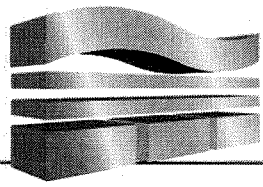

SEA FREIGHT COUNCIL OF QUEENSLAND

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SEA FREIGHT COUNCIL OF QUEENSLAND LTD'S

Submission to the

House Of Representative's Standing Committee On Infrastructure, Transport, Regional Development And Local Government's

Inquiry Into Coastal Shipping Policy And Regulation

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Opening Comments

The Sea Freight Council of Queensland Ltd comprises members and allies from across the supply chain including both suppliers and users of transport services. The Council's main focus is on the effective and efficient operation of supply chains, with a particular emphasis on exports.

The Council's board includes representatives of major commodities such as cotton and foodstuffs, forwarders, stevedores, trucking operators, bulk commodities, the Port of Brisbane Corporation, wharf carriers, shipping lines and the Mackay Whitsunday Regional Economic Development Corporation.

Our network includes small, medium and large businesses in addition to government entities at all three levels. Our commercial allies are based in Brisbane (65.2%), regional Queensland (21.5%) and interstate (13.2%). Their sizes are large (63.5%), small (30%) and medium (6.4%).

The Council holds no brief for any particular mode, notwithstanding our name. Nor are we partial to the claims of either the suppliers of transport services or the users of such services. Our interest is in the efficient functioning of the total supply chain. It is our experience that many inefficiencies are caused by actions of users and many occur where the various transport modes intersect. It is a common situation that a very efficient operation in one mode intersects with a very efficient operation in another mode but that the very intersection is a source of inefficiency.

An example of inefficiencies on the part of users involves the mismatch of hours. Whereas stevedoring and, progressively, trucking and wharf carriage operate on a 24/7 basis, many users are still seeking to despatch and receive cargo from 0700 to 1500 hours, Monday to Friday. Whilst the ability for many users to receive cargo outside these hours, and the limited economic value in doing so, is recognised, nevertheless the supply chain efficiency would be greatly enhanced if they could.

Accordingly, the Council embraces a variety of views on most subjects, including coastal shipping. Nevertheless, and while the Council's main interest is with export supply chains, it does have a consensus view on many aspects of the coastal shipping question and we will primarily address issues (4) and (5) of the Committee's Terms of Reference.

Finally, the Council is conscious that many of the issues raised with the Committee will require further research. The Sea Freight Council of Queensland Ltd wishes to formally note its availability and willingness to assist the Committee with such research.

Overview

The Committee has received many submissions that address the array of macro issues that impact on coastal shipping include crewing issues, taxation, the permit system and the overlap between coastal and international shipping.

We would like to address some rather different issues.

We suggest that a key question is "What problem are we trying to solve?"

Is facilitating "growth of the Australian coastal shipping sector" seen as a desirable goal in order to solve a cargo problem? Or an environmental problem? Or a skills problem? Or a combination of these?

We also note the Committee's comments that an increase in coastal shipping's share of the overall domestic task could be seen in the context of infrastructure requirements. Clearly road and rail's infrastructure requirements are far in excess of sea's and the ongoing maintenance costs are also well in excess of that required in the maritime sphere. As others have noted, not only does shipping take advantage of the low coast medium of our waterways but shipping also fully contributes to the upkeep of infrastructure requirements such as navigation aids, channels and ports.

It remains true though that if the key problem to be solved is not a cargo one, then coastal shipping is but one of many possible strategies that might be pursued.

If the key problem that requires resolution is cargo-related, then the obvious question is – where is the cargo? We shall return to this question shortly.

We would also suggest that the Australian coastal shipping sector consists of several different elements – licenced ships, permitted ships, Australian manned ships, foreign manned ships, Australian owned ships and foreign owned ships.

