



## **Submission No 18**

### **Inquiry into Australia's Maritime Strategy**

**Organisation:** Australian Maritime Defence Council

**Contact Person:** Rear Admiral R C Moffitt, RAN  
Chairman

**Address:**


2002/41576/1

**Secretary**

Joint Standing Committee on Foreign Affairs, Defence and Trade  
Parliament House  
CANBERRA ACT 2600

**AUSTRALIAN MARITIME DEFENCE COUNCIL SUBMISSION TO THE  
INQUIRY INTO AUSTRALIA'S MARITIME STRATEGY**

1. The Australian Maritime Defence Council (AMDC) offers this submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade inquiry into Australia's Maritime Strategy. Given its breadth of maritime sector representation the AMDC is uniquely positioned to provide advice to this inquiry and takes great pleasure in doing so.
2. It should be noted that this submission represents the collective view of the industry-based members of the AMDC. Although Defence is represented on the Council and provides both Chairman and Secretariat functions, this submission does not purport to reflect Defence's views, which will be the subject of a separate submission.
3. Should the Committee require any clarification or assistance concerning this submission the AMDC Secretary, Lieutenant Commander Mary Ganter is available to assist you by telephone on (02) 6265 7311 or email [mary-louise.ganter@defence.gov.au](mailto:mary-louise.ganter@defence.gov.au).



**R. C. MOFFITT**  
Rear Admiral, RAN  
Chairman

Tel: (02) 6265 5158; Fax: (02) 6265 4790  
E-mail: [rowan.moffitt@defence.gov.au](mailto:rowan.moffitt@defence.gov.au)

7 November 2002

**Enclosure:**

1. AMDC Submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade Inquiry into Australia's Maritime Strategy.

**AUSTRALIAN MARITIME DEFENCE COUNCIL**

**SUBMISSION**

to the

**Joint Standing Committee on Foreign Affairs, Defence and Trade**

**Inquiry into Australia's Maritime Strategy**

## Preamble

The Australian Maritime Defence Council (AMDC) offers this submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade inquiry into Australia's Maritime Strategy. This submission represents the collective view of the industry-based members of the AMDC. Although Defence is represented on the AMDC, this submission does not purport to reflect Defence views, which are being submitted separately.

Given the scope of this inquiry, the AMDC is uniquely positioned to provide advice via its constituent industry representatives who have a sound understanding of Australia's defence requirements. In this context, 'maritime' refers to 'on or below the sea and the sea / land interface', and should not be confused with the wider implications (ie encompassing land and aerospace aspects) of a defence maritime strategy.

Input into the submission was provided by four AMDC members, each representing key areas of the maritime sector. In the interests of presenting a broad yet clear AMDC position, each of the four representations is included separately. The AMDC encouraged any members with dissenting views to the general consensus of the Council to submit separate submissions.

Defence provided submission coordination and secretariat functions for the Deputy Chief of Navy, in his role as AMDC Chairman.

## Executive Summary

The submission reflects the following central themes:

- The maritime industry is crucial to Australia's transport task for both interstate and international trade and supply of essential goods. Given its geographical isolation from its major trading partners, uninterrupted and secure sea lines of communication (SLOC) are essential to Australia's economic prosperity and security. Apart from the imperative to sustain Australia's export income, there may also be a requirement to supply allies with raw materials for manufacturing. Distances between Australian ports and the volume of cargo transported are such that ships of sizes normally used in international trade are also employed along Australian coastal routes, making each individual vessel a valuable – yet vulnerable – strategic asset. Defence protection and support during times of hostility may thus be vital to trade.
- Over the past decade, the number of ships on the Australian shipping register has fallen significantly. During the same time, the number of Single Voyage and Continuous Voyage permits allowing foreign-owned vessels to operate on coastal routes has increased fourfold<sup>1</sup>. Given the reduction in the domestic shipping industry, it should be recognised that it is more difficult for the Australian Government to requisition foreign-owned property, regardless of the contingency or the level of need. Furthermore, recent changes in financial management policy mean that Defence can only negotiate the issuing of indemnity in response to a request from the other party, and only after thorough legal consultation. For ship owners, this situation increases

