

**House of Representatives Standing Committee
On Infrastructure, Transport, Regional Development and Local Government**

**COASTAL SHIPPING POLICY AND REGULATION
INQUIRY**

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**Prepared in conjunction with
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TABLE OF CONTENTS

Executive Summary	4
Opening Comment	7
1. Introduction	8
2. The Western Australian Context	
2.1 A Unique Maritime Focus	8
2.2 Support in Practice	8
3. The National Context	
3.1 Shipping in the Economy	9
3.2 Changes in the Australian Shipping Industry	9
3.3 Recent National Shipping Policy	10
4. The Need for Policy Change	
4.1 Economic Activity	10
4.2 Sustainable Domestic Freight	11
4.3 Maritime Skill Base	11
4.4 National Security	12
5. Overseas Experience	12
6. The Revitalisation of Australian Shipping	
6.1 The Present Reality	13
6.2 The Independent Review of Australian Shipping	13
6.3 Enhancing Career Appeal	14
6.4 Improving Operational Viability	14
6.5 Regulatory Impediments	15
6.6 Legislative Change	15
7. An Australian Second Register	
7.1 The International Experience	16
7.2 An Australian Reaction	17
8. Cabotage	
8.1 Cabotage in Australia	18

8.2	Results of the Permit System	18
8.3	Application of the Permit System	18
8.4	Coastal Shipping and the Domestic Freight Task	19
9.	Infrastructure Requirements	
9.1	The Pan Shipping Experience	20
9.2	Infrastructure Support	20
10.	Conclusions	21
11.	Recommendation	22

EXECUTIVE SUMMARY

Objective

- Australia is a large island continent with a critical overseas trading base and a heavily centralised coastal population.
- There is a compelling economic and strategic case for the country to have a comprehensive national maritime industry.
- This would be based on a strong blue-water sector serving international and domestic shippers in a competitive, safe and sustainable manner.

The Inquiry

- The inquiry should not restrict itself to consideration of coastal shipping alone. International shipping is a key part of the industry's future.
- The inquiry should neither restrict itself to consideration of blue-water operations. Land-based maritime activities are a fundamental part of the policy discussion.

Western Australian Context

- Western Australia has a unique dependence on good shipping links.
- The Government's commitment to shipping is illustrated by its significant financial support of a Western Australian coastal service.

National Context

- Shipping plays a vital role in the movement of Australia's overseas and domestic freight.
- However, Australian shipping has not enjoyed strong national policy support.
- Neither has shipping been seen as part of national transport policy.
- As a result, Australian business is progressively moving its shipping business offshore and the local industry is languishing.

Need for Policy Change

- There are very significant national macro-economic consequences directly related to shipping.
- There are also key environmental consequences of modal choice that have a fundamental impact on the sustainability of the national freight task.
- The shrinking maritime skill base in this country may not only constrain shipping, but also a wide range of other strategically important activities.
- Shipping is a global industry. National security considerations must be a part of Australian shipping policy.

Overseas Experience

- A wide range of overseas countries recognise the economic and strategic importance of having a national shipping industry.
- They have introduced supportive national policy accordingly.

Revitalising Australian Shipping

- Australian shipping is currently encumbered by fiscal, legislative and industrial regimes that prevent it from fulfilling its potential.
- The Independent Review of Australian Shipping suggested a revitalisation package of measures in 2003. These measures are just as relevant today.
- The industry's career appeal must be enhanced through greater training opportunities based on a tonnage tax and the removal of current tax inequities impacting on Australian seafarers.
- Shipping must be made more viable through the consideration of a number of industrial reforms and the removal of various regulatory impediments.
- The key piece of relevant legislation, the Navigation Act 1912, must be reviewed.

An Australian Second Register for Shipping

- In pursuit of commercial benefit, more than half of global shipping now operates under open register or flag of convenience states.
- In reaction, some established maritime countries have introduced quality second registers in an attempt to discourage their own shipping industries from flagging out.
- There is a strong case for Australia to develop a national second register for the same reasons.
- Such a register would become a vehicle for revitalising Australian shipping.
- The location of an Australian second register is likely to bring significant local economic benefit.
- As the key shipping State in Australia, there is a strong case for locating a second register in Western Australia.

Cabotage

- While a cabotage policy is in place in this country, its implementation has been unclear and ambiguous.
- Foreign vessels come onto the Australian coast and carry domestic freight under permit.
- Permit numbers have increased dramatically over recent years.
- There has been suggestion that the permit system has been administered in a 'capricious' manner.
- Coastal shipping relates to the domestic freight task. Australian shipping's domestic performance should be compared to road and rail and not to foreign

shipping. The comparison to land-based modes should take full account of external impacts.