From a user's perspective, the flag, ownership and crewing nationality are lower order priorities. They are concerned with speed, frequency, capacity, equipment availability, schedule reliability, vessel condition and cost – though not necessarily in that order. The Council's view is that it is preferable that coastal shipping services be provided by Australian entities, be crewed by Australians and fly the Australian flag however these should not be mandatory conditions, as indeed they are not currently. Positive incentives such as second registers and tonnage taxes to domicile the sector in Australia would be welcome.

One of the challenges facing any ship owner contemplating a commitment to Australian coastal shipping is that the investment horizon is measured in decades. Given the current market for ships is unprecedented, and the order book in shipyards around the world would indicate it may not have too many years left, boards need much surety to make what is in effect a 20 year commitment. The problem is compounded if a ship needs to be design-specific for a particular Australian coastal shipping route.

Clearly chartering reduces such a commitment however chartering has its own downsides. If an entity were to charter, or buy, a ship for a specific coastal shipping trade, they would need to be confident about not only the overall volumes available but the consistency of those volumes. In North Queensland, for example, cargo interests often quote annual volumes available to support a shipping service. Often, however, those volumes are very seasonal and would result in under-utilisation of ships for various periods of the year. Such cargo patterns do not effect road or rail services as significantly as the assets can be deployed into other markets more easily.

It may be, then, that ships not dedicated to the Australian market may be the best option to deal with seasonal cargoes. If a foreign ship owner were to provide a service for 4 months during a seasonal high and then redeploy the vessel elsewhere in the world for the other 8 months of the year, would it be considered part of the coastal shipping industry?

The Freight Task

There have been various estimates of the future freight task however it is clear that it is growing, and growing quickly. Whether the much quoted doubling is to occur between 1999 and 2025, 2000 and 2020 or between now and 2020, the task is huge and on track to be much bigger. The Committee would be aware of the analysis done last year that ranked transport and logistics as being the largest industry in the country, generating value equivalent to 14.5% of GDP. In Queensland, it is 18.6% of GSP. Obviously this is the total freight task, not just the domestic task that coastal shipping is concerned with. Nevertheless, it illustrates the enormous size of the task and the fact that it is growing quickly will challenge all participants.

Importantly, there are no reports, that we are aware of, that domestic cargoes are not being transported as and when required. It is clear that the various modes are coping with the task and have coped with the growth over the last decade.

It is not at all obvious, from a task perspective, that there is a current need for growth in coastal shipping to accommodate cargo volumes. The question for policy, of course, is what the future holds. As part of that, it is relevant to consider the coastal shipping trades.

The most attractive trades for coastal shipping are:

a) Bass Strait
b) Queensland to/from the Northern Territory
c) West coast of Australia
d) The East/West trade route.
e) East coast of Australia between North Queensland and Melbourne and

Of these, the first four markets are currently serviced by many ships - some licenced and some permitted.

It is suggested that all cargo that is suited to movement by coastal shipping on all routes, other than along the east coast, *is* currently moving by ship.

Ultimately, then, any "growth of the Australian coastal shipping sector", other than as a result of the growth of the overall task, revolves around the ability to develop services that move cargo along the east coast of Australia. It is arguable that some growth could be achieved on the east/west route however, given the options currently available to shippers, it is not at all certain that this is the case.

It is relevant to note that a company has recently (29th May 2008) advertised for staff to support what appears to be an east/west shipping service. Details of this are unknown at this stage however the nature of the positions advertised suggests that the service would run from NSW/Victoria to Western Australia. Should such a service be established, the question must be asked whether this would constitute growth in coastal shipping.

If cargo is attracted that is currently moving via road or rail, clearly it would represent growth.

If, however, the cargo attracted is already moving via ship, albeit a foreign-destination ship carrying domestic cargo under permit or licence, then it cannot be regarded as a growth in coastal shipping but rather a transfer between one type of shipping operator to another.

Of course, this goes to the heart of what constitutes coastal shipping.