<sup>1</sup> Sourced from: Bureau of Transport and Economics 2000, *Capability of Civilian Ports to Support the Australian Defence Force During Contingencies*, Commonwealth Government of Australia, Canberra, p14.

the levels of uncertainty, adds further time delays and expenses to negotiations and may serve to discourage foreign shipowners from chartering their vessels. On the other hand, it should be noted that chartered foreign vessels made a significant contribution to the logistical effort required to support the ADF in East Timor.

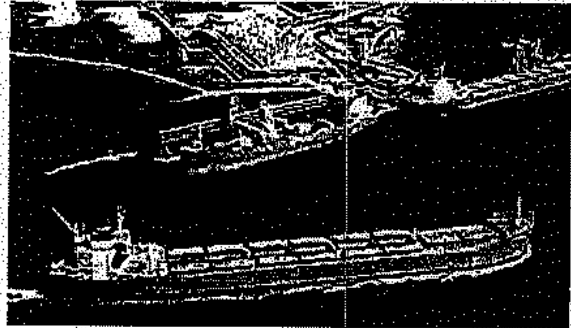
- Among Australian ports, there is a lack of surplus berth capacity. Whilst the majority of Australian ports remain State Government owned, they now operate on a commercial basis with commercial imperatives. In this context, expansion of berth capacity, or development of port infrastructure is dependent on a demonstrated ongoing business requirement rather than defence requirements. Additionally, there is a growing trend towards the specialisation of berths for specific cargoes, which may render them less suitable for the more general purposes usually required for Defence activities. In sum, the implication for defence is that port surge capacity during a time of contingency may be limited.
- A likely eventuality that could result from a real or perceived threat to Australian shipping would be the diversion of shipping from established routes into areas of environmental significance. For instance, potential threats to shipping east of Australian shores could result in the diversion of large bulk carriers into the inner passage of the Great Barrier Reef. The large quantities of petroleum products either stored as cargo, or used as fuel, would have the potential to cause serious ecological damage.

## Introduction

### Role of the AMDC

1. The AMDC is a non-statutory body, established and approved by the Minister for Defence. The AMDC is Chaired by the Deputy Chief of Navy and comprises representatives from the range of maritime industry organisations and some Defence members who hold specific appointments. The mission of the AMDC is to promote the partnership between Defence and the Australian Maritime Industry, and to facilitate the provision of effective advice and support to Government on maritime issues.

2. The AMDC seeks to be recognised as a leading authority in the provision of advice to Government on Australian maritime issues related to the maintenance of national security. Whilst the Terms of Reference of the Inquiry are broad in scope, a large proportion cover areas that form the core business of industries represented on the AMDC. Thus not only do AMDC members have an excellent understanding of the current capability of their respective industries to assist Defence, but they also have a vested interest in ensuring that Defence and Government remain aware of factors that may impact on their industries, and their ability to provide a specific capability in the process.



3. The Council continues to enjoy a high level of support from the Industries represented as well as senior Defence personnel. All participants view the AMDC as a high-level, yet relatively informal forum for the frank discussion of mutually important issues. Although national security is its 'raison-d'etre', the AMDC also facilitates discussion on a range of other maritime issues of interest to members, and can establish mechanisms for cooperative arrangements.

