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Coastal Shipping Policy and Regulation Inquiry



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

Australian Shipowners Association

Executive Summary and Introduction

The review being undertaken by the Committee on Coastal Shipping Regulation and Policy was foreshadowed as a primary recommendation of an Independent Review of Australian Shipping published in 2003. The Committee's deliberations in 2008 are timely indeed.

A recent publication by the Australian Shipowners Association profiled a sample of the Association's Members' fleets. It revealed that Australian controlled shipping has become far more globalised than many might have imagined. 19 different flags of registry and 25 nationalities of crew are a stark contrast with what is thought of as being "Australian shipping". The Australian shipping business capability is alive and well and can be harnessed in a reinvigorated Australian shipping capability.

The Australian Shipowners Association represents 22 major Australian corporations operating in deep-sea, towage, salvage and offshore oil and gas support sectors. ASA Members variously operate in international trades, domestic trades or both. They operate Australian ships, foreign ships, employ Australian crews or foreign crews or both. They hold coastal licences and utilise single and continuing voyage permits. Notably some of ASA's Members are very large cargo interests. ASA Members own ships, operate ships, charter ships in and out and manage ships.

ASA's Members are:

- ANL Container Line
- ASP Ship Management
- BHP Billiton
- BlueScope Steel
- BP Australia
- Caltex
- Cement Australia
- CSR Shipping Group
- Bernard Schulte Ship Manageme
- Farstad Shipping (India Pacific)
- Jepsens International (Australia)
- North West Shelf Shipping Service
- P & O Maritime Services
- Perkins Shipping
- Queensland Alumina Limited
- Rio Tinto Marine
- Searoad Shipping
- Shell Tankers Australia
- Sugar Australia
- Svitzer Australia
- Teekay Shipping (Australia)
- The Shell Company of Australia

ASA submits that what is required is a vision for Australian shipping. As Auslink is the vision for land-transport in Australia, so a new vision – perhaps "Sealink" – is needed for the future of Australian sea transport. The vision required will reflect international practices that are well established and plain to see in many OECD nations.

Each country has tailored measures made available to its shipping industry according to its own circumstances and the realities that exist in Australia would mould the Australian response.

The realities in Australia are that:

- Australian ships operate at a cost disadvantage of at least \$3 million/annum.
- In international shipping trades more than 99% of Australia's external trade is carried by foreign ships.
- Reliance on foreign ships to carry Australia's external trade contributes about 8.3% of Australia's current account deficit.
- The domestic freight task is set to double by 2020 at the latest.
- Australia is already suffering a crisis in the availability of maritime skills.
- Attracting people to the industry is not a problem
- The high cost of training (per person) is capacity constraint
- There is a strong demand for Australian seafarers from foreign employers.
- Other countries offer measure creating a more attractive business environment for shipowners.
- The Australian controlled fleet has taken advantage of these more attractive business environments.
- Australian ship owning/operating entities would prefer to operate in an Australian environment if it is commercially sensible to do so.
- Cargo owners are acutely sensitive to sea transport services having regard to cost, quality and reliability.

Some of these realities are problems whilst others are opportunities. This submission proposes steps that would solve problems and exploit opportunities.

ASA has sought to provide the committee with a comprehensive submission that is in three parts.

Part 1 describes and promotes shipping as a mode of transport across both Australia's international and domestic freight tasks. The benefits of modal shift are discussed, the contrast between the infrastructure requirements of land transport compared to sea transport are highlighted.

Part 2 makes the case for Australian participation in shipping. The ASA submission emphasises the need for maritime skills development and a fairer distribution of the burden of providing those skills. An analysis is provided which shows that the cost of employing Australian crews is typically around \$3million/annum greater than employing a foreign crew in a comparable foreign ship. The leave component of Australian seafarers' terms and conditions of employment is discussed and a range of views regarding the leave question is proffered. Defence support and security are discussed and links that have been established with the Department of Defence and the Royal Australian Navy are described as being positive, cooperative and supportive: the shared problems of skills shortages and maritime capabilities have been recognised and are a substantial positive development since the merchant navy in Australia was last looked at in any detail.

Part 2 also discusses what it is that has prompted Australian owners and operators to place their business in countries other than Australia. The question as to "what would bring them home" is posed and answered. The answer suggested is that

Australia could create an investment environment which realistically matches international practice in shipping business.

Part 3 investigates the legislation that regulates shipping in Australia. The system known as cabotage that operates in Australia is confused. The day to day administration of coastal shipping contributes to differential competitive positions for Australian and foreign shipping competing in the same market. The unhelpful impact of that environment on new investment in Australian sea transport is discussed. This submission contends that the key is a comprehensive review of the Ministerial Guidelines by which permits are made available to unlicensed ships to remove qualitative uncertainties.

Finally the Association's submission proposes recommendations. The recommendations if implemented would align Australia with practices that exist in many OECD and other countries and would pave the way for a bout of investment in modern technically and environmentally efficient ships and facilitate an orderly modal shift in Australia's domestic freight market towards sea transport on long distance routes. The key would be that Australia would have an internationally competitive shipping capability in both its domestic and international sea trades.

Summary of Recommendations

ASA recommends that:

1. There be a clearly stated policy to the effect that Australia should have a viable, internationally competitive, indigenous shipping capability.
2. Measures akin to those available in other countries be adopted in Australia with the specific intention of developing a national shipping capability for both international and domestic trades. These might be best implemented via a Second Register.
3. Measures to be included to give effect to an internationally competitive national shipping capability should include but not be limited to:
 - a. A suitable amendment of 23AG of the Income Tax Assessment Act 1936 to give effect to an internationally competitive tax regime for Australian seafarers engaged in international trades.
 - b. A cap of the effective working life of a vessel of the order of 5 years so as to encourage investment in modern, technically and environmentally efficient ships.
 - c. An internationally competitive taxation regime, such as a tonnage tax which may create training obligations.
 - d. A measure or combination of measures to address the \$3 million/annum crew cost differential between Australian crew and foreign crews.
4. A review of the Ministerial Guidelines for the issuing of permits be undertaken;

5. That the Australian Government take a lead role in address the seagoing skills shortage. We recommend the following actions be considered:
 - The entire Australian maritime-related sector contribute to the cost of securing the seafaring skills base on which its organisations depend.
 - A Training Trust be established to provide a single vehicle for the receipt and administration of the wider industry's financial contributions to the cost of seafarer training.
 - Training structures be reviewed with the view of becoming more efficient and effective.
 - Avenues be developed within the industry for individuals to pursue a seagoing career with or without an employer cadetship/traineeship.
 - It is recommended that the Maritime Crew Visa be extended in application to allow foreign riding gangs to work on Australian ships for the specific purpose of general maintenance.

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1 Part 1: Shipping as a Mode of Transport

1.1 Section A - Overview of the Shipping Industry

1.1.1 Shipping and world trade¹

There are around 50,000 merchant ships trading internationally, transporting every kind of cargo. The world fleet is registered in over 150 nations, and manned by over a million seafarers of virtually every nationality.

Over 90% of world trade is carried by the international shipping industry. Without shipping the import and export of goods on the scale necessary for the modern world would not be possible.

1.1.1.1 Value of volume of world trade by sea

It is difficult to quantify the value of world seaborne trade in monetary terms, as figures for trade estimates are traditionally in terms of tonnes or tonne-miles (or kilometres), a measurement of tonnes carried multiplied by the distance travelled. In 2004, for example, the industry shipped around 6.7 thousand million tonnes over a distance of about 4 million miles, giving over 27 thousand billion tonne-miles of total trade.

As trade estimates for shipping are given calculated in tonne-miles, they are therefore not comparable with monetary-based statistics for the value of the world economy. However, the United Nations Conference on Trade and Development (UNCTAD) estimates that the operation of merchant ships contributes about US\$380 billion in freight rates within the global economy, equivalent to about 5% of total world trade.

1.1.1.2 Logistics and Freight Markets

International Freight

International freight is only transported by sea or air, due to Australia being an island. The majority of cargo travels by sea with the following breakdown:

By tonnes	Sea carries	99.7% of freight
	Air carries	00.3% of freight
By value	Sea carries	75% of freight
	Air carries	25% of freight

Domestic Freight

Domestic freight is carried by a mix of road, rail, sea and air. Sea transport accounts for about 26% of all domestic long distance cargo transported.

¹ Much of the information contained in this section has been source from Shipping Facts – www.marisec.org/shippingfacts/home. ASA is a full member of the International Chamber of Shipping.

1.1.1.3 The Low Cost of Transporting Goods by Sea

Between 1980 and 1999, the value of world trade grew at 12% per year, whilst total freight costs during this period increased by only 7%, demonstrating the falling unit costs of marine transportation.

Due to continuous improvements in technology and efficiency maritime transport costs are very competitive.

This transport cost element in the shelf price of goods varies from product to product, but is ultimately marginal. For example, transport costs account for only 2% of a television shelf price and only 1.2% of a kilo of coffee.

Obviously the lower the value of the product, the higher the proportion of its final cost represented by transport.

1.1.2 Patterns in global sea transport

The section below shows the changes in global seaborne trade volume over different time periods.

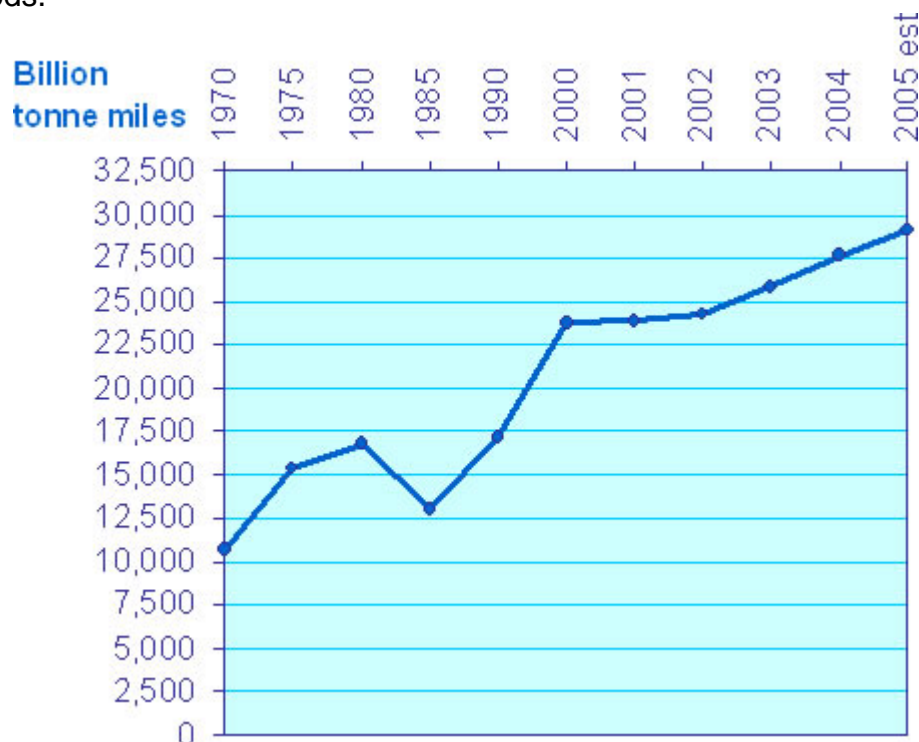


Figure 1 - World seaborne trade 1994-2005

Source: Fearnley's Review 2004

Throughout the last century the shipping industry has seen a general trend of increases in total trade volume. Increasing industrialisation and the liberalisation of national economies have fuelled free trade and a growing demand for consumer products. Advances in technology have also made shipping an increasingly efficient and swift method of transportation. Over the last four decades total seaborne trade estimates have nearly quadrupled, from less than 6 thousand billion tonne-kilometres in 1965 to over 27 thousand billion tonne-miles in 2004.

As with all industrial sectors, however, shipping is occasionally susceptible to economic downturns - a notable fall in trade occurred during the worldwide economic recession of the early 1980s and growth in seaborne trade was tempered by the Asian financial crisis of the late 1990s. However, there has generally been healthy growth in maritime trade since the early 1990s. Moreover, in the last few years virtually all sectors of the industry have benefited from the recent global shipping boom, as China and India's economic expansion have led to record freight rates and the longest sustained period of buoyant markets within living memory.

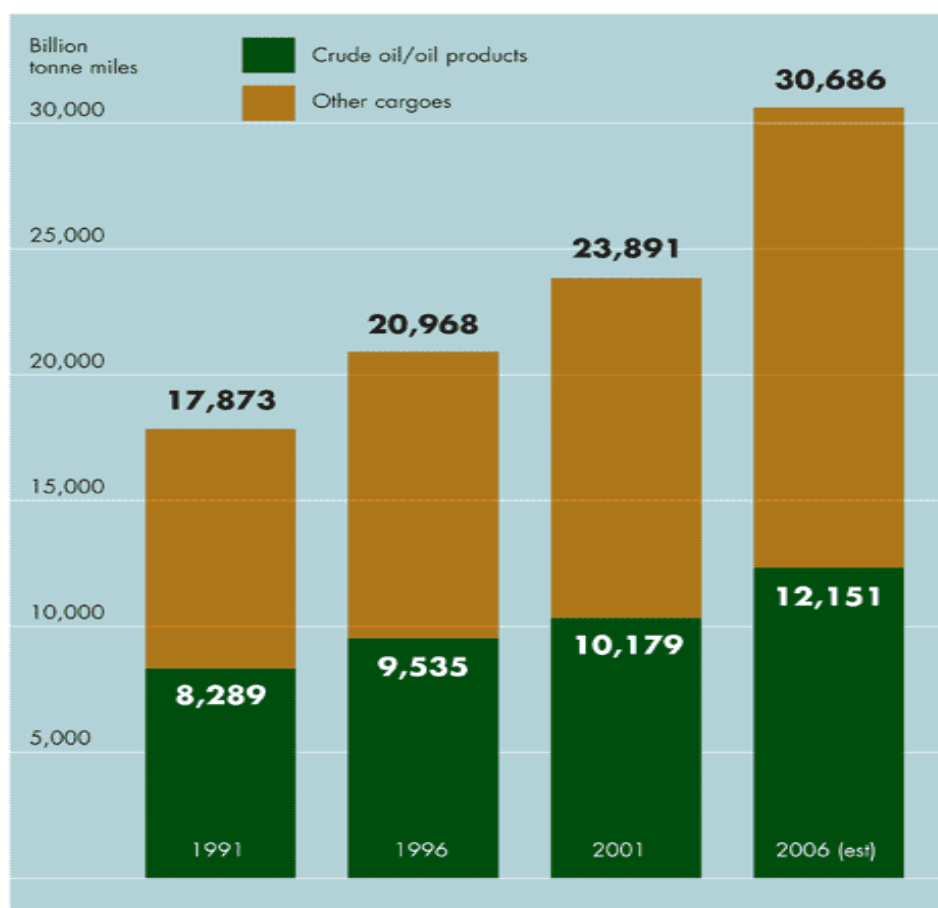


Figure 2: World seaborne trade (total) tonne miles – crude oil vs. other cargoes
Source: Fearnleys Review

Between 1991 and 2006, world seaborne trade rose from around 17,873 billion tonne miles to some 30,686 billion tonne miles, an increase of almost 70%. The carriage of oil and petroleum products accounts for a significant part of this increase, rising by almost 45% from 8.3 billion tonne miles to 12 billion tonne miles during the same period.

In tonnage terms, this equates to an increase in oil transported by sea from 1.5 billion tonnes in 1991 to some 2.3 billion tonnes in 2006. A total of over 30 billion tonnes was carried over the 15 year period.

1.1.3 Safety and Regulation

As demonstrated above, the world has seen a sharp increase in the amount of goods transported by sea over time. However, over that time there has been a significant decline in shipping related accidents.

Figure 3 below shows the number of large oil spills (> 700 tonnes) from 1970 - 2005.

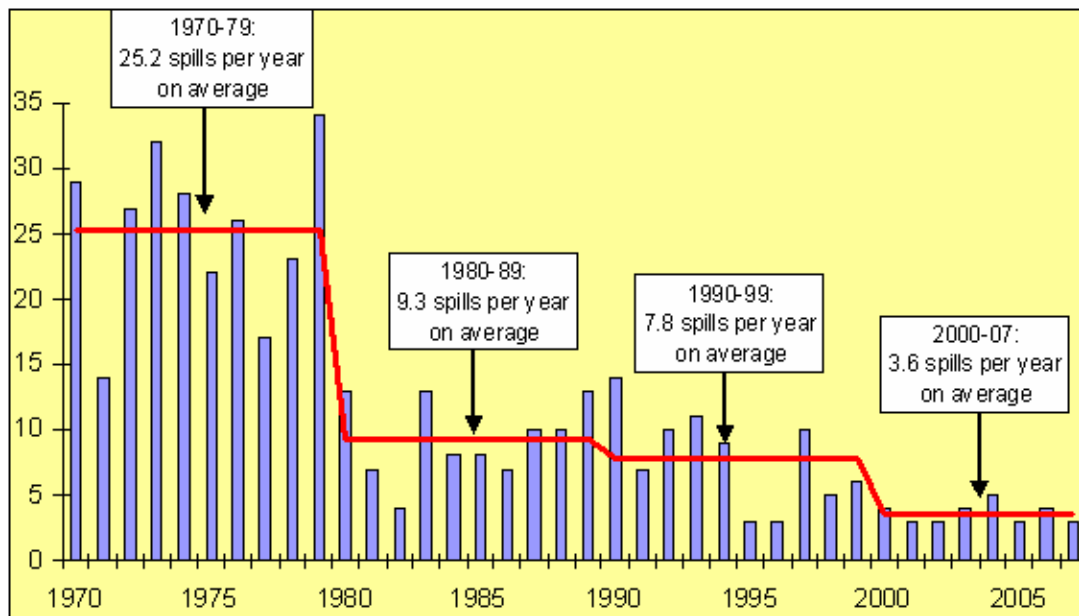


Figure 3: Oils spills > 700 tonnes

From 1970 to 2005 there has been a sharp decline in the number of oil spills from ships' cargo.

While this analysis focuses on just one cargo and ship type, contrasting the significant increase in volumes of sea cargo over time with the decline in accidents resulting in oil spills, demonstrates the increasing safety and reliability aspects of shipping as a transport mode.

1.1.3.1 Shipping Regulation in Australia

The Australian Maritime Safety Authority is a key regulatory agency for almost all aspects of the shipping industry in Australia. These include ship safety, maritime qualifications, search and rescue, ship registration, marine environment protection, navigation aids and much more.

The follow extracts from AMSA's web page provide a brief overview of some of their primary tasks:

"To assist the shipping industry maintain our marine environment, the Australian Government, through the Australian Maritime Safety Authority implements and enforces a number of legislative requirements on the industry.

Australia has a world renowned search and rescue service that spans the nation and covers 52.8 million square kilometres of the Indian, Pacific and Southern Oceans. The search and rescue service is provided by AusSAR, the national

search and rescue organisation, which is part of the Australian Maritime Safety Authority (AMSA).

