

Benefits of a competitive and sustainable coastal shipping sector

- 2.1 Shipping already plays a significant role in fulfilling Australia's domestic freight task, carrying twenty-four per cent of the total freight task in 2004-05.¹ It could be argued that any increase in coastal shipping's share of a growing domestic freight task would be beneficial for a number of reasons, but before coastal shipping can increase its share of the national freight task it will need to become competitive with rail and to a lesser extent road – not international shipping. Coastal shipping's competitiveness will then have a direct impact on its sustainability. While initial support might be required to rejuvenate the industry, over the long-term coastal shipping services will have to offer available, reliable, timely service with competitive pricing if the sector is to be sustained.²
- 2.2 The potential benefits of a revitalised Australian coastal shipping industry contributing to the carriage of the national freight task are considerable. The Committee has received evidence which suggests that a revitalised coastal shipping industry in Australia could have positive flow-on effects for the economy, environment, road safety and congestion, Australian defence, maritime safety and security and potentially Australian maritime-related industry.

1 DITRDLG, *Submission No. 15*, p. 41.

2 Meyrick and Associates, *International and Domestic Shipping and Ports Study*, quoted in MUA, *Submission No. 45*, p. 67.

Economic benefits of coastal shipping

- 2.3 The important economic role that domestic shipping can play in the alleviation of land transport bottlenecks, infrastructure constraints and environmental impacts,³ as well as the economic benefits derived from the creation of local employment and the growth of maritime services,⁴ should be a foremost consideration when examining the need to revitalise Australia's coastal shipping industry.
- 2.4 Shipping makes an important contribution in meeting Australia's total freight task – twenty-four per cent in 2004-05⁵ – and shipping has the advantage of being able to move large quantities of cargo over long distances.⁶ The cost and efficiency of coastal shipping has important economic consequences as well, which affect the profitability of export industries and the viability of mineral processing in Australia.⁷
- 2.5 Yet evidence provided to the Committee and related documentation found in the Australian community, does not address the direct impact that the coastal shipping industry has on the Australian economy. The Bureau of Infrastructure, Transport and Regional Economics provides detailed statistics outlining the movement of freight between ports, the amount of cargo loaded and discharged and the makeup of the Australian trading fleet.⁸
- 2.6 These statistics, however, are not put into context and the economic argument for increasing coastal shipping's share of Australia's domestic freight task has not been adequately articulated. That is unfortunate because international examples reveal that in the UK, for example, the growth of its shipping industry in recent years has led to significant benefits for its economy. Shipping in the UK supports 239,000 jobs and contributes eleven billion pounds a year to the UK's gross domestic product.⁹ UK tax revenues generated from shipping

3 Meyrick and Associates, *International and Domestic Shipping and Ports Study*, May 2007, p. 9.

4 Ms Melissa Parke MP, *Submission No. 37*, p. 2.

5 DITRDLG, *Submission No. 15*, p. 41.

6 DITRDLG, *Submission No. 15*, p. 41.

7 Richard Webb, *Coastal shipping: an overview*, Research Paper No. 12, 2003-04, Parliamentary Library, p. 4.

8 Bureau of Infrastructure, Transport and Regional Economics, *Australian Transport Statistics*, Yearbook 2007, pp. 85-100.

9 Oxford Economics, *Economic Contribution of the UK Shipping Industry*, Winter 2007, pp. 2-3.

amount to over three billion pounds per year. In addition, industry growth has delivered infrastructure benefits through the enhancement of competition and productivity, expanded the maritime services sector and provided defence options in times of need.¹⁰

- 2.7 Much of the growth in the UK shipping industry has been attributed to the introduction of a tonnage tax in the late 1990s.¹¹ A tonnage tax will be discussed in greater detail in this report, but for now it is worth noting that efforts in the UK to revitalise its shipping industry have led to positive and substantial benefits for the UK economy.