- Vessels on an Australian second register must not have equivalent access to the coast as those on the first register.

Infrastructure Requirements

- The experience of Pan Shipping illustrated the need for coastal shipping to provide assured schedule integrity to be successful.
- Service reliability is heavily impacted on by infrastructural factors.
- National infrastructure policy should take account of the needs of coastal shipping.

Conclusion

- Specific policy measures can be put in place to revitalise the national maritime industry and these need to be progressed in a manner that they have not to date.
- However, a prerequisite to their successful introduction is a fundamental attitude change in respect of all national stakeholders to one that sees shipping unambiguously and without reservation as a key contributor to Australia's future wellbeing.
- If this enquiry can result in that outcome as a first step, it will have successfully completed its work.

Recommendation

- There needs to be established a new national body with the specific powers and responsibilities to introduce change in respect of the policy environment impacting on the country's maritime industry. This body would be accountable to the Federal Minister and his State colleagues and would be resourced adequately to progress change in a timely manner including the introduction of an Australian Second Register, a more equitable cabotage regime, establishment of adequate maritime infrastructure and the various reforms proposed by the Independent Review of Australian Shipping and discussed in Section 6 of this paper.

OPENING COMMENT

As a large island continent with a critical overseas trading base and a heavily centralised coastal population, there is a compelling economic and strategic case for Australia to have a comprehensive national maritime industry based on a vibrant domestic shipping sector that provides a competitive, safe and sustainable service to both international and domestic parts of the economy.

Australia does not have such a maritime industry at present.

The current inquiry has the opportunity to take the first meaningful step towards this vision. It can do so by developing attitudes among key decision makers at a national level supportive of a new policy environment for the Australian maritime industry.

The policy environment needs to recognise the benefits that will flow to all Australians if the maritime industry is encouraged to make its full contribution to the country's wellbeing. For that to occur, however, the inquiry needs to adopt a broader view of the issue than is suggested by a strict interpretation of its terms of reference. In particular:

- *Restricting the discussion to coastal shipping significantly limits the potential of the issue. A genuine discussion about the future of the maritime industry - which this should be - needs to embrace international operations as well as domestic. The combination of these two areas of activity will give rise to policy outcomes unavailable from either in isolation.*
- *Neither must the discussion be restricted to blue-water operations alone. Overseas experience is clear that the existence of a robust national shipping sector gives rise to a wide range of related land-side activities. Maritime insurance, law, finance and broking are just a few of these. Supportive policy based on economic impact considerations must take full account of the total maritime industry, both blue-water and land-side.*

1. INTRODUCTION

With the length of its coastline, a trade-based economy and considerable distances from its trading partners (both international and domestic), Western Australia is arguably more dependent on good shipping links than the rest of the country.

As a result, this State has taken a lead role in related national policy discussions, led by the State Minister for Planning & Infrastructure, Hon Alannah MacTiernan. The Sea Freight Council of Western Australia* has also been prominent in those discussions, in its own right and through advice to the State Government.

The Council views the current enquiry as the last significant opportunity for this country to develop a domestic shipping industry that is safe, sustainable and competitive. Anything less than that will be a disservice to future generations of Australians.

2. THE WESTERN AUSTRALIAN CONTEXT

2.1 A Unique Maritime Focus

Western Australia is this country's leading seaborne export State, with one half of national exports by volume and one third by value. Four Western Australian ports are in the country's top ten by volume, including numbers one and two. While the focus is on bulk movements in this State, the container trade through Fremantle Port continues to grow in excess of ten per cent per annum.

What is emerging is that the current buoyant times in this State differ significantly from the boom or bust cycles traditionally experienced in Western Australia. This is sustained economic growth based on the long term international demand for resources. The contracts now being written and the investments being made strongly indicate that growth is here for the next 10-15 years at a minimum.

It should be noted that a four per cent annual growth rate in the State's economy (it was nearly five per cent last year) equates to an increase in the Western Australian freight task of 100-150 per cent over the next twenty years. This plays out in terms of both international and domestic movements.

For this reason, Western Australia is vitally interested in sustainable freight logistics outcomes. Good shipping links represent a cornerstone to that objective.

2.2 Support in Practice

The Government in this State clearly recognises that Australian shipping has a major role

* *The Sea Freight Council was established in 1996 and comprises senior private and public sector decision-makers concerned about policies impacting on the State's maritime supply chains.*

to play in providing those links. It has been a strong proponent of policy change at a national level for many years. Moreover, at a State level, Western Australia's pro-shipping position is demonstrable in practice.

There had been a Western Australian Government shipping line, Stateships, in existence from the early 1900's. The operation ceased in 1995. Since that time, successive State Governments have subsidised the provision of a shipping service into the North West region. The current subsidy is set at \$8 million per annum.

