

SUBMISSION 30

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON
INFRASTRUCTURE, TRANSPORT, REGIONAL DEVELOPMENT AND
LOCAL GOVERNMENT**

INQUIRY INTO COASTAL SHIPPING POLICY AND REGULATION

SUBMISSION – PORTS AUSTRALIA INC

1. Introduction

1.1 Ports Australia welcomes the opportunity to make a submission to the Standing Committee's Inquiry on Coastal Shipping Policy and Regulation and commends the Parliament for endeavouring to develop bi-partisan recommendations on this important issue.

1.2 Ports Australia is the national peak body representing port authorities and marine regulatory authorities. Its core business is firstly, to represent the interests of ports to governments, and to market the importance of ports in the country's national economic life, to both governments and the community, and secondly, to advise members on regulatory and policy developments and to facilitate the exchange of information and best practice between members on matters of policy, operational and regulatory significance to ports.

1.3 The membership of the organisation is listed at Appendix A. The membership includes all Australian ports of significance and accordingly embraces both publicly and privately owned ports, and ports involved in container, bulk and break bulk trades.

2. Ports Australia Submission – Our Approach

2.1 This submission is designed to provide an overview of the perspective of the ports' community and should be read as an adjunct to a number of submissions made by individual members of the Association, which go into further detail, particularly on operational matters.

2.2 In developing its submission Ports Australia has endeavoured to address three main streams of interest. They are:

- To what extent do ports have an interest or stake in the policy and regulatory regime governing coastal shipping?
- Is there a market for more coastal shipping, and is there interest in taking advantage of commercial opportunities for expanding coastal shipping services?
- Do the ports have the capacity to accommodate greater volumes of coastal cargoes and what other implications would the advent of new coastal shipping services have for ports, particularly in the box trades?

2.3 We are advised that the Committee will also be undertaking a number of port visits. This will provide the Committee with the opportunity to develop a fuller understanding about operational aspects of coastal shipping from a ports' perspective, and of the implications at individual port level, of an increase in coastal shipping services.

3. Ports and Coastal Shipping Policy

3.1 Ports Australia infers from the Committee's terms of reference that the focus of the Inquiry will be on the prospects for a stronger presence for Australian shipping on the coast, or at least shipping in which there is some measure of Australian participation, as distinct from the uplifting of more cargo on coastal shipping per se.

3.2 In the mid 1980s the then Federal Government introduced the *Ship Capital Grants Act* and a number of other measures to promote investment in Australian flagged shipping, accompanied by reductions in crewing levels and other reforms. These measures were not dissimilar to fiscal and other benefits provided by the governments of a number of other countries to their shipping industries.

3.3 The result was an increase in investment in Australian flagged shipping, and growth in the national fleet, that tapered off from the mid 1990s leading to a diminishing and ageing Australian flag presence in both international and coastal trades. The Australian Shipowners Association (ASA) reports that between 1992/93 and 2003/04 the proportion of Australia's coastal trade carried on permits by foreign ships has increased from about 2.5 to 27.2 percent.¹

3.4 The important task that coastal shipping already plays in addressing Australia's domestic freight task should not be under-estimated. The Bureau of Infrastructure, Transport and Regional Economics reports that, on a tonne kilometre basis, coastal shipping carries between 35 and 40 percent of the bulk freight task, and between 25 and 30 percent of the total task.² Ports accordingly are already accustomed to facilitating a sizeable domestic shipping task across all pack types.

3.5 Ports Australia's policy is that there are benefits to be accessed by a greater proportion of the domestic freight task, which is predicted to double in the lead up to 2025, being uplifted by coastal shipping, and that there are some specific trade opportunities in that regard on the coast. While from a perspective of use of shipping this could be carried on either Australian flagged or foreign flagged vessels, Australian ports are concerned that the vessels used in these trades are adequate to the task and support the Port State control inspection standards and the protection that they afford. Generally the views of our members tend to coalesce around the idea that there are strategic national and industry benefits to be derived from a higher Australian presence in our shipping trades – as well as from increased shipping generally.

