

## **Inquiry into Coastal Shipping**

In determining Australian Coastal Shipping, it would be useful to differentiate between the ownership of the physical asset - the ship, and the operation of the service.

As has been shown in the various submissions, there is a difference between a ship owned by an Australian entity, and one owned overseas. Both are permitted to trade in Australia as long as they have been licensed by the Australian Government. One question that needs to be answered therefore would be why would an Australian entity wish to invest in an Australian licensed ship, and more importantly, why would an overseas national want to do so? The answer would have to be to earn a profit, but then it could be because it was considered a necessary link in the company's supply chain.

As the presence of overseas owners testifies, rewards are definitely there to be achieved. This then begs the question; does the Government wish to encourage further investment in shipping by Australians, or it is quite content for foreign investment to reap these rewards, and thereby creating a potential balance of payments problem.

There is also another part to that question. Why, as the ASA has pointed out, have so many Australian owners opted to register their ships overseas rather than proudly displaying their own national flag? The obstacles besetting Australian ownership have been addressed in the various submissions, especially that from the ASA, which has been comprehensively laid out. This should provide sufficient material for the Committee to seek Government advice on the legitimacy of the ASA statements, and to evaluate the cost of overcoming those legislative obstacles.

The objective must be to either eliminate those obstacles altogether, or to mitigate the cost disadvantage to Australians, the former being the preferable course. This would induce more local investment in coastal shipping, and for the more entrepreneurial, re-entry into the international trades.

One of the objectives of previous governments was that shipping was to be reliable, economic and efficient, not necessarily in that order. That was in the context of overseas trading; but it was not tested in the coastal shipping context. It will be argued by some that Australian coastal shipping is all three. Many others beg to differ; with many cases of unreliability and inefficiency emphatically reinforced by examples of unreasonable bureaucratic fiats, industrial relations appeasements, and unjustifiable management overheads. All these costs, not all unique to Australia, add to the burden of running ships on the Australian coast.

Several submissions point to the high costs of labour on Australian ships. This is always in comparison with non-Australian crews – not with Australian enterprises. These may be classified into two categories - pay, and conditions. On a straightforward comparison, Australian wages are undoubtedly higher than in most other countries. The Australian rates incorporate an overtime component, which is hardly ever worked; lending credence to the comment that, over time, higher maintenance costs accrue to Australian manned ships.

It should be borne in mind that the Australian seafarer pays income tax on gross salary, whereas a seafarer working overseas invariably receives his wage tax free. Should a foreign seafarer declare his earnings, including earned overtime, to his home country, it would probably be taxed at a much lower rate. There does not seem to be any freely available studies on the relativity of seafarers' take-home incomes, and their standing on the socio-economic scale in their home country.

That is not something that many financial controllers bother themselves with. The bottom line is that Australian wages are too high, and as long as they remain high, Australians will not be able to enjoy working in an expanded coastal trade, one that could otherwise be encouraged on ecological grounds. Australian seafarers will never be able to compete on an open market, and can never aspire to work overseas as long as they cling to Australian rates.

Just as manufacturing jobs have been transferred overseas, so may be the day when Australian seafarers confront the prospect of being superseded by foreign labour. But they have an advantage over their factory colleagues. With their superior training, Australian seafarers can find employment overseas – at international rates, which are not rock bottom in specialist areas such as oil exploration. Many if not most Australian junior officers take this route to gain sufficient experience, and sea time to qualify for senior positions.

One point raised by ASP Shipment at the hearings was that there was no shortage of applicants seeking work on ships. The law of supply and demand would indicate that if there was such an abundance of supply then surely the cost of the supply should fall. Why have crew salaries then not fallen, or at least not risen as high as they have?

Conditions of employment are way in excess of world standards. Many items fall within this category, with the most aggravating one being the ratio of time spent on board ship to home leave. No self respecting international company would contemplate granting a blanket six weeks leave for every six weeks spent on board ship. It may be justified in the most arduous of ships, such as ferries that make at least two voyages each day, but it difficult to appreciate how a long coastal voyage from say, Port Hedland to Port Kembla could pose a safety concern to the crew. There is of course a middle position whereby ships, such as oil tankers, may make several port calls in a week. This is compensated for, with the basic pay on tankers being higher than on other ships.

Six week swings may have seemed reasonable when such a standard was struck, way back when even telephone contact from a port away from home was almost impossible. In this day and age, communication is not a problem, with satellite phone and email contact virtually instantaneous. Also in case of a family emergency, a crew member is no further than a helicopter trip away from the nearest airport, and a flight home.

