

Inquiry into Coastal Shipping Policy and Regulation

Sugar Australia Pty Limited Submission

Introduction

Sugar Australia Pty Limited was formed in 1998 and today is owned 75% by CSR Limited and 25% by the Mackay Sugar Cooperative Association Limited. The company operates 3 sugar refineries, located in Melbourne, Mackay and Auckland. The Melbourne refinery at Yarraville is integral to the food and beverage industry in Victoria, where supply is in many cases on a just-in-time basis. The Sugar Australia Yarraville refinery has been in operation since 1873 and has had little investment undertaken since the 1960's. The shareholders have recently made a substantial commitment to the refinery with a \$70m modernisation program currently underway.

Coastal and international shipping are important parts of the Sugar Australia supply chain. It retains ownerships of mv *Pioneer*, an Australian flagged BIBO (bulk in, bag out) ship which transports refined sugar on the Australian coast and internationally. This vessel is one of very few of its type in the world. On time charter CSR currently has the Bahamas flagged bulk carrier mv *Clipper Trust* carrying raw sugar to the Melbourne sugar refinery and gypsum to CSR's plasterboard factories. *Clipper Trust* is operated under the permit system.

Sugar Australia Freight Task and Fleet.

Sugar Australia's annual freight task comprises 270,000 tonnes of raw sugar, 170,000 tonnes of refined sugar and 15,000 tonnes of containers. About 150,000 tonnes of refined sugar is exported annually in mv *Pioneer* and 50,000 tonnes of refined sugar by container. The *Pioneer* is operated on behalf of Sugar Australia by TK Shipping.

In late 2006 CSR was planning the replacement of its two ageing Australian flag bulk carriers Ormiston and Kowulka. Plans were well advanced to replace these ships with a self unloading vessel but during 2006 prices for ships (new and second hand) escalated

rapidly and rendered the proposal uncompetitive. As an interim measure *mv Clipper Trust* was chartered and today carries sugar and gypsum under permit. Ultimately the replacement decision on *mv Clipper Trust* will be determined by the state of the global shipbuilding and time charter markets at the time and, of course, be subject to board approval.

The Existing System

Sugar Australia has operated successfully with an Australian flagged vessel handling refined sugars for both coastal trade and exports to Singapore primarily. Crucial to the ongoing supply of the Yarraville refinery is the operation of the *Clipper Trust* on charter by CSR. This vessel operates successfully under permit and demonstrates that both Australian flag and permit vessels can provide the service required for this business. From time to time schedules are such that occasional single voyage permits are required to maintain the operation of the refinery and meet our customers just-in-time requirements.

Permit system

While the system is bureaucratic, open to misinterpretation, abused by shippers and shipowners, and exploits the time sensitive nature of cargoes, it is a crucial part of the mix for Sugar Australia's operations. Clearly where the cost of Australian flag replacement ships is prohibitively high or shipyard slots hard to find, the availability of ships operating under permit remains critical to bulk commodity shippers.

The flexibility to use voyage (spot) or time (period) charters with foreign flagged/foreign crewed ships is crucial to the ongoing delivery of dry bulk commodities to our operations.

Market conditions in the new build and time charter market still remains critical and when combined with the flexibility required to keep major manufacturing facilities operating it is CSR's strong view that the permit system should be retained and improved. It is integral to completing the freight task.

However the system could be improved.

Continuous Voyage Permits should be issued for periods of up to 12 months. Our raw sugar supply vessel is required to submit a schedule ahead of time and changes to the schedule need to be notified. Every three months the vessel sails empty to an overseas destination, wasting fuel and necessitating the use of Single Voyage Permits to cover any shortfall in capacity caused by the overseas, but dead leg voyages. The purpose of these voyages is a contrivance around the regulations. In essence the use of the CVP effectively recognises the role that foreign vessels have to play in the mix. Given that recognition, rules should be amended to reduce the administrative burden on government and the efficiency and cost burden to our import competing and exporting industries.

A further benefit arises through the reduction of fuel wasted on these voyages and the consequent greenhouse gas emissions.

Competitiveness

Sugar Australia is concerned about the shortage of skills and decline in the work force numbers for ships crew.

We recommend that the government undertake further investigations specifically into skills shortages in the industry and examine how to improve the rate at which officers and ratings can become qualified. Barriers to the recognition of overseas qualifications should be examined as part of an approach to introduce mixed crews and the conditions under which this could help the skills shortfall.

Other barriers to working at sea in Australia should be investigated including the equitable tax treatment of an internationally and highly mobile work force. The review of the Section 457 visas should be examined to ensure the issues associated with the maritime industry are addressed. Integrated ratings are considered unskilled and fall outside of the scope of these visas, limiting their usefulness.

Further investigation should be undertaken into what practices are used in overseas countries to make their industry competitive, assuming government policy is directed towards improving the viability of the Australian industry.

Container Trade

Our preference for long distance container trade is to use sea transport. We are finding it increasingly difficult to obtain reliable space on vessels to Perth. We distribute bulk containers and packaged refined sugars to this market. The market does not appear to be responding to increased demand for ocean freight to that destination and is something that could be examined further.

The problem appears to be confined to coastal trade, not exports.

Thank you for the opportunity to comment to the inquiry. Our submission should be read in conjunction with the submission from our major shareholder, CSR Limited.

Tim Hart

General Manager

Sugar Australia Pty Limited.

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