

Shipping in Australia

Introduction

- 1.1 In 1981, Sir John Crawford was appointed chair of a committee tasked with examining ways to revitalise Australian shipping. The Crawford Report made a number of recommendations, many of which were later implemented. Twenty-seven years later, reform of Australian shipping regulation continues and policy is once again being examined. Some of the issues covered by the Crawford Report are still relevant today, others no longer apply. Since 1981, the Australian shipping industry has addressed various industrial issues. Evidence before the Committee showed that flexibility and cooperation in the labour market has been and will continue to be an important ingredient in the development of a larger Australian registered coastal shipping fleet.¹ The Committee is encouraged that constructive engagement between maritime unions and industry continues, because there is more work to be done.

Yet the question of how to revitalise Australian shipping remains. In addition to labour issues, challenges such as skill shortages in the maritime industry, shipping's competitiveness with road and rail and, to a certain extent, international forces, are new considerations to be accounted for.

¹ Mr Ian Ives, *Transcript 17 April 2008*, pp. 109-110; Mr Paddy Crumlin, *Transcript 16 May 2008*, p. 37.

- 1.2 Accordingly, the Minister for Infrastructure, Transport, Regional Development and Local Government referred to this committee in March 2008 an inquiry into Australian coastal shipping policy and regulation, with the following terms of reference:

The Committee is to inquire into coastal shipping policy and regulation and make recommendations on ways to enhance the competitiveness and sustainability of the Australian coastal shipping sector.

The Committee's report is to:

- Outline the nature and characteristics of the Australian shipping industry and the international and coasting trades;
- Review the policy and regulatory arrangements in place for the coastal shipping sector;
- Assess strategies for developing an adequate skilled maritime workforce in order to facilitate growth of the Australian coastal shipping sector;
- 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
- Consider the implications of coastal shipping policy for defence support, maritime safety and security, environmental sustainability and tourism.

- 1.3 The first issue the Committee considered upon receipt of the Minister's reference was how to define Australian coastal shipping for the purposes of this inquiry. A literal interpretation of the terms of reference could have limited the Committee's examination to all Australian flagged shipping operating on coastal and international trade routes. However, the Australian shipping task, particularly its coastal shipping task, is not limited to Australian flagged ships. As this report will discuss, there are foreign flagged ships operating on Australia's coast and Australian licensed ships which may not be owned or operated by Australians or Australian companies.

- 1.4 In its inquiry, the Committee has maintained the widest possible perspective in examining "Australian coastal shipping". It has pursued and invited discourse encompassing all manner of shipping on the Australian coast, and international issues relevant to the growth of an Australian shipping industry. However, for the purpose of this report, when the Committee considers the need to 'enhance the

competitiveness and sustainability of the Australian coastal shipping sector² as the terms of reference require, then “Australian coastal shipping” will be defined as ships that are engaged in Australian coastal trade either under licence (*Navigation Act 1912*) or registered under the *Shipping Registration Act 1981*.

Aim and scope of the report

- 1.5 This is not the first shipping inquiry in Australia. The Committee has been fortunate to have previous studies to draw on and use as a basis for which to advance its own recommendations. It is also aware that a lack of response to some previous reviews has left the Australian community with unfulfilled expectations.³
- 1.6 The Committee understands that the revitalisation of the Australian coastal shipping sector will need to begin with clearly established goals and guidelines; therefore, recommendations targeted at providing the Government with practical policy framework and regulatory reform options is the foundation upon which this report is based.
- 1.7 This chapter continues with a brief discussion of the history of coastal shipping in Australia followed by an outline of present circumstances. Chapter 2 outlines some of the benefits of a revived Australian coastal shipping sector before examining the need for a vision for Australian shipping and outlining the Committee’s recommendations. Chapter 3 begins with a summary of all Commonwealth legislation relevant to coastal shipping before establishing, in detail, the Committee’s recommendations for legislative reform. Chapter 4 addresses some of the national challenges facing the maritime sector in Australia, specifically port infrastructure and the current skills crisis. The report concludes with a chapter outlining possible new reform oversight mechanisms.
- 1.8 It is the Committee’s expectation that its recommendations, if agreed to, will assist the Government in articulating and progressing a plan for the systematic implementation of a new national coastal shipping policy.