AMSA has the responsibility for issuing the maritime qualifications for all crew members on Australian ships operating under the *Navigation Act 1912*, and to regulate their issue to standards meeting the needs of the Australian Shipping Industry and Australia's obligations under the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW95). Holders of overseas qualifications wishing to work on Australian ships are required to hold an equivalent Australian marine qualification, relevant to their duties. AMSA also administers the licensing requirements for Coastal Pilots. “

1.1.3.2 Domestic and International Law

Various international agreements and domestic laws govern the shipping industry.

Australia is a member of the International Maritime Organisation (IMO), a specialist agency of the United Nations which facilitates the development, negotiation and agreement of international rules and Conventions for the maritime sector.

The International Labour Organisation (ILO), of which Australia is also a member, is a specialised agency of the United Nations responsible for the development of international labour standards in cooperation with government, employer and worker representatives.

The basic law of the sea agreement, the United Nations Convention on the Law of the Sea (UNCLOS) was developed by the United Nations, and adopted in 1982. UNCLOS designates sea and seabed territory to sovereign states while generally outlining their rights and responsibilities in the use of these territories. Also, UNCLOS provides a framework for the protection of natural resources, the marine environment and the ongoing facilitation of international trade through the establishment of rights of innocent passage – an important principle for the international maritime industry.

Further information on the ILO (www.ilo.org) and IMO (www.imo.org) is available on their websites.

Once international law is agreed at the IMO and ILO, member states can then incorporate the requirements through domestic legislation. Australia is a party to many IMO and ILO Conventions.

Domestic Law

The IMO and ILO agreements and conventions are enacted within Australia through the adoption of Australian legislation. Legislation that impacts on the shipping industry include the:

- *Navigation Act 1912*
- *Shipping Registration Act 1981*
- *Customs Act 1901*
- *Quarantine Act 1908*
- *Migration Act 1958*
- *Workplace Relations Act 1996*
- *Income Tax Assessment Act 1936*

- *Seafarers Rehabilitation and Compensation Act 1992*
- *Occupational Health and Safety (Maritime Industry) Act 1993*

1.1.3.3 Open Registers and National Registers

Ships need to be registered to be able to trade and carry cargoes. Registration confers rights and obligations and ensures ships meet international and domestic requirements on safety, operational management, security and crewing.

Ships can either be flagged on National Registers (a country's register) or Open Registers (which allow ships from other countries to register). About:

- 47% of the world fleet is registered in National Registers
- 53% of the world fleet is registered in Open Registers

Open registers are sometimes pejoratively referred to as "Flags of Convenience" or FOCs.

About 50% of ships controlled by Australians are registered in Australia i.e. they are "Australian flagged vessels" the other 50% are registered in other registers including Open Registers. Of the 50% of Australian controlled ships that are "flagged-out" the following registers are typically used:



Australia



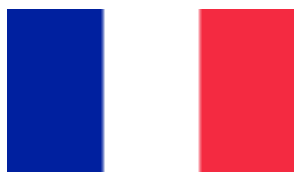
Antigua & Barbuda



Bahamas



Bermuda



France



Germany



Greece



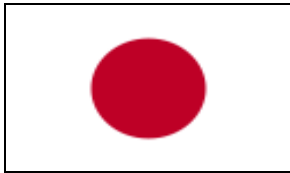
Hong Kong



Isle of Man



Ireland



Japan



Liberia



Marshall Islands



Norway



PNG



Singapore



St Vincent & Grenadines



Turkey



United Kingdom

1.1.3.4 Ship Safety and the Environment

International rules about safety are developed at the IMO with expert input from member countries to ensure the rules provide the right safety outcomes and are achievable and practical for the industry.

Ship safety laws cover design and construction aspects of the ship, 'rules of the road' for collision avoidance, cargo loading capacities, ship security and standards for personnel training.

International legal instruments have also been developed that assist in the implementation of proper integrated management systems for use on board vessels and at the shore interface that bring together all the safety requirements.

IMO member countries are then encouraged to sign up to the legal instruments and ratify by implementing the rules through national domestic legislation in their own countries.

These instruments can then be enforced by flag states (the country where the ship is registered), or when a ship is in a foreign port, by the port state.

Some of the rules and conventions that have been developed for ships' safety include:

- **The Convention on Safety of Life at Sea (SOLAS)** – SOLAS was first developed by maritime nations a few years after the Titanic disaster in 1912 where 1,503 people lost their lives. The original SOLAS has been superseded over the years with the most recent agreement, SOLAS 1974 (with updates), being still in force today. Among other things, the Convention helps to ensure that in the event of a disaster at sea, crew and passengers have appropriate equipment to assist their survival.
- **International Regulations for Preventing Collisions at Sea, 1972 (COLREGs)** – COLREG was developed to provide guidance to reduce the risk of collisions between ships at sea.
- **International Ship and Port Facility Security Code (ISPS Code)** – The ISPS Code was developed in the wake of the terrorist attacks in the United States on 11 September 2001. The attacks highlighted the vulnerability of public spaces and infrastructure, including shipping and port facilities.

As with most other industries, the shipping industry's activities can impact on the environment in a variety of ways. Through proactive industry practices, international and domestic regulation these impacts can be managed and minimised.

Figure 4 highlights some of the impacts shipping can have on the environment.



Figure 4: Sources of ship generated impacts

As with safety a number of international Conventions have been developed at the IMO for the protection of the environment. Some issues such as ship sourced carbon emissions and the contribution of the industry to climate change are still being debated internationally.

Some of the international legal instruments that have been developed and adopted for the protection of the environment from ship sourced pollution include:

- **The International Convention for the Prevention of Pollution from Ships (MARPOL 73/78)** – MARPOL 73/78 is the principle convention managing ship sourced pollution. MARPOL 73/78 has been updated through the years to take into account emerging environmental issues, technological advances and changing community expectations. MARPOL 73/78 includes six technical Annexes, which cover:
 - Prevention of pollution of the sea by oil
 - Prevention of pollution by noxious liquid substances in bulk
 - Prevention of pollution by harmful substances carried by sea in packaged form
 - Prevention of pollution by sewage from ships
 - Prevention of pollution by garbage from ships
 - Prevention of air pollution from ships

- **International Convention on Oil Pollution Preparedness, Response and Co-operation (OPRC) 1990** – OPRC was developed to deal with incidents of marine oil spills from ships. The Convention includes directions for countries in preparation for dealing with oil pollution incidents either nationally or in co-operation with other countries.

- **The Protocol on Preparedness, Response and Co-operation to pollution Incidents by Hazardous and Noxious Substances, 2000 (OPRC-HNS Protocol)** – The OPRC-HNS Protocol follows the principles of the OPRC Convention and can be adopted by countries already party to the OPRC Convention.

- **International Convention on the Control of Harmful Anti-fouling Systems on Ships (AFS Convention)** – the AFS Convention was developed to prohibit the use of harmful substances in anti-fouling products used on ships. Previously, anti-fouling paints used a substance called tributyl tin, which was very effective in preventing biofouling, but was found to have significant detrimental impacts on some marine organisms when leached into the environment. The AFS Convention was adopted in 2001 and will enter into force in September 2008.

- **International Convention for the Control and Management of Ships' Ballast Water and Sediments (BWM Convention)** – The BWM Convention was developed in response to the risk posed by marine invasive species being carried around the world in ships' ballast water and sediments. The Ballast Water convention is not yet in force.

- **Tokyo Memorandum of Understanding (Tokyo MoU)** - The Tokyo MoU is a regional data collection agreement that countries use to share information on ship environmental and safety performance. If a ship is found to be in breach of an international Convention in a country (port state), non compliance information can then be available to other countries through the Tokyo MoU. There is also a Paris MoU for the European region.

1.2 Section B - The Australian transport network

1.2.1 The role and importance of sea transport

The importance of the transport and logistics (T&L) industry cannot be overstated. The value added by Australian T&L may be equivalent to 14.5 per cent of GDP², making it one of the biggest sectors in the Australian economy. Essentially, our nation depends heavily on the industry to support our culture and our future.

More specifically, the shipping sector and broader maritime industry forms an integral part of Australian surface transport and plays a significant role in both domestic and international trade. In terms of modal efficiencies it requires little infrastructure support and measures favourably where environmental indicators are concerned.

Below are some points which illustrate expected growth over the coming years; the importance and value of shipping; and the role shipping plays in servicing Australia's transport requirements, both in domestic and international contexts.

Key Indicators - *domestic*

- Coastal shipping presently accounts for over 26% of the domestic non-urban freight task.³
- Shipping contributes just 3% of total greenhouse gas emissions produced by the transport sector, the lowest of all transport modes.⁴
- Over the last decade the magnitude of freight movements by shipping has remained relatively stable, but market share has dropped as the overall size of the task has increased
- The energy efficiency of coastal shipping for domestic long haul freight is bettered only by ancillary rail, and is significantly better than all forms of road transport

Key Indicators – *international*

- Australia's international trade is expected to increase by 66% by 2014/15⁵
- Australia already accounts for 9.6% of the world's seaborne trade, with this expected to increase in the future.⁶

1.2.2 Division of Domestic Freight Task

Shipping is a major contributor to the movement of domestic, non-urban freight in Australia, undertaking over 26% of the task see Figure 5.

² *Contribution of Transport and Logistics to The Economy, Dispelling The Myths*. Australian Logistics Council, 2007.

³ *'Australian Maritime Transport 2006'* – Apelbaum Consulting Group 2007

⁴ *'Sea Transport Efficiency and Greenhouse Gas Emissions'* – Australian Shipowners Association 2008

⁵ *'Australian Maritime Transport 2006'* – Apelbaum Consulting Group 2007

⁶ *'Australian Maritime Transport 2006'* – Apelbaum Consulting Group 2007

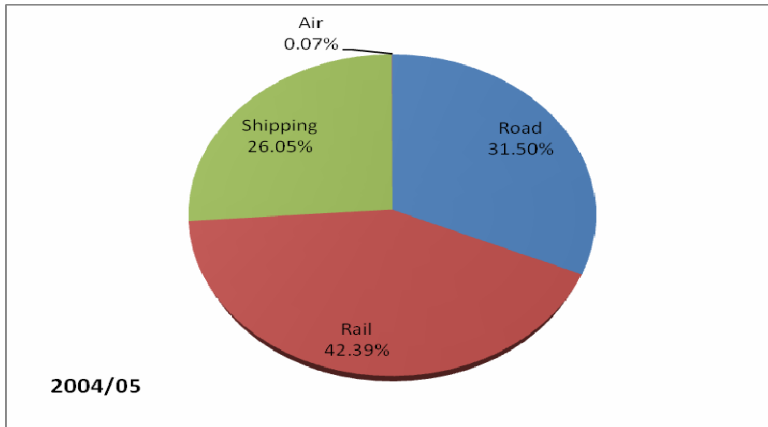


Figure 5: Percent share of domestic, non-urban freight task measured in tonne-kilometres⁷

Over the last decade, the proportion of the total freight task undertaken by shipping has declined (Figure 6) but this is due to a net increase in the freight moved by road and rail.

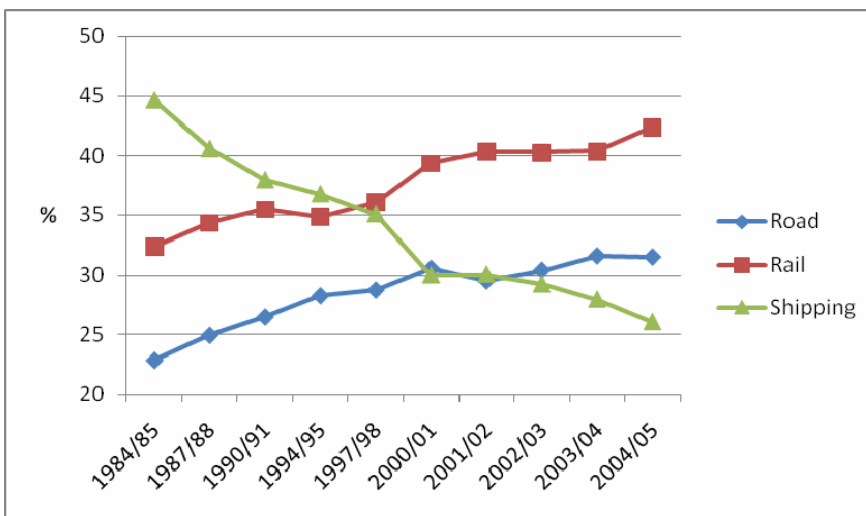


Figure 6: Trends in market share of non-urban domestic freight task⁸

Over the same period, the freight task undertaken by domestic shipping has remained relatively stable with, between 1994 and 2005, the task varying between a low of 105 billion tonne-kilometres in 2000/01 and a high of 121 billion tonne-kilometres in 1997/98, see Figure 7.

In 2004/05, the most recent figures, 114 billion tonne-kilometres were achieved.

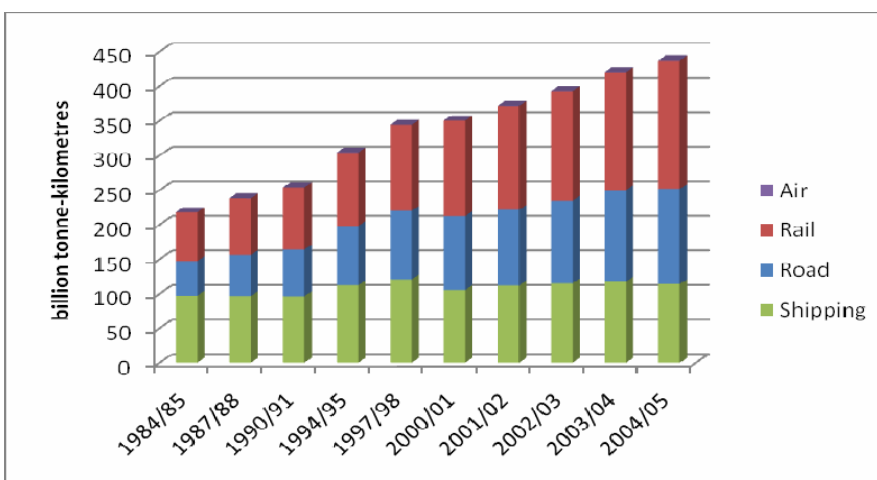


Figure 7: Trends in size of non-urban domestic freight task⁹

⁷ Australian Maritime Transport 2006 Apelbaum Consulting Group, 2007

⁸ Australian Maritime Transport 2006 Apelbaum Consulting Group, 2007

⁹ Australian Maritime Transport 2006 Apelbaum Consulting Group, 2007

1.2.3 Patterns of Australia's domestic sea transport

Figure 8 below shows the pattern of sea freight loading, including dry bulk, liquid bulk, container and other in kilotonnes of the top 10 domestic sea freight loading ports.

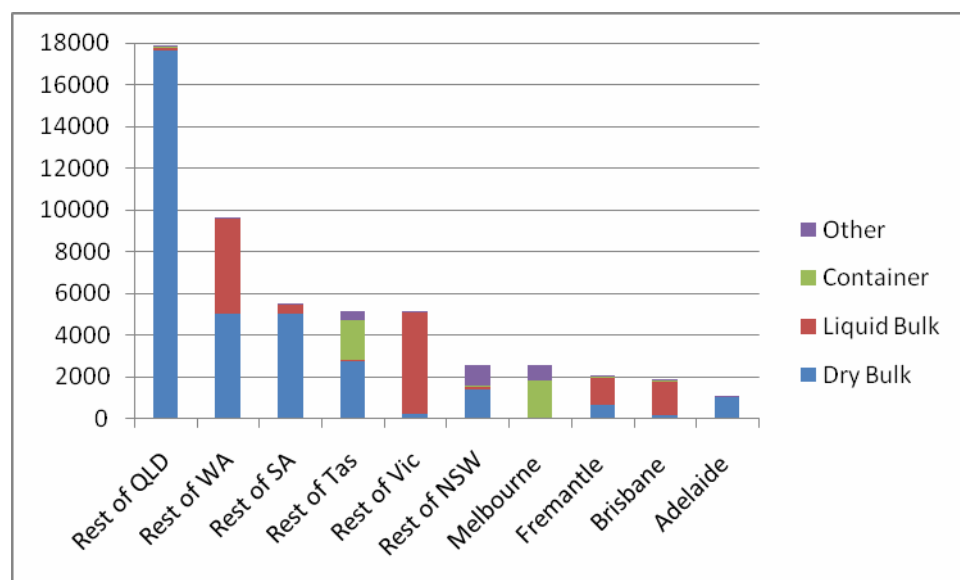


Figure 8: Coastal Freight Loaded by Port and Pack Type, 2005 – 2006 (kilotonnes).

Source: Adapted from "Australian sea freight 2005-2006" BTRE Information Paper 60 table 3.6 p32

In most instances, freight moved by sea is incapable of effectively being moved by road or rail. That is either because of the absence of infrastructure between remote locations, because the volume of freight is sufficient to render sea transport the only practical means available or because geographical barriers such as in the case of freight moved out of Tasmania for mainland markets or for transshipment to overseas markets.

Table 1 below shows the principal destination ports for the top ten domestic freight loading ports shown in Figure 8 above. The destinations are broken down by the top three discharge ports for freight loaded in each of the top ten loading ports.

Load Port	Destination		Destination		Destination	
	First rank	%	Second rank	%	Third rank	%
Rest of Qld	Rest of Qld	75%	Rest of NSW	7.6%	Brisbane	6%
Rest of WA	Rest of NSW	44%	Fremantle	18%	Sydney	18%
Rest of SA	Adelaide	34%	Rest of NSW	27%	Sydney	11%
Rest of Tas	Melbourne	54%	Rest of NSW	28%	Sydney	9%
Rest of Vic	Sydney	37%	Brisbane	30%	Rest of Tas	11%
Rest of NSW	Rest of SA	42%	Rest of Vic	36%	Melbourne	6%
Melbourne	Rest of Tas	76%	Fremantle	12%	Brisbane	7%
Fremantle	Rest of Vic	31%	Adelaide	28%	Rest of WA	19%
Brisbane	Rest of Qld	62%	Sydney	20%	Fremantle	7%
Adelaide	Melbourne	51%	Brisbane	35%	Rest of WA	4%

Table 1: Main Destinations for Main Domestic Freight Loading Ports by percentage of tonnes loaded and discharged 2005 - 2006

Source: Extracted from "Australian sea freight 2005-2006" BTRE Information Paper 60 table 3.5 p30

The above analysis shows that for three of the top ten loading ports for domestic freight, their principal destination port is in the same state. That is, three of the top domestic freight volumes are intrastate movements. In the case of another of the top ten loading ports, the second biggest destination is intrastate. In the case of the top loading port, 'Rest of Queensland', two of the top three destinations are intrastate.

In the case of another four of the top ten domestic freight loading ports, their principal discharge port is in an adjacent state.