### Scope of this Submission

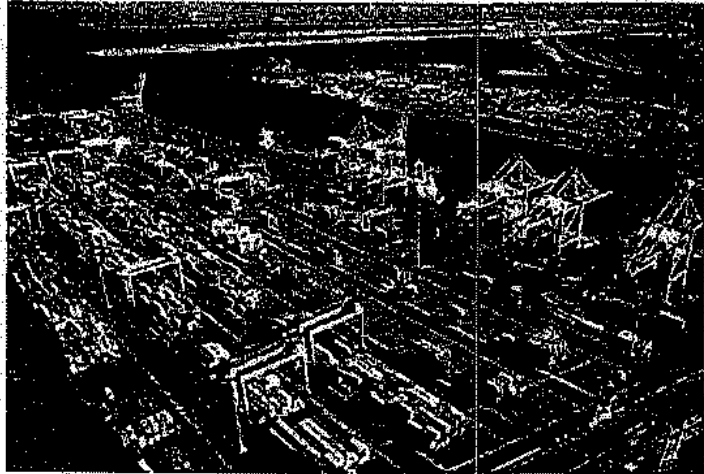
4. This submission aims to present a balanced and independent representation of the views of the maritime industry. Four AMDC members, who together represent a broad cross section of the maritime industry, provided input to the submission. These briefs were included separately to highlight the issues specific to the various areas of the maritime sector, as well as themes common to all. Defence will be making a separate submission to the Inquiry and does not seek to influence the conclusions made in this submission.

## Maritime industry issues

5. In the current strategic environment, the likelihood of armed conflict on Australian soil or in Australian waters is remote<sup>2</sup>. A more likely eventuality – and one that has occurred on numerous occasions recently – is the participation of Australian forces in coalition operations in the region to Australia's north, and elsewhere. In this context, there may be a requirement for Defence to either charter or lease merchant navy shipping for logistics support. While there are clear benefits in utilising Australia's indigenous merchant navy for these contingencies, Australia's merchant fleet is relatively small and may continue to decrease in number with the substantial increase in recent years of single and continuous voyage permits. The declining levels of indigenous ship ownership and suitably trained personnel may increase Australian reliance upon foreign owned and crewed vessels for heavy sealift tasks if needed beyond the capacity of present naval forces.

6. The types of merchant navy vessels that could be required by Defence is highly dependent upon the nature of the contingency, the size and duration of the operation and, just as importantly, the infrastructure available in the area of operations. Because of the distances between population centres, a large proportion of Australian coastal trade vessels are of a size commonly used for international shipping, and as a result have deep draughts that require blue-water ports. Therefore, any eventuality in which a suitable deep-water port was not available would preclude use of a large proportion of Australian merchant vessels and would likely necessitate the usage of foreign flagged vessels. However, alternative options such as the lease of the catamaran Jervis Bay during the deployment to East Timor are possible.

7. The commercialisation of Australian ports and the growing number of specialised berth facilities will both affect the capacity of ports to adequately service Defence requirements at a time of heightened operational tempo. Access to commercial port facilities within Australia is essential to support of Australia's defence forces.

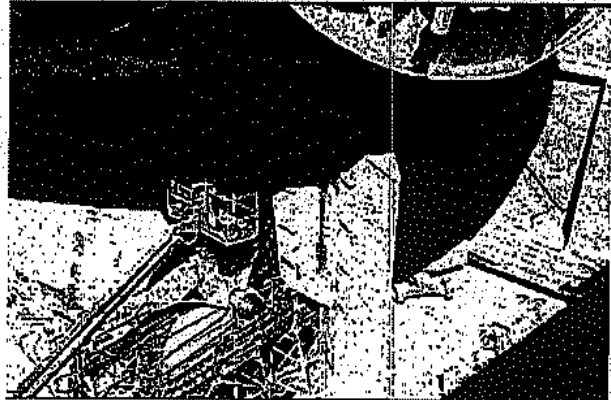


8. Currently, Defence has in place deeds of licence with the strategically and operationally important ports at Darwin and Townsville, primarily to ensure access to Ro-Ro facilities for use by Navy's major amphibious ships, and other ships as necessary. In all key ports around Australia, Defence cooperation with the civilian port authorities remains the basis for ensuring access to berthing, refuelling and materiel-handling facilities to ensure that the interface between maritime and land-based logistic processes operate smoothly in support of Defence operations. The AMDC has established a *Working Group* to develop a uniform set of guiding principles to ensure consistency in the arrangements between Defence and individual ports, which includes access during Defence contingencies.