Environmental benefits of coastal shipping

- 2.8 Australia's transport sector currently accounts for approximately fifteen per cent of Australia's greenhouse gas emissions, and approximately six per cent of Australia's emissions are freight emissions. Road freight, in particular, accounts for eighty per cent of freight emissions while shipping accounts for only four per cent.¹²
- 2.9 Statistics such as these suggest that a shift in freight transport modes from land based transport to coastal shipping could significantly assist in reducing Australia's greenhouse gas emissions. Certainly, the Committee has received evidence arguing this case.¹³ However, it is also aware that transferring some of the freight task to coastal shipping may only result in a 'small reduction in greenhouse gas emissions'¹⁴ and that:

Actively pursuing mode shifting from land modes to coastal shipping as a means of reducing emissions is unlikely to be an effective or efficient greenhouse strategy. However, should mode shifting be pursued for other reasons, an additional

10 Oxford Economics, *Economic Contribution of the UK Shipping Industry*, Winter 2007, pp. 2-3.

11 Oxford Economics, *Economic Contribution of the UK Shipping Industry*, Winter 2007, pp. 2-3.

12 Andrew Macintosh, *Climate Change and Australian Coastal Shipping*, The Australia Institute, Discussion Paper Number 97, October 2007, p. vi.

13 ASA, Submission No. 29, p. 21.

14 Dr Laurie Goldsworthy, *Transcript 29 April 2008*, p. 9.

benefit would be an improvement in the greenhouse performance of the domestic freight sector.¹⁵

- 2.10 The Committee was further advised that greenhouse emissions only constitute a portion of total ship emissions. Nitrogen and sulphur oxides and particulates are different categories of emissions. Due to the type of fuel used by ships and the size of a ship's engines, shipping produces higher emissions in these categories.¹⁶
- 2.11 International studies have shown that shipping emissions can have a serious impact on urban pollution and damage to ecosystems from acid rain and nitrification. The extent of this problem in Australia is unknown due to a lack of scientific evidence. The Committee has been advised that:
- ...it would be very useful for a study to be done specifically for Australia about the impact of shipping emissions on Australia's air pollution. I think it would be great for the CSIRO [Australian Commonwealth Scientific and Industrial Research Organisation] to be a part of a team doing that.¹⁷
- 2.12 It would be useful for policy makers to have a clearer understanding of the amount and location(s) of pollution from coastal shipping emissions in Australia. Therefore, the Committee recommends that the CSIRO, in consultation with independent scientists, study and report on the magnitude and location(s) of significant pollution from ship emissions in Australia.¹⁸

Recommendation 1

- 2.13 **The Committee recommends that the Australian Commonwealth Scientific and Industrial Research Organisation, in consultation with independent scientists, study and report on the magnitude and location(s) of significant pollution from ship emissions in Australia.**
- 2.14 Ship emissions can be reduced and will decline as new engine technology and ship hull design is introduced. Already great

15 Andrew Macintosh, *Climate Change and Australian Coastal Shipping*, The Australia Institute, Discussion Paper Number 97, October 2007, p. ix.

16 Dr Laurie Goldsworthy, *Transcript 29 April 2008*, p. 9.

17 Dr Laurie Goldsworthy, *Transcript 29 April 2008*, p. 9.

18 Maritime Transport Centre, *Submission No. 19*, p. 7.

advancements have been made in recent years. Fuel efficiency in new ships is almost forty per cent better today than it was a decade ago,¹⁹ and when new technology is applied to existing ships there can be up to twenty per cent fuel efficiency gains.²⁰ The IMO has just decided on new long-term goals for ship emissions that, if ratified globally, will continue to advance ship innovation and technological adaptation as well.²¹

- 2.15 The Commonwealth Government has proposed that the transport sector be included in its Carbon Pollution Reduction Scheme.²² The introduction of an emissions trading scheme and the inclusion of transport in that scheme may increase the viability of shipping compared to other modes of transport.²³ However, Australian coastal shipping operators could be put at a competitive disadvantage if the emissions trading scheme only applies to the domestic trade and not the foreign trade, in which permit ships operate.²⁴ It has been pointed out to the Committee that:

If we look, for instance, at a \$30 per tonne permit system and a ship that burns 30 tonnes a day, that is a \$900-a-day differential right there because we have decided that emissions trading does or does not apply. So the first issue is the coverage of the scheme and how that would work.²⁵

- 2.16 This is an important consideration and the Committee is concerned that should a national emissions trading scheme be put into place that doesn't apply to ships operating under permit on the Australian coast, Australian coastal shipping operators will be at a competitive disadvantage at a time when Australia is attempting to revitalise the industry.