The first point, as noted previously, is that Australia *does* have a coastal shipping industry. Not only that, but Australia has a full suite of highly skilled maritime and maritime-related industries. As noted in the IRAS report, in addition to ship ownership and operation, the shipping industry comprises:

- ship design
- shipbuilding
- ship repair

- port services
- stevedoring
- wharf cartage
- consolidation/deconsolidation services
- pilotage
- towage
- marine insurance
- financial services
- accounting
- maritime legal services
- manning agencies
- crew training and education
- maritime rescue and safety services
- ship brokering
- provedoring & chandlery
- agency
- customs brokers
- freight forwarders
- classification societies
- regulators
- and other shore based maritime related services such as container manufactureres and repairers.

These industries exist in Australia and the question for policy makers, shipowners and cargo interests is not so much how to reinvigorate these industries as how to grow them.

While only some 2% of domestic *cargo* moves by ship, approximately a quarter of the freight *task* is performed by coastal shipping. This distinction between cargo and the task is an important one. But beyond the macro, it is clear that in various and many parts of Australia, there is a thriving coastal shipping industry. In North Queensland, the Northern Territory, Western Australia and Bass Strait there are strong and vibrant coastal shipping operations together with supporting landside industries. Up and down the east coast, the oil industry depends on coastal shipping. Finally, between the east and west coasts, significant volumes of domestic cargo are moved via ship.

Secondly, there is the obvious distinction that needs to be made between bulk and containerised cargoes. The volume of bulk cargoes moved by coastal shipping could be seen as distorting coastal shipping's market share although it is somewhat illogical to exclude certain cargoes simply because they *are* suited to shipping.

Nevertheless, when people think of the domestic cargo task, they naturally think of the pantechs they pass on the highway, the rail wagons they watch go past the crossing and the goods they buy each day. They tend not to think of the oil, bauxite or cement that moves up and down the coast.

So it is reasonable to look at coastal shipping's share of non-bulk cargoes and the prospects for growth in that sector. Currently, coastal shipping's share of domestic, containerised cargo is minimal with the obvious exceptions of Bass Strait and, to a

lesser extent, the west coast. The key question is how difficult it would be to migrate any significant volumes off road and rail and onto ships for these cargoes.

The answer is, essentially, very difficult. As others have noted, the retail trade is particularly unsuited to shipping due to speed and frequency requirements. Even low value, heavy, high volume commodities, such as soft drinks or beer, would be difficult to migrate to ships. It would require some part of the supply chain to carry larger inventories than currently, which would require greater warehousing capacity and additional landside movements to the point of sale. These additional costs may outweigh any freight advantage shipping has over road or rail.

It should also be noted that the road network and vehicles have improved dramatically over the last few decades. In some respects shipping competes more with rail which both require road legs for their operation. Rail, as noted, requires many billions of dollars to be spent to transform alignments that are not from last century, *but the one before that*. Shipping does not require anywhere near such expenditure to be made however it should not be seen as an either/or proposition. Rail must be upgraded as well as port and related infrastructure.

Future Modal Capacity

A key area for policy makers to consider is the commercial decisions that are likely to be made as the freight task grows. For the purposes of this argument, we will confine ourselves to unitised, non-bulk cargo and focus particularly on the east coast trade.

As volumes grow in the years ahead, the first question will be the capacity of the road industry, and infrastructure, to cope. It is clear to all industry participants that the rail system needs to be brought rapidly into the 21st century. If we imagine a future where road and rail are operating at maximum capacity, then clearly a coastal shipping service would be of benefit. However given shipping's obvious service deficiencies when compared to the other modes, it has to be price competitive, at the very least.

Cargo owners would not be disposed to paying a premium for a service that gave them less flexibility and incurred greater inventory and related costs for them. It also needs to be recognised that transit time is more than the port to port time. Shipping requires consolidation/marshalling of cargo and while every cargo owner would like to be last on and first off the ship, clearly they can not be. Accordingly, there is additional time at each end that must be factored in by the cargo owner.

