of factors determine the identity of the ship, however price has a large weighting. In today's market if AISR vessels are not price competitive, then operating an AISR vessel presents a significant commercial risk for a prospective owner / operator.

1.12 The Regulation Impact Statement makes reference to forecast growth rates and net present values of benefits by scenario and market segment. This table contradicts the Government's claim that its shipping reform package will deliver economic benefits for dry bulk shippers and ship operators. The table indicates the economic benefit of maintaining the status quo (post 31 December 2010 Column A line Other Dry Bulk) is AUD130m over 20-years. The economic benefit of phasing out temporary licensed ships, using General Licensed ships and AISR ships on certain triangulated routes (Column D line Other Dry Bulk) is a loss of AUD80m after 5-years.

[4] See for example, Access Economics, Issues Paper for the Department of Transport and Regional Services, Economic Contribution of the Australian Shipping Industry. The Australian Parliamentary Library noted in 2003 that "on economic efficiency grounds, there seems to be no valid reason for continuing cabotage" (Richard Webb, Coastal Shipping: An Overview, Research Paper No. 12, May 2004).The studies acknowledge the complete removal of cabotage may harm the Australian shipping industry – the NBCG is not arguing for this outcome.

[5] Australian Government, Reforming Australia's Shipping Regulation Impact Statement: A framework to revitalize the Australian Shipping Industry, August 2011, p49ff

1.13 The NBCG argues that the proposed shipping reform package, as it applies to dry bulk cargoes, places a burden on the Australian economy rather than a benefit. The *Bills* make no mention of promoting competition and productivity. The needs of consumers of shipping services should be recognised. This would assist in providing guidance to the "public interest" under the expanded Ministerial discretion in other parts of the proposed *Act.*

1.14 The NBCG has argued in other places, and has done so through a submission to Fair Work Australia when it reviewed the *Fair Work Act 2010* that ITF market rates should be allowed for occasional voyages.

1.15 Up until 31 December 2010 foreign flagged dry bulk vessels operating on the Australian coast were remunerated in accordance with applicable ITF agreements that were negotiated between employees (or their representatives) and employers (or their crewing agencies). In percentage terms the differential between ITF market rates and Seagoing Industry Award Part B wages is 99.47% for a 12-person crew and 95.35% for an 18-person crew.

1.16 The Government acknowledges the significance of these increases through arrangements, which exempt foreign flagged passenger vessels over 5,000 Gross Tons[6] from paying their crews Seagoing Industry Award Part B wages while carrying coastal passengers when trading domestically.

1.17 The NBCG notes the RIS does not quantify the economic benefits (or losses), which foreign flagged passenger ships bring to the Australian economy.

1.18 The NBCG has prepared a commercial-in-confidence document, which highlights the commercial pressures a number of smaller Australian shippers face from international suppliers. Such information would be made available to the Committee on a confidential basis. It is important to note that many hundred shore based jobs and billions of dollars in investment is at risk if the shipping reforms relating to Australian coastal trade proceed without amendment.

1.19 The NBCG notes that AISR vessels will be able to trade domestically without restriction.

1.20 One NBCG member, Incitec Pivot Limited, has prepared a case study showing shipments over a 12-month period. Given the completeness of this data, the Committee will appreciate that charterers / shippers / consignees of bulk fertilizers and bulk liquids require maximum flexibility to ensure the proposed shipping reform package is capable of meeting Incitec Pivot's commercial objectives. These objectives are driven by a requirement for shipping flexibility, commercial competitive pressures and recognition that the process must be transparent. Given the examples provided by Incitec Pivot a

[6] Gross Tons is a term used to express the internal cubic capacity of a ship. It is found by applying the formula GT = K*V where K is a variable dependent on the vessel's size and V is the internal volume of a ship. Gross Tons is the standard used to compare and describe passenger ships.

period of 15-days to adjudicate on a license application is unworkable. Even a period of no more than 48-hours presents challenges for this company.

1.21 The NBCG notes that the holder of a General License can give notice in response to an application for a Temporary License. Should the response be successful and the holder of a General License subsequently fails to provide an alternate ship of similar deadweight (cargo) or passenger capacity as well as appropriate age; the *Coastal Trading (Revitalizing Australian Shipping) Bill 2012* is silent on the penalties applicable to a General License applicant's false statement. The NBCG does not consider an appeal to the Administrative Appeals Tribunal to be an adequate response.