19 MUA, *Submission No. 45*, p. 67.

20 ASA, *Submission No. 29*, p. 24.

21 Dr Laurie Goldsworthy, *Transcript 29 April 2008*, p. 9; and MUA, *Submission No. 45*, p. 64.

22 Australian Government, *Carbon Pollution Reduction Scheme: Green Paper Summary*, July 2008, p. 16.

23 Mr Llew Russel, *Transcript 17 April 2008*, p. 19.

24 Ms Teresa Hatch, *Transcript 21 April 2008*, p. 4.

25 Ms Teresa Hatch, *Transcript 21 April 2008*, p. 4.

Coastal shipping and Australian defence

- 2.17 Expanding Australia's coastal shipping industry would 'present an opportunity to enhance the scope and nature of the Australian maritime industry's capacity to support Australian Defence Force (ADF) operations.'²⁶ Currently, that capacity is low. Research done by a joint Industry-Defence Working Group of the Australian Maritime Defence Council (AMDC)²⁷ has noted that there are 'limited capabilities within the Australian-controlled shipping fleet that could serve ADF's requirements',²⁸ due to the reduction in Australian-flagged vessels in the coastal trade.²⁹
- 2.18 This has not always been the case; the Australian merchant marine and merchant seafarers have played crucial roles in many of Australia's armed conflicts, including both World Wars and the Korean conflict. More recently, the ADF utilised civilian shipping for its mission in Timor-Leste.³⁰
- 2.19 In countries such as the United States and the United Kingdom, the relationship between their navies and merchant marines are very strong.³¹ In Australia, the relationship exists but could be stronger. Cooperation between the defence forces and the maritime industry is fostered through participation in the AMDC,³² which was established in 1982 'in recognition of the need to develop and maintain sound working relationships between the Department and key maritime industry players'.³³ Twenty years later, the Independent Review of Australian Shipping (IRAS) report was released and noted that:

26 Department of Defence, *Submission No. 50*, p. 10.

27 The Australian Maritime Defence Council (AMDC) is a non-statutory body, established by the Minister for Defence, with its mission being to promote and foster the partnership between Defence and the maritime industry operating in Australia, as well as to facilitate the provision of effective advice and support to Government on maritime-related issues. The AMDC comprises a Chairman (Deputy Chief of Navy) and members who hold specific appointments within Defence and the Australian maritime industry. Department of Defence, *Submission No. 50*, p. 1.

28 Department of Defence, *Submission No. 50*, p. 6.

29 Department of Defence, *Submission No. 50*, p. 5.

30 MUA, *Submission No. 45*, p. 69.

31 AIMPE, *Submission No. 35*, p. 13.

32 Cmd Robert Spencer, *Transcript 16 May 2008*, p. 65.

33 Semaphore, Newsletter of the Sea Power Centre Australia, *The Strategic Importance of Australian Ports*, Issue 16, October 2005, http://www.navy.gov.au/spc/semaphore/issue16_2005.htm, accessed, 26 June 2008.

If there is any weight to be placed on the existence of an Australian shipping capacity [for defence purposes] it has not been raised with the industry by any government agency. The experience of the industry is that the Department of Defence has made no overtures to industry in connection with Australia's merchant navy capacity. Commercial imperatives drive private investment in the shipping industry and there is no discernible influence on those imperatives from a defence point of view. This is made the more puzzling in light of the growing practice of Navy outsourcing a number of its previously traditional tasks which require maritime skills and expertise. These include ship provedoring, port management, crew training and through-life vessel support services. The Australian shipping industry believes it should and would support a defence requirement in a defence emergency but in the absence of any discernable interest from Government in this regard, it is not an issue that influences the shipping industry's investment behaviour.³⁴