<sup>2</sup> Department of Defence 2000, *Defence 2000 Our Future Defence Force*, Commonwealth Government of Australia, Canberra, pp.23-24.

9. AMDC Industry members encourage maintenance of a sustainable and affordable industrial base for the procurement and through-life support of ships and equipment. From an economic standpoint alone, the benefits of fostering indigenous shipbuilding, repair and maintenance are vast. From the AMDC perspective, it is also fundamental to Australia's security that Defence has ready access to these facilities to ensure the ability to maintain and modify ships when required; and in the case of war, repair possible battle damage.

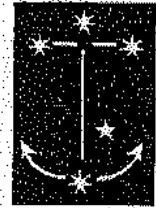
10. Following from this introduction are four separate submissions from AMDC council members who represent the major industry groups of the maritime industry. By presenting each of the four submissions separately, the issues as each area of maritime industry perceives them can be examined.





## The Association of Australian Ports and Marine Authorities

John Hirst – Executive Director



AAPMA

### Introduction

11. The Association of Australian Ports and Marine Authorities (AAPMA) is the peak body representing the interests of member ports and marine authorities in Australia. Members include Government owned ports, several privatised ports and most State marine regulatory authorities. AAPMA's principal objective is to represent and promote the common interests and views of its members at a national and international level.

### Issues

12. The majority of Australian ports are owned by the State governments, and are structured as corporations (except in WA where they are "commercialised"). They all have a charter to facilitate trade and operate commercially. There are also a number of privately owned ports covering general cargo, minerals and petroleum trades.

13. There is little surplus capacity in ports as berth capacity is linked to current and expected usage – any expansion in berth capacity is generally dependent on a demonstrated ongoing business requirement and return on investment guidelines. In addition vessel turnaround times in ports are very short. This yields high berth productivity but also requires a sophisticated land transport and storage logistics capability, which should be factored into any capability analysis.

14. Berths are becoming more specialised in their use to reflect changes in materials handling and vessel designs. They are often subject to long-term leases to cargo interests or stevedoring companies. This reflects the commercialised corporatisation/model adopted by State Governments and some private ports.

15. Over 99% of Australia's trade by volume pass through our ports. Ports are therefore a focal transfer point in the cargo logistics supply chain. Disruptions to the movement of cargo through a port produce flow-on effects throughout the supply chain. Given Australia's relatively low population density and distances between ports, it is not usually economically viable to secure alternative supply arrangements through other ports. Except when there is a declared emergency, commercial vessels have priority in berth access as the costs of delay can be very high, and are passed on from the ship owner through the supply chain.

16. Port assets are of high value – both strategically and commercially – and must be managed according to sound risk management principles. This has led to the operational management of ports becoming very sophisticated with a requirement for substantial individual port knowledge and general operational expertise. This may not be easily replaced during an emergency.

17. Security is becoming a major concern especially in higher risk ports particularly in relation to the interface with port assets and civil infrastructure. This may place restrictions on the berths that can be used for Defence vessels.

## Australian Shipowners Association

Lachlan Payne – Chief Executive



Australian Shipowners Association

### Introduction

18. The Australian Shipowners Association (ASA) represents Australian companies who are owners, operators and/or managers of seagoing ships. ASA's constituents operate a diverse fleet of ships under both Australian and foreign registration, which are manned by Australian, foreign and in some instances, mixed nationality crews. In a Defence emergency it is recognised that there would be a requirement to charter or requisition merchant shipping to provide a military sea-lift capacity. In addition, there would be a requirement for suitably qualified, skilled and experienced civilian seafarers to operate and manage merchant ships chartered by the ADF for transport support.