Six weeks on and six weeks off came into operation when a five day working week was the norm, with penalty rates on weekends and public holidays. For some years now, labour studies show that working a six day week is now common, and penalty rates are seldom earned on weekends or public holidays. As well, the 40 hour week is these days but a figment of imagination for professionals, some clerical workers, as well as tradesmen. Even Parliamentary Members now face longer sitting days, not to mention the workload of Ministers, and Committee members.

In the international market, crew engagements may be as long as eight or nine months, or more; and no paid leave is due on leaving a ship. Crew members are free to return to sea as they wish. In general, this is usually after three months at home. They seldom return to their last ship. On certain ships, such as cruise liners, crew members may even be made to paid for their own repatriation.

The situation for officers is less dire, with rotations not generally exceeding four months, and leave paid when not on board. Some companies offer variations, allowing for longer or shorter swings to suit domestic requirements, as long as the overall ratio is maintained. Faced with difficulties in obtaining officers for their ships, certain companies are now offering shorter periods of sea duty. It is not envisaged that they will ever emulate Australian rotations.

Under the Navigation Act, ships licensed to work on the Australian coast are required to comply with the pay and conditions applicable to the industry. This Act was reviewed not that long ago, and amended; but there could be a case to revisit this Act, to determine if it should stand; in the light of modern day developments.

But not all ships on the Australian coast need comply with Australian wages and conditions. An exemption in the form of a Single Voyage Permit (SVP) or Continuous Voyage Permit (CVP) to work between ports may be obtained if there is no available licensed ship to undertake the task. Such a vessel has to pay Australian rates whilst engaged on such a voyage, or voyages, but not the associated conditions of the award. Overseas owners obviously consider that while the higher wages, even with a larger crew, are a deterrent, not having to comply with the other Australian award conditions is sufficiently attractive to trade on the Australian coast. The additional cost is factored into the freight charged, but the direct benefactors of this largess are the crew members who, theoretically, are paid this bonus for work they would normally be paid for anyway. An attempt to dissuade foreign shipowners; only to add an extra cost to the ultimate Australian consumer; and still a loss of Australian jobs.

The case has been put that high maintenance on Australian manned ships are a significant component of overall costs. There is a direct correlation between maintenance and the number of crew available to undertake such maintenance. In the trade-off between higher wages and less crew, the long term cost was obviously overlooked. Despite Australian ships now being amongst the lowest manned in the world, the external appearance of the ships are of a higher standard than when crews of 30 or more were commonplace. This would also be true of the engine room. What needs to be recognised is that the skills level of the crews are now such that they actively assist in the maintenance and repair of far more equipment found on modern day ships. This of course leaves little time for general upkeep.

One oral submission was for riding crews to be allowed on board Australian licensed ships. One example given was of a 'project' to clean up the engine room. If that is to bring Australian ships up to 'world's best practice', this implies that overseas ships regularly employ such crews to mop up after their lower paid ship's staff. Is the cost of a riding crew included in the crew wages category, or under maintenance?

Riding crews would no doubt be a valuable back-up. But their deployment would have to depend on the circumstances under which they were needed. On the longer coastal runs, even on the fixed shorter runs, and on the ballast legs, maintenance should be routinely scheduled; with already paid for overtime unstintingly called upon to complete tasks delayed for whatever reason. On shorter runs, on tankers especially, calling on the crew to perform regular maintenance may be more difficult. The added duties each crewman is called upon to perform during the frequent short port calls requires continual oversight to ensure that the rigid safety procedures, particularly applying to handling hazardous cargoes, are maintained. The occasional riding crew would be justified in such cases.

The question then is why riding crews cannot be sourced from within Australia. Has this been tested? If this was so it would appear that an opportunity for Australian ship repair yards and companies to provide such a service. Their unavailability, not their cost, would have to be the basis for granting Maritime Crew Visas for foreign nationals to perform such a task. The 'projects' seldom require specialist skills that are not available in Australia.

And this raises the question of where those people would be accommodated. Modern ships rarely have more than one or two spare cabins. Presumably then, the crews would be double bunked, or made to sleep on whatever deck space that happened to be unoccupied! Unacceptable to Australians.

There are many items that add to the high cost of Australian shipping. Individually, they may not seem significant, but when added up they highlight the cost differentials. Victualling costs would be one item difficult to control, especially when crews demand a choice of eight cereals for breakfast, or when low fat milk is not available. All on the grounds of obesity control of course.

