SUPPLEMENTARY SUBMISSION NO. 171

Maritime Union of Australia

Supplementary Submission to the House of Representatives Standing Committee on Transport and Regional Services

Inquiry into Integration of Regional Rail and Road Networks and their Interface with Ports

May 2006

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1. The Maritime Union of Australia (MUA) represents workers in the shipping, stevedoring, port services, hydrocarbons and diving industries.

2. The MUA made a written submission to the Inquiry in December 2005 and gave evidence before the Committee on 1 February 2006.

3. In the course of giving evidence, the MUA took on notice several matters raised by Committee members in order to provide a more considered response. This submission responds to those matters.

NSW Government Ports

4. The MUA was asked about what the Committee described as the NSW Government's three ports policy, and in particular its impact on Newcastle.

5. The MUA view is that it supports the NSW Government's broad strategy to develop NSW ports in an orderly fashion to ensure the import and export needs of the State continue to be met.

6. In principle, the MUA believes that there is a case for the continuation of Sydney Harbour as a working port. We have put strong views the NSW Government on that issue.

7. Given that the Government seems determined to press ahead with its 2003 policy announcement to close working ports within Sydney Harbour, the major remaining issue we have with the NSW Government strategy is that at present, there is insufficient certainty about the timing of port closures and future port expansion to ensure there is continuity of port services and a smooth transition for both the workforce, port users and communities who are affected by port closures and port expansion.

8. In relation to ports in Sydney Harbour, we made representations to the NSW Government that port closures that do not coincide with port expansion opportunities and therefore lead to Government induced labour displacement is a matter that requires close involvement of Government to support displaced workers. In this regard we have developed a labour displacement plan which is currently the subject of discussions with the NSW Government.

9. While our objective is that there be appropriate and balanced port expansion, subject to physical and environmental limitations, in all three of the major NSW port precincts – Port Botany, Port Kembla and Newcastle - we recognise that the timing of investment decisions will not always enable that balance to occur. In other words, investment may be applied unevenly over time across

the various ports. In relation to Newcastle port, we support the expansion plans announced by the Newcastle Port Corporation which aims to create additional wharf capacity at that port given the strategic importance of the port which lends itself to the development of both general cargo and container trade.

10 The MUA supports the expansion of Port Botany to create additional wharf space. The key issue is one of allocation of wharf space to terminal operators and the terms under which that occurs, as outlined in our primary submission.

11. The MUA also supports the expansion of facilities at Port Kembla and new investment in Newcastle. The critical factor in any new port investment is to ensure that terminal operators provided with concessions to operate terminals are high quality experienced operators who have a sound labour relations record and that workforce issues are given high priority in the terminal operator configurations that are adopted.

The Alice Springs to Darwin Rail Link and Darwin Port

12. The MUA was asked for an assessment of the Darwin to Alice Springs railway system and its interface with the Darwin port, in particular whether the trade to the eastern seaboard will continue to be primarily carried by shipping rather than rail.

13. The MUA believes that the evidence over the several years of operation of the Darwin to Alice Springs rail link, which provides a direct north-south rail transport option, clearly indicates that container traffic to Australia's eastern seaboard will be heavily dominated by the shipping mode. There is only modest container traffic on the rail link, and most of what occurs is north bound for Darwin and the immediate region – it is not northbound for the global supply chain. Table 1 provides the direction of trade at Darwin Port by mass tonnes. It bears out the fact that there is a fall in exports from Darwin over recent years.

14. According to data from the Darwin Port Corporation, the number of visits to Darwin Port by general cargo and container ships has fallen from around 180 pa in 2000-01 to around 140 pa in 2003-04.

15. The three main exports are livestock, automotive distillates and metal products. The three main imports are automotive distillates, motor spirits and cement clinker (in 2003-04).