### Issues

19. One-third of Australia's national transport task on a tonne-kilometre basis is undertaken by sea. Major industrial supply chains utilising iron ore, bauxite, manganese, zinc, petroleum products, gas, cement, gypsum and many other materials rely on Australia's interstate and intrastate shipping. Australian vessels undertake about 85 per cent of this task, but increasingly, foreign vessels are participating in Australia's domestic sea transport industry. The increasing levels of foreign ownership in domestic shipping has the potential to pose a problem to Defence during times of contingency because it is more difficult for the Australian Government to requisition foreign-owned property under Section 67 of the Defence Act. In previous operational deployments – such as Operation *Stabilise* in East Timor – foreign owned vessels were available for charter, but there is no guarantee for the provision of this service, particularly if larger ocean-going ships are required, nor is there any way of limiting charter charges.

20. The nature of Australian and foreign shipping servicing Australia's national transport industry is unusual by world standards. In most countries, vessels that are much smaller than those used in Australia perform interstate trading. However, the distances between Australian ports and the volume of cargo transported is such that ships of sizes normally used in international trade are used in domestic transport. These ships vary from 40,000 tonne tankers carrying petroleum products from, (for example) south-east Australian ports to Queensland ports, to 150,000 tonne bulk carriers carrying iron ore from Port Headland to Port Kembla. By nature of their size, these vessels are not only more vulnerable to attack, but also represent a more valuable strategic asset.

21. Finally, there are two issues of concern to the Australian shipping industry regarding taxation and ownership regulations. The first is the wording of Section 23AG of the *Income Tax Assessment Act 1936* which prevents the Australian Taxation Office from extending to Australian seafarers engaged in international service with foreign employers the same tax treatment available under that section of the *Income Tax Assessment Act 1936* to Australian-resident taxpayers engaged in service in a country outside Australia. Put simply, the ATO and the Courts cannot, on the wording of the Act, classify work on a ship on the high seas as work in a country outside Australia – since the high seas are not regarded as a "country".

22. This renders Australian seafarers, in particular ships' officers, too expensive in the international market place for seagoing labour. This removes the incentive for employers to train young Australian men and women, or for young Australians to seek to be trained for lucrative and productive careers as ships' officers in the shipping industry internationally. Removal of this anomaly would contribute immediately, substantially and cost-effectively to an increase in the pool of Australians with appropriate maritime qualifications and who would be available to assist Australia's defence effort if required.

23. Secondly, the *Shipping Registration Act 1981* obliges Australian owners of ships to register their ships in Australia. Many foreign ship registers offer terms that are substantially more attractive than those attaching to the Australian ship register. One of the key elements of the behaviour of ship operators around the world is their ability under their national legislation to choose ship registry arrangements best suited to their operational and commercial circumstances. An amendment to Section 12 of the *Shipping Registration Act 1981* to allow Australian owners of ships to register their vessels in the registry of their choice would facilitate access to ship finance and taxation regimes which are part of the structure of the global shipping industry. This would facilitate a retention of the business of shipping, and its availability to Defence, in Australia.

## Shipping Australia Limited

Llew Russell – Chief Executive Officer



### Introduction

24. Shipping Australia is an industry body that represents the interests of major Australian and International ship owners and operators, and companies involved in the spectrum of shipping trades. Shipping Australia also provides a forum for discussion between members and other parties, and maintains formal contacts with associated industries.

### Issues

25. Australia as an island nation is geographically isolated from the world's major manufacturing centres and as such, depends on an effective maritime supply chain. Approximately 99.9 percent of Australia's trade by bulk, and 76.5 percent by value<sup>3</sup> is carried by ship. Disruptions to the sea lines of communication with Australia's major trading partners would have an instantaneous and crippling effect on the economy. In a defence contingency, protection of sea lanes – both coastal and international – would be essential to ensure the transport of defence materiel and supplies, and to allow commercial operations to continue.

26. If Australia's recent defence operations are any guide, the most likely type of contingency would involve the transport of personnel and equipment to overseas destinations. This would require the use of both land and sea-based transport assets. To better manage this process, there needs to be a greater appreciation of how the logistic process for one transport mode – ie shipping – fits into the greater logistics chain of an operation as a whole. A better appreciation of this would help to prevent a situation in which each separate logistic process operates smoothly, yet the process as a whole is inefficient due to poor interfacing between processes. That is, there needs to be further appreciation of the notion that the whole is greater than the sum of its parts.