However it is relevant to consider the pricing situation now. In general terms, one can get a truck load of goods from Brisbane to Sydney for around $1200.00. Naturally, some loads will cost more and some less however it is of this order. Coastal shipping, however, would require a truck leg in Brisbane to the wharf and another in Sydney from the wharf. Each of these legs would cost approximately $300 each. This leaves $600 to cover the ship, fuel, capital, port dues, agency fees, crew costs, container costs, stevedoring and profit and that is just to have parity with road.

To offer a price incentive for cargoes to switch modes only worsens the position. It is conceivable that under the future volume scenario that the least flexible service –

shipping – would be more expensive than road or rail. Such a scenario is clearly uncommercial for cargo owners.

There is a commonly held belief that a larger coastal shipping industry will take trucks off the roads, however we fear this is misunderstood. In a market that does not currently have coastal shipping but will in the future, the number of trucks operating in the corridor will still increase over and above the number currently deployed. This is due to the sustained increase in the freight task and increased use of coastal shipping, or rail for that matter, will reduce the number of trucks *that would otherwise be deployed.* The number of trucks will still increase – just by not as much as they might have. Obviously, this is still a good outcome from a number of perspectives – road maintenance, environmental emissions, labour constraints, traffic congestion – but the community needs to clearly understand that the number of trucks on the road at the moment will not be decreased by increases in other modes.

Other Obstacles

Assuming such obstacles, and those involving taxation, insurance coverage and other financial matters, could be overcome, there would remain myriad other issues including:

1) To deliver the reliability that the market demands, ports and stevedores at each point would need to offer windows that support this reliability.
2) Landside trucking operations would need to integrate with existing international operations so as to move domestic-related trucks in and out of the terminals with the urgency needed.
3) The users must be able to turn around the cargo equipment with sufficient speed to make them economically viable.
4) Arrangements need to be made to accommodate maintenance periods and still deliver the service.
5) Contingencies need to be in place to provide the service in the event the ship is disabled.
6) If the service operated in extreme weather environments such as cyclone areas, will the market support the service despite delays caused by such weather?

None of this is insurmountable. In fact the industry has overcome these obstacles, and more, in many places and in many environments. It is simply to make the point that there is far more to operating a coastal shipping service than simply having the ship turn up and be loaded.

Coastal Shipping Cargoes

As noted previously, it is understood within the Transport & Logistics Industry that there are many cargoes that are simply not suited to a shipping service. Products that are distributed through retail stores, particularly the grocery trade through the major retailers, are unsuited to a shipping service, at least on the major trunk routes of Brisbane/Sydney/Melbourne. The advancements made in the trucking industry over

the last few decades has delivered a service capability, and low cost base, that shipping can not currently compete with.

However it should be noted that the distribution model developed over the last few decades for many of these products has been predicated on *relatively* low fuel prices. It is worth noting that 1998 finished the year having averaged US$11.91 per barrel of oil. A mere decade later and that price has risen 10 fold. If that pattern were repeated between now and 2018, the distribution models developed become very problematic.

If, in 2018, it costs $750 to fill a car and $12,000 to fill a truck, road transport's service advantages may be insufficient to outweigh the cost disadvantages. Obviously, bunker prices will have risen by a similar proportion however the fuel used per tonne of cargo by the different modes will change the dynamics of distribution. The Council is not suggesting that fuel will increase 10 fold over the next decade. Nevertheless, as fuel needs to be mobile for the transport industry, fossil fuels, or some derivative, seem to be the only option for the foreseeable future. The question is whether there will be a tipping point at which consumers will be prepared to sacrifice speed and frequency of transport for a lower cost. If such a point is reached, coastal shipping of more commodities and products becomes a more attractive option.