Table 1: Total cargo trade by direction (Mass tonnes) – Darwin port

	97/98	98/99	99/00	00/01	01/02	02/03	03/04
Overseas In	368876	338706	482638	433260	399850	524210	582106
Overseas Out	368979	306612	152667	116745	118723	135186	95435
Overseas Total	**737855**	**645318**	**635305**	**550005**	**518573**	**659396**	**677541**
Interstate In	325935	431996	301845	291548	308511	291352	230611
Interstate Out	21249	4744	6519	16103	7815	16804	24102
Interstate Total	**347184**	**436740**	**308364**	**307687**	**316326**	**308156**	**254713**
Intrastate In	27421	23956	13462	16984	20893	25399	46480
Intrastate Out	55310	46508	29153	30040	41084	66170	115352
Intrastate Total	**82731**	**70464**	**42615**	**47024**	**61977**	**91569**	161832
Grand Total	**1167770**	**1152522**	**986284**	**904716**	**896876**	**1059121**	**1094086**

Source: Darwin Port Corporation website – downloaded 7 April 2006
http://www.nt.gov.au/dpa/port_statistics/totalcargo_trade.html

16. The MUA is nevertheless a strong advocate of the north-south rail link. We consider such a project as having very strong national interest, defence, regional development and environmental benefits. Even if it takes some years, perhaps decades, to reach its full commercial potential, this is not in our view a reason to undermine or condemn such an important component of the national transport system. Rising fuel costs in the transport chain could change commercial viability quite rapidly in the years ahead.

17. The MUA is also strongly supportive of the shipping vision of Sea Corporation, a Fremantle based operator, which has foreshadowed plans to expand operations to as Northern NSW-Brisbane-Darwin service that could provide options for southern suppliers to shift products by a combination of north-south rail and northern/eastern shipping. It will be important that the Federal Government provide the right policy settings and practical support to ensure that such an important new service commences and remains viable. This is particularly important in the context of the resources development across the north of Australia.

The Ability of Road and Rail Capacity to Clear Port Botany

18. The MUA was asked whether we are aware of instances at Port Botany where land side (road and rail) services have been unable to match the capacity to unload containers off ships, the result being a slow down in unloading.

19. The MUA is only aware of one circumstance where this has been the case and that was in relation to introduction of the Customs computerised container traffic system.

20. There have been no other instances in recent years, except for the occasional equipment breakdown or where a ship arrival has not coincided with its arrival window, which may temporarily slow down ship container unloading, where unloading has been adversely impacted. We are unaware of instances whee land side operations has impeded stevedoring operations.

22. In fact the evidence shows that through a range of improved labour work practices and computerisation that land side efficiencies and productivity have improved considerably in the last few years.

Policy Response Available to Governments to Support a Domestic Shipping Industry – a Tonnage Tax

23. The MUA wishes to clarify that its reference to a tonnage tax in evidence given to the Committee on 1 February 2006 was aimed at highlighting that a tonnage tax is just one of many policy options open to Governments to stimulate investment in domestic shipping, and that many countries have adopted such as method of taxation on shipping. We do not necessarily advocate such a tax, nor do we favour any particular model. We also say that any such incentives to invest in shipping must always be accompanies by complementary measures that ensure that any new investment provides support for the whole industry, including the Australian seafaring workforce.

24. We also wish to emphasise that a tonnage tax is not an additional tax on shipping – it is an alternative method of taxing shipping that provides taxation advantages to ship owners under certain circumstances. Conditions relating to ownership and connection to the taxing country apply. For example, in the UK, rather than paying the normal form of tax on their profits, companies that enter the tonnage tax regime pay a notional tax levy according to the size of the company fleet.

25. It remains our submission that the Commonwealth Government should explore a range of policy options, including taxation policy (which would inevitably require an examination of the tonnage tax), that might be available to support investment in Australian shipping.

26. Tonnage tax systems take different forms. The earliest one, which was introduced in Greece in 1957, is different from the others as it is part of constitutional law. It is a flat rate tax and has a more complicated method of calculating the tax than the other systems as it is based not only on tonnage (in this case Gross Tonnes) but also takes into account the age of the ship. Cyprus uses a similar system, which starts with a basic charge, gross tonnage increments are then added and the result multiplied by an age factor. There are also reductions or refunds of tonnage tax available for vessels managed and crewed by Cypriot nationals. In relation to crew, the reduction is calculated on actual length of employment onboard.