The policy context for this subsidy is the strong belief that remote regions in the North West must have a competitive freight alternative to road transport. Anecdotal evidence suggests that the presence of the shipping alternative keeps freight costs down by up to 25 per cent. This is a vital contribution to these remote regions, for both industries and communities that live and work there.

Other benefits deriving from this service relate to reduced road damage, fewer traffic accidents, lesser risk in moving dangerous goods, enhanced activity for State-owned regional ports and the maintenance of vital freight links to remote areas in the instance of disruption to land-based transport.

3. THE NATIONAL CONTEXT

3.1 Shipping in the Economy

Shipping plays a critical part in supporting Australia's international trade-based economy. In 2005-06, the country's total international trade in commodities was 696.6 million tonnes, with a value of \$328.7 billion. In volume terms, shipping carried 99.9 per cent of this trade.

On the domestic front, shipping has just 2.4 per cent of the total national freight task in terms of tonnes carried. (Road has 71.8 per cent.) However, in tonne/kilometre terms, shipping's share of the task jumps to 24.5 per cent, indicative of the suitability of the mode to the long distance freight movements required in this country.

Despite the vital role played by shipping in the national economy, however, maritime policy has generally been unsupportive of the domestic industry by comparison to other developed countries. Neither has maritime policy been seen as part of national transport planning. This latter circumstance is graphically illustrated in the previous Federal Government's broad-based intermodal infrastructure programme, Auslink. That policy did not include shipping and gave inadequate priority to investment in land-based links relied on for efficient shipping connections..

3.2 Changes in the Australian Shipping Industry

The lack of policy support has coincided with a dramatic change in the operation of the Australian shipping industry. In the years between 1998-99 and 2005-06, the country's

total trading fleet increased modestly from 77 to 91 vessels (2.5 million dwt to 3.1 million dwt). But over that same period, the Australian registered fleet declined from 70 to 48 vessels (2.2 million dwt to 1.6 million dwt), while overseas registered vessels rose from 7 to 43 vessels (0.3 million dwt to 1.5 million dwt).

It is apparent that Australian shipping operators are increasingly 'flagging out' and registering their vessels elsewhere but Australia. Commercial pressures are forcing them to do this in search of operational and financial flexibility unavailable in this country.

As a result of this movement offshore, investment in the Australian fleet has fallen dramatically. The average net annual investment in Australian shipping was \$44.4 million across the last six years compared to a figure of \$222.7 million for the six years before that. This has seen the age of local vessels increase commensurately, with 77 per cent of Australian tonnage being between 11 and 25 years. From being below the international average in the 1990s, the age of the Australian fleet is now well above, the respective figures being 12.6 years and 16.9 years.

These trends contrast with movements in the freight task. Despite continued growth in Australia's international trade, the role of Australian flag vessels in servicing it continues to diminish. The current share of the freight task is below well two per cent, half of that enjoyed as recently as 1995-96.

A similar picture emerges in respect of the domestic freight task, where despite a steadily increasing demand, shipping's role has diminished from around 40 per cent of the task to some 25 per cent (in tonne-kilometre terms) over the last 15 years. While the majority of this freight is still carried by Australian shipping, foreign vessels are playing an increasing role and now carry more of the country's domestic trade than Australian vessels carry in the country's external trades.

3.3 Recent National Shipping Policy

The previous Federal Government's approach to shipping was based on the belief that Australia is a shipper nation, not a shipping nation. The key objective of the approach was cheap freight rates, especially for exporters. The impact of that position was to leave uncertain the future of Australian shipping. Under that circumstance, local ship operators have not invested in their own industry of recent years. An ageing fleet manned by an ageing workforce, and consequent declining competitiveness, have resulted.

4. THE NEED FOR POLICY CHANGE

It is in the national interest that this country have a vibrant and sustainable domestic shipping industry. A number of economic and strategic benefits would flow from that outcome.

4.1 Economic Activity

A diminished Australian shipping industry has significant negative impacts on the nation's balance of payments, exchange rate and general level of economic activity.

In terms of macro-economic impacts, for example, freight rates paid to foreign shipping operators have a significant impact on the nation's current account. In 2005-6, the contribution of foreign shipping to the Australian net services deficit was \$4.5 billion and constituted over eight per cent of the current account deficit. A greater presence of local operators in the freight task will ease this drain on the economy.

Some years ago, the maritime industry in this country (blue-water and land-based) was estimated to employ 80,000 Australians and generate value of \$14 billion per annum. (The estimates have apparently not been updated.) The magnitude of these figures could be increased if there is a growing local maritime industry. A greater emphasis on exports being sold overseas on a cost-insurance-freight (CIF) basis rather than the more common free-on-board (FOB) would assist this development by ensuring that a range of pre-shipping arrangements were conducted in this country.