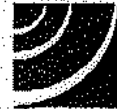
27. The circumstances in which Defence might offer indemnities to shipowners to cover possible claims for third party damage have changed since the introduction of the Financial Management and Accountability Act 1997, which deals with the management of public money and property. Changes to Commonwealth insurance arrangements have also resulted in changes to the way Defence manages unfunded insurance obligations. These changes have meant that Defence will now avoid offering, as part of a charter contract, a general indemnity. The situation caused by the Commonwealth's financial management and accountability policy may cause uncertainty, time delays and extra expense in the negotiations with foreign shipowners, and may even discourage foreign shipowners from providing their vessels. However indemnities are part of the commercial negotiation and for instance, these changes to Commonwealth insurance arrangements did not inhibit the chartering of foreign vessels to support the ADF in East Timor.

<sup>3</sup> Statistics sourced from: Bureau of Transport and Economics 2000, *Capability of Civilian Ports to Support the Australian Defence Force During Contingencies*, Commonwealth Government of Australia, Canberra, p6.

## Minerals Council of Australia

Mitchell H Hooke, Chief Executive

### Introduction



MINERALS  
COUNCIL  
OF AUSTRALIA

28. The Minerals Council of Australia (MCA) is the national body representing the exploration, mining and minerals processing industry of Australia. Members of the Council account for around 90% of Australian minerals production and a slightly higher percentage of our mineral exports. As a major charterer of shipping, the minerals sector is involved in the largest bulk minerals shipping task of any country in the world - there is also some limited use of container shipments. Approximately 380 million tonnes of dry bulk minerals are exported annually. This earned export income of around \$42 billion dollars in 2001/02 and represented about 34% of Australia's total merchandise exports and 26% of total exports of goods and services. The shipping task also includes:

- (a) significant movement of coal, iron ore, bauxite, manganese and minerals concentrates around the Australian coast to locations where further processing occurs (e.g. into steel, zinc, aluminium and alumina); and
- (b) some imports - such as nickel concentrate - for processing in Australia.

The minerals sector is also an owner/operator of major ports and facilities throughout Australia.

### Issues

29. Given the purpose-built nature of the dry-bulk cargo vessels used for the shipment of mineral products, there is no conceivable eventuality in which Defence would have direct use for these vessels. However, depending upon the type and length of a possible contingency, there may be a requirement for the Navy to ensure the safe passage of mineral bulk cargo vessels, by ensuring open and protected Sea Lines of Communication. Aside from the imperative to sustain one of Australia's largest export income earners, there may also be a requirement to supply allied countries with raw materials for manufacturing. In both cases, this could necessitate naval support.

30. At a national level, the transport of mineral products along Australian coastal routes is another area that could affect Defence capability during a time of conflict. A significant portion of raw materials produced in Australia is delivered to processing sites via shipping. If shipping routes along the Australian coastline were to be threatened, merchant shipping could again require escorts to ensure safe passage of materials such as iron ore, bauxite, coal and mineral concentrates to Australian industry for further processing. Such a scenario might also require industry and government to assess other modal options for bulk transport such as rail.

31. A further real or perceived threat to Australian and allied shipping would be a potential incident in areas of environmental significance. For example, a significant proportion<sup>4</sup> of the dry bulk shipping task that passes along the Eastern Sea Board utilises the inner route of the Great Barrier Reef. Depending on the nature and length of a possible contingency, shipping movements in this area could increase or change in their nature. It is clearly important to effectively manage the multiple use of this precious and internationally recognised marine area by shipping at any time. This would be no less important during a possible contingency.

<sup>4</sup> E.g., \$10 billion of export merchandise representing about 9% of Queensland's Gross State Product used the 11 ports and shipping routes in the Great Barrier Reef region last year.