This analysis confirms that Australia's domestic sea transport capability is concentrated in dedicated trades which are frequently intrastate trades, particularly in Queensland, Western Australia and to a lesser extent South Australia. This is not surprising as Queensland and Western Australia are the largest states each with significant resources being won and processed within the state but at widely separated localities.

The analysis also highlights the importance of sea transport to Tasmania with freight moving into and out of Tasmania for domestic and export trades in a variety of commodities.

The analysis emphasises that sea transport has become highly specialised and the predominant mode where infrastructure creation for other modes is impracticable if not impossible.

The general cargo freight corridors shown in Table 2 below paint an interesting picture which highlights the regulatory confusion that exists in Australia's sea transport sector.

Port of Origin	K/T loaded	K/T Discharged
Sydney	430.4	49.6
Rest of NSW	34.2	1.6
Melbourne	1822.4	1494.2
Rest of Vic	0	0.9
Brisbane	79.0	115.8
Rest of Qld	23.9	24.3
Adelaide	7.3	88.0
Rest of SA	0	0
Fremantle	49.1	639.3
Rest of WA	4.1	16.0
Hobart	0.96	0.8
Rest of Tas	1,944.7	1,707.0
Darwin	43.7	43.7
Rest of NT	0	0
Total	4,409.8	4,181.1

Table 2: Coastal Containerised Freight by Port of Origin and Port of Discharge, 2005 – 2006 (Kilotonnes)

Source: Extracted from "Australian sea freight 2005-2006" BTRE Information Paper 60 tables 3.6 p32 and 3.7 p 33

The above table shows the main domestic container flows by sea in 2005 – 2006. The point to note is that, except for container traffic between Tasmania and the mainland, and between Fremantle and the rest of WA where most freight moves in Australian ships, the rest is carried mostly in foreign-owned, foreign controlled and foreign manned vessels. These vessels are not subject to the legislative regime applicable to Australian interests who might otherwise enter these trades.

1.2.4 Domestic Sea Transport Efficiency and Greenhouse Gas Emissions

1.2.4.1 Summary

- The transport sector is the third highest emitter of greenhouse gases in Australia, with more than 85% of the emissions attributable to cars and other road transport.
- Shipping contributes only 4% of total freight transport emissions while undertaking 26% of the non-urban freight task.
- Over the period 1991 to 2005 greenhouse gas emissions from coastal shipping dropped by 7%, despite an 18% increase in the freight task.
- Significant greenhouse gas emission reductions may be achieved by shifting freight from other modes to coastal shipping. A 79% reduction per tonne-kilometre of freight can be achieved by moving freight by sea rather than articulated truck, and 93% from rigid truck to shipping.

The transport sector in Australia, which includes cars and other road transport, aviation, shipping and rail, is the third highest emitter of greenhouse gases. In 2005, transport emissions were 80.4 Mt CO₂ equivalent, exceeded only by stationary energy (279.4 Mt) and agriculture (87.9)¹⁰. Between 1990 and 2005, transport emissions increased by 30%, alongside a 43% increase in emissions from stationary energy, and less than 1% from agriculture.

The greatest contributors to transport emissions are cars and other road transport, which account for 54.4% and 33.5% of the emissions respectively, see figure below. Emissions from shipping dropped by more than 10%, a saving equivalent to 240 gigagrams of CO₂.

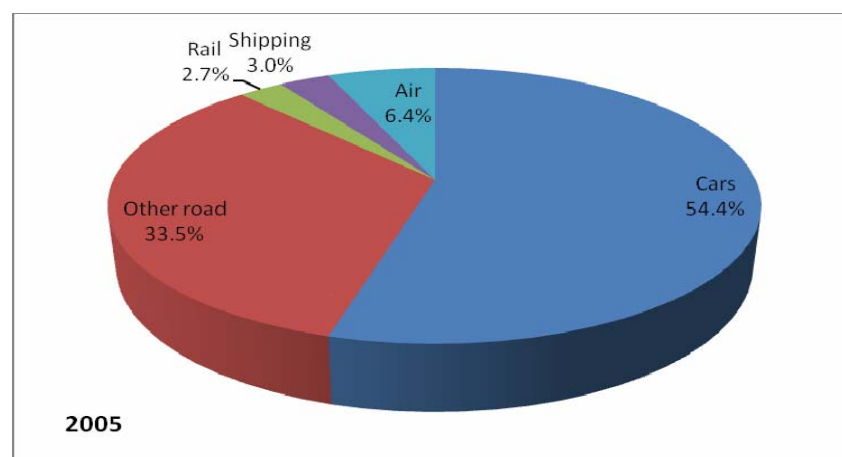


Figure 9: Percentage CO₂ equivalent emissions from transport by mode¹¹

¹⁰ National Greenhouse Gas Inventory: Analysis of recent trends and greenhouse gas indicators 1990 to 2005 [Australian Greenhouse Office, 2007]

¹¹ National Greenhouse Gas Inventory 2005 [Australian Greenhouse Office, 2007]

In 2005, shipping contributed 3.0% of the total transport emissions (see above) or 4% of freight transport emissions, see Figure 10 below.

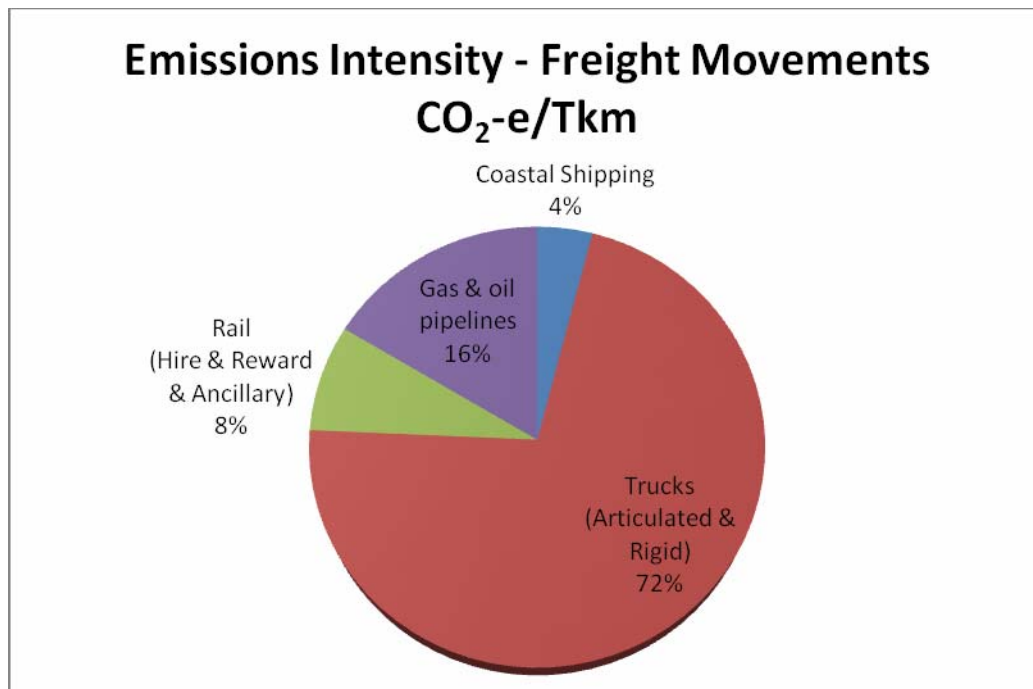


Figure 10: Source- Apelbaum Consulting Group (2008), "Australian Transport Facts"

Over the 15 year period from 1989 to 2004, emissions from all transport sectors except shipping increased, with the greatest percentage increase from aviation see figures 11 and 12 below.

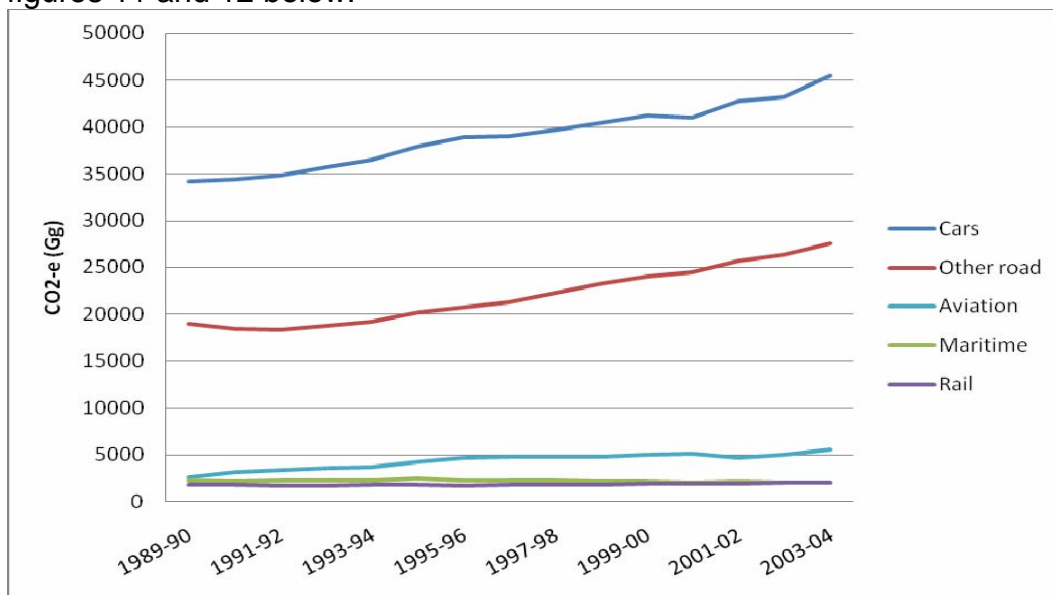


Figure 11: Trends in transport direct greenhouse gas emissions by mode¹²

¹² Australian Transport Statistics: Yearbook 2007 [Bureau of Infrastructure, Transport and Regional Economics, 2008]

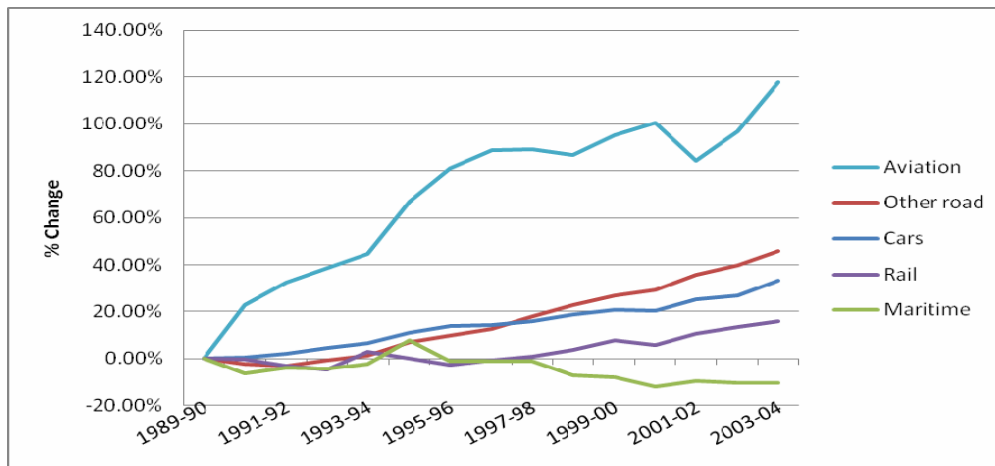


Figure 12: Percentage change in CO₂ equivalent emissions by transport sectors with time¹³

The energy efficiency of coastal shipping for domestic long haul freight movement of 0.17 megajoule (full fuel cycle) per tonne-kilometre is bettered only by ancillary rail see figure below. For further comparison, the least efficient mode for this freight movement is light commercial vehicles with an energy intensity of more than 21 MJ-FFC/tonne-kilometre.

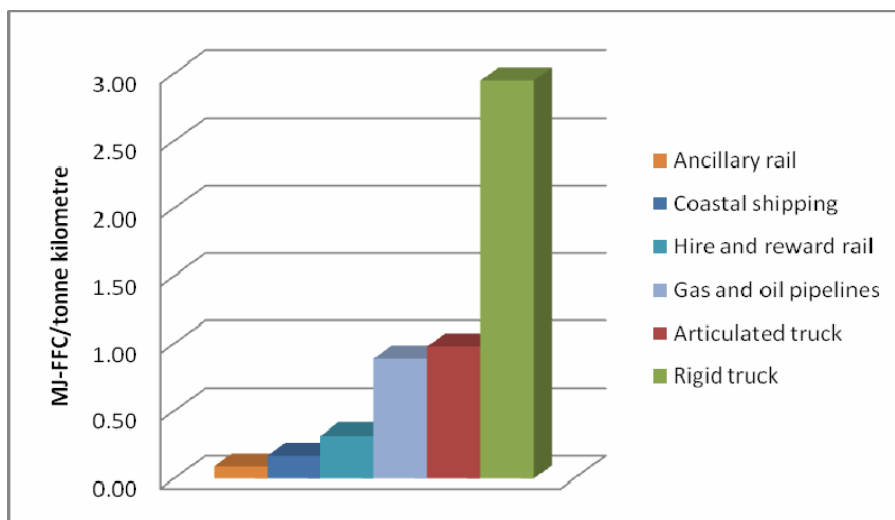


Figure 13: Energy intensity for domestic long-haul freight for transport modes¹⁴

A reduction in fuel use by coastal shipping over the last decade has contributed to a net reduction in greenhouse gas emissions, see Figure 14 below. From 1991 to 2005, despite an increase of 20.3% in the tonnage of freight carried and 18.2% in the freight tonnage per kilometre, CO₂ equivalent emissions per tonne-kilometre dropped by 7%.

¹³ Australian Transport Statistics: Yearbook 2007 [Bureau of Infrastructure, Transport and Regional Economics, 2008]

¹⁴ Australian Maritime Transport 2006 Apelbaum Consulting Group, 2007

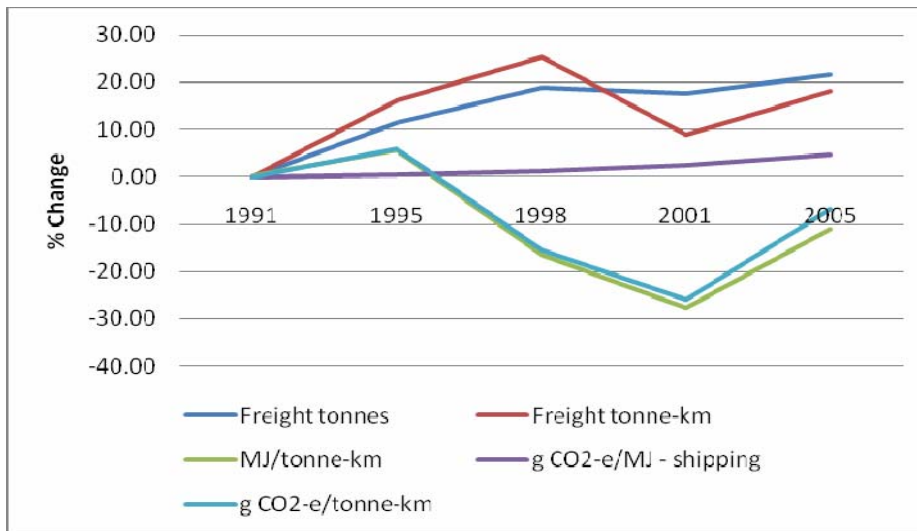


Figure 14: Trends in freight movement by coastal shipping and greenhouse gas emission indicators ¹⁵

1.2.5 Benefits of Modal Shifting in Freight Movement

The lower energy required by shipping per tonne-kilometre to move freight, and consequently the associated lower greenhouse gas emissions, would lead to a significant reduction in transport associated emissions if more freight was transported by this mode. A 79% reduction per tonne-kilometre of freight can be achieved by moving freight by sea rather than articulated truck, and 93% from rigid truck to shipping. When compared to air, 12600 gm of CO₂ equivalent would be emitted from a ship in moving 1000 tonne-kilometre of freight, whereas 1.42 million gm would be emitted in moving the same freight by air.

1.2.5.1 Modern Ships and Emissions Reduction

An IMO study into GHG emissions from ships refers to shipping as being a “highly economically optimised business” with fuel costs representing one of the major operating costs of most merchant ships. It stands therefore that those operational techniques that contribute to a reduction in fuel consumption and emissions and an increase in overall operational efficiency are, to some extent, already being exploited.

In terms of technical measures, current advances in engine technology are such that new build engines are estimated to be able to achieve up to 30% greater efficiency than existing technology. Further, efficiency gains in existing engines of up to an estimated 20% can also be achieved when new technology is applied to existing ships. Any technical advance, however – whether through the application of new ships to existing trade routes or the re-fitting of existing ships with new engine room technology – requires significant upfront capital investment by the shipowner.

The substantial capital investment required for new ships or the re-fitting of existing ships would be assisted by the availability of a cap on effective working life of shipping assets less than the current 16 or 20 years.

¹⁵ National Greenhouse Gas Inventory 2005 [Australian Greenhouse Office, 2007]

As with the road transport industry where the effective working life of heavy trucks is capped at 7.5 years, significant technical and environmental efficiency gains (in addition to those mentioned above) are available through the use of modern equipment.

There is ample evidence that favourable depreciation regimes exist for ships in other countries specifically with the objective of encouraging investment in modern shipping assets. A number of countries surveyed by this Association also provide what is known as 'roll-over relief' for capital generated by the sale of vessels and which is then applied to investment in new ships within a specified time period.

This form of measure is one that could readily be adopted in Australia if the vision for the reinvigoration of Australian shipping includes a modern, technically and environmentally efficient Australian shipping capability.

1.2.5.2 Future Growth of Domestic Freight Task

The Bureau of Transport and Regional Economics (BTRE) and National Transport Commission (NTC) has identified a likely doubling of Australia's freight task over the next 15 years.¹⁶ Concerns regarding the impact on urban congestion and road and rail infrastructure and more environmentally and socially sustainable transport solutions have also been highlighted.

The Australian Government's AusLink programme is designed to address these concerns.

Unfortunately, Australian sea transport is outside the defined AusLink National Network and regulatory purview of the NTC. It has however been acknowledged that sea transport:

- requires no highway or permanent-way infrastructure;
- is the most fuel efficient of the three surface transport modes;
- generates the least greenhouse gas emissions;
- creates the smallest social impact; and
- port infrastructure required for sea transport is more than fully funded by the shipping industry.

1.2.6 Advantages of sea transport

The aim of the Australian sea transport industry is to provide access to the goods that people want when and where they want them. Combined with integrated transport system planning, as Australia's freight task grows, a renewed focus on sea transport as part of the logistics mix may:

- Reduce the socio-economic impact of the freight transport effort, with lower resource consumption, noise, emissions, road congestion, spillages and accidents.

¹⁶ "Twice the Task". A review of Australia's freight transport tasks. National Transport Commission. 15 February 2006. See also: AusLink White Paper, Department of Transport and Regional Services, June 2004.

- Increase freight transport efficiency with the number of trips required for non-essential freight movements, particularly those over long distances.
- Reduce the land transport task.