4.2 Sustainable Domestic Freight

A modal shift towards shipping in the national freight task would lead to:

- environmental benefits (including lower greenhouse gas emissions, reduced noise levels and greater fuel efficiency);
- community benefits (including lower levels of road congestion and traffic accidents); and
- economic benefits (including lesser road maintenance costs).

More specifically on the environmental benefits, shipping is the least emission-intensive freight mode. While shipping has some 25 per cent of the national freight task, it consumes less than ten per cent of total freight transport energy use and contributes less than two per cent of total emissions from the transport sector.

The triple bottom line benefits associated with shipping can make a significant contribution to the sustainability of the domestic freight system, particularly in the face of the forecast doubling of the task over the next 10-15 years.

4.3 Maritime Skill Base

The maritime skill base in this country has diminished commensurate with Australian shipping's falling share of the national freight task. Not only is there a skills shortage in the industry, but also an overall labour shortage.

This development impacts not just on the blue water industry. In port operations, for example, there is a dramatic shortage of Australian pilots, harbour masters and towage operators. Demands from other sectors such as resources, marine tourism and fishing exacerbate the problem.

A strategy of reliance on overseas sourcing for these nationally important skills has problems associated with it. A vibrant national shipping industry is a preferable alternative.

4.4 National Security

There is an apparent inconsistency under present circumstances between national border protection policy and coastal shipping policy. In the current international security climate, there should be a recognition of the risk profile of foreign nationals working on the coast. This is not the case at present. Foreign nationals work on the Australian coast on a semi-permanent basis without the level of vetting that would accompany overseas labour seeking employment in other domestic industries.

Defence considerations favour a strong local shipping industry. In the US, the navy has long argued that any reduction in domestic shipping activity would dilute the ability of the merchant marine to support defence deployment, would decrease the number of nationals able to crew strategic vessels in times of need and would weaken the maritime industrial base of shipyards and repair facilities.

There has traditionally been a strong relationship between the maritime workforce and recruitment to the Royal Australian Navy. The current shortage of naval recruits reflects the decline in Australia's maritime culture and skill base. This can only become worse with the on-going decline in Australian-based maritime activity, with a poorer prospect of adequate future recruitment into the country's strategically import defence capability.

5. OVERSEAS EXPERIENCE

There is a spectrum of Government responses around the world to the issue of national shipping support. However, it is clear that key nations such as the United States and Japan, together with those of the European Union, have a belief that shipping must be a strong and growing participant in the movement of freight whether domestically or overseas.

The longstanding approach of successive US governments, for example, is one of strict national flag reservation or cabotage. Foreign vessels are not allowed onto the coast to carry domestic freight. Administrations there have accepted for many years that stringent application of the cabotage principle brings long term economic and strategic benefits.

The European approach relies more on a series of support mechanisms for national shipping rather than overt intervention as in the US model. The support mechanisms offered by most EU Governments include favourable tax regimes for ship-owners, cost-offsets in employing domestic seafarers, ship-financing schemes and the encouragement of training/career development in the national shipping industry.

6. THE REVITALISATION OF AUSTRALIAN SHIPPING

6.1 The Present Reality

If the Australian shipping industry is to fulfil its potential in the economy, then it must exhibit:

- the ability to supply cost-effective and operationally-acceptable services to users;
- the same regulatory and fiscal regimes as foreign operators with whom it competes;
- world's best practice in the provision of safe shipping services; and
- international standard training to address the shrinking national maritime skill base.

At the present time, the Australian shipping industry cannot deliver these outcomes. It is encumbered with a number of constraints that hold it back from achieving its potential. These include:

- a fiscal regime that disadvantages local operators against those from other developed countries with whom they compete;
- a legislative regime that imposes a variety of operational costs on local operators not borne by foreign alternatives; and
- an industrial regime* that has historically made Australian crews uncompetitive even when compared with those of other developed countries.

6.2 The Independent Review of Australian Shipping

The Independent Review of Australian Shipping (IRAS) was conducted in 2003 by two former Federal Transport Ministers, Peter Morris (Australian Labor Party) and John Sharp (National Party). It delivered a set of sweeping reform recommendations in the form of a revitalisation package for Australian shipping. These have never been acted upon.

Five years after it was suggested, the IRAS template of fiscal, regulatory and industrial reforms still represents the way forward for Australian shipping. Those reforms need to be considered in the face of industry requirements.