Thus, the most attractive commodities for a coastal shipping service are bulk commodities. Clearly, the lower the value of the commodity, the more sensitive it is to freight rates and the more downward pressure there is to sell the advantages of a coastal shipping service purely from a price perspective. As is well known though, selling on price alone is often not a sustainable strategy.

Some of the most successful coastal shipping operations are the movement of minerals between Weipa and Gladstone; between Western Australia and Townsville and between Hobart and Port Pirie. These operations share several characteristics – long term commitments, high and consistent volumes and discrete client bases. There are, of course, other examples around the Australian coast of such operations however it is the Council's view that where these opportunities exist, they have already been filled.

The question for the future, then, is what other cargoes could be migrated to a shipping service?

General Cargo and Coastal Shipping

General cargo is characterised by a diversity of cargo interests and a diversity of cargo products. For shipping to service such cargoes, several elements are required including those below. This is not an exhaustive list and is operationally focussed. It does not address manning, financial, taxation, depreciation or capital issues.

1) Sufficient landside infrastructure to receive, consolidate/deconsolidate LCL and deliver cargo.
2) Sufficient base cargoes all year round to sustain the service.
3) Ideally, long distances between ports of origin and destination to take advantage of shippings inherent benefits over road and rail.

4) A container fleet.
5) The capacity to relocate empty containers.
6) Reliable stevedoring windows.
7) Contingency plans in the event the ship is disabled.
8) Ideally integrated truck/rail/wharf operations to ensure that the movement of cargo across the quay line to its point of destination is able to compete with the door to door structure of road transport.

It has also recently been proposed to the Council that a coastal service that bypasses the major ports and concentrates on the minor, regional ports would be worthy of study. When one considers the regional ports and the communities they service, a coastal service seems attractive. However would shipping cargo from Brisbane to Bundaberg or Mackay be competitive against the other modes? Between Sydney and Eden? Between Yamba and Brisbane? In all these cases, a road movement, measured in hours, would compete against a shipping service that would be longer and would involve at least two road movements anyway. Nevertheless there is some interest in investigating the viability of a service that connects the smaller regional ports.

Also worthy of note is the frequency with which road and rail routes are unusable in some parts of the country due to weather. During the wet season in North Queensland, rail tracks and roads are regularly disabled and shipping, notwithstanding earlier comments about weather, offers an option for those communities.

Coastal Shipping's Role in the Supply Chain

Shipping is often the only means of moving the product from the often remote point of production to where it is needed. Landside infrastructure from many of the areas where the commodities are mined/farmed to destination is either non-existent or not able to support the cargo movement, thus making shipping the only viable option. In addition, often the commodities involved are ultimately for export (oil and cement are two notable exceptions) and the competiveness of all elements of the supply chain are critical to the success of the trade. In this context, coastal shipping is not so much competing with road or rail but with the supply chains of, for example, Brazil, Indonesia, India or Russia.

The question then arises, from a national interest perspective, if using ships that are not flagged in, manned by or owned in Australia on the coastal leg of the supply chain provides Australia with a competitive advantage, versus using a ship that is flagged in, manned by or owned in Australia, should using such a ship be permitted? It is understood that the permit/licencing system would allow such a use currently if a licenced ship were not available, however the question is more strategic.

Should a mining or agricultural entity be able to negotiate a long term commitment from an unlicenced ship if it provides a cost advantage over a licenced ship in order to ensure the overall supply chain is able to compete more effectively with that of other nations?

A consequence of such an argument is whether it should relate to cargo movements that are not export focussed. Should the Australian consumer ultimately pay a higher

price than otherwise to ensure any coastal shipping industry is operated by licenced ships, particularly if export consumers do not?

When tariffs were wound back in many labour-intensive industries in decades past, a central argument was that Australians could not, and should not, compete with low wage countries in the production of low value products. It was considered of greater benefit to the nation if people previously engaged in these industries were retrained and employed in higher value industries. It was considered that such industries were on a long term decline as they would be increasingly unable to compete with low wage countries, given their labour intensity and, thus, the high proportion of the product's cost represented by labour.

