



Submission No 12

Inquiry into Australia's Maritime Strategy

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FROM DUNKIRK TO DILI

Tampa and Terror

THE IMPORTANCE OF THE NATIONAL FLAG IN OUR MERCHANT NAVY

Submission by the
Maritime Union of Australia
to the
Joint Standing Committee on Foreign Affairs, Defence and Trade
Inquiry into Australia's Maritime Strategy

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Introduction

This submission is by the Maritime Union of Australia, the principal union representing workers in Australia's marine and stevedoring industries. The MUA has approximately 10,000 members, representing the overwhelming majority of people employed in the industry.

Much of this paper was previously submitted by the MUA to Defence Review 2000, a project coordinated by Andrew Peacock for the Federal Government which included submissions from a range of organisations in the Australian Community.

This submission seeks to highlight the importance of a merchant marine with Australian personnel under our own national flag and answerable to the government that serves that flag.

Historical context

The First Fleet that brought the colonisers, settlers and convicts to Australia were mainly merchant, and for all its modern life this nation has depended on the merchant marine for its very existence. The role of the merchant navy has always been intrinsically connected with that of the regular services. The buccaneers of Francis Drake served the interests of their Queen and as the great maritime nations of Europe were formed wars were fought over the issue of cabotage on the English coast.

At no time is this reliance more critical than when our shores are threatened by war and the wrecks that lay on the seabed around the Australian coast are grim testimony to the price paid during that greatest threat to our shores in World War II. A copy is enclosed of the sinking of merchant vessels off the NSW coast alone. (*Appendix 1*).

We begin this submission with an historical illustration of the conflict which was commemorated in year 2000, and that is the evacuation of the allied forces at Dunkirk. In Paul Gallico's celebrated story "The Snow Goose" about the heroic exploits of civilian craft running backup across the English Channel, how

extraordinary would it have been if, among the myriad of civilian vessels that assisted in the rescue, a merchant vessel of the Third Reich had appeared as part of the rescue operations?

The Snow Goose typified the spirit and the role of the merchant marine and civilian population in time of peril. The spirit remains but sixty years on the Australia's merchant marine, like many others national carriers, is unable to fill its role and has become an endangered species.

The East Timor crisis

It would in fact surprise many Australians to learn that in our most recent military endeavour in East Timor the government was forced to opt for randomly-selected foreign flag vessels to assist in the delivery of supplies and, as it turned out, the merchant fleet backup was in part supplied by Indonesian seafarers. (*See Appendix 2*).

Even though Australia was not at war with Indonesia there was no way to pick the intentions or the sympathies of the Indonesians involved. A hostile attitude combined with malign intent could have endangered Australian lives.

Appendix 2 states that the spokesperson for Prime Minister John Howard referred the matter to the then Defence Minister John Moore and the final explanation from the office of the Defence Minister suggested that it was a Navy decision to engage a vessel whose personnel included the same nationality as the militia our troops were in combat against.

Where our merchant fleet could assist mainly with offshore oil and gas supply boats – our personnel played their role and displayed their spirit. In fact the Commander of the Interfet forces in 1999 praised the Australian merchant marine for their efforts in the early part of the campaign, not simply for their ability to carry out their work but in particular for their contribution to the morale of the Australian forces. A copy of a letter (15/10/99) from Major General Peter Cosgrove to MUA National Secretary John Coombs is enclosed. (*Appendix 3*).

This letter and the historic role of our merchant fleet were given formal endorsement in the Australian Senate on August 14. (*Appendix 4*).

Other military conflict

Apart from Australian merchant shipping's involvement in East Timor, in recent years Australian Vessels were exposed to military action during the conflicts in the Arab Gulf region. The merchant fleet trade was essential in the overall supply of hydrocarbon products for Australian domestic use. Australian shipping was in receipt of specific training to assist in the safe manoeuvring of vessels through the Persian Gulf to ensure safety, and indeed survival was maximised for seafarers and the vessels to which they belonged. Australian vessels journeyed to all sections of the Gulf when crude oil tankers were being fired upon. Vessels included the Australian flag vessel, the *Nivosa*; the BP Australian flag vessel, *BP Achiever*; the Caltex Australian flag vessels, *William Dampier*, *Viking Merlin* and *Australia Star*; and the BP/BHP Australian flag tanker, *Iron Gippsland*. The crews of these vessels during those conflicts acquitted themselves with courageous consistency and application to the required task.

It is also a matter of record that the ANZAC's were rowed ashore by Merchant mariners at Gallipoli; that the wounded were picked up by merchant marine and brought to safety and that Private Simpson of "Simpson and the donkey" fame was a merchant seafarer before anything else.