1.2.7 Putting Shipping on the map

The Australian Shipowners Association has been taking vigorous steps to promote Australian shipping as a domestic transport mode alongside road, rail and air transport. The visibility of trucks, trains and planes to the general public and the infrastructure availability to the public of airports, railway stations, roads, by-passes and freeways are much greater than their exposure to ships and sea transport.

1.2.7.1 The Australian Maritime Group

The association has been participating in Australian Maritime Group industry workshops for some time and we have noted a major surge in interest in recognising sea transport as a transport sector as well as AMG's regular concentration on specific maritime industry issues.

The AMG commissioned the "International and Domestic Shipping and Ports Study" which was prepared by Meyrick and Associates.

International and Domestic Shipping Study

The Meyrick report¹⁷ is an incisive and sensible portrayal of the current issues in shipping in Australia. It points to shortcomings which inhibit the expansion of sea transport and artificially favour road and rail transport. It does not go to the legislative or regulatory circumstances of the industry.

The report says, for example:

"Pricing of government-owned infrastructure to fully reflect externalities (environment, pollution, congestion, accidents etc.) is an area which can significantly support the case for coastal shipping¹⁸."

In other words, if land transport had to pay its way instead of having the infrastructure it uses subsidised, its pricing regime would be such that coastal shipping, a sector in which infrastructure is not subsidised by the tax-payer, would be much more cost-effective.

The report notes that:

"There is a desire by governments, and Australian shipping, to seek opportunities and methods to increase (its) share with the benefits of an increased coastal shipping industry¹⁹."

The report notes that:

¹⁷ "International and Domestic Shipping and Ports Study" Meyrick and Associates. Australian Maritime Group 2007.

¹⁸ Ibid p 144

¹⁹ Ibid p 146

“There is a definite niche for coastal shipping if the service is regular and reliable.”²⁰

The report goes on to consider reliance on international permit ships, particularly for containerised traffic. The report notes that in the case of PAN Shipping (see also Attachment VI) it was the inability to provide a reliable service due to technical problems with their second ship that led to the downfall of PAN Shipping.

The Meyrick report is commendably perspicacious when it comments that:

“The downfall of PAN has done no favours to the cause of a domestically-operated coastal shipping service having left a negative experience for many parties involved in the east-west domestic trade.”²¹

But the support that PAN received initially is said to have demonstrated:

“....a resurgence of commercial interest in the use of sea transport...”²²

The report notes that:

“...in our judgment the information and analysis of this study indicates that the balance can be tipped in favour of a role for dedicated coastal shipping services in the transportation of inter-capital non-bulk freight.”²³

And that:

“These considerations suggest that a gap or role does exist for dedicated domestic container shipping and increased coastal bulk shipping.”²⁴

The report concludes with this sentence:

“It should not be forgotten that there are associated landside industries which support and benefit from an expansion of coastal shippingin other words the benefits to the national economy are not exclusively maritime.”²⁵

As to bulk freight being carried by sea, the report takes the view that the market will determine what the most cost-effective transport solutions are for large bulk volumes, both dry and liquid.

The industry’s response to this report was that whilst there is of course a big gap between a positive report being received by a government group and positive outcomes being achieved, it was definitely going in the right direction.

²⁰ Ibid p 109

²¹ Ibid p 109

²² Ibid p 146

²³ Ibid p 146

²⁴ Ibid p 147

²⁵ Ibid p 147

1.2.7.2 Workforce challenges in the transport industry

In another development this time in August 2007, the Senate Standing Committee on Employment, Workplace Relations and Education tabled its report into “Workforce challenges in the transport industry.”²⁶

The report addressed training and skills shortage issues across the whole transport sector but a specific recommendation for legislative amendment was directed to the shipping industry.

The Committee recommended (Recommendation 6) that Section 23AG of the Income Tax Assessment Act be changed so as not to be disadvantageous in its application to Australians who are seafarers.

This is discussed in detail in section 2.3.4, of this submission.

1.2.7.3 The Great Freight Task

In July 2007 the Standing Committee on Transport and Regional Services released its report “The Great Freight Task – Is Australia’s transport network up to the challenge?”²⁷.

Chapter 7 of that report is devoted to Coastal Shipping and noted that coastal shipping has an important part to play in the domestic freight task. The Committee felt that port constraints were an issue for coastal shipping and one that government and industry cannot afford to ignore.

The Committee noted with the domestic freight task set to double by 2020 (and some forecasts suggest it will have more than doubled by then), coastal shipping will still be carrying around a quarter of the task in tonne/kilometre terms and that:

“.....the role of coastal shipping should not be overlooked when examining existing transport network operations and prospects for future freight efficiencies.”²⁸

In what appears to be a remarkably prescient comment, having regard to the present work of this Committee, the report of the Committee in July 2007 stated:

“Ultimately, the significant growth in freight demand may require optimising the use of both Australian registered and foreign vessel freight capacities. However, the continued and necessary role for coastal shipping of freight, combined with the levels of domestic freight being moved by foreign shipping lines, strongly suggest to the Committee an opportunity to foster the national shipping industry for domestic freight movements. When examining the viability of the coastal shipping option, the Government will need to consider what, if any, protection or support the domestic shipping industry warrants.”

²⁶ The Senate Standing Committee on Employment, Workplace Relations and Education: “Workforce challenges in the transport industry” Commonwealth of Australia August 2007.

²⁷ House of Representatives Standing Committee on Transport and Regional Services: “The Great Freight Task – Is Australia’s transport network up to the challenge?” Commonwealth of Australia July 2007

²⁸ Ibid p 234

This seemed to the industry to be firm recognition that sea transport stands alongside road and rail transport as a key participant in Australia's freight task.

As if bringing these developments together, the Association noted a comment by Mr Paul Little, Managing Director of the Toll Group in his address to the Toll Group Annual General Meeting on 27 October, 2007.

In discussing this company's role in community and environmental issues, Mr Little said:

“(The company's) ‘green logistics’ strategy will include a process to more closely engage with customers, to encourage use of more fuel efficient rail and sea services over longer linehaul routes.”

Mr Little was also quoted as having said that Toll would be trying very hard to bring the benefits of rail and sea linehaul alternatives to Toll's customers.

1.2.7.4 Australian Logistics Council.

The Australian Shipowners Association has been participating in the strongly emerging Australian Logistics Council. The association has been promoting shipping as a transport mode alongside road, rail and air transport in the ALC. ASA has a representative on ALC's executive committee and has for some years been lending financial support to the Australian Logistics Council. Along with retail giant Woolworths Ltd, ASA is a Gold financial supporter of the ALC.

1.3 Infrastructure

Sea transport does not require infrastructure investment in the construction and installation of arterial roads, highways, freeways, bridges, overpasses, permanent way, signalling, real estate acquisition etc.

Sea transport does not require maintenance of these infrastructure investment items.

There has been a continuing debate over the extent to which road infrastructure and maintenance costs are recovered from the road transport sector.

If the Australasian Railway Association is correct, the road transport sector does not pay its way:

“...Governments need to charge the heavier and longer travelling trucks the true costs of damage they cause to roads. It is widely acknowledged that smaller, shorter distance trucks cross subsidise the heavier and longer travelling trucks, such as B-doubles. What is also clear is that trucks as a whole are significantly cross-subsidised by cars in terms of the user charges they pay.”²⁹

²⁹ “The Future for Freight 2005” Australasian Railways Association Inc 2005 p3

That said, the road and rail transport industries are the recipients of substantial government funding for infrastructure projects. AusLink funding allocations for the period 2004-2005 to 2008-2009 amounted to \$12.3089 billion³⁰. Funding for AusLink going forward will presumably be revealed in the May 2008 Federal Budget.

The sea transport industry by contrast uses infrastructure which is fully funded – over-funded in fact, by the shipping industry.

Regulation of the sea transport industry is undertaken by the Australian Maritime Safety Authority which is funded (other than in respect of its search and rescue responsibilities) by levies paid by shipping. Installation and maintenance of navigation aids and lights are funded by levies paid by shipping.

Use of port facilities are subject to charges levied by port authorities whose pricing structures are designed to allow the port authority to remit to their state government owners a surplus, a dividend or a return on capital. In this way shipping over-funds the infrastructure the shipping industry uses.

The cost of making good any damage to the environment that might be caused by shipping is funded by a levy paid by the shipping industry and which is payable whether environmental damage occurs or not. Mandatory insurance is carried by ship operators to ensure governments are indemnified against any additional costs that may arise in the event of a pollution incident.

We emphasise that the shipping industry represented by ASA does not complain about this charging regime but there is a stark contrast between the public spending on road and rail industries and subsequent disputes over cost-recovery levels in those industries and the fully-cost-recovered shipping industry.

1.4 Social Aspects

According to Australian Transport Safety Bureau statistics, 161 persons lost their lives in road accidents in which articulated vehicles have been involved³¹ in Australia during the twelve months to the end of September 2007.³² We are not aware of any accidental deaths in or occasioned by ships operating in Australia's domestic shipping trade in that period.

The relative levels of tragedy, trauma and cost associated with accidents associated with sea and road freight transport are self-evident.

1.5 Initiatives to build on

Several initiatives exist internationally to assist businesses reduce their footprint and assess the impact that transportation mode has on environmental performance. One such initiative assists companies determine the optimal transport mode, considering the impact of each mode on the environment, to fulfil the freight requirements of that company.

³⁰ http://www.auslink.gov.au/funding/allocations/funding_allocations_consolidated.aspx

³¹ We note that we do not suggest that fatal accidents are necessarily caused by articulated vehicles.

³² Fatal Heavy Vehicle Crashes: ATSB Quarterly Bulletin July – September 2007.

“Business for Social Responsibility (BSR) provides socially responsible business solutions to many of the world's leading corporations. Through advisory services, convenings and research, BSR works with corporations and concerned stakeholders of all types to create a more just and sustainable global economy.

BSR helps its member companies integrate sustainability into business strategy and operations.

The BSR Clean Cargo Working Group

The Clean Cargo Working Group is working to promote sustainable product transportation. Clean Cargo historically focused since 2001 on ocean freight. However, Clean Cargo extended its focus to include international transportation through all modes of transport and social aspects of international transport.

Members are leading multinational manufacturers and retailers (shippers), carriers and freight forwarders (carriers). Shippers increasingly include environmental performance of product transport into their corporate footprint, environmental management systems and supplier codes of conduct. Carriers realized their responsibilities as well as opportunities to improve environmental performance of freight transport as an industry. Offering responsible transportation becomes a competitive advantage.

The Clean Cargo Working Group develops voluntary environmental management guidelines and metrics to help evaluate and improve the performance of freight transport. The aim is to integrate product transport into corporate supply chain management.

The Clean Cargo Working Group is an unprecedented partnership that allows cross-industry dialogue and networking. The cooperative and multi-industrial approach enables significant advances in environmental stewardship and sustainability in an otherwise very competitive market.”³³

This kind of initiative may have application in the Australian context.

³³ BSR Website: www.bsr.org

2 Part 2: Case for Australian Participation in Shipping

2.1 Australian Shipping

The shipping industry has a long history that has strongly influenced the form of the industry today. The history of the industry is not something this submission wishes to dwell upon but an awareness of history can complement understanding of the issues confronting the industry.

Two Attachments, Attachments

Attachment I and Attachment II, go to the background of the industry. Attachment I is a chronology of events in the Australian shipping industry from 1980 to the present.

Attachment II is a history of the Australian shipping industry which traces from the 1890s to today how the Australian shipping industry evolved from being the sole long distance transport mode as well as the external influences which have shaped the form of the industry today.

2.1.1 What is Australian Shipping?

Many, many terms are used to describe Australian Shipping. It is important to describe some of these terms.

Australian shipping is often thought to mean ships 'registered' in Australia – otherwise known as "Australian flagged".

The concept of registration is not a new concept to the majority of Australians. For example, we are registered at birth and when we marry; we register motor vehicles and, we register transfers of land.³⁴ It is not surprising then that an asset as significant as a ship is also required to be registered. Registration confers on the ship a number of rights and obligations. The reference to "flagged" refers to the right of the ship to fly the flag of the nation in which it is registered.

Nations that encourage registration in their country derive some benefit from encouraging that business activity to exist in their country – ranging from the receipt of taxes to the benefits that arise from the creation of jobs.

Many countries attract the business of shipping to register or 'flag' in their country for both political and economic advantage.

2.1.2 Summary of status of 'Australian shipping'

The status of Australian shipping is best described by the BTRE Australian Transport Statistics Yearbook 2007

³⁴ ASA Shipping Registration: Flying the Flag, 2007.

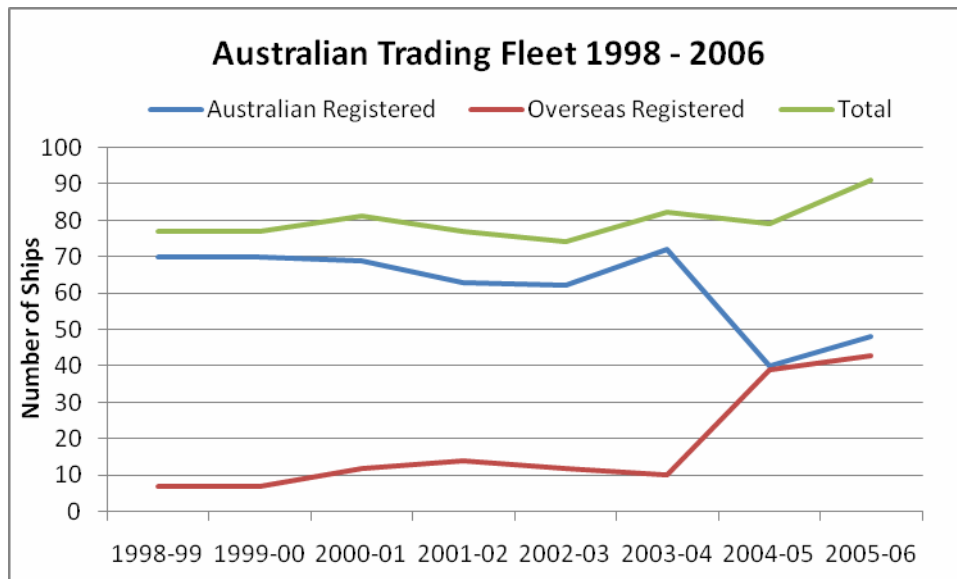


Figure 15: Data source: BTRE Australian Transport Statistics Yearbook 2007

The trend shows a steady increase over time, which is seen as a healthy involvement in an established market. But note that the expansion of Australian controlled shipping is increasingly registered in places other than Australia.

The composition of the ships involved in the Australian fleet is of prime importance. A clear shift away from Australian registration can be identified and this in turn has consequences for the local industry and the nation.

Shipping companies are doing business, making a profit and benefiting the economies of other nations by choosing to register their ships in those countries.

Annexed to this submission is a recent publication from the Australian Shipowners Association that shows that Members of this Association operate ships under 19 different ship registers and are crewed with 25 different nationalities of seafarers.

2.2 Benefits of Australian Participation in Shipping

The advantages of having Australian businesses involved in the operation of ships are many and varied including:

- Seafaring skills
- Know-how and expertise
- National security
- Risk Management / supply chain security
- Economic benefit
- Maritime cluster

The know-how, expertise and skills provided by the operation and ownership of ships are widely relied upon by industry and governments.

The following discussion on seafaring skills identifies many of the reasons why we must 'grow our own' skills base. It is unsustainable to consider reliance on immigration to fill the key strategic roles for the industry into the future, particularly in

light of strong evidence that the overseas supply of trained seafaring officers is drying up.

2.2.1 Seafaring skills

For the purposes of the discussion in this submission the seafarers referred to are those certified to the level required by the international convention standard (Standards of Training Certification and Watchkeeping 1978, as amended (STCW)). AMSA issue all STCW certificates for seafarers qualified in Australia or serving on Australian registered trading ships.

Other seafaring positions exist in smaller vessels that operate closer to shore or under State/NT jurisdictions - such as fishing fleets, harbour ferries etc. These 'state tickets' are discussed in the "Addressing the Skills Shortage" section of this submission.

2.2.1.1 Users of seagoing skills (land based and at sea)

Within Australia the major users of sea-going skills are:

At sea

- Trading ships / Bluewater ships / Merchant Navy
- Offshore support vessels (supply, anchor handling etc)
- Towage and salvage vessels
- Offshore oil and gas exploration and production vessels
- Navy and Customs

Land-based

- Australian Government agencies
- State Government agencies
- Port authorities
- Marine Pilotage companies
- Shipping companies
- Ship management companies
- Manning agents
- Commercial managers
- Ship charterers
- Classification societies and ship vetting providers
- Educational & training institutions
- Surveying organisations
- Cargo planners
- Ship Brokers
- Loading masters and terminal/wharf supervisors

As outlined in Part 1 of this submission, shipping will always have a significant role in Australian trade. This being the case, it is important that Australia retains the ability to ensure that the impact of shipping activities does not unnecessarily adversely affect the Australian environment or pose unnecessary risks.

The roles that ex-seafaring officers fill ashore can be described as highly responsible and strategic. They include Harbour Masters and pilots providing safety to port

operations; classifications societies, surveyors and regulators enforcing safety and environmental standards; lecturers and researchers improving the knowledge base of the nation; policy makers who ensure that the interests of the Nation are upheld (environment, economic, etc) without compromising our ability to trade.

There is a very great need to retain the know-how to fill these key, strategic roles.

2.2.1.2 Description of Seafaring Skills

The employment landscape within the shipping industry is characterised by a highly qualified workforce, which reflects the level of competency required to carry out operations within a highly specialised environment.

The nature of the industry requires individuals to undergo specialised training courses that vary according to occupations and, upon successful completion, result in the individual being awarded qualifications up to Advanced Diploma level within the Australian Qualifications Framework (AQF). In most cases training combines both 'off the job' and 'on the job' components, allowing trainees to develop knowledge skills and competencies within both theoretical and practical contexts.

Occupational areas hit hardest by the skills crisis can be classified into three categories, which are briefly described in Table 3 below;

Table 3: Occupations in high demand

Occupation	Brief Description	Qualification
Deck Officers	Primarily responsible for the safe navigation of a vessel as well as conducting cargo operations	Diploma – Advanced Diploma level
Engineer Officer	Primarily responsible for the design, maintenance, repair and testing of machinery and equipment	Diploma – Advanced Diploma level
Integrated Ratings (IRs)	IRs may engage in a number of activities including, <ul style="list-style-type: none"> • Assisting with cargo operations • Assist in engine and navigational watches • Mooring and anchoring operations • General servicing and maintenance 	Certificate 3 Level

It is a surprising and enduring characteristic of the industry that it is difficult to specify how many people are engaged in seafaring occupations. We estimate that the total seagoing workforce is approximately 6500 people.

2.2.1.3 Seafaring work arrangements

In Australia a typical work-cycle (known as 'swing') in the bluewater fleet is working six weeks on then having six weeks off. The leave provision included in this swing cycle is discussed below in section 2.4.2- Ship operating costs.

In the offshore support and oil and gas sector these arrangements are more typically three weeks on, three weeks off, three weeks on, six weeks off.