3.6 Ports Australia is aware that the strategic benefits available through a greater Australian flag presence in the country's trades have been the subject of some considerable analysis and that there are varying views among stakeholders as to their significance. This Association has not detected any strong disposition among stakeholders, including the Federal Government, to a highly protectionist approach, or to providing assistance to the industry should it not be able to compete on a level playing field, and would view such an approach as consistent with the policies typically

¹ *Australian Maritime Transport*, Report prepared for the Australian Shipowners Association by Apelbaum Consulting Group, March 2006, p.26

² *Australian Transport Statistics Yearbook 2007*, Department of Infrastructure, Transport, Regional Development and Local Government, pp 22/23

promoted by governments of all persuasions in relation to the global trading environment.

3.7 There appears to be some uniformity of view among industry stakeholders that some creative thinking should be applied to determining an acceptable method of achieving a greater measure of Australian participation, including the use of Australian crews. To that end it notes that second registers have in the past been mooted, and as another alternative some sort of trade-off between access to Australia's coastal trades on the one hand, and the training of Australian seafarers and deck officers, on the other. However these possibilities will no doubt be exhaustively canvassed with the Committee by shipping and other interests and Ports Australia does not seek to buy into this discussion in a substantive way.

3.8 Ports however have a central strategic interest in the outcomes for the following reasons:

- The ports industry is heavily reliant on recruiting people with maritime experience such as harbour masters and port operations managers, pilots, tug masters and other port vessel handlers. The industry accordingly supports opportunities to develop maritime skills of Australians so that a greater pool of skilled employees is available to take up shore based positions in the ports industry. Skilled personnel with maritime experience are in short supply (not least because of competition from the offshore resources sector), and notwithstanding that alternative training pathways are being developed in some areas, the availability of sea time is still an essential component to much of that training.
- The bearing that government policy on coastal shipping has on growth in those trades is of interest to ports in terms of both the operational and infrastructure requirements that it will generate, within the port.
- Likewise, the impact of government policy on the level of coastal shipping trades has the potential for substantial impact on landside logistics. The Committee is urged to recognise that, as much as an increase in coastal shipping may generate benefits, it adds an additional imperative for improved planning and funding of road and rail corridors, buffer zones and terminal expansions. A number of reports have already indicated that Australia's trade performance stands to be compromised if these matters are not addressed. Likewise, it is conceivable that the growth of coastal shipping could be impeded by its lack of ability to compete on transit times and so on, because of difficulties in moving cargo to and from ports. This is particularly pertinent in the context of any consideration of growth, or introduction of specialised services in the container trades, where ports typically co-exist with congested urban environments.
- As a general policy statement Ports Australia considers that there has been a lot of emphasis on the part of agencies such as the Productivity Commission and the National Transport Commission (NTC) on the relative merits of road and rail in addressing the line haul task. The Productivity Commission has determined that both these modes under-recover on fully allocated costs in some measure. Shipping on the other hand is fully commercial and fully pays for infrastructure costs and environmental damage through service charges and levies. While Ports Australia has not engaged in the detail of this subject area it considers that

coastal shipping should be folded in future into such considerations of modal mix, including on the basis of relative performance on greenhouse gas emissions where shipping has substantial advantages.

4. Coastal Shipping Market Prospects.

4.1 As previously observed a large percentage of the coastal shipping trades is dedicated to bulk shipping, in the main to a small group of commodities, largely bauxite and alumina, iron ore, crude oil, and petroleum products. Typically these movements are part of vertically integrated operations.

4.2 Some of these cargoes have become increasingly converted from bulk to containerisation because of their value and handling characteristics. Such is the case with the movement of nickel concentrates between Esperance and Townsville.

4.3 A number of the members of Ports Australia believe that there is greater potential for coastal shipping services in part based on their observations of over congested road and rail networks. A number of port authorities are working actively with other parties to further develop coastal shipping services where there is capacity that readily accommodates such expansions

4.4 Recently there has been considerable interest in the development of dedicated coastal shipping services in the container trades and it is understood that planning is underway for such services to be introduced in the near future.

4.5 Because of growth and capacity constraints, as well as the changing cost relativities between modes, it is apparent that the coastal container and break bulk trades are becoming increasingly contestable. If such services are able to offer a high level of reliability, and are priced under rail services, then dedicated coastal services on long haul routes might be sustained.