The merchant navy celebrates its ANZAC Day on September 3, the day of the first casualty after the United Kingdom's declaration of war on Germany – the sinking of the merchant vessel "Athenia" off the Irish coast.

The Tampa Incident

In August 26th 2001 the Norwegian ship Tampa responded to an international distress call that ultimately led to its rescuing 440 refugees from certain death in international waters off Australia's north-west coast. With that humanitarian act the Tampa Incident began.

Arne Rinnand, Captain of the Tampa is an honourable man. In rescuing people in distress at sea he obeyed the law of the sea and he obeyed the flags that flew proudly at the stern of his vessel.

For his loyalty and service to his flag and country he received the Norwegian equivalent of a knighthood.

The Tampa Incident raised more issues than that of refugees. It raised the issue of Australia's retreating borders. It ended with this being done officially in relation to islands north of Australia but it began with the question of why the Tampa was not an Australian ship and what has happened to our coastal and overseas merchant fleet.

As the Bali bombings bring the "declared war on terror" closer to our mainland, it is a time to be ensuring our borders are protected not by denying refuge for innocent people fleeing from terror but by an enlarged Australian presence on the only border we have, the Australian coastline.

The MUA policy position

The Maritime Union of Australia would submit that the strategic importance, and in fact recognition, of the commitment and available support of the Australian Merchant Fleet is easily lost or dismissed during more benign conditions.

The DR2000 booklet suggests in the Foreword by both Prime Minister Howard and Mr Moore that contributors recognise the fundamental changes that have occurred in our defence strategy over the last decade and a half.

This paper intends to fully do that, particularly in reference to our declining merchant fleet over the same period. But it must, in the first instance, point to things, obvious as they are, that have not changed, that the support mechanism for operations has to come from the same side and that the spirit referred to by Paul Gallico in *Snow Goose* is no different from the morale spoken of by Peter Cosgrove or the spirit demonstrated by Australian crews during the Persian Gulf conflicts, from Dunkirk to Dili.

Events since Dili demand an even further review of our defence structure and a review of our coastal protection that makes sense. It requires a review of the vessels and personnel that carry our cargo around the Australian coast.

The Decline of our Merchant Fleet Over the Last Decade and a Half

There is no suggestion from any of the above that either the Prime Minister or the Defence Minister viewed the role of Indonesian nationals in our troops' support structure as the preferred situation and in hindsight they no doubt would have preferred the Tampa to be anything but a Norwegian flag ship.

This paper submits that the Australian Government was caught in a web of its own making. The decline of the Australian merchant fleet over the last decade and a half and through successive governments from both sides of the House has placed the nation in a situation largely unplanned.

The end result is that Australia simply does not have the merchant fleet available to support its own national security decisions. The economic rationalist erosion of policy has led to the exclusion of the merchant marine from our strategic defence programming.

The Growth of Single and Continuous Voyage Permits

Australian flag vessels have declined in number in the last 10 years consistent with the enormous increase in Single Voyage Permits (SVPs) and the introduction of back to back Continuous Voyage Permits (CVPs).

Single Voyage Permits stem from guidelines issued by the Department of Transport allowing for the granting of certain licences or permits to engage in Australia's domestic shipping trade by foreign flag vessels. They were introduced to allow for the carriage of cargoes for trades in the event that Australian flagged and operated vessels were not available for this domestic trade. It was not the intent for these permits to circumvent or replace Australian shipping as the protection for the involvement of Australian vessels is fundamental to Federal legislation being the Navigation Act.

Issue of Single Voyage Permits has risen from 142 permits carrying 1 million tonnes in 1991 to 572 permits to 895 permits carrying 3.7 million tonnes in 1999. (*Appendix 5*).

The Maritime Union of Australia has commissioned a report giving the summary of SVP statistics from 1995/96- 2001/02 (*Appendix 6*)

The dry cargo business is a significant component of this tonnage and is fundamental to our steel industry. It is also important to note that another key area in the acceleration in the use of single voyage permits is in the critical area for the carriage of crude oil and petroleum related cargoes between Australian ports.

The use of the **Continuous Voyage Permits** is of particular concern since the first permit being issued in late 1998 leading to 330 permits allowed up until October 2002.

This practice has seen foreign flagged ships trading on the Australian coast with a 6 month permit renewed many times. The Panamanian registered ship "Chekiang" had its permit renewed 6 times, while the Malaysian flagged "Bunga Teratai Dua" had her permit renewed 7 times. These are not isolated cases.

