



**CEMENT INDUSTRY  
FEDERATION**

The Secretary  
Standing Committee on Infrastructure, Transport,  
Regional Development and Local Government  
House of Representatives  
Parliament House  
CANBERRA ACT 2600

10<sup>th</sup> April 2008

Dear Secretary,

**Re: Coastal shipping policy and regulation inquiry**

The Cement Industry Federation (CIF) is the national body representing the Australian cement industry, and comprises the three major Australian cement producers - Adelaide Brighton Ltd, Blue Circle Southern Cement Ltd and Cement Australia Pty Ltd. Together these companies account for 100 per cent of integrated clinker and cement supplies in Australia. The CIF welcomes the opportunity to provide input into the Governments inquiry into coastal shipping policy and regulation.

Cement is a vital commodity for the Australian economy, not only as a critical input for Australia's construction industry, but increasingly in resource recovery and reuse innovation – in both cases providing significant economic and social benefits.

The CIF aims to promote and sustain a world-class, internationally competitive Australian cement industry, positioned to take advantage of emerging market opportunities, and endorsed by a community licence to operate.

**Cement Manufacture**

Cement manufacture is a two-stage process (refer Figure 1). The first stage involves the grinding and homogenisation of critical proportions of limestone, with silica, alumina, and iron oxides. These raw materials are ground to a fine raw meal which is pyroprocessed, at temperatures of 1,500°C, to form complex calcium silicates and aluminates constituting a black, nodular, intermediate material known as clinker. The second stage of cement manufacture involves the intergrinding of clinker with a small proportion of gypsum, to yield the grey, fine powder known as cement.

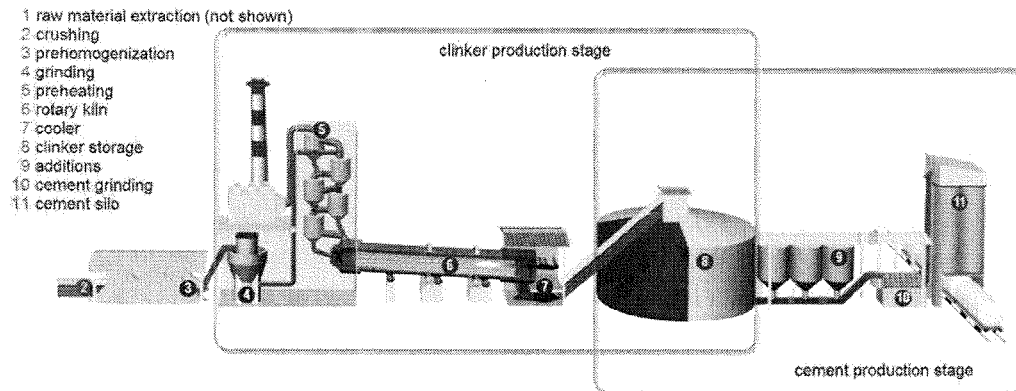


Figure 1 clinker and cement production diagram

## Pricing

Cement is a high volume, low value import parity priced product and the cement industry operates in a highly competitive global market. Cement is a key ingredient in the transport network - its roads, rail tracks, ports and airports - and cement relies on transport to get to the places it needs to be. The cement and transport industries are very interdependent and they are both essential to the performance of the economy.

## Cement Transport

The cement industry transports 90% of raw materials delivered to the kilns via rail and 90% of cement is transported from the plants via road. The 2005 Cement Industry Action Agenda identified shipping as the most efficient mode of transport when compared to rail and road. While the cement industry acknowledges the locations of cement plants are predominantly inland which dictates the use of rail and road, the volume of product currently shipped is below industry projections which can be attributed to an inefficient Australian shipping industry.

## Cement Industry Position on Shipping Policy

Australian shipping is critical to the Australian Cement Industry. To continue to sustain a competitive Australian shipping industry, it is important to ensure that ***the benefits of labour reform, increased competition in the Australian shipping industry and the source of skilled and trained workers are retained.*** Below is a summary of the key issues which are critical to the future success of the Australian shipping industry, associated businesses and the customers who rely on it.

## **1. Nature and characteristics of the Australian shipping industry and the international coasting trades**

### Cabotage

Australian shipping is regulated under cabotage. Cabotage is a policy under which a country reserves the carriage of cargo between ports located in the same country for nationally flagged carriers.

Australian navigation legislation gives effect to a de facto cabotage policy through granting licences and permits to vessels to operate on the Australian coast (which can be obtained by either Australian or foreign registered vessels). A ship can obtain a licence which gives it a right to carry cargo on the Australian coast. A condition of the licence is that the crew on the ship must receive Australian wages and conditions of employment under Australian legislation and awards.

A ship can also obtain a permit to operate on the Australian coast without the obligation to pay Australian wages and conditions of employment. However, a permit can only be granted where there is no licensed ship available or adequate to carry the cargo. There are 2 types of permit - a single voyage permit (SVP) and a continuing voyage permit (CVP). A SVP is a permit to carry cargo from one port to another port for a single occasion. A CVP is a permit of no longer than 3 months to carry specified cargoes between designated ports.