Internationally, the periods for which seafarers are contracted to work at sea are often much longer – stretching to months or even years.

2.2.1.4 Manpower planning figures – international

In the international shipping industry, the outlook is much the same as it is in the Australian labour market. A recent study has indicated that there is a 2% (of total workforce) shortfall of officers – deck and engine - worldwide.³⁵ 2% equates to approximately 10,000 officers. Compounding this problem is the fact that barriers such as language, culture, lack of experience and various national laws often prevent areas of surplus compensating areas such as Australia where there is high demand.

The 2015 projections contained in the BIMCO/ISF study are much worse with the officer shortfall estimated at 27,000.

The study also showed a significant surplus of ratings of some 135,000.

2.2.1.5 Manpower planning figures – domestic

Manpower planning figures are notoriously difficult to obtain. Recent surveys³⁶ and estimates placed the shortage at approximately 3000 by 2010.

The number of current valid certificates for seafaring roles to the international convention standard (Standards of Training Certification and Watchkeeping 1978, as amended (STCW)). AMSA issue all STCW certificates for seafarers qualified in Australia or serving on Australian registered trading ships. The number of valid AMSA certificates by age is provided below. It is worth noting that this is the total number of valid certificates and not all of these individuals would be working at the present time. These figures are therefore an overestimate of the number of seafarers working in the industry.

³⁵ BIMCO/ISF 2005 Manpower Update

³⁶ ASA and Australian Mines and Metals Association surveys of seagoing jobs, 2007.

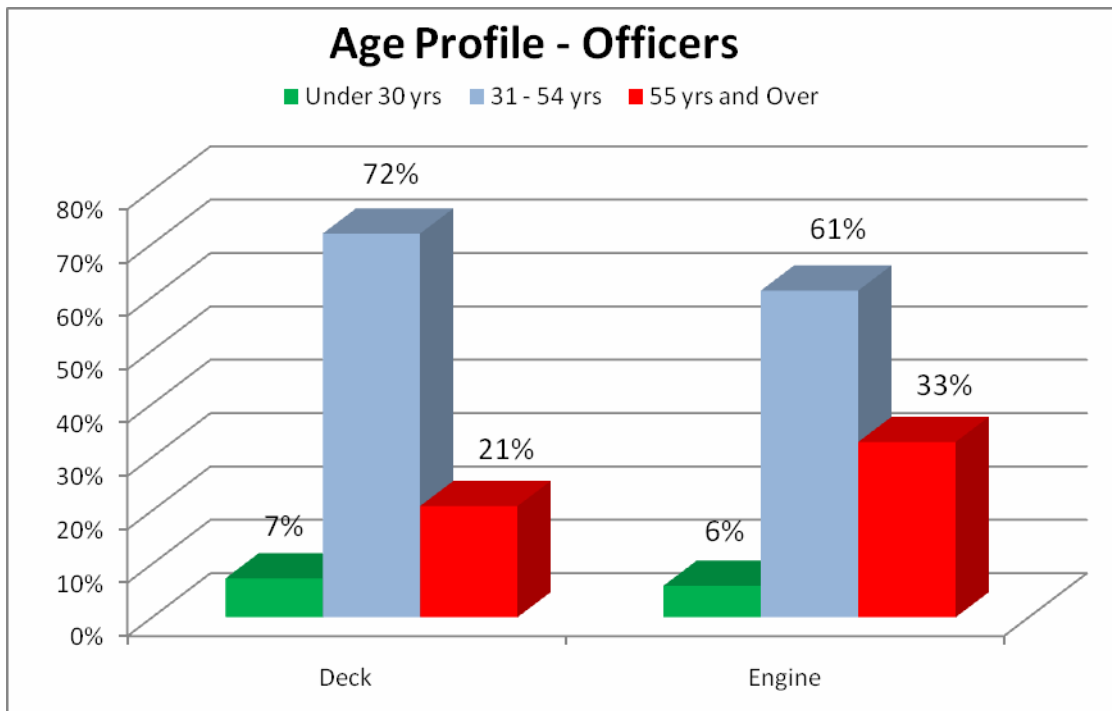


Figure 16 – Age Profile Seafaring Officers

The figure 16 shows that there are three and five times more individuals entering retirement age for deck and engine officers respectively, than have recently entered the industry. Clearly the replacement numbers do not match the losses. Figures to reflect the age profile of the Integrated Ratings are more difficult to obtain.

At a time when the skills shortage is already manifest, these figures are alarming and demand immediate action.

The trend within the 'offshore' sector of the industry is to increase leave as described in the work arrangements section above, placing added pressure on the pool of skilled labour.

Proposals for action that could be taken are provided in the section 2.3 -Addressing the Skills Shortage - of this submission.

Traditionally, other sectors within the industry have looked to the bluewater trading sector as a valuable source of trained labour. As outlined above many occupations within the broader maritime industry require seafaring experience as a pre-requisite.

In 2007 for the first time sea-going jobs in the offshore oil and gas sector numbered more than sea going jobs in the bluewater sector. This alone is a large change in the 'domestic' industry.

2.2.2 Benefits of maritime know-how to Australia

In order to nourish land-based activities where seagoing skills and experience are required we need to preserve a significant level of Australian maritime employment.

Maintenance of the Australian maritime skills base required by the shore-based sector of the economy depends on increasing the recruitment and training of Australian seafarers – a burden which will continue to fall, in the main, on Australian shipping companies. Training Australian seafarers must be a viable business decision for shipowners. Their ability to do this depends, in turn, on their continued participation in the international shipping market.

2.2.2.1 Corporate need for know-how

Many large corporations – including multi-nationals and major energy and mining export projects, including iron ore, other ores, sands and minerals, coal mining companies, oil and gas companies, wheat and grain exporters etc have a need to understand the shipping market. The advantages to corporations in terms of risk management and supply chain security are discussed below but the corporate need for understanding, expertise and know-how is also vital.

Companies need to retain in-house expertise to be an informed buyer of shipping services and to understand the value of freight and shipping markets, which are highly complex and continually changing.

Furthermore, many companies have a need for ‘terminal’ or ‘port’ side staff to work as loading masters, ship vetting (quality checking), wharf supervisors, etc. These are key, strategic functions performed in-house.

In summary, many large companies have a requirement for in-house capability to ensure they get the right ship to the right place at the right time for the right price. They also need to make sure that the ship is able to safely enter their dedicated facility, be loaded and sail without incident and with minimal loss of time.

2.2.2.2 Regulatory need for know-how

One of the most important examples of a requirement for maritime know-how is the regulatory functions provided in the protection of the marine environment and provision of safety standards provided by the Australian Maritime Safety Authority (AMSA).

Although shipping is a very safe mode of transport, Australia’s major commodity trades and dependence on shipping make us particularly exposed to the risks inherent in the industry. The most effective fora to establish rules concerning ship safety and pollution prevention standards are international bodies such as the IMO and ILO. In order to adequately input into the standards development and review processes, it is critical that Australia maintain expertise with the Australian Maritime Safety Authority, whose representatives are highly regarded within the IMO (and Member States) and the outcomes achieved for the benefit of all Australians.

AMSA provides a cost-effective national regulatory body of the highest standards well regarded and respected within the industry. AMSA ensure the safety of Australian registered shipping, police the standards of international shipping using our ports, provide an effective response capability to maritime incidents and search and rescue in our waters and provide a key role in leading and coordinating the various State and NT marine regimes.

Despite best efforts of many 'quality' Nations to force sub-standard Flag State administrations to meet their regulatory responsibilities, Port State Control remains a key element in the effective policing and enforcement of international standards.

Ensuring that AMSA is adequately funded to achieve PSC objectives is of importance to the future 'levelling of the playing field' and therefore of direct importance to the future well-being of Australian shipping and Australian seafarers.

ASA recommends that the Australian Government:

- support the efforts of the Australian Maritime Safety Authority to continue to provide an overarching function for all maritime matters, as befits their supremacy as the lead Maritime agency in the country;
- continue to champion quality shipping, thereby reducing unfair competition from poor quality operators to the benefit of the Australian industry as well as protecting the Australian community and environment; and
- ensure that AMSA is adequately funded to discharge its responsibilities as both a Flag State Administration and Port State Control Authority.

2.2.2.3 Operational and access needs for know-how

As noted in the Seafaring skills section above the roles that ex-seafaring officers fill ashore can be described as highly responsible and strategic. They include:

- Harbour Masters and pilots providing safety to port operations and facilitating access to and from Australia;
- classifications societies and surveyors ensuring safety and environmental standards;
- lecturers and researchers improving the knowledge base of the nation;
- policy makers who ensure that the interests of the Nation are upheld (environment, economic, etc) without compromising our ability to trade.

There is a very great need to retain the know-how to fill these key, strategic roles and the shortage world-wide of seafaring officers reinforces the view that we cannot rely on importing these skills to fill these important positions.

2.2.3 Defence Support and Security

Almost invariably, in the first instance, defence would plan to charter shipping on the international market, using existing crews from the ships chartered, it is not difficult to imagine that there may be situations in which it would be necessary to use some Australian ships and/or Australian seafarers to undertake particular operational tasks.

The tasks that might be requested of the merchant fleet would likely be reinforcement and re-supply operational capability. Initiatives are currently underway with the Royal Australian Navy through a working group of the Australian Maritime Defence Council to strengthen skills sharing between the RAN and the Merchant Navy, to explore career options for service personnel and to provide opportunities for both RAN and merchant navy personnel to gain experience in the other sector.

This relationship is a very encouraging development and is a far better situation than existed in the not-too-distant past.

We have the impression that a growing Australian coastal shipping industry, including perhaps high-speed, versatile sea craft, potentially tailored with equipment and technology and Merchant Navy crews with ADF Reserve qualifications, owned by Australian companies/operators, would seem to provide more responsive readiness and preparedness to allow the Commonwealth Government to more quickly meet credible emergent national security, peacekeeping, stabilisation or humanitarian contingencies.

We understand that a domestic coastal shipping industry is perceived by Defence as a sub-set or element of the overall maritime industry operating in Australia's areas of national interest that has two impacts – its safeguarding by the ADF as directed in times of threat, but also its potential to provide value-added capability to Defence's delegated security roles, responsibilities and remit that the Government assigns it.

That nationally-available industrial maritime capability will usually take a tangible military form in support of maritime operations³⁷ (e.g. routine Navy tasks and Border Protection) and strategic lift in support of Army and Air Force operations, particularly in emergent national security, peacekeeping, stabilisation or humanitarian situations deploying them and other national agencies (security; aid; diplomatic).

The priority, nature, scope and investment by Defence in facilitating the military nexus with the maritime industrial capacity would be a function of the extant risk assessment – not just strategic scenarios but also everyday considerations (e.g. funds; people; commercial constraints etc.) in meeting its roles, responsibilities and remit defined by the Commonwealth Government.

Having capability, along with the practised ability for their use, readily on hand provides more options to Government and greater responsiveness in time of need, but is a “force-multiplier” in that it is also an explicit deterrent to potential adversaries.

Hence, there is the view that, while the ADO per se has its specific assigned remit - towards which it will raise, train and sustain with its own assigned resources - having a solid industrial maritime base, that intimately understands and is practised/skilled in all areas of maritime expertise, provides a greater surety, backup and options in meeting Government direction. Any initiatives that go towards securing that readily available support – be they nurturing military shipbuilding in Australia; providing infrastructure or skilled mariners of all types, ashore and afloat, or facilitating a broader commercial coastal shipping base that grows those elements – can only increase Government's confidence in meeting its national security obligations, reduce national security risk and deterring those who might seek harm.

³⁷ On, over and under the sea.

2.2.4 Risk Management / Supply Chain Security

Many Australian companies operate ships as part of a supply chain for a much larger business. In these cases, control over the asset, stability of governance affecting the asset and ability for the asset to go about its business unhindered are paramount. Any delay to the 'supply chain' could have devastating consequences as equipment and infrastructure down the line depends upon the scheduled delivery of supply on-schedule.

Continuity of supply and stability of supply must be assured and many domestic operators operate their ships with these as their prime objectives.

2.2.5 Economic Benefit

In 2003 ASA commissioned a report on "The Impact of Australian Shipping on the Economy" by Access Economics and Apelbaum Consulting Group. This report considered the economic impact of removing a restriction that prevents the employment of foreign ratings on Australian-flag ships involved mainly in international seaborne trade.

The impact modelled was an increase in the Australian-flagged fleet from 30 to 39 vessels – 30 being a projected figure that might exist in 2010 in the absence of any policy change. The results of this work can be summarised as follows:

"Compared with situation that would otherwise pertain in 2010, the modelling suggests that this would:

- increase the shipping industry's direct contribution to net exports by \$140 million in 2001 dollars, and its contribution to GDP by \$70 million;
- increase overall GDP by \$100 million;
- increase business investment by \$46 million;
- decrease consumption prices by 0.013 per cent; and
- improve economic welfare by \$21 million annually."

The cost penalty of operating an Australian flagged ship was between \$A 3.0 and \$A 3.5 million per annum (or between 17 – 20 percent of average total costs). The cost penalty information was updated in 2006 and was shown to have remained largely unchanged.

The 2003 analysis clearly shows that there is a small but positive economic benefit to increased Australian participation in shipping via lower operating costs.

An update of this analysis could usefully be performed to model the impact of suggested changes.

2.2.5.1 Current Account

The role of Australian-flag shipping in servicing Australia's imports and exports continues to decline, equating in 2005/06 to 5.7 billion tonnes or 0.8% of Australia's external seaborne trade.

This almost total reliance on foreign shipping to carry Australia's external trade has an impact on Australia's current account.

The services component of the current account is a balance of positive contributions and negative contributions which result in an aggregate balance which is either positive or negative. Payments to Australian shipping entities from foreign residents for the carriage of Australia's external trade become net positive contributions and payments to foreign shipping entities by Australian residents for the carriage of Australia's external trade (and other related shipping services) aggregate to net negative contributions after payments by the foreign entities in Australia, payments by Australian shipping entities in foreign ports and to foreigners for other shipping related services are taken into account.

In other words, the negative net contributions to the current account increase the current account deficit. More specifically, transactions in connection with shipping affect the services component of the current account and because of the preponderance (99.2%) of Australia's external trade carried in ships operated by foreign entities, the shipping services component of the current account is in deficit. The greater this deficit, the greater the negative contribution to Australia's current account.

The negative net contribution of foreign shipping to the Australian net services deficit grew by \$285.6 million to \$4.5 billion, constituting 8.3% of the current account deficit in 2005/06.

The net annual shipping services deficit increased by 7.5%, or by \$302.3 million, to \$4.3 billion in 2005/06, as a result of a 6.7% increase in outlays to foreign shipping. The annual (positive) contribution from Australian shipping to net services declined by 8.8% to \$175 million in 2005/06."

2.2.6 Synergy and Partnership - Maritime Cluster

A business cluster is a geographic concentration of interconnected businesses, suppliers, and associated institutions in a particular field.

Many nations or regions encourage the development of maritime clusters.

For example, a strong **maritime cluster** in Europe is regarded as essential in creating the right environment for sound innovation, expanding exports and effective partnership working.

Intensive cooperation with the other sectors within the European maritime cluster, especially the shipowners and shipyards, to identify and anticipate their needs are essential for ensuring the well being of the whole maritime cluster.

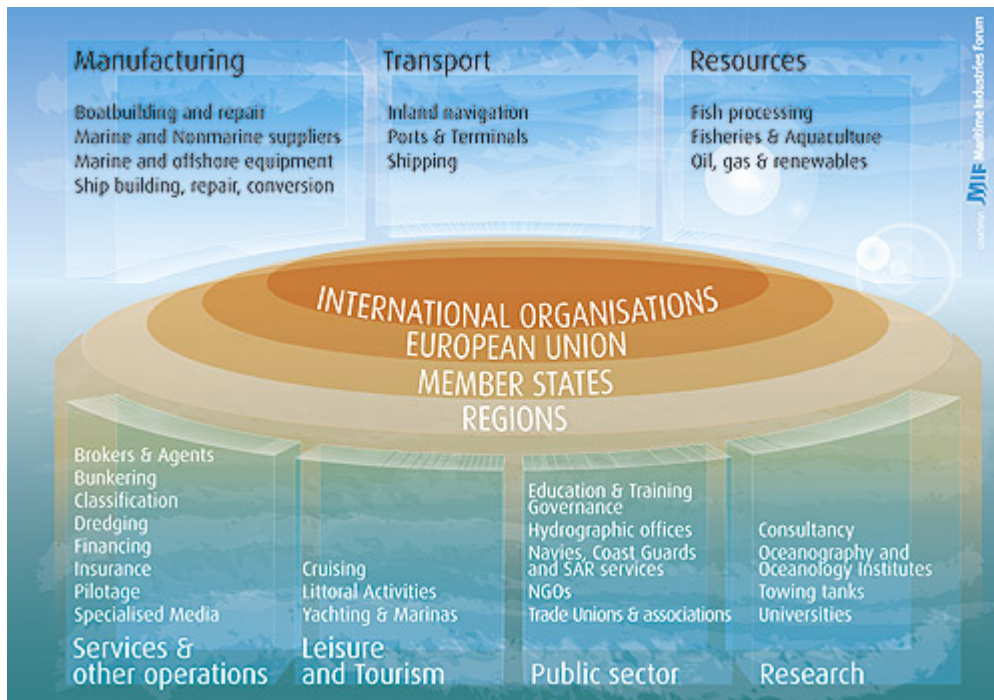


Figure 17 – Maritime Cluster – emec Marine Equipment

The cluster comprises the whole European maritime cluster: ship building and repair yards, shipowners (seagoing, short sea, inland navigation, fisheries, dredging), offshore oil and gas, marine contractors, navies, service providers, ports, (mega) yachts etc.³⁸

Another example closer to home is the ability for commercial dispute resolution arising from shipping and transport contracts to be dealt with in Australia. Australians have the skills and experience to be appointed to arbitrate in the resolution of commercial disputes: why would some overseas location be specified in contracts when these disputes can be resolved in Australia. The development of these “down-stream” maritime activities are a direct spin-off from increased participation by Australians in Australia’s shipping task.

2.3 Addressing the Skills Shortage

The stages used to build a workforce are generally described as **attract** people to the roles on offer, **select** the right people for the job, provide adequate and suitable **training** and finally **retain** those employees to avoid the replacement costs. How seagoing skills are acquired through each of these stages is addressed below.

Seafarer training requires specialist facilities ashore and specified periods of supervised seetime (i.e. shipboard learning). For cadets and trainees, serving in a supernumerary capacity (i.e. not qualified to any level), this means access to a ‘training berth’; for junior officers (those seeking higher qualifications), employment in a substantive position in which they are able to undertake training.

At the outset it is useful to know that seafarer training typically involves some employment relationship between the student and a shipowner from the very early stages of the training. The creation of an employment relationship places a cost

³⁸ http://www.emec-marine-equipment.org/marine_equipment/cluster_emec.asp

burden on the employer, which obviously limits the amount of training that any one employer can undertake. The consequences of this arrangement are discussed below.

