

BORAL AUSTRALIAN GYPSUM LIMITED
ABN 84 004 231 976

Level 39, AMP Centre
50 Bridge Street, Sydney NSW 2000
GPO Box 910, Sydney NSW 2001
+61 2 9220 6300
+61 2 9220 6202

www.boral.com.au

8 April 2008

The Secretary
Standing Committee on Infrastructure, Transport,
Regional Development and Local Government
House of Representatives
Parliament House
CANBERRA ACT 2600
Email: itrdlg.reps@aph.gov.au

Coastal shipping policy and regulation inquiry

In its letter dated 25 March 2008, the House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government sought an insight into the experience of Boral on coastal shipping policy and regulation by way of a submission. The Committee's report is to:

1. Outline the nature and characteristics of the Australian shipping industry and the international and coastal trades;
2. Review the policy and regulatory arrangements in place for the coastal shipping sector;
3. Assess strategies for developing an adequate skilled maritime workforce in order to facilitate growth of the Australian coastal shipping sector;
4. Consider the effect of coastal shipping policy on the development of an efficient and productive freight transport system, taking into account issues such as environmental and safety impacts and competitive neutrality between coastal shipping and other modes of transport; and
5. Consider the implications of coastal shipping policy for defence support, maritime safety and security, environmental sustainability and tourism

This document is the Boral submission which the Committee has sought. The Boral Group is Australia's largest supplier of building and construction materials. Group companies employ more than 10,000 people here and provide a livelihood for many more. They are major users of freight services for the transport of raw materials and transformed finished goods, including to customers in all States and Territories. The experience of a wholly owned subsidiary, Boral Australian Gypsum Limited (BAGL), is drawn upon in this submission. BAGL is a major manufacturer of plasterboard and associated materials which it supplies to the Australian building industry.

Policy and regulation covering the coastal shipping sector must encourage the development of a competitive, sustainable shipping service on the Australian coast; currently they do not. In our view, a policy of "**competitive neutrality**" between Australian and international shippers is better able to achieve this important goal.

We illustrate this point, firstly, with reference to the impact of changes to the issuance of Continuing Voyage Permits under the Navigation Act 1912 (Act) early in calendar 2006 and the associated start of operations of Pan Australian Shipping (PAN). These events had a very detrimental impact on the BAGL business in Western Australia which takes its plasterboard supply by sea from east coast plants.

International ships, which provided a cost effective and reliable service up to that time, were no longer able to obtain Continuing Voyage Permits. With international ships we normally moved 30-35, 40ft containers each week on 2-3 ships each week. The frequency with PAN was fortnightly sailings at best, which added congestion and cost at despatch and receiving points. Our negotiations with PAN yielded a freight rate which, on a comparable basis, was significantly higher than the rates paid before this change. PAN appeared to be able to operate in this way as a result of a monopoly position achieved via the operation of the Act. In effect, a high frequency, cost effective and largely international ship service was able to be replaced by the expensive, poor PAN service almost overnight, via the operation of the Act.

Whilst eventually the PAN operation failed commercially and BAGL was able to return to using international ships, the policy and regulation which allowed this disruption to occur still exist today. Such events work against the effective and productive operation of commerce in Australia.

In this regard, we note that the experience with PAN also appears to be at odds with the agreement in 1995 between the State and Federal governments to remove all legislative provisions which restrict competition unless the community benefits of the restriction outweighed the costs. In a 2005 review of reforms to date, the Productivity Commission noted the Federal Government's intention to review and potentially reform cabotage restrictions was, "... a key piece of unfinished NCP business under the legislation review program".¹ It also noted that the prevailing presence of cabotage limits access to cost competitive intra state coastal sea freight and "*reduces the competitiveness of Australian firms that rely, or otherwise would rely, on Australia Shipping*".²

Our experience points to the wisdom contained in the Productivity Commissioner's recommendations and it is sobering to reflect that, as a result of the events above and the policy which spawned it, it became much cheaper for BAGL to sea freight plasterboard to Western Australia from Asia than from its factory in Melbourne.

We question the wisdom of such a policy which may encourage local producers to close Australian factories, with associated loss of jobs in favour of sourcing products overseas which in any event would be carried here on international ships. The PAN example above illustrates how existing policy and regulation caused coastal sea freight rates to rise significantly above those which would have resulted from policy neutral competition between all shippers capable of servicing coastal trades.

¹ Productivity Commission, *Productivity Commission Inquiry Report: Review of National Competition Policy reform* (28 February 2005), p220.

² Productivity Commission, *Productivity Commission Inquiry Report: Review of National Competition Policy Reforms* (28 February 2005), p221.

Our second illustration relates to gypsum, the key raw material used in the manufacture of plasterboard, which is able to be supplied by sea from sources within and outside of Australia. Cabotage facilitates 'cherry picking' by licensed ship owners and potentially exposes affected gypsum suppliers to higher costs and poor service, as evident from the PAN example above. Gypsum suppliers not targeted at the discretion of licensed ship owners remain able to use cheaper international ships which means that cabotage distorts competition and creates inequity.

Drawing on the two illustrations above, we make the following comments on the specific Committee reporting points as listed above:

1. Coastal shipping policy and regulation must facilitate innovative outcomes which lower the cost of coastal shipping in a sustainable way. Realistically, this requires that its users have access to diverse technical solutions from Australian and international shippers in a policy neutral way.
2. Policy and regulation should not provide preference to the Australian shipping industry. If government determines that some form of preference is required, it should not be by way of cabotage. There are alternatives, such as assistance packages to Australian shippers, which would not limit choice or adversely distort commercial outcomes for users in the manner that current policy does.
3. Growth of the Australian coastal sector should be facilitated through measures which encourage development of an adequate, skilled and productive maritime workforce, but in a policy environment which demands open competition with international shippers, subject to adherence of minimum standards of safety, employment conditions, environment and security performance.
4. Competitive neutrality between Australian and international shippers should be the key policy goal rather than between coastal shipping and other modes of transport. It could well be that a cabotage free coastal shipping policy which encouraged lower freight rates by sea compared to road or rail may well be in the public interest, in terms of sustainability and infrastructure need.
5. Policy makers need to address matters of defence support, maritime safety and security, environmental sustainability and tourism in a way which recognises and supports the significant way international shippers interface with the Australian coast. The responsibilities of Federal versus State authorities in this regard should be reviewed to ensure uniform regulations which are uniformly administered at reduced cost to industry. Policy differentiation with respect to Australian shippers should be minimised and not used to artificially sustain or detract from an Australian based shipping industry.

We thank you for the opportunity to provide this submission and would welcome the opportunity to provide any clarification which the Committee may require.

Yours sincerely,



W. R. Batstone
Executive General Manager