27. Both the Greek and the Cypriot system are mandatory, i.e. there is no option for being included under the ordinary system of corporation taxation.

28. The most commonly used model is the one adopted by the Netherlands in 1996 - the Dutch model. . It is a method by which a derived income is calculated based on the net tonnage of ships operated. The ordinary corporate tax rate is then applied on the derived income.

29. There are very many variations used by different countries when details of how to delimit the various activities of a shipping company and how to treat deferred taxes are concerned. Some countries have also added a "training element" into the requirements for being allowed to enter a tonnage tax system.

30. The "Norwegian model" is still only used by Norway in its entirety. It is a flat rate tax applied on the net tonnage of ships included and taxation of dividends at the ordinary tax rate at company level. It also includes very detailed provisions for how the shipowning companies should be structured in order to avoid difficulties in separating tonnage tax and non-tonnage tax activities within companies.

31. Finland uses a mixture of the Dutch and the Norwegian models. The most generous system is applied in the Netherlands, where the basic interest appears to have been to give the maritime industry the best rules possible to encourage their healthy growth. Finland, on the other extreme, appears to have looked at the issues from another angle, that of the state and giving as little as possible.

32. We have included below at Table 2 a comparison of the key features of the most commonly applied tonnage taxes in Europe.

Table 2: Features of European tonnage tax models

Comparisons of some major features of the two systems and how they have been implemented in different countries

Dutch model	Norwegian model
Calculation method	
Derived profit based on net tonnage, 4 size groups	Flat rate selective tax, based on net tonnage, 3 size groups
Germany Denmark Ireland Spain France Belgium (with age rebates to encourage new ships), 5 size groups	Finland
Flag of vessel	
Basically flag neutral	Basically flag neutral In Finland only Finnish flag vessels in international traffic as owned or bareboat vessels. T/C only EU flag vessels
Legal Structure	
Companies as well as individuals can be tonnage taxed Denmark differs with only companies as owners but without the Norwegian limitations Belgium allows ship management companies under the tonnage tax regime.	Only companies and then they can only own ships and capital and are allowed no staff
Length of stay within the system	
10 years, renewable	1 year at a time
Deferred tax liabilities	
Evaluated at entry into the system and disappear after 10 years Denmark – no deferred tax liabilities cancelled. They have to be paid if the shipping company's operations diminish substantially in relation to when entering the system	Finland – deferred tax liabilities do not disappear

Capital Gains	
Capital gains on the sale of ships, buildings and equipment are part of the tonnage tax Denmark, France and Spain – capital gains tax paid on ships sold	No capital gains taxes paid as long as the money remains in the company
T/C versus owned or bare-boat chartered ships	
75% of the ships under the tonnage tax can be on T/C Denmark allows 80% T/C	75% of the ships under the tonnage tax can be on T/C Finland allows only 50% T/C and then only EU-flagged
Activities in the system	
Any activity related to and being useful to a shipping company Most other countries have some restrictions here	Shipping operations only.

Source: European Shipping Policy: A maritime information and analysis report, Sjöfartens Analys Institut Research, Sweden 2004
http://www.sjofartsverket.se/upload/311/European%20Shipping%20Policy%202004.pdf

33. Introduction of a tonnage tax regime in the UK has seen the British owned and registered merchant fleet return to the levels of the late nineteen eighties. Since 2000 the UK fleet has quadrupled in tonnage from 3 Million tons to 12 Million tones in 2004. During the same period its world ranking has moved from 33rd to 15th place. This activity has led to an increase in ship management activity and a 30% growth in cadet recruitment. The UK shipping industry has earnings of more than £10 billion a year, and export earnings of over £7 billion a year.

