STATE SHIPPING LINE PTY LTD FURTHER COMMENT ON THE HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON INFRASTRUCTURE, TRANSPORT, REGIONAL DEVELOPMENT AND LOCAL GOVERNMENT.

Ref : Coastal shipping policy and regulation

Dear Ms. King,

I am taking up the offer of the letter from Mr. Michael Crawford that allows additional information to be presented to the Standing Committee attended by the writer on 16th May 2008.

It was unfortunate that we did not have further time for discussion of some of the issues that exist concerning coastal shipping around Australia.

The writer of this letter is in the process, with others, of developing a coastal shipping service which will initially operate between Sydney, Melbourne and Fremantle, and return. There are some issues that we consider to be sufficiently questionable, and which need explaining, hence this letter.

It is about 35 years since there has been a coastal shipping liner service (excluding the recent efforts of PAN shipping). There are, we understand less that 50 ships of all types that are registered in Australia and that none of them are container liner vessels. In other words there is no competitive liner service on the Australian coast operated by Australian operated tonnage.

State Shipping Line will be the first such service since the 1960's. We do however face a few hurdles and would like to put our view of the effect that these "Issues" will have on our project.

Before the "Issues" we would like to highlight the GDP and Balance of Payments effect that applies in Australia when there is an Australian vessel involved in a coastal shipping service, and, the alternative of international ships operating on the coastal trade.

It is solely the foreign international vessels that operate a coastal service at the moment.

Attached to this paper is a layout which indicated the difference in GDP effect when Australian managed vessels operate, and alternatively, when foreign owned vessels operate on the coast.

The comparison is seen between column 1 and column 2. We have assumed that, in a situation of competition the vessels are of the same size and speed etc., etc., Whatever size and speed is applied the result is the same. In column 1 (Australian) the nett effect of the payment of costs and the income earned results in a positive result of $40,120,804.

In column 2 the nett effect on the same sized international vessels etc., indicated a nett negative result of $27,241,611. as the majority of costs and all revenue is sent out of the country.

The net difference from the use of Australian vessels is, in this example, a positive position of $A67,362,415. and, this is only a comparison of two small vessels over twelve months. The original costing were drafted about 18 months ago

At the moment we have two foreign companies, operating under Licence, with about 5 or 6 foreign companies operating under Permit, both single voyage and multiple voyage. Theoretically, the foreign vessels provide about 4 ships a month.

In order for the economy of Australia to gain the benefits from this maritime industry the cargo volume must be carried by an Australian managed vessel with Australian crew, under Australian rules.

The cost of operating an Australian crewed vessel is significantly higher than the overall cost of operating a foreign vessel with a Licence. It is granted that the availability of international vessels has been a benefit to the users of the coastal services whilst there has been no Australian tonnage available. However, it is interesting that the majority of the international operators have, in their homeland, a complete ban on any foreign vessel operating on their coast. This

applies to Japan, Korea, China, India, all north America, most of South America and all of the EU countries etc., etc.,

In view of this attitude on foreign markets it should be no different in the case of Australian Government policy.

The following issues are also of concern;-

a) Currently the majority of international vessels are operating on Single and Continuous Permits. There are five vessels operating under the protection of Licences. These conditions, by themselves, are understandable as there has been no Australian based services for many years. The main benefit that an Australian coastal operator used to have is in a section of the Navigation Act 1912 that calls for a limitation on the foreign vessels, in that they cannot load and/or discharge cargoes whilst an Australian licenced vessel is loading, to the extent of 3 days prior and three days after an Australian vessel is loading on the berth, for the same destinations. DOTARS have recently issued the Licences to ANL (now French owned) and they are, therefore not affected by the "three day" limitation. In isolation this is no a big issue, but, what will happen when other foreign lines apply for a Licence. This causes a degree of concern and provides a significant "risk" situation for any new Australian entry into a coastal service.

b) Another issue is the effect of GST Withholding Tax. In the period of commencement it would be usual for an Australian ship operator to Bare Boat charter (usually) German owned vessels. Australian crew etc., are provided by the Australian charterer. In the eyes of the Australian Tax Office the charter of the vessel (anywhere between one and three years) is an import and therefore the company has to pay a Withholding Tax of 10% of the charter monies paid to the German owner.