* *Various studies indicate that the competitiveness of Australian crews is significantly improved of recent years, especially given that labour costs on foreign flagged vessels are rising more rapidly. It should also be noted that the Maritime Union of Australia argues strongly that crews on foreign flag vessels sailing on the Australian coast under permit should enjoy both Australian wages and conditions for that part of the voyage. Acceptance of this proposition would substantially negate the issue of competitiveness.*

6.3 Enhancing Career Appeal

This country is experiencing both a skills shortage and an overall labour shortage in the maritime sector. High demand for maritime skills in other sectors such as resources is reducing the labour pool. Retirements associated with the shipping industry's ageing workforce are exacerbating the position.

IRAS notes the reduction in the number of young people being trained to enter the industry and the consequences of the resultant reduced maritime skill base for both blue-water and land-side activities in this country.

IRAS suggest that a tonnage tax should be introduced for Australian shipping operators in place of traditional company tax. Overseas experience suggests that tax payments based on the tonnage of the vessels in the fleet rather than the more usual annual profits provides owners with more certainty as to tax exposure. International experience is that countries who have introduced a tonnage tax have seen a return of ships to their national registers.

Some countries that have introduced a tonnage tax regime have established a link between access to that regime and a commitment on the part of ship owners to specified training levels. This is of particular interest in the Australian context of a shrinking national maritime skill base.

IRAS also proposes the removal of current personal tax inequities under the *Income Tax Assessment Act 1936* that make Australian seafarers working overseas uncompetitive by comparison to other countries' seafarers. (Australian seafarers are required to pay Australian rates of tax on income earned overseas, by contrast to both other Australians working outside of the country and also other nation's seafarers.)

This initiative would enhance the career appeal of Australian shipping and generate an ongoing training demand.

6.4 Improving Operational Viability

IRAS raises a number of issues impacting on the bottom line viability of Australian ship operators.

The matter of multi-skilling on board vessels is discussed. The view is put that fully trained integrated ratings may not be necessary to conduct all tasks on board vessels. Ongoing maintenance may be an example of this, where other skills could be more appropriately deployed.

Mixed manning on international services is another area discussed. It is noted that there is an opportunity to raise the viability of Australian operations overseas through the employment of other nationals on board. An important condition to this initiative would

be the demonstration that the service would not be viable with an all-Australian crew and the establishment of clear training and career paths for Australian nationals on board.

Seafarers' Compensation is a longstanding issue in the industry. IRAS examined the issue and suggested that it needed to be re-assessed in the face of changing industry circumstances to look for means of providing comparable cover at reduced cost.

It is clearly recognised that issues such as multi-skilling, mixed manning and seafarers' compensation are industrial ones that will ultimately be addressed by employers in the Australian shipping industry and their employees. However, the general comment can be made that such initiatives appear to have the potential to raise the viability of Australian shipping and so should be regarded positively by all stakeholders in the industry.

6.5 Regulatory Impediments

IRAS discussed the concept of ship registration for Australian operators. It noted the inability of Australian operators to use a ship-registry of choice because of the operation of the *Shipping Registration Act 1981*. The requirement that Australian vessels be placed on the Australian register gives rise to a series of regulatory cost impacts not found on other registers. The Review also makes the point that this linkage between country of operator and country of registration is not longer a feature of contemporary shipping practice elsewhere.

IRAS commented that the Australian Customs Service requires local operators to pay duty on a range of operational equipment regarded as duty free elsewhere. The resultant cost disadvantage is acknowledged as another cost inequity borne by the local industry.

The point has also been made that ship operators in Australia do not have access to the same depreciation benefits in the replacement of equipment enjoyed by other sectors of the freight industry in this country.

Support should be given to the observations made by IRAS on these regulatory impediments on the basis that Australian policies and practices should be brought into line with those in place elsewhere. The levelling of the playing field in this way would allow Australian shipping to compete strongly, unencumbered by inequitable and unnecessary cost burdens.

6.6 Legislative Change

IRAS drew attention to a number of areas of Federal legislation that impact detrimentally on Australian shipping. However, the main focus for reform was identified as the *Navigation Act 1912*.

This is an aged piece of legislation that has been amended many times over the years and now lacks the focus to provide an appropriate policy context for Australian shipping. The

Act contains a random mix of safety, labour regulation and trade objectives, all of which would be better met by an alternative statutory model.

The Act should be deconstructed and its constituent parts established in stand alone statutes or blended into more contemporary specialist legislation.

The issue of safety, for example, is comprehensively addressed by more recent pieces of general legislation dealing with conditions and practices across the whole of the Australian workforce. This legislation could adequately meet the needs of the shipping industry and provide a level of standardisation and currency not available to its employees at present.

Similarly, labour regulation and conditions of employment are concepts dealt with in this country by legislation specifically directed at such matters. There is no apparent reason why shipping should be exempt from this coverage and its employees treated differently from others in the workforce.