2 Terms of reference.

3 See for example, Mr Stuart Ballantyne, *Transcript 21 May 2008*, p. 4.

Conduct of the inquiry

- 1.9 The inquiry was advertised in *The Australian* on 19 March 2008 and in the March edition of *Shipping Australia*. The Committee wrote to Commonwealth Ministers, state and territory governments, and a wide range of relevant business, unions, associations and stakeholders inviting them to make a submission.
- 1.10 The Committee received 81 submissions from 66 parties. These submissions are listed in Appendix A. In addition, the Committee received 20 exhibits which are listed in Appendix B.
- 1.11 The Committee held public hearings across Australia in Canberra, Sydney, Melbourne, Launceston, Adelaide, Perth and Brisbane. In total, 78 witnesses appeared before the Committee at public hearings. Details of the hearings and witnesses who appeared can be found in Appendix C.
- 1.12 Transcripts of the Committee's public hearings and copies of all written submissions are available for inspection from the Committee Office of the House of Representatives, the National Library of Australia or on the inquiry website:
<http://www.aph.gov.au/house/committee/itrdlg/index.htm>

Australian shipping—past and present

Australian coastal shipping

A brief history

- 1.13 The history of Australian coastal shipping is one of well established patterns. From the end of the 19th century to the present, dominant themes persist – shipping competing with rail then road, foreign participation in the Australian coastal trade and numerous policy reviews. All this has been well documented in several submissions to the Committee.⁴

4 For example, see Department of Infrastructure, Transport Regional Development and Local Government (DITRDLG), *Submission No. 15*, pp. 4-7; and excerpt of Attachment 2, Australian Shipowners Association (ASA), *Submission No. 29*, pp. 89-101.

- 1.14 In short, Australian coastal shipping grew throughout the 19th century despite times of economic depression and increased competition from rail, road and foreign shipping. By the turn of the century, the importance of shipping to Australia, combined with the many challenges it faced, led the shipping industry to call on the Commonwealth Government to provide some measure of protection.⁵
- 1.15 By 1921, the coastal provisions of the *Navigation Act 1912* had come into effect and Australian coastal shipping in the 20th century experienced times of growth and recession, industrial reform and policy and regulatory review. Perhaps the most active decade of reform came in the 1980s with the introduction of the *Ships Capital Grants Act* and other measures designed to promote investment in Australian flagged shipping. Other reforms during this period, including a reduction in crewing levels, resulted in an investment increase in Australian flagged shipping and a growth in the national fleet which 'tapered off from the mid 1990's leading to a diminishing and ageing Australian flag presence in both international and coastal trades'.⁶

Present circumstances

- 1.16 There are two primary types of cargo being shipped around Australia – bulk and container. Major bulk cargos in Australia are bauxite, iron ore, sugar, gypsum, cement, refined petroleum products and steel products. Most of these cargos move as part of a manufacturing supply chain.⁷ Container cargo moves around the coast either on north-south or east-west routes or as a transshipment of international cargo across Australian ports.⁸
- 1.17 Cargo can be shipped around the Australian coast in two ways – by vessels so licensed under Part VI of the *Navigation Act 1912* or by vessels operating under single voyage or continuous voyage permits, which are lawfully issued under Part VI of the Navigation Act. Licensed vessels may be registered (flagged) in Australia or elsewhere but are required to pay Australian rates of pay when operating in the Australian coasting trade. Permit vessels are not. This has the effect of making licensed vessels less competitive with international permit

5 DITRDLG, *Submission No. 15*, p. 4.

6 Ports Australia, *Submission No. 30*, p. 2. For a chronology of structural change in the Australian coastal shipping industry 1980-2008 see ASA, *Submission No. 29*, p. 77.

7 DITRDLG, *Submission No. 15*, p. 25.

8 DITRDLG, *Submission No. 15*, p. 17.

vessels; thereby, decreasing the number of licensed vessels operating on the Australian coast.⁹

1.18 A comprehensive review of Australia's regulatory framework and its impact on Australian coastal shipping can be found in Chapter 3 but it is useful to note the manner in which vessels are authorised to carry cargo in the coasting trade when reviewing various statistics intended to reflect the present state of coastal shipping in Australia.

1.19 Utilising statistics to highlight the current state of Australian coastal shipping can be a subjective exercise because the definition of coastal shipping is open to various interpretations that may not always coincide with the definition the Committee has chosen to employ.¹⁰ For example, DITRDLG has pointed out several possible definitions of coastal shipping:¹¹

- All commercial vessels operating on the coast: on the basis that they need comparable skills to operate, require the same land-sea interface and are subject to similar safety regulation. This definition encompasses a variety of large and small vessels and includes tugs, offshore supply vessels, dredges, barges and offshore tourist vessels;
- Large trading vessels engaged in the coastal trade: on the basis that these vessels fulfil the coastal transport task of moving cargo/passengers around the coast. Vessels could be Australian owned/crewed or foreign owned/crewed;
- Vessels that are licensed to engage in the coastal trade; on the basis that these are the vessels that are the primary means of meeting the coastal transport task. Vessels include Australian and foreign ships;
- Vessels that are operated by Australian entities: on the basis that these vessels are controlled by Australian interests and having similar capabilities can be used in the international or coastal trades. The vessels can be registered and/or crewed in Australia or overseas; and
- Australian registered vessels operating in the coastal trades. On the basis that these are the vessels that are available to meet the coastal