2.3.1 Attraction

ASA Members advise that in excess of 400 applications are received annually from people wishing to pursue a career at sea. This is without any effort to attract individuals or to promote the careers on offer within the industry.

This places Australia in a unique position internationally, since advice from almost every other country is that they cannot attract the young people to pursue a career at sea.

Attracting people to a career at sea is not a problem in Australia.

As outlined in the introduction to this section, the financial burden of the current training arrangement limits the ability for shipowners to take on cadets and trainees. Information gleaned from these unsolicited applications indicates that the individuals are not aware of the financial support offered by the shipping companies.

It is therefore proposed that changing the employer financial support (a function of the employment relationship) during the training period would not affect the attractiveness of pursuing a career at sea.

2.3.2 Selection

Because the industry enters into employment relationships very early into any training, or even before *any* training has commenced, selection can be difficult as aptitude and competence is difficult to assess.

A career at sea is not for everyone. It requires long periods away from home and the living conditions can be confined and unvarying. This may not suit every individual and it is important for prospective seafarers to be familiarised with these realities as early as possible to ensure the right people are trained.

Many companies are now facilitating 'familiarisation trips' during the selection process.

A key consideration for the industry is what happens to those who are deemed suitable but are not selected for a cadetship/traineeship? The sad fact is that most find another career path and are lost to the maritime industry.

Up until now the process involved in pursuing a career at sea has been difficult to understand and hard to find information on. Those that are lost are literally 'lost' – we are not able to assist them pursue seafarer training under any existing recruitment regimes.

ASA has developed an online application system, SeaRecruit³⁹, which will capture interested people. This will provide a single point of contact for all people pursuing a

³⁹ www.asa.com.au/SEA/default.asp

career at sea and will be a font of information about the industry and careers on offer.

Prospective seafarers will input all their information and employers will have direct access to this database of candidates.

Importantly, SeaRecruit allows already qualified or partly qualified persons the ability to register and will provide clear advice regarding what they would need to do to upgrade their qualifications.

And what of those who do not obtain cadetships/traineeship? By having all interested people registered in a single place ASA will be able to provide advice regarding alternative avenues. These include Navy careers and attending tertiary study on their own with a clear process to them acquire seetime.

In effect SeaRecruit will 'capture' the pool of interested people so that we can then work with them and not lose them.

Avenues must be developed within the industry for individuals to pursue a seagoing career with or without an employer cadetship.

2.3.3 Training

The training discussed below is to achieve certification to the level required by the international convention standard (Standards of Training Certification and Watchkeeping 1978, as amended (STCW)). AMSA issue all STCW certificates for seafarers qualified in Australia or serving on Australian registered trading ships.

Entry into training for the STCW qualifications is open to school leavers (with the required pre-requisite education) and persons that qualify for recognised prior learning - for the engineers this includes a relevant trade background.

Flowcharts showing typical training structure for a school leaver for deck and engine officers and integrated ratings is provided at Attachment III.

2.3.3.1 Training Structure

The training structure for seagoing skills for the officers presents several issues and demonstrates a need for a comprehensive review. The content of the training is not questioned but it is proposed that the delivery of that training could be optimised.

The training structure intersperses time ashore studying with time at sea. The to-and-fro nature of the sea-time requirement is one of the reasons employment relationships have emerged.

Distance education options could be explored as a means to compliment classroom content with shipboard learning.

The training program for both deck and engineer officers to obtain Australian certificates is six months longer than required under the international convention

STCW. Alignment with the STCW standard would have advantages and should be achievable while still ensuring the retention of the current standards.

It is ASA's standing position that international conventions should be reflected in national legislation on a consistent basis and that in the absence of compelling reasons to do so, ought not impose more onerous conditions on Australians ship operators.

There are many differences between the training program for integrated ratings and that provided under STCW for ratings and able seafarer.

2.3.3.2 Training cost

As noted at the beginning of this section, seafarer training typically involves some employment relationship between the student and a shipowner from the very early stages of the training.

Over the past few years the industry that requires sea going skills has changed but the training regime for sea going skills has remained largely the same.

The time and expense involved in training seafarers is considerable. As an indication of the effort involved:

Training a Deck Officer to watchkeeper level typically takes 2 years 9 months and costs the employer around \$140,000.

To train an Engineer Officer to watchkeeper level takes 3 years 3 months and costs the employer around \$155,000.

Training an Integrated Rating takes just over 1 year and costs the employer approximately \$75,000.

These figures do not include the costs of shore staff management of trainees or on-board mentoring and overseeing the trainee.

The training costs for someone with a relevant trade qualification providing recognised prior learning are less than those shown above as the training time is reduced.

It costs a further \$100,000 - \$150,000 and up to 5-7 years to train deck and engine watchkeepers to the most senior levels of Master and Chief Engineer.

The high cost of this training obviously limits the amount of training that any one employer can undertake.

Providing the core sea-going competencies for officers falls to a very small sector of the broader industry because time at sea is required to complete the training.

For reasons of necessity the burden of providing this 'sea time' for officer training falls largely to the bluewater sector. These reasons are:

- The offshore sector (supply vessels and oil and gas production and exploration) cannot provide the full requirements for sea time to the most senior levels because their ships are not large enough or are not moving;
- The navy qualifications are not fully recognised due to the different nature of navy operations (i.e. lack of cargo handling);
- *Ab-initio* programs developed by some land-based users of seagoing skills, such as Marine Pilots, still require some sea-time component which can only be provided by larger ships.

There is no source of reciprocal training for sea-going officers. Officers can only obtain full qualifications by training in the larger, moving ships which within the Australian context are invariably 'bluewater' ships.

This is not the case for the ratings, who can acquire acceptable seetime in a broader variety of vessels and who are being trained in significant numbers by the offshore support and oil and gas sector.

The end-users of seagoing skills cover a range of sectors across the industry. All of these sectors undertake training specific to their operation in addition to the core sea-going competencies.

The effort and expense contributed by the bluewater sector of the industry is ultimately, and often very quickly, for the benefit of the much broader industry as newly qualified people move immediately to more attractive positions, often offering much higher pay and extra leave.

2.3.3.3 Training/career Progression

Seafaring positions exist in smaller vessels that operate close to shore or under State/NT jurisdictions - such as fishing fleets, harbour ferries etc. These seafarers do need to hold STCW 'tickets' and are qualified under State regimes.

The experience gained however can be relevant to a career in the larger trading fleet or the offshore support and oil and gas production and exploration fleets. Every effort to enable progression – via appropriate recognition of prior learning and sea time – should be afforded.

This is not currently the case and unnecessary barriers exist which must be dismantled to allow for proper progression. Other parties are more able to provide detail on this issue and we will leave it to them to do this – from our point of view, it should be a straight forward matter to progress a career from smaller vessels to larger vessels.

2.3.3.4 Suitability of the training for the specific task

There is clear need to increase training by as much as five times the current numbers. Given the long lead times in training to the most senior positions the skills shortage will worsen before any new initiative starts to bear fruit.

It is universally accepted that the product of this training is excellent. Australian officers are highly regarded world-wide.

However, it is possible that in certain areas the training and recognition of the training (particularly recognition of sea time).

In considering any changes that might be necessary to overcome the skills crisis it is essential that the quality of the seafarers is in no way compromised.

Having said that, there is scope to consider specific skill sets for specific operations. The towage sector is a prime example. This sector employs over 1200 seafarers, which is estimated to account for around 18% of the entire seagoing industry.

The towage sector, like many others already discussed, has historically relied on the bluewater sector to train the seafarers for their operations. Again, this is partly a function of the training requirements – the sea time can only be fully obtained on larger, ocean going ships under the current regime.

The skills required to operate a tug could be described as somewhat different to those required to operate a ship. That is not to say that shipboard time is not of value, but it is likely that some optimisation of the requirements could be achieved.

Further, if the sea-time was fully recognised for those working in the towage industry, these people could move from the tugs to the ships and the large workforce that exists in the towage sector could be used as a nursery for seagoing skills.

2.3.3.5 Shortage of trainers

Seafarer training, in addition to funding, requires specialist facilities ashore with which Australia remains, for the present, well equipped. Three key maritime centres exist in the Australian Maritime College in Launceston, Challenger TAFE in Fremantle and Hunter Institute in Newcastle.

However, there is a shortage of lecturing staff at some or all of these institutions.

The labour market is such that the shortage in these shore-based roles is no doubt driven by the world-wide shortage of officers and the generous remuneration on offer by being 'at sea' rather than lecturing in an educational institution.

We are aware that one of the offshore support companies has seconded one of their seafarers to one of the education providers to ensure that classes are run, to train more people. This is clearly an untenable position for the company and institution involved and is of considerable concern to the industry as a whole.

2.3.4 Retention

It has been established that attraction of people to the industry is not a limiting factor but that the cost associated with training seafarers is considerable and falls to a very small sector of the overall industry.

Rectification of the funding arrangements is a key issue for the bluewater sector - the trainers of the nation's seafarer skills base.

An equally important issue affecting the industry is retention of those skills.

The competitive labour pressures within the broader maritime industry are significant. Wage levels and conditions have been driven upwards to the extent that the bluewater sector cannot compete with the offshore oil and gas sector, pilots and other shore based roles. These pressures can only be dealt with by increasing the pool of labour to such an extent that some balance is returned to the supply and demand equation.

Most retention strategies will be up to the individual companies involved and remain largely commercially confidential as they, by design, provide one company with an advantage over another.

What we are in a position to address are barriers to retention on an industry-wide basis.

One of the long-standing barriers to retention within the industry is that many Australian officers go to work overseas and due to their taxation arrangement become non-residents, often never returning home.

The inconsistency arises from interpretations with respect to section 23AG of the *Income Tax Assessment Act 1936* which restrict the ability of Australian resident tax payers engaged in foreign service to gain seafaring employment within international fleets.

Section 23AG states;

- Where a resident; being a natural person, has been engaged in foreign service for a continuous period of not less than 91 days, any foreign earnings derived by the person from that foreign service is exempt from tax.
- Foreign service means service in a foreign country as the holder of an office or in the capacity of an employee.

For a shore-based position, the 91 day test is a straight-forward qualifying period. However for seafaring roles the 91 day test is much harder to pass since the high seas are not included within the meaning of *foreign country*. So even though a seafarer might be working abroad for many months at a time, every time the ship leaves one country and enters the high seas the clock re-sets back to zero.

The result of this interpretation means that Australian seafarers (including trainees) are disadvantaged when it comes to securing foreign employment. Australians seeking to work on foreign vessels must either accept lower salaries (once Australian income tax is paid) or attempt to negotiate higher rates than seafarers sourced from other countries.

A Senate Committee Report entitled "Workforce challenges in the transport industry" in August 2007 recommended that Section 23AG of the Income Tax Assessment Act

be changed so as not to be disadvantageous in its application to Australians who are seafarers. The Committee brings bi-partisan support to the case for changing an anomaly in the tax law.

This amendment would enable Australian officers working on ships that do not visit Australia to be treated consistently with other Australians and foreign seafarers.

But what of the Australians who work on a ship that trades internationally and occasionally, or even regularly, trades to Australia?

Ironically, the barrier that then appears is that an Australian working on a ship that visits Australian waters then falls outside of the 23AG taxation arrangement and therefore costs more to employ. The issue being that the amendment to allow Australians to work on the high seas is one thing, but as soon as they enter Australia – even though still at work on the same ship – the 91 day period would be re-set once again back to zero.

Further amendment would be required to enable Australian officers to be treated consistently with other seafarers internationally without barriers as to which country the ships they work on may visit.

Many countries provide advantageous personal taxation arrangements for seafarers to enable them to compete in the global seafaring market without restriction on where the ships trade.

Given the unique ability in Australia to ‘attract’ seafarers an opportunity exists to grow the skills base far beyond our own immediate needs and look to provide the officer-level skills to fill the shortages forecast for the international industry.

The advantages for Australia in filling the global shortage relate to the know-how and expertise that would return with these individuals as they return home and eventually move toward shore-based roles.

To accomplish this outcome it would be necessary to enable Australian resident seafarers (officers) to compete with international seafarers in terms of total employment costs and not be subject to restrictions regarding where the ship they work on could trade to and from. Australia could look at other models worldwide that provide this level of flexibility and competitiveness.

Such models include the UK (seafarers need to obtain a cumulative 183 days every year); Denmark (exemption of taxable income for crew members on vessels under Danish International Register); etc. See Attachment IV for further and better particulars.

2.3.5 Current initiatives

The employers of seagoing labour have established a group known as SeaSkills to discuss the skills shortage and how we can work together to improve the situation. This is particularly important to ensure that the trading ship sector and the offshore support vessel and oil and gas sector understand the extent of the shortage and the

reasons for it. The Royal Australian Navy is also involved in the SeaSkills group as the other large employer of seagoing labour in Australia.

This group has considered an extensive range of issues surrounding the skills shortage and the potential for significantly increased training.

The SeaSkills group has ascertained that capacity exists within the Australian industry to:

- attract the number of people we need;
- facilitate the sea time (provide access to berths on ships); and
- provide the shore-based education - institutions can accommodate increased numbers of trainees.

The capacity constraint in the system remains the cost of the training that is borne by the employer of the trainee.

The SeaSkills group has considerable work ahead of it to address all the issues affecting skilling for the industry and will continue to work to progress the needs of the industry. There is also significant opportunity for the merchant marine and the navy to work together for mutual benefit and these options continue to be progressed.

2.3.6 Sharing the training cost

There is clear evidence of market failure in seafarer training. Because, in the main, the training has to be carried out by shipping companies, whereas the ultimate end-user of seafaring skills is the shore-based maritime-related sector, there is a far greater 'free-rider' effect than in industries where this is simply a function of inter-company poaching.

The wider industry has recognised that it can and must do more if the required expansion in training is to be achieved.

The maritime-related sector acknowledges its requirement for seafaring skills and its dependence, in general, on the shipping industry as the source of suitably trained and experienced staff.

ASA recommends that the Australian Government take a lead role in address the seagoing skills shortage. We recommend the following actions be considered:

- *The entire Australian maritime-related sector contribute to the cost of securing the seafaring skills base on which its organisations depend.*
- *A Training Trust be established to provide a single vehicle for the receipt and administration of the wider industry's financial contributions to the cost of seafarer training.*
- *Training structures be reviewed with the view of becoming more efficient and effective.*

- *Avenues must be developed within the industry for individuals to pursue a seagoing career with or without an employer cadetship.*

2.3.7 Immediate actions

The situation is such at the moment that even with the best of endeavours hereafter, there will be a lag in the replacement of the skills base.

Filling vacant positions with foreign officers is not easy considering the global shortage of officers and the necessity for AMSA to recognise the certificate of competency of foreign certificate holders.

Already ASA Members are reporting that foreign officers cannot be enticed to fill casual vacancies in Australian ships. There is little that can be done in the very short term other than rely on foreign officers under 457 visas.

Integrated ratings, of which there is a global surplus, do not qualify for 457 visas under the existing immigration requirements.

There is a variety of tasks that need to be done on board that are best done by a foreign 'riding gang'. These riding gangs can be of a range of skills from specialists through to more menial tasks. The maintenance that foreign riding gangs are able to perform saves the shipping companies hundreds of thousands of dollars in maintenance costs when the ships have scheduled maintenance (known as dry-docking).

Unfortunately, there is no visa category for this level of unskilled labour available to an Australian ship, although these workers could enter Australia on a foreign ship under a Maritime Crew Visa.

It is recommended that the Maritime Crew Visa be extended in application to working on Australian ships for the specific purpose of general maintenance. Individuals entering the country on a Maritime Crew Visa undergo a background check which should satisfy security obligations.

This allows the shipowners to use the right people, for the right jobs at the right price to enable the ships to operate effectively.

2.4 How and why has Australian participation changed?

There are two key driving forces behind the shift in Australian shipping:

- the incentives provided by other nations; and
- the high operating costs for Australian ships.

2.4.1 International measures

ASA commissioned consultants Meyrick and Associates to undertake a Comparative Overview of Government Shipping Policies. The study looked at measures in place in a range of countries with which Australia would reasonably draw comparisons. The countries are the UK, Germany, France, the Netherlands, Denmark, the US, Japan and Singapore.

The report makes the following observation:

From late 1990s, developed countries, in particular European countries, have actively taken measures to protect their fleet under national flag and to enhance the international competitiveness of the shipping industry. Many of these measures have evolved around fiscal incentives, such as:

- Tonnage tax which is a lump sum tax based on the tonnage of the ship rather than on profits. Countries have applied various tonnage tax models - the majority of which give shipowners the freedom to choose between the traditional income taxation system and tonnage-based taxation system
- Favourable depreciation measures, which may include accelerated depreciation, advance depreciation, initial depreciation and favourable depreciation rate for vessel acquisition.
- Special exemption for the replacement of vessels with new ones (roll-over relief).
- Reduction in seafarers' social contribution, in which the social contribution is refunded in whole or in part to shipowners or seafarers.
- Reduction in or exemption of seafarers' income tax
- Subsidy for the dispatch and repatriation of seafarers, in which part of the repatriation fee is subsidized for seafarers' embarkation and disembarkation at foreign ports.

At the same time, the tendency towards establishing second or international registries and alleviating nationality requirements in the first registries has continued. Second or international registers set up by certain OECD member countries to provide tax exemptions for national seafarers and the freedom of contractual recruitment of seafarers belonging to non-member countries (at lower wage levels) have been playing an important role in the shipping policy of these countries. These registers are considered a viable alternative to subsidisation in order to maintain a national flag fleet, although it is argued that such registries are not capable of completely compensating for the cost advantages of vessels flagged under open and bareboat registries. A number of the second/international registers are 'indirect' and make use of former colonial or administered country's flags – this is particularly the case for the UK, France and The Netherlands.

The analysis provided in this report can be found at Attachment IV. It considers the adoption of 10 key measures across the eight countries. Of these countries:

- six provide a tonnage tax;
- seven provide favourable depreciation schedules;
- six operate second registers; and
- all offer some other form (other than tonnage tax and accelerated depreciation) of fiscal support.

For these reasons Australians, who have had not access to similar regimes domestically, have sought to find the most commercially attractive circumstances from which to operate their ships.

When some similar provisions were available (in the 1990s) the industry investment at that time was \$A 1.6 billion (in 1994 dollars).

2.4.2 Ship operating costs

The data revealed by comparisons between Australian and foreign ship operating costs are highly commercially sensitive because by choosing categories of vessels for the sake of comparison, particular operators can be more or less identified.

For that reason, this section provides aggregated cost differentials and comparative indices.

ASA from time to time commissions comparisons of ship operating costs. These are undertaken by a consultant who is provided by shipowners with confidential commercial information which is presented to the Association only in aggregated form. The last time this was done was in November 2006. Making these comparisons is a resource intensive exercise.

The comparison of ship operating costs between Australian and representative foreign ships has been on the basis of a built-up time charter cost. This methodology is used as it excludes fuel and port costs which are likely to be identical for Australian and other ships on a domestic voyage.