- 2.20 It would appear that for a long period of time there was little meaningful interaction between the Department of Defence and the maritime industry. This may be changing. Following the release of the IRAS report, the AMDC established a joint Industry-Defence Working Group to examine 'Defence's requirements of commercial sealift and the opportunities this might present to the Australian indigenous shipping fleet.'³⁵ The key outcome from these deliberations was:

...the development (by Joint Logistics Group in Defence) of a long-term standing panel contract arrangement with selected shipping brokers to provide Defence with the flexibility it requires to respond quickly to a range of scenarios, quickly access sealift support services in support of ADF operations, and open up the competition to Australian and international shipping providers. Four commercial companies (HK Logistics, ALLTRANS International, APL Logistics and Patrick Toll) now form a Standing Offer Panel, which is valid for three years, with the Commonwealth having the right to offer two one-year extensions (up to a maximum of 60 months).³⁶

34 Sharp and Morris, *Independent Review of Australian Shipping: A Blueprint for Australian Shipping*, September 2003, p. 8.

35 Department of Defence, *Submission No. 50*, p. 5.

36 Department of Defence, *Submission No. 50*, p. 6.

2.21 Another joint working group was established in March 2007 with the purpose of examining the other key military-civilian issue – the availability of a skilled maritime workforce.³⁷ A scoping report was completed which outlined key shared workforce challenge issues but to date, very little has been done to address these issues:

While there are many people-oriented programs underway in both Defence and the maritime industry, each sector is generally addressing its manifestations and resolution options separately, with little effective joint activity apparent, and ostensibly each competitively fishing in the same labour pool.³⁸

2.22 Clearly there is value in greater defence-maritime industry cooperation. The Committee understands that the current joint working group is examining ways to:

- strengthen skills sharing between the Royal Australian Navy (RAN) and the merchant navy; and
- promote career options for service personnel and provide opportunities for both RAN and merchant navy personnel to gain experience in the other sector.³⁹

2.23 Research and dialogue must continue but there is a need for the AMDC to begin the process of establishing concrete programs designed to address the issues before it. As the coastal shipping industry grows, the Committee expects that the work of the AMDC will increasingly focus on actively ensuring that the merchant marine can 'provide more responsive readiness and preparedness to allow the Commonwealth Government to more quickly meet credible emergent national security, peacekeeping, stabilisation or humanitarian contingencies'.⁴⁰

37 Department of Defence, *Submission No. 50*, p. 7.

38 Department of Defence, *Submission No. 50*, p. 8.

39 ASA, *Submission No. 29*, p. 39.

40 ASA, *Submission No. 29*, p. 40.

Further benefits

- 2.24 The coastal shipping fleet is only one part of the maritime sector and there are a number of other benefits which could flow from an expansion of an Australian coastal shipping fleet. Greater use of shipping within Australia's transport task could, for example, help ease freight congestion on Australia's roads⁴¹ and reduce the impact of road tolls, injuries, noise and road maintenance investment.⁴² An increased domestic shipping fleet on the coast would also provide an important surveillance function, thereby enhancing Australia's maritime security capacity.⁴³
- 2.25 The maritime sector in Australia involves a range of maritime related industries and activities including:
- ship brokers;
 - port agents;
 - ship managers;
 - port service companies;
 - stevedores and terminal operators;
 - ship service companies;
 - marine insurance, classification societies and marine surveyors;
 - maritime financiers;
 - freight forwarders and customs brokers; and
 - bunker providers and brokers.⁴⁴
- 2.26 An expansion of Australian shipping and coastal shipping would only serve to strengthen and grow these existing services so that, in

41 Port Kembla Port Corporation, *Submission No. 8*, p. 2; and Port of Brisbane Corporation, *Submission No. 56*, p. 7.

42 Meyrick and Associates, *International and Domestic Shipping and Ports Study*, May 2007, p. 9.

43 MUA, *Submission No. 45*, p. 72.

44 Sharp and Morris, *Independent Review of Australian Shipping: A Blueprint for Australian Shipping*, September 2003, pp. 11-13.

time, Australia could become a hub for shipping business in much the same way as London, Hong Kong and Singapore.⁴⁵