9 Australian Shipowners Association (ASA), *Submission No. 29*, pp. 64-68.

10 See paragraph 1.4 for Committee definition of Australian coastal shipping.

11 For a list of possible interpretations of the Australian coastal fleet see, DITRDLG, *Submission No. 15*, p. 8.

transport task, controlled by Australian entities and crewed by Australian seafarers.

- 1.20 The Bureau of Infrastructure, Transport and Regional Economics (BITRE) defines the Australian trading fleet, which includes coastal shipping, as 'cargo vessels owned and/or operated by Australian companies on trading routes to and from Australia' – a definition which encompasses vessels registered overseas and manned by foreign crew authorised to operate in Australian trades under licence.¹²
- 1.21 BITRE's statistics reveal that there has been a decline in the Australian registered trading fleet from 75 vessels in 1996 to 46 vessels in 2005-06. Nevertheless, those same statistics also reveal that Australia's major trading fleet (vessels of 2000 dwt or more operating within the coastal and overseas trades) has increased from 51 to 77 vessels; the increase being in the number of overseas registered vessels operating on overseas trade routes rather than on the Australian coast.¹³ Recently, BITRE has revised its methodology and, as a result, the figures have changed.¹⁴
- 1.22 Varying interpretations of the Australian trading fleet coupled with fluctuating statistics illustrate the challenge in gauging the exact numerical state of the Australian trading fleet and its coastal component. However, the percentage of Australia's major trading fleet that is Australian registered (52%) suggests that a sizable proportion of Australia's major trading fleet is flagged on overseas registries. This is a worrisome statistic that arguably signals a crisis for Australian registered shipping.¹⁵
- 1.23 The current state of Australian coastal shipping can also be viewed within the context of Australia's freight task as a percentage of the task shipping represents. Shipping in Australia accounts for 26% of the domestic freight task. Over the last ten years the proportion of the total freight task undertaken by shipping has declined due to an increase in freight moved by road and rail.¹⁶ In other words, there has been an increase in the amount of freight needing to be moved, but

12 DITRDLG, *Submission No. 15*, p. 8.

13 BITRE statistics reproduced in, DITRDLG, *Submission No. 15*, pp. 8-11.

14 DITRDLG, *Submission No. 15*, pp. 11-12.

15 BITRE statistics reproduced in, Maritime Union of Australia (MUA), *Submission No. 45*, p. 16.

16 ASA, *Submission No. 29*, p. 18.

road and rail, not shipping, have carried the freight. This too is worrisome for Australian coastal shipping.

- 1.24 In addition to considerations regarding the size of the Australian coastal fleet and its share of the domestic freight task, the Committee is also aware that there has been a growth in demand across cargo groups, which has led to a growth in demand for shipping services.¹⁷ As demand has grown, so too has the number of permit voyages. In 2006-07, 30% of coastal cargo was carried under permit. This represents a growth of 56.4% over the previous year.¹⁸ The Committee expects that as demand for shipping services grew, the number of permits issued would grow, particularly given the fact that the number of Australian coastal vessels has remained relatively static.¹⁹ Nevertheless, an increase in the number of permits issued does not assist in reinvigorating an Australian coastal shipping industry comprised largely of Australian licensed and/or registered vessels.
- 1.25 There are two other key issues affecting the growth of Australian coastal shipping at present: a skills crisis in the maritime industry in Australia and worldwide, and port infrastructure challenges – both of which are discussed in this report.

International shipping and Australia

- 1.26 Australian coastal shipping cannot be viewed in isolation. Australia is an island nation which participates in a global maritime industry and is dependant on international shipping services – more than 99% of Australia's external trade is carried by foreign ships.²⁰ Internationally, flagged vessels operate on the Australian coast carrying both international cargo and coastal cargo. In addition, Australia is a base for many international ship management and shipping service companies as well as owner-operators.²¹ Australian maritime qualifications are world-class and Australian officers, in particular, are highly regarded and sought after internationally.²²
- 1.27 Australia also participates in an international maritime community which is subject to the provisions of the United Nations Convention