Historically, this has meant that the vast majority of the vessels which have a right to operate on the Australian coast are Australian owned and registered vessels employing Australian crew. The majority of these vessels were owned and operated by Australian industrial conglomerates, such as BHP, CRA, Caltex and CSR. These companies owned and operated vessels to carry primary products they produced such as coal, iron ore, sugar and cement clinker to other parts of their operations or to their customers. Because these companies were vertically integrated, their concerns were not to operate at a profit but to ensure continuity of supply. As a result, these Australian companies were more prepared to concede more favourable conditions of employment in exchange for industrial stability throughout both their shipping and mining/manufacturing operations.

Since 1996, the Federal Government has relaxed the granting of permits on the Australian coast. This has led to a greater number of foreign vessels operating on the Australia coast. As a result, the Australian shipping industry has been exposed to greater competition from more efficient and cost effective foreign vessels. Ship users have benefited from lower freight rates to carry cargo on the Australian coast.

As mentioned above, single and continuing voyage permits are issued under the Navigation Act 1912 (the Act) for ships engaging in the coasting trade as defined in section 7 of the Act (which encompasses ships on inter-state and overseas voyages). Ships engaging in intra-state trade in Queensland or Western Australia must apply for and receive permits from the Queensland or Western Australian Governments respectively, unless there is a declaration under s8AA of the Act in place for the ship.

Despite the option whereby ship operators may elect to come solely under Commonwealth jurisdiction, by obtaining a section 8AA declaration, the cement industry considers that the two permit systems for freight shipping is inefficient. That

inefficiency is compounded by delays in the issuing of permits by Queensland authorities. Such delays cause permits to be issued only a short time before a loaded ship is scheduled to depart, causing companies to assume considerable financial risk in chartering or locating ships for an, as-yet unapproved, voyage.

The financial and supply risks could be avoided by an efficient permitting system. A single efficient national permitting system for freight ships should be agreed to and instituted by all Governments in Australia.

## **2. Review the policy and regulatory arrangements in place for the coastal shipping sector**

The scope of this paper will identify the policy and regulatory arrangements industry believe require review and prompt change to support a sustainable and competitive Australian shipping industry.

## **3. Strategies for developing an adequate skilled maritime workforce in order to facilitate growth of the Australian coasting shipping sector**

### Employment Reform

The Australian maritime industry has historically provided exceptionally generous conditions of employment to seafarers. Australian employers have experienced pressure and engaged in difficult unsuccessful negotiations with unions on employment condition reform to bring maritime workers conditions of employment inline with competitive community standards. Australian shipping award conditions has traditionally reflected standards that far exceeded comparable employees in other industries.

The urgent need for employment reform is due to the progressive reduction of competitiveness of the Australian shipping industry over time.

This is mainly a result of:

- high employment costs
- reduced productivity
- increased operational costs and competition from more efficient foreign vessels not constrained by Australian laws and regulations.

Because the Australian shipping industry was protected under a policy of cabotage, these arrangements were rarely challenged. The favourable conditions of employment were reflected in the industry award known as the Maritime Industry Seagoing Award and were perpetuated under enterprise agreements. The generous conditions of employment extended to:

- (i) a high paid leave ratio which provided Australian maritime workers with one paid day off from every day worked;
- (ii) annualised salaries which were inflated beyond the work value of the jobs;
- (iii) guaranteed overtime payments without the performance of such overtime;
- (iv) allowances and expenses which were unnecessary or excessively high;
- (v) highly demarcated workplaces with limited flexibility regarding the allocation of work, the deployment of labour and the development of career paths and new skills;

- (vi) very generous workers' compensation arrangements under the Seafarers' Rehabilitation and Compensation Act 1992 (Cth).

A number of Australian shipping employers have sought to reduce labour costs, remove restrictive work practices and increase productivity by introducing reforms onto vessels. This has sometimes involved the Australian maritime unions but more often than not under individual workplace agreements. These agreements have encouraged the working of overtime, greater flexibility in the performance of duties and the employment of tradespeople with a broad range of skills to undertake both maintenance and operational work.

If high labour costs in the Australian maritime industry continued, they would lead to higher freight rates and make it more expensive to use shipping services relative to other modes of transport. This could lead to an increase in greenhouse gas emissions, as industries select road transport over shipping due to cost, resulting in an increase in CO<sub>2</sub> emissions.

#### Training and Investment

Australian shipping has been on the decline for a number of decades. There has been a lack of new investment in new ships and therefore a lack of training of new crew. The major reasons for this decline has been the poor profitability of the Australian shipping industry, the poor productivity of Australian maritime workers and the highly protected routes which were not the subject of competition.

During the 1980s and the early 1990s, the Australian Government tried to address the lack of investment in the shipping industry by negotiating and implementing tripartite agreements between the Government, shipping employers and unions. These agreements were designed to encourage investment and reform in the Australian shipping industry. What the shipping industry experienced was an increase in wages and employer benefits with a decrease in productivity and thus reducing industry's capacity to invest. An example of a flawed agreement was the creation of the new position of "integrated rating" replacing the traditional occupations of deck and engine ratings. The new system contributed to higher wages with a decrease in productivity. This placed great strain on the Australian industry and generally these agreements were a failure and lead to flawed compromises.