The costs that are included are:

- **Capital costs**
- **Manning costs**
- **Other Operating Costs** which include
 - Stores
 - Administration and Overheads
 - Insurances
 - Lubes
 - Repairs and Maintenance
 - Victualling
 - Provision for dry docking
 - Other operating costs including spares.

The built-up time-charter cost is not quoted here as the ship charter market has escalated so significantly since 2006 that comparisons between built-up costs quoted as a charter cost would be spurious.

But some of the items that make up the cost structure can be compared on an indicative basis.

The ships that are compared are a 50,000DWT dry bulk carrier, a 43,000 DWT petroleum product tanker and a 1,000TEU container ship.

The comparison is between an Australian-registered, Australian-crewed ship in each category and an identical ship in each category operated under an open registry regime, in this case Panama.

2.4.2.1 Sensitivities in the Analysis

The analysis is highly sensitive to a number of factors including exchange rates. The analysis assumed payments were made in 2006 in US dollars at an exchange rate of 0.739. The exchange rate in April 2008 is around 0.920.

The crew compliment of the vessels is assumed to be 17 in each vessel in the case of the Australian vessels and twenty for the foreign dry bulker, twenty-two for the foreign tanker and seventeen for the foreign container ship. The make-up of the crews of the vessels differed according to actual practice and the foreign ships were described as using different, typical nationalities of crew while the Australian ships were taken to have all-Australian crews.

The crew-to-berth ratio for the Australian crew was taken as being between 1.98 and 2.03 and for the foreign crews of the foreign ships between 1.15 and 1.22. With a growing shortage of officers in the world fleet, the crew-to-berth ratios for the foreign ships might be slightly lower in 2008 compared to 2006. The leave factor that gives rise to the crew-to-berth ratio for Australians is discussed in the next section.

For the sake of confidentiality the figures in the table below for the Australian and foreign ships are indices, not dollar figures. The gap is quoted in dollars.

Taking all these points into account, the difference in key cost comparison indicators averaged across the three ship types studied in 2006 was as follows:

	Australian vessels	Foreign vessels	Cost gap pa \$A mill pa
	Index	Index	
Annual Manning Cost	4.327	1.000	2.917
Annual Operating Cost	1.247	1.000	0.527
Capital Cost	1.113	1.000	0.502

Table 4: Indicative cost comparisons between Australian and Foreign vessels - March 2006 figures⁴⁰

It is evident from this aggregated analysis that:

- the major cost differential between the cost of operating Australian ships and comparable foreign ships is in crew costs;
- the cost differential in operating costs other than crew costs is significant but less than 20% of the cost differential represented by crew costs
- the capital cost component is significant but comparable to the operating cost (net of crew cost) differential;
- The cost differential components represented by crew cost and capital costs between the Australian and foreign ships fall directly within the focus of steps that would be contemplated by a suite of measures isolated in an Australian second register, and

⁴⁰ After "A Comparison of Australian and Foreign Cost Structures for Domestic Shipping" Apelbaum Consulting Group. Australian Shipowners Association November 2006 (Unpublished)

- The cost differentials would be likely to have closed somewhat with the depreciation of the US dollar and world-wide crew cost escalations with global skills shortages.
- Nevertheless, communications with ASA members indicate that the crew-cost differentials remain of the correct order of magnitude.

2.4.2.2 Leave

The most vexed aspect of the terms and conditions of employment for Australian seafarers has been their leave factor.

The leave arrangements for seafarers in Australia grew through determinations in the industrial relations system. Leave originally took into account a proportion of time-off in recognition of a wide range of factors including sick leave, annual leave, weekends worked and public holidays. The leave factor changed in the 1970s when the standard for annual leave in the community increased from three to four weeks per annum.

The leave factor grew in line with negotiated outcomes and in excess of community standards. As the leave factor grew the concept of “permanents” and “relievers” became more relevant. All this meant was that one person was permanently employed in a crew position but when he or she went on leave it was necessary to employ someone to relieve in that position.

As the period of leave a permanent employee would accrue each day he or she was in employment in a ship increased so the period a reliever would spend in the ship increased also because the permanent was on leave for more of the time. These periods for which people had to be employed to keep a berth in a ship permanently occupied translates into what became known as the crew-to-berth ratio.

As the leave factor grew and the time permanents spent on board diminished the point was reached where it became administratively more convenient to have two people permanently employed in a position simply taking it in turns to work in a position on board a ship. This might have been convenient but it was not a development employers welcomed.

Eventually by a combination of negotiation and industrial action what became known as the ‘two-crew system’ became the norm in Australian ships. On the face of it there would be two people employed to keep each berth filled all the time and the crew-to-berth ratio would thus be 2.

In reality, people would take study leave or compassionate leave or be injured. That requires a third person to be employed or the second person to work additional time to cover his opposite number. In this way the crew-to-berth ratio crept up to around 2.2.

The shortage of seafarers, changes in work practices, the removal of the seafarers engagement system and more flexible attitudes have combined to reduce the crew-to-berth ratio to a figure that is thought to be below 2. This has been a welcome

development. It would vary from ship to ship, from company to company and from trade to trade, but anecdotal evidence suggests that this is the case.

There is a variety of ways the leave arrangements can be arithmetically described but whichever way is chosen, the gap between leave standards for the community generally and leave standards for Australian seafarers is significant.

How it is described is in the eye of the beholder. For example it could be postulated that:

- The leave available to Australian seafarers is unnecessarily high in comparison to Australian standards ashore.
- The leave available to Australian seafarers is a necessary condition of employment to retain persons in seagoing occupations.
- The leave factor is a remnant of industrial gains achieved by the maritime unions through industrial persuasion in a capital intensive industry.
- The leave factor is necessary to take into account the nature of seagoing employment, being confined to a ship, working in an isolated remote place.
- The leave factor exacerbates the shortage of seafarers.
- The leave factor cannot realistically be reduced at a time when it is difficult to find seafarers to work in ships.
- The leave factor in seagoing ships is less generous than the leave factor provided in the offshore oil and gas sector in which seafarers also find jobs.
- The leave factor is in excess of all but the most generous terms and conditions of employment available in the international shipping industry.
- The leave factor in Australian ships is probably not much different to the leave arrangements provided in mining and other remote engineering industrial activities in Australia.

But whichever explanation or combination of explanations is thought most appropriate the impact of the leave factor on the competitiveness of Australian shipping is unmistakably negative. Whichever way the leave factor is looked at, it is a sensitive industrial issue which in the current atmosphere of labour shortages is difficult to address.

2.5 What will it take to bring shipowners home?

Shipping is the most internationalised industry, and the Australian shipping industry has adapted and is now very much part of the international industry.

There are advantages to any nation, especially one as reliant on shipping for trade, in having a viable and vibrant shipping industry for the know-how, skills and expertise that this brings to the Nation.

As discussed in the previous section, other nations provide an array of incentives to operate ships from these countries.

The question then, is would these Australian companies be interested in bringing some of their internationalised operation home?

The answer is yes they would. Many would prefer to operate in a more traditional 'Australian' context – but they will only do this if it makes good commercial sense to do so.

To encourage this return home and benefit from the resurgence of Australian participation it would be necessary to implement strategies that provide business opportunities to allow Australian operators to compete with international shipping companies.

It is worth noting that the steps mentioned below would not be starting entirely from scratch. In negotiations surrounding the Independent Review of Australian Shipping (IRAS) agreement was reached to the engagement of mixed crews in new international trades. What this means is that an Australian operator starting up a new international trade can employ Australians and seafarers of other nationalities.

This was seen as being a major industrial development. What is surprising is that four years later we are not aware that any operators have availed themselves of this agreement. The reason could be that operators see no need to retain any "Australianness" about such operations.

IRAS provided a means for key industry stakeholders (union leaders, ASA Members who are key shipowners and ASA Members who are amongst Australia's leading cargo interests) to undertake a warts and all analysis of what needed to be done to reinvigorate the Australian shipping industry.

Indeed, recommendation number one of IRAS was the review now being undertaken.

The key recommendations of IRAS in 2003 remain contemporary issues for the revitalisation of the Australian shipping industry.

In the five years since IRAS some issues have remained unchanged, others have developed further, some others have altered in their complexion but none has gone away. Those that are in the minds of shipowners in 2008 are:

- Company taxation treatment;
For example: Tonnage Tax – an alternative method of calculating corporation tax profits based on ship net tonnage is a vastly simpler regime. The tonnage tax profit replaces both the tax-adjusted commercial profit/loss on a shipping trade and the chargeable gains/losses made on tonnage assets. Companies would operate qualifying ships that are "strategically and commercially managed in Australia".

- Reducing the cap on effective working life of a vessel, to encourage investment in newer, more efficient ships (as discussed in Section 1.2.5.1 Modern Ships and Emissions Reduction)
- Amendments to 23 AG to improve retention within the industry, as discussed above (as in Section 2.3.4)
- Shipping Registration Act amendments to free up Australians to seek registration in places of increased commercial benefit (see Section 3.2.2)

In 2008 the “looming shortage of seafarers” predicted by IRAS is well and truly upon the industry. This has created new pressures and we propose that matters for consideration are:

- Mixed manning on predominantly international voyages
- Foreign riding gangs on the coast to lower the maintenance cost of vessels

These ideas are capable of development in the atmosphere of a positive shipping policy climate.

2.6 Second Register

Some of the concepts listed above might be best implemented via a second register.

A second register is a register of ships subject to specific conditions that are different from those applying to a country’s register of ships (ie, its first register). These specific conditions may be associated with the fiscal, tax or financial treatment of the ship’s earning and/or may deal with issues pertaining to employment of the ship’s crew. In all cases, these specific conditions are beneficial to the country’s shipping industry and are usually confined to ships operating exclusively or largely in international trades.

The Australian register of ships contains the names of hundreds of craft only a relative handful of which are oceangoing trading ships. Consequently the notion of a second register that might take trading ships out of the main register would numerically have an insignificant impact on the long list of vessels appearing in the Australian register of ships.

Second registers are not always run as commercial enterprises. They are set up by a home State with the purpose of the preservation of the home State’s maritime industry infrastructure. The emergence of second registers was in response to the shipowners in various, particularly OECD countries removing their ships from their home countries’ ship registers and re-registering them in Open Registers (sometimes referred to as Flags of Convenience). This phenomenon is known as “flagging-out”. The idea of the second register is to offer in the shipowner’s country of

domicile, conditions as attractive as can be obtained in Open or Flag of Convenience ship registers.⁴¹

The circumstances of Australia are unusual by world standards in that large, deep-sea ships are used for both coastal and international trading. In most countries, coastal trading is confined to small ships, usually much smaller than would be used in international voyages. This is quite graphically illustrated by reference to the average vessel size in the fleets of various countries.

An UNCTAD study⁴² shows the top 35 shipping nations by tonnage controlled by entities in those countries. Australia is thirty-fifth of the thirty-five countries. Interestingly though, the average size of ships in the Australian-controlled fleet is tenth largest of the thirty-five countries.

This puts the Australian-controlled fleet right up amongst the world's leading shipping nations in terms of unit size, even if Australia is further down the list in terms of national participation in world shipping.

Australia's vast and exposed coastline means that ocean-going ships are used in coastal trades. This structural characteristic provides Australia with an unusual and beneficial opportunity.

A second register could be established in Australia which would accommodate both coastal trading and international trading ships as well as ships engaged in both trades. The nature of the ships is very similar, the regulation of the ships is similar if not identical, the desire for both sets of ships to be internationally competitive is the same, the motivation for reinvigorating both groups of ships is the same, many companies operate ships in both types of trade and the skills required for the operation of the ships, both technical and commercial is the same.

The concept of a second register would create flexibility for operators to deploy ships in both domestic and international operations and would spur growth in the domestic sea transport sector.

2.6.1 A special arrangement – Willis Island

Members of this Association are aware of certain steps that have been put in place in connection with ships trading in Australia's tourism industry. As we understand it the objective of the special arrangement for the tourism industry is that cruise ships can satisfy a requirement that they sail for a port outside Australia by visiting Willis Island. Willis Island is a small atoll boasting a permanently manned weather station and appears on the itinerary of cruise ships. The itineraries of these ships appear on relevant websites and it has been noted that the duration of their stay at Willis Is can be as brief as a matter of minutes.

⁴¹ The booklet appended to this report indicates that Australian entities have found little incentive to register ships in Australia in recent years and have been "flagging out" to the point where they now register ships in nineteen different countries of which Australia is just one.

⁴² United National Conference on Trade and Development: "Review of Maritime Transport 2007", Table 16, pg 32. United Nations 2007

Presumably these arrangements are in place to facilitate certain Customs Act formalities. We understand also that the facility offered by Willis Island has been renewed; that being the case it is assumed that this arrangement works well for the tourism industry.

This sort of arrangement sounds somewhat obscure by Australian standards but in fact is very much in the spirit of steps taken by some other countries to facilitate their shipping industries. We suggest that the administrative reasoning behind the Willis Island facility could have application for addressing some of the details that would arise in the establishment of an Australian second register and/or solving some of the conundrums surrounding the permit system.

3 Part 3: Cabotage (*n.* coastal trade; reservation to a country of traffic operation within its territory)

3.1 What is Cabotage

Cabotage in Australia is no more than a requirement to pay Australian rates of wages⁴³ to the crews of ships licensed by the Navigation Act (Nav Act) to trade on the coast.

This is conceptually a non tariff barrier to the entry of non-Australian operators into Australian coastal sea transport.

The Navigation Act 1912 imposes no cabotage barriers as to nationality of a ship or her crew; the Act says nothing of conditions of employment such as leave or seafarers' social security.

Cabotage in Australia is very simple. What makes it complicated is first, the consequences of cabotage for those operating under it and, secondly, the mechanism available to those who are able to operate outside it.

For the purposes of this discussion a ship operating under Australia's cabotage regime is a licensed ship and a ship operating under what is known as a permit is a ship that is available to perform a task for which no licensed (i.e. cabotage) ship is "available".

3.1.1 Permits and Licences

There are two types of ship permitted to carry domestic cargo between interstate Australian ports. These are:

- licensed ships; and
- permit ships, which can be either single voyage or a continuing permit.

A licensed ship enjoys preference for cargoes over other ships – this is known as cabotage and is a widespread policy principle in many developed nations.

The circumstances in which a permit may be issued are:

- No licensed ship is available for the service or the service as carried out by a licensed ship or ships is inadequate; and
- The Minister is satisfied that it is desirable in the public interest that unlicensed ships be allowed to engage in that trade⁴⁴.

A licensed ship and its crew can be of any nationality provided that the crew is permitted to work in Australia and is paid Australian rates of wages.

The two permit types are– Single Voyage Permits (SVPs) and Continuing Voyage Permits (CVPs).

⁴³ *Navigation Act 1912*, s.289

⁴⁴ *Navigation Act 1912* s.286 (1)

SVPs are available, as the name suggests, to carry cargo on a ‘single voyage’ – that is from one port to another port. They are widely used to carry coastal cargoes in circumstances where cargoes are irregular.

A CVP has a life of three months, after which the ship has to leave Australia for a port outside Australia⁴⁵. It may then return to Australia to operate on a new CVP for another three months.

Regular users of CVPs include ships carrying cargo in bulk, both dry bulk and bulk gas (i.e. LPG). Also, container ships in the course of their international voyages satisfy the CVP requirements readily as they are only trading from one Australian port to the next as part of their scheduled liner services for a week or ten days at a time, after which they depart Australia on their scheduled international voyage eventually returning on a regular basis.

Hundreds of permits are issued annually. Details concerning Single Voyage Permits are not publicly available but Continuing Voyage Permits are Gazetted and are thus publicly available. A very brief summary is that from December 2002 – March 2008, 637 CVPs were issued. A summary of CVPs is provided at Attachment V.

3.1.1.1 Why a ‘Licensed ship’ not an Australian flag ship?

In most other cabotage regimes, the cargo reservation is restricted to ships of the National flag⁴⁶. This is not the case in Australia because until 1982, Australian ships were registered as British ships. Hence, the requirement to differentiate ‘ships’ for the purposes of preference for cargo links not to the flag of the ship but to the payment of Australian wages.

The coastal shipping market is thus made up of licensed ships and ships that are operating under permits.

3.1.2 Letting the market sort it out

Businesses understandably want to reduce all the costs involved in getting their ‘product’ to the market. Owners and operators of ships used for internal supply chain operations understandably want to minimise the costs of transport.

Owners and operators of ships for hire and reward understandably want to make a profit from the provision of transport services they provide.

Owners of foreign ships operate on a different cost basis because they are usually able to access favourable regimes (e.g. tonnage tax) and employ non-Australians on cheaper rates of pay. For reasons that are explained in this Section, Australian ships are more expensive to operate than comparable non-Australian ships.

It is therefore understandable that, all other things being equal, freight owners would be likely to choose to use a foreign ship rather than an Australian ship.

⁴⁵ The voyage to a port outside Australia must be to a ‘place’ – it cannot be a voyage to the ocean and back, i.e. it cannot be a voyage to nowhere.

⁴⁶ By way of contrast cabotage in the USA requires a ship to be US flag, US built and US crewed to operate under what is known as The Jones Act.

At the centre of the cabotage discussion is the impact of Australian regulation on:

- the ability of Australian ship operators to be internationally competitive – and be Australian; and
- the ability of Australian business to access internationally competitive shipping rates.

3.2 How Cabotage Works

3.2.1 Bass Strait - a special consideration

The Australian domestic sea transport market divides itself into identifiable sectors. One of the sectors is links between Tasmania and the mainland. There are at least seven and perhaps 10 Australian ships which regularly trade between Tasmanian and Victorian ports. Various transport and logistics operators have invested heavily in infrastructure to facilitate efficient roll-on roll-off, passenger and bulk trades.

These trades are contestable amongst domestic operators and in the general cargo trades competition is obvious with four operators' terminals in close proximity to each other in Melbourne. These trades align closely with the policy consequences of the absence of land transport links between Tasmania and the mainland.

There are schemes in place that are reviewed regularly and recognise this principal and we are not aware of any proposals to dismantle these schemes. The infrastructure requirements and the efficiency of these services lend themselves to being considered as a special case. If consideration were to be given to removing preference to cargo for licensed ships the Bass Strait trades would have to be considered separately.

3.2.2 Legislation affecting shipping: Imposition of costs on Australians

Legislation has been identified that, one way or another, or in combination, impose costs on Australian operators which are not necessarily borne by foreign operators operating in Australia's interstate and intrastate transport industry.

1. The *Navigation Act 1912*

A vessel entering Australia is for practical purposes first considered under the *Navigation Act 1912*. A vessel introduced by an Australian entity to operate permanently on voyages around the Australian coast would seek and be provided with a License under Part VI of the Navigation Act. This ship is operating under Australia's cabotage regime.

A vessel introduced to undertake a one-off or occasional voyage carrying domestic cargo would seek, and if their application is successful, be provided with either a Single Voyage Permit (SVP) or a Continuing Voyage Permit (CVP) under Part VI of the Navigation Act.