Looking forward

2.27 This committee has been tasked with making recommendations on ways to enhance the competitiveness and sustainability of the Australian coastal shipping sector. For this to occur, reform is needed. Submitters to this inquiry have urged the Committee to consider the need for government to develop a policy and regulatory framework for the future of the Australian coastal shipping sector and enunciate it in a policy statement.⁴⁶

2.28 The Committee has been advised that:

...there is really no vision in the way that the government is approaching shipping and coastal shipping and we feel that, as the world's largest island, we should have a policy on shipping. It seems bizarre that we do not; it seems bizarre that we do not foster it, that we do not have a long-term aim to carry all of our coastal freight. That is where we would see this inquiry heading – to try and get a vision for coastal shipping in this country.⁴⁷

A vision for Australian shipping

2.29 It was argued that a clear policy statement from the Commonwealth Government would 'establish the foundation of a revitalised shipping industry' and 'would form an integral part of a nationally integrated transport and infrastructure plan'.⁴⁸

2.30 The Committee is aware that there currently exists a large body of preparatory work that addresses Australian maritime issues and makes recommendations for reform.⁴⁹ The work has been completed by, or on behalf of, organisations such as the Australian Logistics

45 Mr Paddy Crumlin, *Transcript 16 May 2008*, p. 23.

46 Maritime Union of Australia (MUA), *Submission No. 45*, p. 7

47 Mr Christopher Schultz, *Transcript 21 April 2008*, p. 22.

48 MUA, *Submission No. 45*, p. 7

49 For example, see the *Independent Review of Australian Shipping: A Blueprint for Australian Shipping*, September 2003 and Meyrick and Associates, *International and Domestic Shipping and Ports Study*, May 2007.

Council, the Australian Maritime Group of the Australian Transport Council, maritime unions, the Australian Shipowners Association, the Council of Australian Governments and Commonwealth Government agencies. This work can be drawn upon when assembling a national shipping and maritime policy.

- 2.31 Much of the hard work and analysis required to reform Australia's shipping policy and regulation has been completed without a clearly articulated policy. That situation may have changed during the course of this inquiry.
- 2.32 On 26 June 2008, the Minister for Infrastructure, Transport, Regional Development and Local Government revised the Ministerial guidelines for granting licences and permits to ships that transport goods interstate between Australian ports. The preamble to the revised guidelines begins by stating that:
- The Australian Government's policy is to foster a viable coastal shipping industry in a competitive domestic transport sector.⁵⁰
- 2.33 This may be the policy statement that many in the Australian community have been asking for. The Committee is of the opinion, however, that more is required. The Government would appear to be indicating a change in coastal shipping policy and therefore, the Government's new policy needs to be publicly reiterated and supported by a strong national policy framework statement which clearly outlines the Government's new policy and addresses a range of issues.
- 2.34 A new policy framework for coastal shipping in this country should take into consideration:
- reform of Part VI of the *Navigation Act 1912*, the *Navigation (Coasting Trade) Regulations 2007* and the *Ministerial Guidelines for Granting Licences and Permits to Engage in Australia's Domestic Shipping*;
 - the implementation of a single national approach to maritime safety for commercial vessels;
 - the introduction of an optional tonnage tax regime in Australia that is linked to mandatory training requirements;

50 Ministerial guidelines-Preamble, issued 26 June 2008, http://www.infrastructure.gov.au/maritime/freight/licences/ministerial_guidelines.aspx#preamble, accessed 11 July 2008.

- the re-introduction of accelerated depreciation arrangements;
- a one year review of the Maritime Crew Visa;
- amendments to the *Seafarers' Rehabilitation and Compensation Act 1992* and the *Occupational Health and Safety (Marine Industry) Act 1993*;
- the creation of a national port development plan to address current and potential capacity constraints in Australia's ports;
- the creation of a national maritime training authority and the introduction of a national training vessel;
- a review of Section 23 AG of the *Income Tax Assessment Act 1936*; and
- the creation of a reform implementation group to implement any future Commonwealth Government reforms.

2.35 If implemented, these recommendations will assist in the revitalisation of the Australian coastal shipping industry and increase the potential for the Australian coastal shipping sector to assume a larger proportion of the national freight task.