The recent boom in China has meant that Australia has not had sufficient ships and crew to service the Australian coast. New ships take a long time and are expensive to build. In addition, there are insufficient Australian seafarers to work on Australian ships. This has necessitated the employment of international crew under working visas. These arrangements have been important in ensuring that Australian ships are sufficiently manned with skilled and experienced crew.

Foreign crew are employed under a variety of visas. Crew who work on ships operating under permits are entitled to the benefit of a special purpose visa tied to the granting and duration of a permit. However, the special purpose visa has limited operation and lacks certainty because it is subject to a Ministerial declaration which can be revoked. Foreign crew on licensed vessels must have a temporary long stay working visa. Australian employers are limited in the number and types of foreign workers they can sponsor.

Without the certainty of a pipeline of skilled workers, the Australian shipping industry would be incapable of servicing customers on the Australian coast for the carriage of cargo.

**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.**

The policy and regulation around employment reform and cabotage are critical to the ongoing success of the Australian shipping industry, reduction in greenhouse gas emissions and locally produced product competitiveness.

If Government fails to support reform by reducing labour costs, removing restrictive work practices and increasing productivity by introducing reforms onto vessels, it is not only hurting the Australian shipping industry it is placing the future of many associated business at risk. If a reduction in operating costs and employment reform cannot be reached the shipping industry will be forced to increase the cost of cargo and pass on this cost to the customer. This will result in a higher price for goods and will add to inflationary pressure in an already stressed economic environment.

The downstream affect of Government inaction will be **higher costs for locally produced products**. Locally produced goods will become uncompetitive against cheaper imports, placing local industry in an uncompetitive and unsustainable market environment.

Customers affected by higher shipping freight prices will source cheaper modes of transport to reduce their costs and typically product will be shipped by road. This will result in a substantial increase in truck movements in Australia. This is particularly important given Australia's transport sector is the third largest emitter of CO<sub>2</sub> emissions after stationary energy and agriculture. The transport sector emits approximately 14% of anthropogenic CO<sub>2</sub> emissions (figure 2) and with a national emissions trading scheme scheduled to be introduced in 2010 and the projection that road transport freight volumes will double in Australia over the next 20 years adds to the seriousness of an inefficient shipping industry.

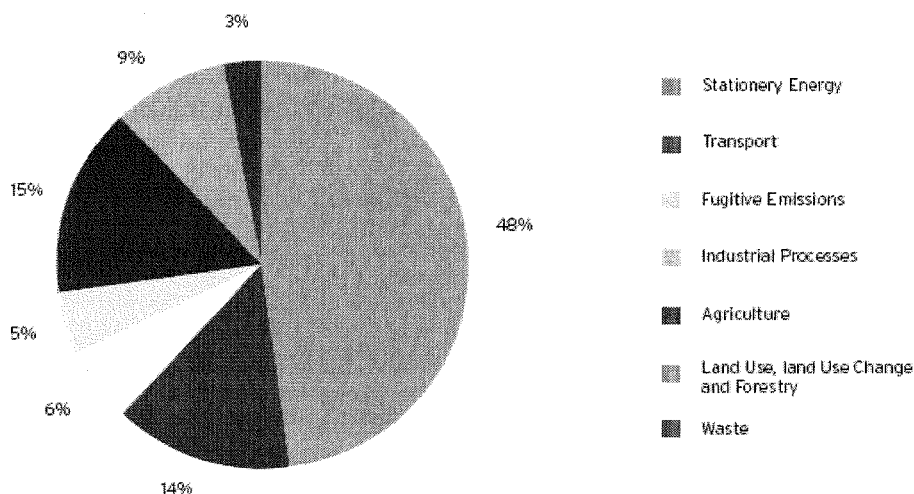


Figure 2: Department of Climate Change 2007 Tracking the Kyoto Target

The high cost of shipping would lead to an increase in road transport and **an increase in greenhouse gas emissions** emitted from the transport sector. Overtime the Australian Cement Industry has been actively reducing its greenhouse footprint through number of mitigation measures and believes an increase in greenhouse gas emissions due to poor policy reform and regulation is divergent to overall Government direction and policy.

### Conclusion

Australian shipping is critical to the Australian Cement Industry and to the long term prosperity of Australia. To continue to sustain a competitive Australian shipping industry, it is important to ensure competitive labour reform is supported which in turn will support increased competition in the Australian shipping industry and the source of skilled and trained workers are promoted.

The Government must continue to focus on transport and infrastructure productivity to maintain and improve industry competitiveness and support improvement in the Australian shipping sectors efficiency. Both industry and government should work together to ensure the international competitiveness of our shipping industry and promote Australia as a prosperous, competitive world class sustainable nation.

If you would like to discuss this submission in more detail please don't hesitate to me on 07 3335 3051.

Yours sincerely,



Mr Peter Klose  
Chairman  
Cement Industry Federation  
Transport Task Force