The Navigation Act itself requires significant review in respect of trade-related issues and, in particular, coastal shipping. It is a confused and conflicting statute in that area. IRAS recognised this point and highlighted the need to ensure that the Act is consistent with transport, customs, immigration, taxation, workplace relations and competition policy objectives.

7. AN AUSTRALIAN SECOND REGISTER

7.1 The International Experience

Registration of vessels in a particular country and under that country's flag brings with it specific rights and obligations. Registering countries define and enforce these rights and obligations in different ways. Because of the global nature of shipping, owners can choose the register they feel most suits their operation.

From the 1940s onwards, various countries developed 'open' or 'flag-of-convenience' registers to earn national revenue. These registers accept vessels from all nations and now dominate global shipping.

When a shipowner decides to 'flag out' his vessel to an open register, the main incentive is commercial. The competitive nature of the open register market means that the requirements of a register in terms of operational standards can be set at a low level to reduce owners' costs. Tax free offshore incorporation with minimal transparency often is a characteristic of these arrangements.

Strong concern has been expressed that in this climate, there may be minimal attention given to the wellbeing of open register vessels and seafarers. While not all open registers can be accused of unacceptable standards, the practice of flagging out has certainly made possible cost reduction to a point of detriment for both vessels and seafarers.

More than half of world shipping now operates under open registries or flags of convenience. In reaction, some established maritime nations have developed national second registers in addition to their primary register. The second registers endeavour to minimise the loss of tonnage through flagging out by offering ship owners the advantages of an open register.

Established maritime nations such as Denmark and Norway with a strong tradition of ship building and operation, vessel ownership, provision of seafarers, financing, insuring and registration have established quality second registers as part of their overall maritime industry. While these registers offer owners cost advantages in areas such as reduced tax impacts and removal of national crewing requirements, strong standards are still maintained in respect of the wellbeing of seafarers and the vessels they sail on.

7.2 An Australian Reaction

As has already been observed, it is obligatory in this country that an Australian-owned vessel is registered on the Australian register and not elsewhere. This requirement is inconsistent with current international practice, where the linkage between ownership and registration is becoming less important. The result of the practice is that vessels registered nationally are subject to a range of cost impacts that render them uncompetitive with those on other registers. That is the reason that Australian owners are progressively flagging out.

Experience elsewhere suggests strong grounds for the establishment of an Australian second register that addresses the need for national owners to flag out. While this would have to be a quality register observing high standards for both vessels and seafarers, it could be the vehicle for a range of fiscal, operational and industrial reforms difficult under present circumstances. In particular, an Australian second register would lend itself to the adoption of the revitalisation measures identified by IRAS.

The establishment of an Australian second register could thus have a dramatic impact on the maritime industry in this country, both blue-water and land-based activities.

In that context, it should be noted that wherever an Australian second register is based in this country, that location is likely to become the centre for maritime law, finance, broking, insurance and related support activities that have been progressively lost as owners have flagged out. The positive impact on the local economy from the creation of such a maritime cluster would be significant. (Note that in countries such as Germany, the Netherlands and Denmark, blue-water shipping represent less than 30 per cent of the overall value of the maritime industry.)

As the most active shipping State in this country, there is a strong case for locating an Australian second register in Western Australia.

8. CABOTAGE

8.1 Cabotage in Australia

Cabotage, the restriction of domestic freight to domestic carriers, is applied ambiguously in Australia by comparison to other countries who practice it. The underpinning legislation does not specifically refer to domestic carriers in respect of coastal shipping, merely to licensed carriers. Foreign operators can, and do, fulfil the requirements to be granted a licence. This allows them to avoid the permit system.

The permit system is designed to ensure that a shipping service is still available in the instance that a licensed operator is unable to move the cargo. This can be an important supplement to the national shipping industry and works to the advantage of shippers. In that context, there will always be a place for foreign shipping on the Australian coast working under the permit system.

8.2 Results of the Permit System

However of recent years, the use of permits has increased dramatically. This has been to the detriment of a national shipping industry suffering a competitive disadvantage to foreign vessels on the coast working under a less onerous regulatory regime.

The total coastal shipping freight task varied slightly in the decade to 2005-06, moving from 50.0 million tonnes to 55.1 million tonnes. Across this same period, however, the proportion of coastal cargo carried under permit increased significantly from 6.8 to 22.1 per cent.

(In 1996-97, there were 572 Single Voyage Permits issued representing the carriage of 3.8 million tonnes of cargo. In 2005-06, there were 1,133 Single Voyage Permits issued representing 11.5 million tonnes, plus 1,291 voyages under Continuous Voyage Permits for another 2.2 million tonnes.)