4.6 Further, there is a view in the market that while vessels on international voyages operating on permit can competitively price such as to cover marginal costs, shipper support would still be forthcoming for a reliable, dedicated service providing it could price competitively with rail. In part this would seem to mean that the owners of cargoes that have attached to them a level or measure of time sensitivity are prepared to pay a bit more rather than take a chance on being up lifted by a vessel on permit, particularly if problems have been experienced previously with these services. This is based on the experience that on some routes or at some time permit vessels may leave cargo on the wharf for the next sailing to pick up depending on how they are going, at the time, in terms of their own international schedules, or if capacity is unavailable. This issue could become more significant should international shipping capacity continue to tighten. A report prepared for the Australian Maritime Group (AMG) also reports that shippers are sometimes forced to use international shipping containers which can erode the price advantage offered by vessels on permit.³

4.7 The Meyrick Report also indicates that a shift of up to 24.9 millions tonnes is available based on certain conditions of service delivery and by applying elasticity effects to determine potential modal shift against rail. The report further observed, and

³ Report prepared for the Australian Maritime Group, May 2007, Meyrick and Associates, GHD/Booz Allen Hamilton, p. 149

we agree with the observation, that providers of dedicated coastal shipping freight services would benefit commercially if they were integrated and/or partnered with major land-based logistics providers to support a total end to end service.

4.8 Governments in the EU and in the US are promoting greater use of coastal shipping including shorter haul shipping as part of strategies to relieve congestion on road and rail networks. There is a greater consciousness of the environmental benefits offered by shipping, and in the case of the US support for shipping is also linked to strategic defence interests. Studies have also been conducted within the EU framework to demonstrate the commercial attractiveness of particular coastal shipping operations including some short haul operations. While it is instructive to note the increasing emphasis on coastal shipping initiatives internationally, the characteristics of the Australian operating environment involving, among other things, thin freight routes, means care must be taken in making comparisons.

4.9 The Meyrick Report further shows that the penetration of shipping into domestic freight markets is logically dependent on, and a function of, the degree of intervention and support that respective governments extend to the coastal shipping industry, in part through pricing. In this regard we refer back to our earlier suggestion that there is a *prima facie* case on efficiency grounds for coastal shipping to play a stronger role in the transport system if all costs are accounted for. We surmise that should environmental costs be brought within the pricing system for the use of infrastructure by the freight vehicles, then coastal shipping may be better positioned to undertake a stronger role.

5. Implications for Port Operations of more Coastal Shipping.

5.1 Infrastructure

5.1.1 Consideration of changed policy settings for coastal shipping should be accompanied by a discussion of the port and related infrastructure requirements that may be needed to facilitate growth in the coastal trades. While ports have generally taken into account a growing domestic freight task within their specific infrastructure plans, this is generally focused on organic growth of current volumes rather than new markets, including with dedicated services, or significant shifts in modal choice.

5.1.2 With each coastal shipping movement comes an equivalent origin and destination movement by road or rail to and from the port. In some instances, to sustain required service levels to enable coastal shipping to effectively compete, specific dedicated infrastructure may be required within the port and within its access corridors.

5.1.3 The robust growth in international trades has now, for some time, drawn attention to the infrastructure and regulatory issues that need to be addressed to avoid prejudice to our trade performance. The report prepared by the *Taskforce on Export Infrastructure* presented to the then federal Government in May 2005 incisively conveyed that there was no national infrastructure crisis as such, rather that there were localised infrastructure issues that had not been addressed through a mixture of policy and regulatory failures, and that if they did not receive attention our export performance stood to be compromised.

5.1.4 More recently a report by the then Standing Committee on Transport and Regional Services tabled in August 2007 issued a similar note of warning.. its report titled *The Great Freight Task* recommended a \$3 billion national fund, separate to *Auslink* for critical port infrastructure projects, including in the main road and rail connections and where necessary, intermodal terminals (in the port context this usually means a terminal away from the immediate port precinct to facilitate the exchange of containers between modes to accommodate more efficient port access). In the report the Chairman of the Committee, Mr Paul Neville MP noted that “*What we discovered , as we moved from port to port, was a pattern of logistics or infrastructure failures in the access to, or the operation of, ports – a missing supply link, a lack of rail capacity, a need for a bypass or ring roads, road and rail loops, and the functionality of channels to cater for larger.....vessels*”.

5.1.5 Ports Australia had previously expressed concern that *Auslink* did not deliver on port access and indeed that the freight corridors designated under the program excluded some of the most strongly growing export regions.