1.22 The NBCG notes that there are issues still to be resolved in the *Tax Incentives Bill*. Of interest are:

- The definition of qualifying voyages i.e. whether international ballast voyages qualify? The NBCG advocates they should.
- Confirmation that once a seafarer completes his 91-qualifying period income earned outside the 91-days will be treated as though it was earned during the qualifying period? AISR's international competitors have taxation arrangements whereby once the seafarer has "qualified" salaries earned post qualification will not attract personal income tax.
- Is the 29% arbitrary tax rate (Refundable tax offset) to be varied?
- When will the details of training numbers and the training plan or plans be released?
- When the details of union reforms will be released?
- When will details of the unions proposed compact with ship owners / operators be released?

1.23 A critical deficiency in the latest draft is the lack of legislative guidance to a Minister's decision to grant or not grant a license or to withdraw a license. The lack of any objective criteria is not good public policy and may result in unfair outcomes with no legal recourse other than to the Administration Appeals Tribunal. We urge that objective criteria be inserted.

2.0 The NBCG

2.1 The NBCG is the peak national body representing Australia's bulk commodity shippers and consignees. The aim of NBCG is to represent the collective interests of its members on issues connected with the production, transportation, storage, loading / discharging and shipment of Australia's dry bulk commodities – both domestically and internationally.

Importantly, the principal focus of the NBCG is the promotion of efficient and quality maritime services that are available to Australian shippers at internationally competitive prices as well as safe, efficient, equitable and consistent national and international regulatory arrangements for shipping. In addition the NBCG promotes adequate and reliable rail and road access to bulk commodity exporting and importing ports, as the Group recognises that such arrangements contribute to logistical efficiency.

Over the past decade AMSA's[7] records confirm that dry bulk carriers make up over forty per cent (40%) of all foreign flagged vessels calling at Australian ports.

2.2 Membership of the NBCG is made up of industry representatives who operate:

- Australian licensed vessels;
- Foreign flagged permit vessels;
- Domestic dry bulk charterers; and
- Shippers and consignees of international and domestic dry bulk commodities.

3.0 Coastal Trading Bills – Commercial consequences

3.1 During the 2012 autumn sitting of Parliament the Federal Government has introduced the following *Bills*:

1. *Coastal Trading (Revitalising Australian Shipping) Bill 2012;*
2. *Coastal Trading (Revitalising Australian Shipping) (Consequential Amendments and Transitional Provisions) Bill 2012;*
3. *Shipping Registration Amendment (Australian International Shipping Register) Bill 2012;*
4. *Shipping Reform (Tax Incentives) Bill 2012;* and
5. *Tax Laws Amendment (Shipping Reform) Bill 2012.*

3.2 This section of the NBCG's submission deals with the first two *Bills* described in paragraph 3.1 above.

3.3 Foreign flagged vessels crewed by foreign nationals carrying domestic cargoes approved by the Commonwealth have been lawful since the introduction of the *Navigation Act 1912*.

3.4 The carriage of these cargoes was approved by the Commonwealth if it could be demonstrated that no other suitable vessel was available to carry the cargo when nominated. To carry this cargo the Commonwealth granted Permits in the form of a single voyage permit (SVP) or a continuous voyage permit (CVP).

3.5 Up until 1 January 2011 crews on Permit vessels were paid in accordance with international agreements negotiated between employees and their representatives and employers (ship operators or manning agencies). Since the 1980s these agreements reflected outcomes endorsed by the International Transport Federation (ITF). With a world-wide shortage of seafarers the supply / demand equation meant an increase in ITF rates to which industry now refers to as ITF market rates.

3.6 On 1 January 2011 the *Fair Work Act 2009* (FWA) was proclaimed. For the first time in Australian history (with no evidence there was an international precedent) foreign crews on foreign flagged permit ships were paid in accordance with an Australia modernised

[7] Australian Maritime Safety Authority

award wage known as Seagoing Industry Award (SIA) Part B. These rates were applicable from the time a vessel entered Australia's Economic Zone until it departed this zone.

3.7 For permit vessels operating domestically, the consequences of this proclamation were an increase in crew costs of just over 99% for a mini bulker[8] crew (12-persons) and just over 95% for a handy size[9] bulker crew (18-persons).