The underpinning rationale for the use of foreign vessels is that these vessels avoid any obligations under the current taxation laws including PAYE tax, GST and other corporate and related payment, of course the crews are foreign nationals, and the ships are largely flag of convenience (FOC) under national registration offering lower or exemption from all forms of taxation and other regulatory costs.

These SVPs and CVPs are able to be sourced from the Department of Transport with notice as short as 24 hours, effectively circumventing any opportunity for Australian flag operators to reprogram their ships for those cargoes. Because of the cost disparities, largely based on the difference in taxation and labour unit costs the unlicensed operators on SVPs and CVPs can always undercut the freight rates offered by Australian licensed vessel operators. This problem is compounded by the fact that these operators are in Australia to deliver or pick up cargo in a foreign trade, which has been priced on that trade alone. They are therefore prepared to carry cargo within the Australian domestic transport sector for drastically reduced amounts. This effectively undermines any fair or competitive involvement by Australian operators in the domestic trade.

In summary the growth of SVPs and CVPs effectively translates into loss of control of a key component of the domestic transport sector, and in particular for cargoes like bulk cargoes used in the production of steel and bulk petroleum cargoes which cannot be carried effectively by other modes of domestic transport. The adverse impact on Australia's strategic national and defence interests should be self-evident.

A Strong Merchant Marine as a Strong Strategy

The DR2000 booklet in its guiding Executive Summary (pvii) requests contributors to take into account a number of factors which in turn will be summarised later into the paper. However one small paragraph, *Alliance vs Self Reliance*, expands in a larger scale as the second feature in the main chapters: *Defence is part of a Team*. (p8).

This section clearly refers to our alliance to the United State of America and therefore it would appear necessary that we take stock of that nation's attitude to the role of its merchant marine in its strategic considerations.

The Clinton Administration pledged and enacted in its term of office the sum of US\$10 billion to its merchant marine shipbuilding and operating program over the next ten years. While the military program of the United States is far beyond that of Australia in size and scope, the reasoning given by Representative Ike Skelton as a member of the House Armed Services Committee outlining President Bill Clinton's strategic approach to merchant marine and armed forces is pertinent to the Australian situation:

"American commercial crew and US-flagged ships are necessary for the national security of our country. They provide the manpower and equipment necessary to

transport vital supplies and personnel around the globe in times of national emergency."

"(The Jones Act) ... helps to provide a basic manpower pool of US mariners that can be utilised in times of emergencies, and there is no substitute for that" (Appendix 7).

A similar position was taken by the Blair Government White Paper issued in May 2000. It stated as one of four main points,

"To encourage UK ship registration, to increase shipowner identification with the UK, to improve our regulatory control of shipping using UK ports and workers and to maintain the availability of assets and personnel that may be needed in time of war." (Appendix 8).

There is no denying the *strategic approach* on the interdiction of maritime forces taken by the US and UK governments, which Australia has always considered formidable allies. The Maritime Union believes that the best strategy must be to have a merchant fleet sufficient in numbers to supply and strategically work in our national interest.

Coast Guard Support

It is interesting to note that the MUA submission to DR2000 on the issue of a Coast Guard was in the government's hands prior to Tampa incident and prior to the recent upsurge in terrorism.

The *Government's* DR2000 booklet refers to surveillance and other duties more common in today's situations than times past. Responsibilities for the navy often include arresting boats carrying suspected illegal immigrants, illegal drugs or even arms. The Prime Minister has commissioned new patrol boats and the Labor Party has called for a Coast Guard.

Commodore Sam Bateman, from the University of Wollongong's centre for Maritime Policy in his paper to the *Ausmarine 2000* Conference outlined how Coast Guards in other countries had a variety of duties including survey and ecological monitoring. Australia's merchant marine personnel have historically manned commonwealth vessels such as these and served with distinction. (*Appendix 9*).

Addressing the Stated Requirements of DR2000

The opening page (vii) of the Executive Summary refers principally to strategy and *budget*. Having dealt briefly with the former it is plausible to examine how the cost of maintaining a merchant fleet stands alongside our current defence expenditure. A little contemporary history is therefore required.

In the late eighties and early nineties the Australian Government introduced a series of fiscal incentives that the shipping industry had been seeking for decades. Primarily these were:

- (i) *PAYE subsidies*. When a foreign flag vessel trades on the Australian coast the foreign seafarer pays no income tax to the Australian Treasury and, compared to an Australian resident seafarer, very little other tax. The logic

of taking the PAYE component of an Australian seafarer's pay and transmitting it to the shipping industry was that Treasury would be no worse off and probably better off counting sales tax as it was then and the shipping industry would be a lot better off.