It may seem a minor point in the big picture, but should a licensed vessel make a spurious call at an overseas port, AQIS will, on its return, require all provisions purchased during that short sojourn be disposed of, or held in bond. The bonded period could of course be an extended one, raising the risk of deterioration, and thus contamination of Australian sourced food in the same chamber.

Most companies are members of industry associations, some local ones, and others with international affiliations. Membership has its benefits, but as is the case of most things, have the benefits been adequately weighed against the cost? When such fees are accepted as necessary, they should be as an overhead, absorbed by Head Office; and costed within the composite management fee charged to each ship. But this is invariably separately billed to individual ships; and that added cost is decried as yet another example of the high cost of operating that Australian licensed ship. So it would; when a monthly 'Levy and Call' could equate to, even exceed, the cost of employing a seafarer for the month. But it one that is totally beyond the control of the ship. Should the Committee become privy to just one ship's budget, it will be able to understand just why indirect costs are so high.

The cost of training has been highlighted by several submissions. This indeed is an ongoing problem, and a costly one. Once again, the problem can be viewed from two viewpoints, crew training, and officer level training.

The ASA recommendations could be the basis for training of ratings. With the cost of training coming from a pool funded by all sectors of the maritime industry, topped up by the Federal Government, there would be no reason for sectors to poach from each other. If, as the ASA has submitted, and confirmed by ASP in their testimony, there is no shortage of applicants for a seagoing career, the pool should always be full.

The cost of training an officer has been submitted as being double that of a rating. As with ratings, the Convention on the Standards of Training, Certification and Watchkeeping (STCW), defines the minimal qualifications required for Deck and Engineer Officers. With the significantly higher standards required, coupled with the extensive amount of on-the-job training mandated, it is no wonder that training an officer is so much higher.

Traditionally, shipping companies have paid for the training of cadets they have taken on. The BP submission says they will no longer do that as from 2009. They do not elaborate as to which section of their international fleet this applies. In Australia, the reason shipowners give for not training is that cadets leave as soon as they have qualified. That may be true; but then no shipowner is prepared to guarantee that a cadet will be given a job on graduation. It works both ways; and can be overcome with a defined period of indenture. This may contravene some labour law, but then the Department of Defence uses this method to provide training for their officers.

The Committee has been keen to explore the merits of Competency Based Training (CBT). An admirable pursuit. Over and above the STCW requirements, seafarers have to have appropriate endorsements before they are permitted to work on different classes of ships. An example; an officer transferring from a general cargo or bulk carrier to a tanker, or LNG carrier cannot do so unless he or she has undergone an understudy period.

Just as an airline pilot has to be endorsed for each type of aircraft he, or she, is permitted to fly, so too should such a requirement be made for ships. Not all ships are the same, not even vessels with similar specifications. Before a seafarer joins a particular vessel for the first time, (s)he should be required to have a familiarisation of the vessel. This may be in the form of a simplified plan of the ship, showing the location of critical pieces of equipment, and the safety procedures of the ship.

As soon as practical after boarding, that person should be personally escorted to his duty station, shown what is expected of him, and how he is undertake those tasks as laid out in the various procedure manuals. This of course is another added burden on the ship, both as a monetary cost, as well as time of his mentor. But this lends to safety, to the person, his workmates, and even those remote to the ship. An example would be when a new joiner is not aware of certain procedures, like handling a safety wire on a tanker.

In their verbal presentation, the ASA mentioned the desirability of exposing trainee and newly graduated Australian seafarers to overseas practices. This is an admirable objective, but difficult to achieve as long as junior officer wages in Australia are so much higher than overseas. It is an unfortunate reality that, despite the use of a 2nd Register, the traditional maritime nations do not have sufficient junior officers to replace their aging Masters and Chief Engineers. The cost differential is just too great when compared with rates for officers from the developing nations. It is a credit to companies, such as BP, who have been prepared to take on Australian junior officers; just as it has been that those officers were prepared to accept the going rate, rather than insist on Australian wages.

A 2<sup>nd</sup> Register has been touted for Australia. It has been promoted as 'a' solution for the country. But what would be the benefit on the Australian coast? When the financial and legislative obstacles have been overcome, there will be no need for such a register, especially as no relief would be forthcoming in the major cost factor – crew wages and conditions. That could be rectified through elimination, or at least deletion of relevant clauses of the Navigation Act. A 2nd Register could only be exploited if Australians were desirous of entering the international shipping market. And only then will a 2<sup>nd</sup> Register lend viability to the venture through lower (non Australian) crew and operating costs.

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