3.8 The increases in wage rates (ITF market rates to SIA Part B) resulted in permit vessels increasing their freight rates by approximately A$5.00 per tonne for a shipper chartering a mini bulker and A$2.00 per tonne for a shipper chartering a handy size bulker on known domestic voyages of known duration.

3.9 The reality of increasing freight rates results in either import substitution becoming more commercially attractive or the gap between seagoing freight rates and road haulage closing – in some cases significantly.

3.10 An unintended consequence of the award modernisation process (SIA Part B) is verification that payment has been made to crews whose employer may reside overseas. Australian based operators of foreign flagged ships are subject to Fair Work Australia (FWA) audits to ensure employers are renumerating their crews in accordance with the provisions of SIA Part B. However international operators escape a FWA audit, because the *Fair Work Act 2010* is silent on the mechanism required to undertake these audits. This anomaly provides an opportunity for overseas based shipping operators to have a competitive advantage over their Australian based competitors.

3.11 The Government's stated aim when introducing its shipping reform package was to: *provide Australian flagged vessels with unrestricted access to the coastal trade for a period up to five years at a time.* With the introduction of a new Temporary Licence regime, which may start on 1 July 2012, Australian domestic shippers will have access to General Licensed vessels and Temporary Licensed vessels. However the application for a Temporary License is far more exacting than current Permit arrangements with the consequence that smaller dry bulk shippers will have little option but to charter a General Licensed vessel to carry their domestic cargoes.

3.12 General Licensed vessels employ seafarers, irrespective of whether they are Australian citizens, permanent residents or 457 visa holders under SIA Part A conditions of employment. Vessels operating under a General License regime incur crew costs that are approximately 61% greater for a mini bulker and over 99% greater for a handy size bulker when compared to SIA Part B rates of pay.

3.13 These increases would flow-through to freight rates with the knock-on effect of making import substitution competitive leading to an outcome of fewer Australian registered

[8] Less than 10,000 tonnes Deadweight. Deadweight is the approximate carrying capacity of a cargo vessel.
[9] Between 10,000 tonnes and 35,000 tonnes Deadweight.

ships undertaking coastal transport tasks and a significant loss of jobs in dry bulk manufacturing sites and within locally based ship-management offices, which employ administrative and technical personnel.

3.14 Because the introduction of the *Coastal Trading Bills* have the capacity to undermine the commercial position of many smaller dry bulk manufacturers, who supply to the domestic market, smaller dry bulk shipping users engaged Deloitte Access Economics (DAE) to quantify the likely consequences of these *Bills* being assented to without amendment and the Temporary License option no longer being a viable alternative. The economic modelling was undertaken using the existing Seagoing Industry Award (Part A and Part B) not ITF market rates, which were previously in place. The DAE Headline findings are reproduced in Section 4.

3.15 The progression from the use of temporary licensed vessels to general licensed vessels is unacceptable to smaller dry bulk shipping users, because the freight rate adjustment (to accommodate the ship operator's increased crew costs – SIA Part B to SIA Part A) would render their product uncompetitive when benchmarked against their international competitors. In addition their supply chain would be held captive to one supplier with no alternative operators available to meet contingencies.

4.0 Summary of Deloitte Access Economics Headline findings

4.1 DAE was engaged by a group of dry bulk shippers, which included the NBCG to analyse the economic consequences of the proposed shipping reform package announced by Minister Albanese.

4.2 The NBCG provided DAE with the financial models, which assisted DAE reach their conclusions in both the Headline findings and the Executive Summary. DAE's Headline findings were:

- The analysis presented in this report demonstrates that changed licensing arrangements proposed under the Australia Government's shipping reform package, *Stronger Shipping for a Stronger Economy,* will lead to an increase in the costs of coastal shipping and, by extension, freight rates of up to 16%.

- A variety of factors, such as competitiveness of downstream industries and the scope for import substitution, suggest that these cost increases are likely to be borne predominantly by the users of coastal sea freight. Not only will this diminish competitiveness, it will also bear negatively and potentially significantly on future investment decisions.

- The precise magnitude of the long term economic impacts is difficult to determine given the myriad of factors at play. However, the modelling undertaken here suggests that, in net present value terms, the aggregate impact on gross domestic product over the period to 2025 will be between -$242 million and -$466 million.