34. The introduction of a tonnage tax in the UK had its genesis in an inquiry into the decline of UK shipping in the early days of the Blair Government, resulting in a 1998 policy document called "British shipping: Charting a new course". The document outlined a range of policy initiatives to address the decline in the numbers of UK ships and seafarers. The centrepiece of the policy was a proposal for the introduction of a tonnage tax, which all parts of the industry agreed as the way forward. The introduction of a tonnage tax e=was ties to a voluntary commitment by the UK shipowners to increase the training and employment of UK seafarers. The UK Chamber of Shipping gave a commitment on introduction of the tonnage tax in 10999 to increase the training of seafarers, both officers and ratings, by 25 per cent. year on year.

35. A 2004 review of the tonnage tax by the Department for Transport and the Inland Revenue found that the voluntary commitment had failed to increase training and employment of UK seafarers and recommended a closer link between access to the tonnage tax concession and training. At the time the UK Government decided to delay the implementation of the link between the tonnage concession and the employment of UK seafarers. Instead, the issue was referred to a working party—the Department for Transport's shipping task force.

36. The shipping task force working group was not able to reach an agreement about an employment link for UK seafarers, as the Chamber of Shipping refused to agree to any commitments on training or employment of UK ratings. Instead, the working party made a series of recommendations, including an increase of funding for training, a crew relief costs scheme and an extension to the seafarers' earnings deductions tax concessions. These are still under consideration by the UK Government, and an announcement by the UK Transport Minister is expected in the near future.

37. In a debate on shipping in Westminster on 26 April 2006, the UK Minister for Transport, Dr Stephen Ladyman said that " *employment in the industry……is not as I would like it to be, and there are not enough UK seafarers working yet…*". He went on to say that *"I want ships to be under the red ensign, and I want UK seafarers on them. I have to try to find a way to maximise that potential, but without driving shipowners to take their ships away from the red ensign and the tonnage tax, and to put them instead under other flags, and flags of convenience*".

38. He also said that "*At the end of the day, one thing that will help us to bring UK seafarers back to the sea is the training regime that we offer. Our seafarers will never be as cheap as other countries' seafarers, so they have to be better—better trained, better qualified, and providing better value for money. We have to find a way of doing that. Could the training regime that we put in place and the money that we provide for training be tools that we use to encourage shipowners to stay under the red ensign, to stay with tonnage tax, and to use UK seafarers, to offset any extra costs of employing UK seafarers that they might incur? Hon. Members will have to wait until our announcements to find out, but that certainly is one thing that we will have to consider*".

More on ports

39. The MUA wishes to draw to the attention of the Committee a speech given by Mr Tim Blood, Managing Director of P&O Ports Australia and New Zealand to the American Chamber of Commerce in early April 2006. In that speech Mr Blood made a number of critical points which we summarise below:

- Industry rationalisation over the last 7 years has resulted in:
  - Wages and overtime being replaced by salaries;
  - The elimination of overtime;
  - The introduction of merit based recruitment; and
  - The workforce being reduced by some 30%.

- The result has been:
  - Stevedoring unit tariffs have fallen every year in real terms;
  - Ship working rates have doubled;
  - Unit vessel turnaround times have halved;
  - The 2 main stevedores have invested over $1B in stevedoring equipment such as cranes.

40. In providing a critique of the ACCC view of stevedoring competition, Mr Blood made the following points:

- The Bureau of Transport and Regional Economics *Waterline* report and the ACCC *Stevedoring Monitoring* report provide a high degree of transparency of waterfront performance;
- The next wave of waterfront reform will be driven by technology rather than labour relations;
- The uncertainty created by comments from the ACCC (and supported by some Governments) has resulted in a hesitation by stevedores to invest;
- Landside investment is more urgent than stevedoring investment in Australian ports to realise available efficiencies;
- The failure of the road transport sector to address its interface with the ports is leading to major inefficiencies eg lack of backloading and reluctance to use slots over 24/7; and
- That it is inappropriate for Governments to provide access incentives to achieve additional stevedoring operators in the name of port competition.