8.3 Application of the Permit System

The rapid increase in the number of coastal permits granted draws into doubt the commitment of the previous Federal Government to the cabotage principle. What appears to have occurred is the conscious misuse of the permit system to enable foreign ships to become regular operators on the coast. Indeed, IRAS called the administration of the permit system "capricious".

The misuse of the permit system that has occurred to date must be stopped. The awarding of the right for foreign operators to enter domestic trades must be subject to more checks and balances. A level of process transparency and accountability must be re-established. Domestic operators must be treated more equitably. An appeals system must be put in place to ensure this occurs.

At the same time, the loophole that allows foreign operators to qualify as a licensed carrier on the Australian coast must be closed. Until this is done and the permit system is administered more equitably, the Australian maritime industry will be constrained from making a potentially significant contribution to the national economy.

8.4 Coastal Shipping and the Domestic Freight Task

By definition, coastal shipping carries domestic freight. In shipping's absence, the task would be completed by land-based modes. Australian road and rail operations are not conducted with low cost foreign labour working with second rate equipment. Coastal shipping should neither have these characteristics.

Furthermore, any consideration of the competitiveness of coastal shipping in the domestic freight task should make the comparison with the land-based modes of rail and road, not with cheap foreign flag vessels.

Reflecting on the contrasting levels of Government support enjoyed by land-based modes as opposed to shipping, the Productivity Commission Report on Competitive Neutrality of 2004 commented,

"Coastal shipping is an integral component of the national freight system it has the potential to capture a larger slice of the long distance freight task if competitive neutrality is achieved across transport modes to ensure that reform efforts in the industry are compatible with achieving competitive neutrality across transport modes, these reforms would be better pursued as part of a nationally coordinated and multi-modal approach to freight transport reform."

It is important that the comparison between shipping and land-based modes should fully account for external impacts such as environmental pollution, traffic congestion, road accidents and infrastructure wear. Issues such as global warming and carbon trading make this sort of triple bottom line comparison an entirely valid one.

The Australian Greenhouse Office, part of the previous Federal Government's Department of Environment & Heritage, saw modal switching as an important measure to reduce greenhouse gas emissions in this country. Sea freight was acknowledged as being the least emission-intensive freight mode, followed by rail and then road. The consistent growth in road transport in this country appears in conflict with national emission reduction commitments.

In concluding this discussion on cabotage, it should be noted that such policy is directed at protection of the domestic fleet. In the instance that Australia had a national second register, a preference system would need to be introduced that gave coastal shipping priority to vessels on the first register, then to those on the second register and, finally, to foreign flag vessels.

9. INFRASTRUCTURE REQUIREMENTS

9.1 The Pan Shipping Experience

A new coastal shipping service, Pan Shipping, was established in 2006. The initiative, albeit short-lived, provides an useful insight into the operational, commercial and policy context in which Australian coastal shipping currently operates.

Pan aspired to offer a regular and reliable coastal shipping service for the carriage of containers between the eastern and western seaboard, based on three vessels calling weekly at capital city ports between Fremantle and Brisbane.

Pan was not as cheap as the alternative of foreign vessels sailing under permit, it did not enjoy dedicated port facilities or berthing windows, it did not have its own container equipment and it was only able to offer a port-to-port service rather than a door-to-door one. Yet despite these major shortcomings, Pan was able to win major freight contracts and for a short time looked as if it might establish itself as a permanent Australian coastal shipping service.

However, problems arose when Pan attempted to expand to its planned three vessel operation. The second vessel acquired experienced serious operational difficulties, which were compounded by inappropriate crewing arrangements. Schedules were compromised and trading commitments not met. The subsequent demise of Pan was rapid.

This outcome was disappointing to State Governments (including Western Australian) and unions who had offered Pan support in its objective of rejuvenating Australian coastal shipping. Poor management, especially in respect of vessels and crews, undid the operation despite this support.

Nevertheless, brief as it was, the Pan Shipping experience is enlightening as a guide to the potential for Australian coastal shipping. What it showed was that major cargo interests put a priority on service reliability rather than price. Despite offering marginally costed freight rates, the schedule integrity of foreign operators on the coast is compromised by the fact that their main business is in the overseas trades.

9.2 Infrastructure Support

Respected independent shipping consultants Meyrick and Associates have put the view that there is a current market niche for a dedicated Australian coastal shipping service if there is an appropriate policy context to support it. Meyrick foresees a tripling of Australia's container freight task over the next 15 years. This represents an opportunity for coastal shipping, especially in distances over 1,000 kilometres, where sea freight can compete successfully with land-based modes.

Meyrick suggests a number of service characteristics that will need to be achieved for coastal shipping to succeed in the regular carriage of containers. These include:

- service reliability of 90+ per cent;
- improvement in transit times of 10-20 per cent; and
- suitable fixed berthing windows.