- The associated loss of employment over the long term is, in net terms, relatively modest at up to 200 full time equivalent employees. Much of the displaced labour is absorbed in other sectors, given the relatively tight labour market conditions that currently characterise the Australian economy. However in the immediate term, the displacement is considerable higher, with an estimated peak loss of 570 FTE employees.

5.0 Conclusion

5.1 The NBCG supports dry bulk shipping users who are seeking a review of Minister Albanese's shipping reform package for the following reasons:

1. Any public entity undertaking a renewal strategy would / should have serious concerns about supporting a project with an outcome that results in a reduction or loss of Net Present Value (NPV) over 13-years. Especially when the sources of these comments are two highly respected economic forecasting entities[10]. Almost without exception a Board of a publicly listed company would ask management to review their strategy and identify arguments to support a proposal, which so clearly failed the NPV test.

2. Transport logistics is extremely sensitive to a supply chain, which is dependent on a service that is both competitive and reliable. These attributes explain why Australian dry bulk shipping users are supportive of the Permit system whereby competitive tension is maintained through choice and availability. Turning the clock back to an era where dry bulk shippers are deprived of competitive options and reliability is seen as a retrograde step.

3. There is an international demand for seafarers with marine qualifications. This demand is currently between 25,000 and 50,000 personnel. The NBCG is yet to be convinced that the Government's proposed shipping reforms are going to encourage young Australians into a seagoing career. It has not happened in any other developed economy. The NBCG argues that the only solution, both immediate and long term, if these *Bills* are passed, will be the employment of foreign nationals on Australian general license vessels and AISR vessels under 457 visa arrangements.

4. The Government's shipping reform package has not dealt with reform of the maritime unions, which was promised when the package was released in July 2011. To have an 18-person crew represented by three unions is unproductive, but when a significant sector of Australia's maritime industry has their three person crew represented by three unions these arrangements fall into the unsustainable category. Dry bulk shipping users are unaware of when the outcome of the compact between the maritime unions and ship owners / operators will be known as the compact was central to the Government's decision to proceed with these reforms.

[10] Deloitte Access Economics and Bureau of Infrastructure, Transport and Regional Economics

5. The reform package does not identify areas, which will improve crew productivity. In fact the reverse seems to be suggested with riding crews being added to the ship's complement with no apparent reduction in the number of personnel who would become the operational crew. No analysis of the savings in repair, maintenance, insurance or dry docking expenses has been presented therefore the merits of these proposed productivity changes cannot be assessed.

6. The shipping reform package is, in the view of NBCG members, discriminatory. NBCG members note that foreign flagged and foreign crewed passenger ships over 5,000 Gross Tons are not required to comply with Australia's *Fair Work Act 2010* with respect to crew remuneration rates[11]. If relief can be granted to foreign flagged passenger ships, the NBCG argues relief from paying SIA Part B wages should be granted to foreign flagged and foreign crewed dry bulk carriers.

7. As DAE's executive summary states, the reforms have a capacity to increase freight rates by up to 16%. The NBCG accepts that the manufacturers of dry bulk commodities listed in Appendix D have trimmed their margins and improved their efficiency to a point where either profitability and / or productivity would suffer if further cost imposts resulted as a consequence of the shipping reform package. Consequently any increase in freight rates cannot be adsorbed.

8. If freight rate increases cannot be absorbed, the margin between the cost to supply and deliver domestically manufactured dry bulk commodities with the cost to supply and deliver overseas sourced products will result in an overseas supplier becoming more competitive and the threat of import substitution more likely.

9. In some cases domestic shipping substitution could take the form of road transport.

10. DAE's report identifies a loss of employment over the long term is, in net terms, relatively modest at up to 200 full time equivalent employees. However in the immediate term, the displacement is considerably higher, with an estimated peak loss of 570 FTE employees. A number of the displaced employees are currently employed in regional locations characterised as having high levels of unemployment.

11. To meet the challenges identified above, the NBCG advocates the Government's shipping reform package is reviewed by the Productivity Commission. The NBCG and the dry bulk shipping users are of the opinion that the current draft of the shipping reform package will only benefit overseas manufacturers creating an environment where import substitution prospers.

[11] Crews are paid ITF market rates not SIA Part B rates

APPENDIX ‘A’

6.0 Deloitte Access Economics Executive Summary

6.1 In response to a request by interested dry bulk shippers DAE produced an Executive Summary that identified the areas of concern in the Government’s shipping reform package. It should be noted that the interested parties are shippers who charter dry bulk carriers to carry both domestic and international dry bulk cargoes. The Executive Summary is reproduced in Section 5.2.