The foreign competition does not have to pay this tax. In addition the foreign vessels currently servicing the

coastal trade could place a vessel on the coast with or without an Australian crew, and, presuming that the vessel was owned by the foreign company, they would not have to pay the 10% tax on any charter rate costs – whether Bare Boat or Time Charter.

c) Another significant difference between the treatment of international operators carrying cargoes around the Australian coast, and any Australian operator that can carry the same cargo, is that the foreign operator has to pay their crews Australian wage rates whilst the vessel is operating between Australian ports. This is supposed to balance the labour costs of foreign vessels when compared to the labour costs of Australian based vessels.

The theory sounds good but is totally ineffectual

For example, a foreign vessel sailing around the coast and which sails on to Singapore and Malaysia operates about eleven round voyages to/from Australia per year. Out of one round voyage the foreign vessel spends about 6/7 days on the Australian coast carrying domestic cargo. It loads and discharges both import/export cargoes plus coastal cargoes. The coastal cargoes are relatively small compared to the international volume. The international cargoes pay for all the fixed costs of the vessel, so, any coastal cargo needs only to cover the stevedoring costs in order to make a profit. i.e. the foreign operators coastal cargo is effectively subsidized. In addition the average additional labour cost, per crewmen, for foreign vessels is $A82 per day for six days per call, and the Australian coastal vessel cost is $A279 per day for 365 days per annum.

An Australian specialist coastal cargo service has to cover all of its costs from coastal cargo. The implementation of current rules puts the Federal Department of Transport (DOTARS) effectively favouring the foreign operator, and, in the case of ANL (now a French company) has a significant cost advantage

which is supported to the detriment of any Australian coastal operator.

One last comment. It is clear that with the absence of any Australian coastal shipping, provided by Australian companies, the trend of Government and/or business has been to support those international companies that have been willing to provide a coastal service.

We would like to think that we can rely on the support of the Government, and that support could be expected in the short term.

Thank you for taking the time to read our presentation.

Kind regards,

A.T. O'Hare
CEO,
State Shipping Line Pty Ltd.,

c.c. A .Albanese office, Minister for Transport.
Malcolm Larsen

SUPPLEMENTARY SUBMISSION 43.1

RECEIVED
10 JUN 2008
HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON
INFRASTRUCTURE, TRANSPORT
REGIONAL DEVELOPMENT
AND LOCAL GOVERNMENT

Effect on Balance of Payment - Australia

Cash Flow analysis between Australian owned and Foreign owned vessels
Based on per annum revenue for two small container ships

	1		2		3		4	
Item	Australian Owned		Foreign owner		Foreign owner		Australian owned	
	Coastal service		International se service carrying coastal cargo		International Service		International Service	
Revenue	52,559,862		52,559,862		52,559,862		52,559,862	
Costs	Paid in Aust	Remit overseas	Remitted overseas	Paid in Aust	Remitted Overseas	Paid in Aust	Paid in Aust	Remit Overseas
Agents fees	958,998		479,499	479,499	479,499	479,499	479,499	479,499
Stevedore	14,661,325		7,330,663	7,330,663	7,330,663	7,330,663	7,330,663	7,330,663
Claims	232,929		116,465	116,465	116,465	116,465	116,465	116,465
Wharfage	5,973,971		2,986,986	2,986,986	2,986,986	2,986,986	2,986,986	2,986,986
Insurance		219,529	219,529		219,529		219,529	0
Port Costs	3,491,028		1,745,514	1,745,514	1,745,514	1,745,514	1,745,514	1,745,514
Charter		6,000,000	6,000,000		6,000,000		6,000,000	
Crew Costs	4,893,128		2,446,564		2,446,564		4,893,128	
Stores/Maintain	2,214,812		2,214,812		2,214,812		2,214,812	
Bunkers	10,396,236		7,797,177		7,797,177			7,797,177
Holding Tax	-			-	-			
Administration	2,500,000		2,500,000		2,500,000		2,500,000	
Totals	45,322,427	6,219,529	33,837,208	12,659,126	33,837,208	12,659,126	28,486,595	20,456,303
Retained/ Remit	1,017,906		6,063,529		6,063,529		3,616,965	
Nett cash in	46,340,333	6,219,529	39,900,737	12,659,126	39,900,737	12,659,126	32,103,560	20,456,303
Nett Cash Flow	40,120,804		27,241,611		27,241,611		11,647,257	
Nett difference	67,362,415						38,888,868	

Black Fig- nett cash in Red Fig- nett cash out