A similar issue is faced by Australia with regard to coastal shipping, and in particular, the competition posed by lower wage seafarers.

It is acknowledged that Australia has a skills and people shortage in many industries, including in Transport & Logistics. Should we be seeking to continue to employ Australians in the lower wage occupations when we are short of people in the higher skilled areas?

Put differently, Transport & Logistics and mining, to name two industries, are not only short of skilled people currently but forecasts indicate the problem will worsen. The rates of pay that skilled people are commanding in these industries is testimony to the imbalance between supply and demand. As a nation, then, do we seek to attract people to the career of seafarer which is unfriendly to family life and *relatively* low paid, when other, value adding industries are desperate for staff? What benefit would the nation enjoy if we allowed overseas seafarers to work on the Australian coast and freed up Australians for higher paying, greater value-adding industries? What would be gained by actively seeking to attract and train engineers and deck officers rather than seafarers?

Conclusions

The Sea Freight Council of Queensland believes that shipping is not only a vital part of the current Australian domestic cargo task but that it could be even more so. The Council's focus is on the efficiency of the overall supply chain and coastal shipping's part in that needs to deliver as efficient a solution as possible.

We believe that all market participants, regardless of their mode, would view a larger coastal shipping sector as a positive outcome. It is the mode most suited to the movement of high volume bulk commodities. However those cargoes *are* being moved by ship now and will continue to do so. They are not a source of growth for the sector.

Coastal shipping will not, under the current distribution models that are employed, be a viable transport option for many domestic cargoes. Nor is it likely that it will be a viable option on trade routes that are shorter than at least 1,000 kilometres and perhaps longer. Nevertheless, there *are* routes and cargoes that do suit shipping. More extensive use of shipping for these tasks would not only have benefits for Australia's

transport industry by increasing the capacity of the industry to cope with the ever-increasing task but would have external benefits for the Australian community. These externalities include issues to do with road maintenance, death and injury, congestion, pollution and infrastructure requirements.

A key question is whether the external benefits to the community should manifest themselves in incentives for ship owners to make commitments to the Australian coastal trade and for cargo owners to support such services even if they incur lesser service standards in terms of frequency and speed. Such incentives, be they in the form of tonnage taxes, a second registry, depreciation measures or other forms, have had varying success overseas but are worth further investigation in the Australian context.

Growth for the sector must come from non-bulk cargoes and, predominantly, from the east coast trade. For non-bulk cargoes on the east coast trade to migrate to shipping, the service offered will need to be price competitive at least and, in all probability, offer a price incentive.

It will need to be reliable. One of the strongest criticisms of past coastal shipping services was that they could not be depended upon.

It is also worth noting the view expressed to us that it is unlikely the east coast trade would support more than one operator. The economies of scale, including in such areas as specialised containers that could accommodate 2 CHEP pallets side by side, are unlikely to favour multiple operators in the same space. Obviously such issues are affected by competition policy however it is not seen as realistic that multiple ship-operators will be encouraged to enter the same space, invest as required and compete for the cargo.

Some trades offer potential for developing a larger coastal shipping industry. For example, the trade between Townsville and Brisbane has been under investigation by the Port of Townsville, ourselves and various commercial interests. Potentially there is approximately 280,000 tonnes breakbulk and 18,700 TEU southbound and approximately 231,000 tonnes breakbulk and 11,500 TEU northbound that may be suitable for a shipping service. Further research and investigation is being undertaken however there are hopes that a viable, competitive, reliable service can be encouraged.

It is on such routes that practical growth of coastal shipping can be achieved.

Clearly there is a significant amount of further research, modelling and testing to be done regarding these issues. The Sea Freight Council of Queensland is available to participate in, and contribute to, these activities.

We thank the committee for the opportunity to make our submission.