6.2 The size of the Australian shipping fleet has been in decline for almost two decades. From a fleet of 55 major vessels in 1995 there are just 22 vessels remaining in the Australian fleet today. However, despite the decline, Australian industries reliant on sea freight – the ‘consumers’ of shipping services – have generally been well served by an industry increasingly reliant on foreign registered vessels operating to and from Australia and along the Australian coast.

In relation to coastal shipping specifically, foreign registered vessels operating on Single Voyage Permits and Continuous Voyage Permits presently preform around 30 per cent of the Australian domestic coastal shipping task.

The proposed shipping reform package, *Stronger Shipping for a Stronger Economy,* aims to revitalise the Australian shipping industry, although the underlying rational for this revitalisation has not been clearly articulated. Overall, there does not appear to be a robust underlying public policy basis to the reforms that have been put forward. Certainly, from an economic efficiency perspective, it is not apparent that they would be welfare enhancing. While a Regulation Impact Statement was prepared to support the policy development and evaluation process, the findings of the underpinning analysis – which suggests that the greater the realisation of the policy intent, the greater the net economic costs – have not featured heavily in the policy decision making. Among other things, this reflects recent changes to the RIS review process, which have reduced the emphasis on expected net economic impacts.

In any instance, a strong case for the proposed new licensing arrangements, which will potentially significantly restrict access to coastal shipping by foreign vessels, has not been established. Indeed, trends witnessed over the last two decades suggest that, by virtue of higher labour costs, Australia does not enjoy a comparative advantage in shipping. Irrespective, the impacts of the proposed new licensing arrangements have not been closely examined, particularly insofar as they affect industries reliant on bulk coastal sea freight.

The analysis presented in this report demonstrates that changed licensing arrangements will lead to an increase in the cost of coastal shipping and, by extension, freight rates of up to 16%.

The generally competitive nature of the industries downstream from the key users of bulk sea freight and the scope for import substitution mean that scope to pass on these cost increases is minimal. For logistical and cost reasons, the potential to switch to other modes of transport – road or rail – is similarly low.

If these costs are absorbed by the users of bulk sea freight, there will be impacts on operating margins; if they are passed through, competitiveness will be diminished. As a consequence, two flow-on impacts are likely:

- First, a level of substitution will occur whereby intermediate inputs are imported rather than produced domestically. This will vary across commodities based on the significance of sea freight in overall production costs and profit margins of the industry. In the face of the rising value of the Australian dollar, import substitution is becoming an increasingly likely option. Equally, if the Australian dollar moderates, these pressures will become less acute.
- Second, future investment is likely to proceed at a depressed rate and hence future output in affected sectors will grow more slowly; potentially not at all.

The precise magnitude of these impacts is difficult to determine given the myriad of factors at play. The impacts rest heavily on the commercial decisions of a range of industry players and, for a variety of reason, these are challenging to determine before the fact.

The modelling undertaken here, which draws heavily on industry data, finds that the phasing out of temporary permits has the potential to lead to a fall in GDP of between $40 and $82 million in 2015, decreasing to $25 to $49 million in 2025 as structural adjustment occurs throughout the economy. **In NPV terms, the aggregate cost to the economy over the period to 2025 is estimated at between $242 and $466 million.**

The significance of these impacts is heightened when placed in the context of size of these sectors. For example, the combined annual revenue of the three members of the Cement Industry Federation is $1.2 billion.

The associated loss of employment over the long term is, in net terms, relatively modest at up to 200 full time equivalent employees. Much of the displaced labour is absorbed in other sectors, given the relatively tight labour market conditions that currently characterise the Australian economy. However, in the immediate term, the displacement is considerably higher, with an estimated peak loss of 570 FTE employees.

Given the factors that cannot be reliably captured in the modelling, such as wage pressures generated by the increased demand for domestic mariners and reduced competition and flexibility in the coastal shipping sector, the actual impact of the reforms may in fact exceed this. However, it should be noted that, given the uncertainty in relation to the nature, origin and magnitude of the productivity gains agreed between the Maritime Union of Australia and the Government, these impacts have been excluded from the analysis.