17 DITRDLG, *Submission No. 15*, p. 23.

18 DITRDLG, *Submission No. 15*, pp. 21-24.

19 BITRE statistics reproduced in, DITRDLG, *Submission No. 15*, pp. 8-11.

20 ASA, *Submission No. 29*, p. 3.

21 For a list of key shipping players in Australia see, MUA, *Submission No. 45*, pp. 19-23.

22 ASA, *Submission No. 29*, p. 48.

on the Law of the Sea 1982 (UNCLOS). UNCLOS provides the framework for conventions and agreements under international organisations such as the International Maritime Organization (IMO), which is responsible for ship safety and environment protection standards, and the International Labour Organization (ILO), which promulgates ship standards in relation to crew health and safety.²³ Australia has ratified most of the major international maritime conventions and is therefore obliged to give them effect in national legislation.²⁴

- 1.28 The nature of international shipping has changed drastically since Australia passed the Navigation Act in 1912. Today, larger vessels with fewer crew members ship goods around the world. These vessels may be owned by a company operating in one country but are registered in an open register of another country – open registers allow ships from other countries to register as opposed to national registers which only allow a ship from its country registration rights.²⁵ Open registers are often call “Flags of Convenience” and currently 53% of the world fleet is registered in open registers.²⁶ The decision to register one’s vessel in an open register is often based on commercial benefit as some open registers offer ‘cheap registration fees, low or no taxes and freedom to employ cheap labour’.²⁷
- 1.29 The changing nature of shipping over the last twenty-eight years has impacted on the industry in Australia as well as other traditional shipping countries. Throughout the late 1970s, 80s and 90s, vessels continued to move from national to open registers resulting in the decline of national fleets. These declines were further exacerbated by a worldwide maritime skills shortage and as a result, countries including Australia, the United Kingdom (UK) and several European nations suffered declines in their national fleets and began to rely on foreign ships and seafarers for the carriage of trade.²⁸ In the UK, this resulted in ‘overwhelming economic distortions caused by sub-

23 DITRDLG, *Submission No. 15*, p. 87.

24 DITRDLG, *Submission No. 15*, p. 87.

25 ASA, *Submission No. 29*, p. 13.

26 ASA, *Submission No. 29*, p. 13.

27 Australian Institute of Marine and Power Engineers (AIMPE), *Submission No. 52*, p. 25.

28 Selkou and Roe Marit, *UK tonnage tax: subsidy or special case?*, Policy Management, Institute of Marine Studies, University of Plymouth, Drake Circus (Plymouth UK), Volume 29, No. 4, 2002, p. 393.

standard operators and foreign subsidies and the decline of the UK merchant fleet and associated UK seafaring employment'.²⁹

1.30 Beginning in the late 1990s, developed countries, particularly in Europe, actively initiated shipping support mechanisms in an attempt to address the decline in their shipping fleets. These included:

- favourable tax regimes for ship-owners;
- cost-offsets in employing domestic seafarers;
- ship-financing schemes;
- the encouragement of training and career development;³⁰ and
- the establishment of second registers.³¹

The result has been an increase in additional tonnage back to national registers.³²

1.31 Governments around the world recognise the importance of shipping to their national economies. The maritime economy in Germany is seen to be of 'high economic significance' and in the UK, the maritime industry is considered 'vital' to the economy; likewise in the Netherlands, Denmark and Japan.³³ In the UK, the case for transporting freight by water is being made by organisations such as Sea and Water, which argue that by increasing coastal shipping's role in the UK domestic freight task, there will be a reduction in carbon emissions and road congestion.³⁴ In Australia, it has also been recognised that a 'viable coastal shipping industry in a competitive domestic transport sector [is] an outcome critical to Australia's economic future.'³⁵

29 Selkou and Roe Marit, *UK tonnage tax: subsidy or special case?*, Maritime Policy Management, Institute of Marine Studies, University of Plymouth, Drake Circus (Plymouth UK), Volume 29, No. 4, 2002, p. 393.

30 The Hon Alannah MacTiernan and the Sea Freight Council of Western Australia, *Submission No. 39*, p. 12.

31 ASA, *Submission No. 29*, p. 53.

32 Leggate and McConville, *Tonnage tax: is it working?*, Maritime Policy Management, Centre for International Transport Management, London Metropolitan University (London, UK), Vol. 32, No. 2 (April-June 2005), p. 178.

33 Meyrick and Associates, *Comparative overview of government shipping policies*, reprinted in ASA, *Submission No. 29*, pp. 108-09.

34 Sea and Water, *The case for water: Why transporting freight by water is good for the environment and good for the economy* (UK) 2006.

35 The Hon Anthony Albanese, Minister for Infrastructure, Transport, Regional Development and Local Government, Media Release, 12 March 2008.