- (ii) *Fuel excise.* The proposals here concerned eliminating the excise on bunkers for vessels operating coastal and overseas.
- (iii) *Ships capital grants.* This proposal provided direct grants to Australian shipowners either building or acquiring new tonnage.
- (iv) *Asset depreciation.* This proposal provided for certain tax advantages via special depreciation arrangements.

In 1996-97 the current Government withdrew the fiscal support incentives and established the Shipping Reform Group. The SRG was to advise the Minister on options to increase the competitiveness of Australian shipping, and for the windback and removal of cabotage restrictions.

As soon as the SRG Report was released the shipping industry responded to the "competitive" demands with both workers and shipowners meeting equally their share of the cost differential determined between Australian and overseas vessels.

The Government however largely rejected the main section of its own report which called for the reinstatement of the fiscal regime referred to above. Instead it concentrated on the abolition of cabotage. However, its proposed legislation on this was rejected by the Senate in early 2000.

The Government then commissioned a further report from Access Economics. This report concluded that support for an Australian merchant fleet was in fact an economically viable proposition. The report was tabled in late 2000 but has never been released. There are a number of factors which the report may have considered pertinent. One is the GST.

With the introduction of consumption tax (GST) the PAYE argument becomes more favourable to Treasury, not less, for all the reasons stated above only recalculated under the new tax regime. After all, Australians spend most of their money in Australia. The elimination of the excise on fuel also came in with tax reform.

As a proportion of the defence spending of today the cost is minimal to maintain a national merchant fleet. The SRG recommendations to Government amount to A\$100 million annually with excise cuts already implemented. According to DR2000 defence spending in 2000 stood at A\$11.2 billion on a broad function base. (p51). This equates then to a percentage factor of 0.89 based on year 2000 figures.

Given other factors such as savings in Balance of Payments and reduction in unemployment and spin off to other industries, the conclusion is that support for a merchant fleet makes economic sense.

Civilian Crises and Calamities

With a large coastline like Australia's and with a population living mostly on that coastline, it is not merely the wartime crises that our naval forces have to consider. Western Australia, for example, has 12,500 km of coastline with coastal towns in remote areas often subject to treacherous elements. Twice in the last seven years Broome has been isolated by floods. On the first occasion the town was rescued by Stateship vessels; on the second it was not because they had been sold. If the crisis had worsened it would have been questionable whether the RAN fleet of comparable size would have been in a position to assist.

Other tasks undertaken by an Australian merchant marine, often on ad hoc or implicit basis include acting as an additional watchdog on invaders into our waters, preventing smuggling of all kinds, and even assisting in the mitigation of environmental threats such as in the cases of the Kirki and Bunga Teratai Satu.

Australian seafarers were responsible for the rescue of the situation with both these vessels, the first of which threatened the Western Australian cray-fishing industry in 1991 and the second, the Great Barrier Reef in 2000.

Training Standards

Despite the apparent lack of Government interest in shipping per se, Australians have the most highly trained seafaring personnel in the world.

The Australian Maritime College in Launceston has an international reputation for training standards and apart from deck and engineering officer courses meeting all STCW requirements the college has been responsible for a world first in developing the Integrated Rating courses which are supervised by AMSA and now standard in all Australian bluewater and offshore oil and gas activity.

Ministerial (In)Action

Recent action, or lack thereof, by the federal Minister for Transport has served only to heighten the concerns of the MUA that no strategic national interest perspective is being applied to current maritime policy.

John Anderson as Minister for Transport has set up the Australian Transport Committee. However, it has met only once and even then did not address any issues remotely related to Australian shipping.

The Minister has also established "Auslink" which facilitates Federal Government investment in land based Australian transport initiatives. No such link applies for shipping.

The Minister stated at a Shipping Australia dinner in Sydney on April 3 this year that "Our industries are affected by the decisions of governments and businesses all around the world".

Read in context, and read against the current trends, it is arguably a washing of the hands on the issue of shipping as an Australian responsibility.

Conclusion

The MUA submits this paper as a sketch of strategic issues regarding Australian shipping. It is hoped that the collective wisdom of the Independent Review of Australian Shipping will move the present government beyond the conventional wisdom of economic rationalism.

There are reasons from "Dunkirk to Dili to Tampa and Terrorism" that suggest this nation cannot afford to wash its hand of the need for a merchant navy.

In these troubled times Australia cannot afford to neglect the urgent issue of Australian shipping and its impact on the defence of our country.