These characteristics relate to infrastructure. Assured port access, fast and reliable vessels, a dedicated container fleet and land-side service support are all factors that will impact on the success of the service.

The establishment of fixed berthing windows for a dedicated coastal service will be a challenge given that the shipping of containers around the coast is almost entirely conducted at present by foreign operators as an adjunct to their overseas operations. The ability of ports and their resident stevedores to be able to offer fixed berthing windows to a domestic operation needs to be examined. It may well be that Infrastructure Australia has a role to play in addressing any constraints in this respect.

Other port infrastructure and services will also need adjustment to accommodate an increase in Australian coastal shipping.

Similarly, the acquisition of appropriate tonnage is a necessary prerequisite to the establishment of a successful coastal shipping service. Overseas, favourable depreciation regimes are commonly offered to ship operators by their own Governments to assist with the development of fleet. This does not occur in this country. (Such a regime would be equally relevant to Australian operators in the international trades.)

In a more general sense, the point should be made that the success of coastal shipping is not only dependent on the aspects identified above, but also on the cost and reliability of the land-based services supporting shipping operations. Shipping must be seen as an integral part of the national logistics chain, not only by commercial interests in the industry, but also national policy makers who establish the context for their operations.

The Western Australian Government, assisted by the Sea Freight Council, put considerable emphasis on addressing land-side issues to make shipping more attractive. This emphasis will continue, particularly in respect of infrastructure issues seen as necessary to assist Australian shipping.

10. CONCLUSIONS

What has been lacking to date in this country has been a national maritime policy enunciated by the Federal Government in clear and consistent terms. This at the very least is an oversight that should be highlighted by the current inquiry.

In so doing, it should distinguish between an increased role for shipping per se and an increased role for Australian owned and operated shipping. While this submission has identified a range of benefits arising from shipping generally, it has also argued that there are additional and compelling benefits arising from Australian shipping more

specifically. An increased role for shipping should be used to enhance Australia's maritime capacity.

This submission has drawn attention to the basic tenets of a national maritime policy to apply to Australian shipping. There needs to be a revitalisation package of the sort suggested by IRAS, there needs to be more equitable application of the permit system and there needs to be a level of infrastructure that will support a competitive Australian shipping industry.

These aspects must be progressed simultaneously to achieve a sustainable outcome. For example, tightening up the permit system without Australian operators being able to offer a local shipping alternative, and without Australian ports being able to accommodate reliable local services, will merely curtail the trade or push it back onto land-based modes.

More broadly than these specific policy measures, however, there must be a change in attitude on the part of national policy makers that recognises the compelling economic and strategic arguments for a national maritime industry playing a key role in the movement of Australian freight, both domestically and overseas, going into the long term future.

Making maritime policy an integral part of transport and logistics planning is a fundamental part of that case.

If the case is accepted without reservation, then the measures to bring it about will be the more easily achieved. The changes sought do not rely on subsidy or special treatment, but on the application of the 'competitive neutrality' principle to all areas of policy affecting our maritime industry, as proposed throughout this submission. IRAS concludes that Australian skills, set in an appropriate policy context, can be competitively applied in the global shipping industry to the benefit of the nation in both shipper and shipping terms.

The current inquiry has an fundamental role to play in developing the attitudinal change that is a prerequisite to the achievement of these outcomes.

IRAS saw the threshold question relating to whether it was in the national interest for Australia to have a domestic maritime industry that at the very least enables the country to have some control over a fundamental part of national economic activity. This submission suggests that the current inquiry must answer that question positively in the strongest and most unambiguous terms. Then all key stakeholders can set about restoring Australian shipping to its rightful position in the economic affairs of the nation.

11. RECOMMENDATION

This submission has suggested strong grounds for establishing a more positive policy environment for the conduct of the national maritime industry. It has drawn attention to a wide range of measures that would then lead to the revitalisation of that industry.

The achievement of these outcomes requires that there be established a new body at a high level within the Federal Government responsible for giving focus to the suggested reforms. This body would report directly to the Federal Minister through the Australian Transport Council. It would have appropriate powers and resources to achieve its objectives in a timely manner.

Its objectives would relate to the implementation of the findings of this enquiry. They would include inter alia:

- confirming the economic and strategic value to Australia of a rejuvenated national maritime industry;
- progressing the individual initiatives identified in the IRAS revitalisation package;
- examining and implementing as appropriate other maritime support initiatives in place overseas;
- auditing the infrastructure and skill base required by a revitalised maritime industry;
- overseeing a more equitable administration of the coastal permit system; and
- developing the concept of an Australian Second Register