The findings from the Regulation Impact Statement that accompanied the reforms indicate that the greater the realisation of the intended impacts of the reforms, the greater the economic loss to the Australian economy. The modelling and analysis presented in this report supports this finding, indicating that the greater the shift toward domestic vessels on the coastal trade, the greater the likelihood that domestic production is foregone in preference to imports and hence the greater the likelihood that domestic production is foregone in preference to imports and hence the greater the adverse impacts on sectors reliant on coastal sea freight. On this basis, the findings of this analysis suggest that, in relation to access to the coastal trade, the proposed reforms would move the sector further away from regulatory arrangements, which until recently, served the Australian economy well.

APPENDIX 'B'

7.0 BITRE Regulation Impact Statement August 2011

7.1 The following extract is reproduced from BITRE's Reforming Australia's Shipping – Framework to Revitalise Australian Shipping Industry Regulation Impact Statement dated August 2011[12].

7.2 BITRE made estimates for four scenarios representing points along a continuum of possible futures with increasing tightness in the issue of temporary licenses. This would involve increasing levels of cabotage.

- Scenario A
  - There is no replacement of foreign temporary licensed ships with Australian ships. The same quantities of freight carried by permit ships in the base case are carried by temporary licence ships in the policy case.
  - No AISR ships are assumed to come into existence. Despite the cost and tax advantages of AISR ships, their financial costs are still above the levels of foreign ships albeit by a small amount, so there is no reason to use them.

- Scenario B
  - In the 'other dry bulk', petroleum products and 'other liquid bulk' sectors, Australian ships gain an additional 10 per cent of total freight tonnage from foreign temporary licence ships after five years.
  - The quantity of freight carried by Australian ships rises linearly for the first five years and remains constant for the rest of the analysis period.
  - AISR ships are used in the triangular trades carrying coastal freight and coal to Asia (Weipa to Gladstone bauxite, Queensland/NSW to Asia coal, Asia to Weipa empty) (Port Hedland to Port Kembla iron ore, NSW to Asia coal, Asia to Port Hedland empty).
  - AISR ships carry a one-third share of coastal freight carried on triangular voyages with foreign ships accounting for the other two-thirds.

- Scenario C
  - As for scenario B but Australian ships gain 20 per cent of the total freight tonnage in the 'other dry bulk' petroleum products and 'other liquid bulk' sectors.
  - AISR ships achieve two-thirds shares of the bauxite and iron ore triangular trades.

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[12] Paragraphs 190 and 191 Pages 62, 63 and 64

- Scenario D
    - Use of foreign ships in the 'other dry bulk', petroleum products and 'other liquid bulk' sectors is phased out altogether over the first five years.
    - The quantities of freight carried by foreign Temporary Licence ships fall linearly to zero over the period 2016/17 and remain at zero thereafter.
    - AISR ships gain all the bauxite and iron ore triangular trades.

The combined net present value (NPV) of the economic costs of the package is estimated to be a gain of $192 million under scenario A. Smaller gains occur under scenarios B and C and a loss of $202 million under scenario D.

6.3 The BITRE Regulation Impact Statement featured a table (Table 9 Page 64) that reviewed the "smaller" dry bulk sector under the heading 'Other dry bulk'. The net present value (NPV) for this sector under scenario A was $130 million with smaller gain under scenarios B and C. Under scenario D there was a **loss** of $80 million.

APPENDIX ‘C’

NATIONAL BULK COMMODITIES GROUP INC

List of Members:

BHPB Freight Pty Ltd

Minerals Council of Australia

Queensland Sugar Limited

CSL Australia

Inco Ships Pty Limited

List of Associate Members:

Australasian Institute of Marine Surveyors

Fertilizer Industry Federation Australia

Gladstone Ports Corporation Limited

Inchcape Shipping Services Pty Ltd

North Queensland Bulk Ports Limited

Pacific Basin Shipping (Australia) Pty Ltd

Penrice Soda Products Pty Ltd

Sanko-Kisen (Australia) Pty Limited

APPENDIX ‘D’

LIST OF DRY BULK SHIPPING USERS AND INDUSTRY ASSOCIATIONS

Adelaide Brighton Cement Limited

Boral Limited

Cement Australia Pty Ltd

CSR Limited

Penrice Soda Products Pty Ltd

Pacific Carbon Pty Ltd

Cement Industry Federation

Minerals Council of Australia

Fertilizer Industry Federation of Australia

Business Council of Australia

National Bulk Commodities Group