5.1.6 Ports Australia has engaged with the Minister for Infrastructure, Transport, Regional Development and Local Government, the Hon Anthony Albanese MP on this matter and is encouraged that the Rudd government’s policies are being formulated around total supply chain efficiency. Ports Australia will be utilising the opportunity afforded by the national infrastructure audit that is to be carried out by Infrastructure Australia.

5.1.7 In this regard Ports Australia further notes that the provision of transport corridors to ports, buffer zones and space to facilitate expansion is, in the first instance, a matter of good planning. We will likewise be impressing upon Infrastructure Australia the need for resolute government action on this matter.

5.2 Regulation

5.2.1 The establishment of balanced and predictable regulatory regimes is likewise fundamental to the timely provision of additional port capacity, whether it be by way of channel deepening, the provision of a new berth, or the provision of an intermodal terminal.

5.2.2 The reports referred to above identified the inhibiting impact of complex and increasingly draconian regulatory processes. The experience of the members of Ports Australia is that approval processes are becoming more lengthy and uncertain, and that, as a general rule, the bar is lifted on each occasion that major investment in capacity expansion is proposed. Further there is duplication between jurisdictions. As with uncertainty in planning, overly onerous and uncertain regulation also stifles funding opportunities, including those involving the private sector.

5.2.3 Ports have gone to some lengths, and consider it as necessary and commercially prudent, to establish sound environmental credentials with industry and the community and expend considerable resources in doing so. However some of the processes to which they are now subject are at odds with their vital trade facilitation role. Governments need to have a clear vision and policy on this

matter to ensure the ongoing viability of ports, including their ability to deliver capacity and sustained access for the maritime industry in keeping with demand.

5.2.4 Ports Australia is strongly supportive of a national framework for regulation in relation to strategically significant infrastructure, including those that apply to dredging, that are carefully balanced and do not simply represent an opportunity for all jurisdictions to go to the highest common denominator. This does not necessarily mean centralised regulation but a real commitment to harmonisation and simplification, accompanied by certainty of process. We observe that this matter also lies within the brief of Infrastructure Australia and the current COAG agenda and is being addressed by the Government at a number of other levels. Notwithstanding this resolve, progress in this area will require incisive action on the part of all governments.

5.3 Operational Aspects

5.3.1 The success or otherwise of any new coastal shipping services, from a ports perspective, is also highly dependent on firstly the availability of appropriate port facilities, and secondly the ability of the service provider to deliver a reliable service at a competitive price.

5.3.2 For the container trades this involves timely access to container and to common user berths (depending on the nature of the cargo being carried). The ability of such services to maintain schedules will not only be key to their commercial success but also to their access to port facilities.

5.3.3 Port authorities, and port service providers, are commercial entities and are accordingly required to earn a rate of return on assets. Berths cannot be reserved for particular trades but need to serve a number of users and when it comes to matters such as berth availability, will relate to coastal service providers accordingly. Ports, as a general rule, will be keen to develop this business and there is a disposition on the part of port owners and managers to collaborate closely to provide the scope for them to succeed. Coastal vessels do however require the same types of berths under the same types of conditions as other container or general cargo vessels.

5.3.4 In this regard the types and capacity of vessels that are brought into service is critical. This suggests the need for careful research into capacity requirements, whether vessels should be single or multi purpose, and the ideal frequency of service, amongst other things.

Appendix A - Ports Australia's Members

- Albany Port Authority
- Broome Port Authority
- Bunbury Port Authority
- Cairns Port Authority
- Darwin Port Corporation
- Dampier Port Authority
- Esperance Port Authority
- Flinders Ports South Australia
- Fremantle Ports
- Geraldton Port Authority
- Gladstone Ports Corporation
- Mackay Port Authority
- Port of Melbourne Corporation
- Newcastle Port Corporation
- Port Hedland Port Authority
- Port Kembla Port Corporation
- Port of Brisbane Corporation
- Port of Portland Pty Ltd
- Ports Corporation of Queensland
- Sydney Ports Corporation
- Tasmanian Ports Corporation Pty Ltd
- Toll Ports and Resources - A Division of Toll Logistics
- Townsville Port Authority

Marine Authorities

- NSW Maritime Authority
- Maritime Safety Queensland
- Victorian Regional Channels Authority
- Victorian Department of Infrastructure
- Department for Transport, Energy & Infrastructure, SA
- WA Department for Planning & Infrastructure

Associate Members

- Port of Hastings Corporation
- Royal Australian Navy
- Australian Hydrographic Service (RAN)

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