The distinction between vessels operating with a Licence as opposed to SVPs or CVPs is crucial.

Because a vessel operating with a licence under the Navigation Act is said to be "engaging in the coasting trade", a ship utilising a permit to compete for freight in

Australia's sea transport industry is said by those to whom authority is delegated by the Minister to administer the Act to be "operating in the coastal trade". This is not just semantics: it is a critical commercial distinction.

Having established whether the ship is operating with a licence or a permit, the next consideration is whether the ship is imported under the Customs Act.

2. The Customs Act 1901

It is important to understand that if a ship is imported a series of regulatory consequences follows. Each subsequent piece of legislation imposes costs.

A ship entering Australia to carry domestic cargo will have obtained either a License or an SVP or a CVP under Part VI of the Navigation Act. The question is whether the vessel is imported under the Customs Act.

The initial position was that, according to the Australian Customs Service a ship would be imported if the international voyage which brought the ship to Australia in the first place had ceased either permanently or temporarily. But as "International voyage" is not defined in the Act the fact that a ship had been issued with a licence under the Navigation Act was taken as evidence that the international voyage *had* ceased and the ship was thus imported.

The Customs view was that if the ship was licensed it must be imported.

Then ships obtained licenses which interrupted this formula. These were ships that carried interstate cargo on the Australian legs of an international trading pattern. It was not the intention that such ships be imported, but the "if the ship has a license it must be imported" maxim was no longer an appropriate rule of thumb.

The solution was to introduce another maxim which said that if a ship has international cargo on board then it must be on an international voyage and ought thus not be imported. This meant that a licensed ship could avoid importation if it had international cargo on board⁴⁷. But under Part VI of the Navigation Act, a ship that is licensed is "engaged in the coasting trade" and under Section 10, a ship that is "engaged in the coasting trade" is covered by Part II of the Navigation Act.

The important distinction that was made was that the ship was not imported so on the one hand the crew could work in Australia using Maritime Crew Visas (MCVs – see next section) but on the other, because the ship was licensed it is necessary to pay Australian wages to the crew under Section 289.

The practical result is that a ship that is operating with a License will be imported under the Customs Act and a ship that is provided with an SVP or a CVP will not be imported under the Customs Act.

A ship that is imported under the Customs Act is treated by the Navigation Act as if it were an Australian ship (Section 8B (1)) and is thus covered by Part II of the Navigation Act (Section 10 (a)). A ship that is covered by Part II of the Navigation Act

⁴⁷ One container was said to be enough 'international cargo'.

is then covered by the *Seafarers' Rehabilitation and Compensation Act 1992* and the *Occupational Health and Safety (Maritime Industry) Act 1993* (both see below).

A ship that is not imported is neither covered by Part II of the Navigation Act nor subject to these other Acts but is likely to compete with ships that are covered by these Acts.

3. The Migration Act 1958

Crew members of ships (other than Australians) entering Australia are required to hold a Maritime Crew Visa under the Migration Act. Crew members holding an MCV may remain in Australia in their ship indefinitely or, if they leave their ship, they must leave Australia within five days.

If a ship entering Australia is imported under the Customs Act the crew is not entitled to hold an MCV and crew members are required to hold Long Stay Business Visas (known as '457's). A 457 can be obtained provided that the occupation of the person for whom the 457 is sought is one that is a gazetted occupation⁴⁸ and the Department of Immigration and Citizenship is satisfied that there is insufficient Australian labour available to perform the work to be undertaken by the person for whom the Visa is requested.

The availability of seafaring officers in Australia is becoming more and more problematic but the position is that 457s are the exception rather than the rule in ships in Australia and Australian crews predominate.

The Migration Act tends to preserve Australian jobs in Australian ships. At the same time, the Migration Act allows operators of ships not imported under the Customs Act to employ foreign labour in Australia indefinitely utilising MCVs whilst carrying cargo within Australia under permits issued pursuant to Part VI of the Navigation Act.

The crew-cost differential between an Australian manned and foreign manned ship can be in the region of AUD 3 million per annum⁴⁹.

4. The Workplace Relations Act 1996

Due to the combined effects of the Customs Act, the Migration Act and the Navigation Act, an operator of a ship trading continuously on the Australian coast must employ Australian labour. Australian labour is employed subject to the conditions of the Workplace Relations Act.

Enterprise bargains negotiated within the terms of the Workplace Relations Act necessarily have regard to Australian standards of living, pay and conditions and give rise to labour costs substantially in excess of the cost of labour agreements applicable to ships in which foreign labour is engaged.

The Workplace Relations Act provides the framework within which pay and conditions are negotiated between employers and Australian workers, and is applicable to ships in which Australians are employed. Ships trading in Australia

⁴⁸ Relevant occupations gazetted do not extend to categories of labour other than ships' officers

⁴⁹ A comparison of Australian and Foreign cost structures for domestic shipping. Australian Shipowners Association, November 2006

under permits in which foreign labour holding MCVs can be employed are not subject to the terms of the Workplace Relations Act.

5. The Seafarers' Rehabilitation and Compensation Act 1992

The vessels to which the Seafarers' Rehabilitation and Compensation Act (the 'SRC Act') applies are those covered by Part II of the Navigation Act. A vessel which is imported under the Customs Act is an Australian vessel for the purposes of Part II of the Navigation Act and consequently becomes subject to the provisions of the SRC Act.

The provisions of the SRC Act create liabilities for employers and extends cover for employees such that Protection and Indemnity Clubs, the regular insurers servicing ship operators world-wide for crew and cargo insurance cover, will not provide cover for employers whose employees are subject to the SRC Act. Additional insurance must therefore be sought and insurance premiums are therefore higher for Australian operators.

Foreign crews of foreign vessels trading in Australia but which are not imported and thus not Australian ships under Part II of the Navigation Act do not fall within the application of the SRC Act. Such vessels are covered by P&I insurance which is available at less expensive premiums than those applied by the general insurance industry to employers of crews in ships covered by the SRC Act.

6. The Occupational Health and Safety (Maritime Industry) Act 1993

The vessels to which the *Occupational Health and Safety (Maritime Industry) Act 1993* (the 'OH&S (MI) Act') applies are those covered by Part II of the Navigation Act. A vessel which is imported under the Customs Act is an Australian vessel for the purposes of Part II of the Navigation Act and consequently becomes subject to the provisions of the OH&S (MI) Act.

The shipping industry internationally is subject to the International Safety Management Code (the ISM Code) which was promulgated by the International Maritime Organisation and prescribes, amongst other things, auditable standards of crew health and safety. These ISM Code standards are accepted internationally as appropriate and adequate minimum standards.

Crews of vessels covered by the OH&S (MI) Act must have standards applied which are in excess of, and accordingly more expensive than those required by the ship's International Safety Management Code, a mandatory compliance applicable to all ships, including Australian ships, under international law.

Crews of vessels trading in Australia but which are not imported and thus not Australian ships for the purposes under Part II of the Navigation Act and thus not falling within the application of the OH&S (MI) Act are covered by the ISM Code which applies less onerous and prescriptive requirements than those applicable to employers of crews in ships covered by the OH&S (MI) Act.

7. The Shipping Registration Act 1981

Section 12 of the Shipping Registration Act prescribes that a vessel owned by an Australian entity shall be entered in the Australian register of ships. It is understood that this mandatory link was an attempt to give effect to an UNCLOS principle that

there should be a genuine link between ships nationality of ownership and nationality of registration. This principle has lapsed internationally; with more than 50% of the world's fleet registered in places other than the nationality of the ships' owner. A review in 1997 proposed that the SR Act should be changed but that review remains to be implemented.

Since most ships operating continuously in coastal trades (and therefore licensed and imported and subject to Part II of the Navigation Act) are owned by Australian entities such ships have to be registered in Australia.

Foreign-owned ships operating in Australia under permits under the Navigation Act are not imported, are not deemed to be Australian ships and maintain their foreign registry.

The benefits conferred by foreign registry arise from fiscal and tax relief measures made available by many foreign nationalities of registry. The dis-benefit attributable to mandatory Australian registry is that Australian registration confers no fiscal or tax benefits.

Australian owned ships operating in Australia are disadvantaged by being denied access to internationally competitive tax and fiscal arrangements available to foreign entities operating vessels in the Australian interstate and intrastate transport industry under permits and registered in countries that make tax and fiscal concessions available to the ship owner.

3.2.3 Impact of legislation

This analysis demonstrates that Australian shipping licensed under the Navigation Act can be disadvantaged compared to foreign operators with whom Australians are required to compete in Australia.

It is worth noting here that the threshold criterion for a permit being made available to an unlicensed ship to participate in Australia's coastal trades is whether there is a suitable licensed ship available to perform the voyage for which the permit is sought.

The threshold justification for the permit system being administered in this way is that there are so few licensed ships available to undertake the voyages for which permits are sought.

Of course the reason there are so few licensed ships is that the favourable treatment available to permit ships renders licensed ships less viable and it is thus not surprising that their numbers have diminished.

In other words, there are far fewer licensed ships available precisely because the permits are so readily available to non-licensed ships.

3.3 Administration of cabotage and the 'permit system'

Under the Navigation Act, the Minister delegates power to issue permits to the Department of Infrastructure, Transport, Regional Development and Local Government (the Department).

The Department becomes the meat in the sandwich. In considering applications for permits it has the provider of shipping services on the one hand and the providers' customer (the shipper or cargo interest) on the other hand. In other words, the Department is centrally involved between two contracting parties.

The Department does this by reference to its administrative processes which are apparently well established and by reference to the Navigation Act and Ministerial Guidelines. Although the processes are well established there are issues associated with both that are explored below.

3.3.1 The Navigation Act

The problem that is often encountered is that well intentioned aspects of the permit administration confound the industry. Here are two examples:

3.3.1.1 Example 1 – Actual

A ship is not permitted to participate in Australia's coastal shipping unless it has either a permit or a licence under Part VI of the Navigation Act.

Permits must be applied for in a well established process that has gradually been refined over time. The application forms for the permits are available on the Department's web-site.

An online application process is also available. A Quick Reference Guide is provided in downloadable form for those making applications for permits. This has been a useful improvement in the provision of services by the Department.

There is reference to specification in the online information of the next foreign port for which a vessel that has had a voyage permit under the Navigation Act is bound. The Quick Reference Guide provided by the Department advises permit applicants as follows:

“If the next foreign port is not known....attach a statement to the effect of 'No current fixtures for ship but hereby guarantee the ship will leave Australian waters for an overseas port within 3 months of entering Australian waters'”

It is probable that the applicant for a permit for a voyage charter on the Australian coast would not be able to give such a guarantee because once the voyage for which the permit is supplied is over the applicant will probably have neither any clear idea where the ship will subsequently trade nor when it will leave for a foreign port.

Why does it matter that the Department provides this advice?

It matters because Section 389 of the Navigation Act provides that:

“A person who knowingly:

(a) makes a false declaration, false statement or false representation: or

(b) gives false evidence on oath, in connexion with an application or proceedings under this Act is guilty of an offence punishable on conviction by a fine not exceeding \$5,000 or imprisonment for a period not exceeding 2 years, or both.”

What this means is that the Department proposes a wording of a declaration that permit applicants should make which the applicant would know (and the Department would know the applicant would know) was almost certainly false and would constitute an offence under the Navigation Act.

3.3.1.2 Example 2 - Actual

Another example of the sometimes idiosyncratic administration of the permit system is in the timing of permits.

A Continuing Voyage Permit was issued for a ship on 24 January, 2008. The permit allowed the vessel to trade between various ports on the Australian coast “commencing on or about 13 November, 2007”.

In the absence of some administrative reason for the permit not being issued sooner, the permit was issued over two months after the ship was permitted to start trading on the Australian coast.

In the light of Part VI of the Navigation Act this raises the question as to whether a ship might have been tacitly allowed to engage in the coasting trade with neither a licence nor a permit. If the ship did engage in the coasting trade with neither a licence nor a permit then, according to advice received by this Association, indictable offence(s) have prima facie been committed.

We reiterate that there may, for all we know, have been some suitable administrative arrangement in place. It should be said also that the Association has no intention of taking this anywhere except to say that it is evidence of the Department exercising some arbitral power to permit a vessel to undertake a commercial venture in Australia on an ad hoc basis.

3.3.2 Ministerial Guidelines

Permits are issued by reference to Ministerial Guidelines which are available on the Department’s web-site.

The guidelines are extensive and expansive and run to some 13 pages. They address an abundance of detail surrounding the issuing of permits and essentially address the circumstances in which a licensed ship is not available or whether an available licensed ship is, or is not, adequate. In doing that the guidelines are necessarily qualitative and abound with terms such as:

- “after due consideration of issues of public interest and natural justice”
- “ where it is judged reasonable to do so”
- “may take into consideration”
- “may be determined”
- “as a general rule”
- “the reasonable needs of”
- “addressed on a case by case basis”
- “insufficient or inadequate”
- “over an extended period”
- “reasonable commercial terms”, etc.

Clearly the application of these terms on a case by case basis can create difficulties and uncertainty. The majority of permit applications are probably completely straight forward but in the hard cases the qualitative interpretations attract attention and influence decision making.

It is this aspect which raises question as to the preparedness of would-be shipowners to invest tens of millions of dollars in shipping assets in contestable trades when they are subject to the vagaries of this qualitative, case by case discretion which could so effect commercial outcomes.

3.3.2.1 Example 3 – hypothetical

Imagine that a licensed ship is in a port where a cargo is ready to be sent by sea to another port in Australia.

The owner of the cargo makes an application for a SVP for the cargo to be carried in an unlicensed ship.

The owner of the licensed ship, which is ready and available to lift the cargo in question, contends that a permit ought not be issued because his ship can carry the cargo and that the licensed ship is adequate and available for the service required.

The owner of the cargo agrees that the licensed ship is available but contends that the price asked by the operator of the licensed ship is unreasonable.

The Department is required to decide whether a permit is issued or not – the Department’s decision will specify which ship carries the cargo.

Issues such as the public interest, the reasonableness of the commercial terms of the fixture, the adequacy of the licensed ship would all be matters to be taken into account by the Department in reaching its decision.

The decision of the Department was to issue a permit on the grounds that the available licensed ship was not adequate to the needs of the shipper – that is the freight rate being quoted by the licensed ship was excessive. So excessive in fact that it rendered the licensed ship “inadequate” to carry the cargo in question. In this hypothetical the ultimate decision was that to refuse the permit was not in the public interest.

Shipowners (and perhaps shippers) could be excused for having no clear idea of the scope of interpretation which might be attached to the word 'adequate' in the Department's deliberations. It is suggested that the commercial uncertainty that has gradually emerged is hardly consistent with the criteria that would be used in deciding to invest in shipping assets. Against the background of such uncertainty it is not difficult to account for the lack of investment in shipping in contestable trades.

Perhaps the most glaring feature of the administration of the permit system is this aspect of the Department making judgments on commercial matters concerning the carriage of goods by sea. The Department effectively exercises some arbitral power in determining which of two vessels is to carry freight by sea, and in so doing may make judgments on some or all of the suitability of a vessel, availability of a vessel, the public interest and even the freight rates being quoted for the fixture.

3.3.3 A permit system is necessary

Having said all that, we contend that a permit system **is** necessary and desirable to provide commercial flexibility for both providers and users of shipping services. We contend also that the permit system in its current form is not providing that flexibility in an appropriate way.

We believe that officers of the Department are put in an invidious position by being asked to administer the permit system. They are not possessed of shipping market intelligence, ship broking and chartering skills or detailed knowledge of shipping operations. The uncertainties, grey areas and qualitative interpretations which abound in the permit administration need rectification if the permit system is to stop stifling investment in Australia's sea transport services.

ASA has participated with the Department in a review of the Ministerial Guidelines the outcome of which did not overcome the difficulties inherent in the administration of the permit system. It is not our intention to review the guidelines in this submission but we do suggest that an outcome of this inquiry would be a review of the Ministerial Guidelines with the objective of addressing the concerns (and we are confident there would be other concerns also) raised in this submission.

Advice received by ASA suggests that the administration of the permit system could be improved by, amongst other things, providing for an appeals process for all parties.

4 Part 4 – Conclusions and Recommendations

4.1 Discussion

The analysis provided above has set out to paint a picture of the existing situation and why the situation is the way it is.

Australian operators have adapted by becoming far more international in their operations than was the case up until as recently as a decade ago.

They see themselves as operating in a global environment and less in a peculiarly Australian environment. The 19 flags of registry and 25 nationalities of crew is ample evidence of this transition.

So the question is whether there is as a matter of policy a desire to see Australia have a viable, internationally competitive, indigenous shipping capability or whether a shipping capability with a sort of residual Australianness is an acceptable outcome.

The consequence of the cabotage debate has been that policy considerations, at least within the industry, tend to concentrate on what is and less on what could be.

Existing Australian operators maintain an equilibrium between the use of Australian and foreign shipping within the constraints of the Australian framework. These constraints include the permit system, the uncompetitiveness of Australian regulation and, it must be said, the remnants of a shadow cast by an unhappy history of industrial relations in the industry.

Existing foreign participants operating using permits seem to ebb and flow in their participation. Coastal shipping is after all not their core business and we have observed that when sensitivities arise – such as in the PAN Shipping⁵⁰ experience, the use of permits (particularly CVPs) seems to diminish temporarily and re-emerge once the sensitivity has died down.

The result of all these factors taken together has been that there is little scope for development by Australian interests of dedicated sea transport trades because of the vagaries of the permit system and the other factors described. It is plain that the Navigation Act was intended to address a very different set of circumstances that existed at the end of the 19th century and that, poised at the beginning of the 21st century, shipping regulation in Australia needs to be overhauled.

There is a large range of possibilities for Australian shipping policy, for example a policy objective might be to foster the growth of the national shipping capability, flying the Australian flag, employing Australians, attracting maritime business to Australia with an objective of, say, increasing Australia's participation in her own

⁵⁰ In 2006 a coastal container services was attempted by an Australian operator, PAN Shipping, but for various reasons failed. The PAN experience highlighted many of the aspects of how cabotage works in Australia. A brief commentary on the PAN experience is at Attachment VI.

external sea trade from the current level of less than 1%. Another objective might be to unshackle the regulation of shipping in this country altogether.

There is a range of permutations and combinations between those two possibilities.

The Australian Shipowners Association is an association of Australian entities that operate ships: the Australian entities that operate ships would prefer to operate their ships in an Australian context if it is commercially sensible for them to do so.

Various measures have been applied in the relatively recent past to establish a stable platform for Australian shipping. These measures, looking back on them could be described as being the right measures for the wrong reasons. That said, those measures did encourage the investment of some \$1.6 billion in (1994 dollars) the evidence of which can still be seen in a number of ships which are still trading – ageing though some of them now are.

Members of this Association have for some time had a clear understanding of the steps that need to be taken to reinvigorate Australian shipping. The taxation treatment of earnings from shipping is treated differently in other jurisdictions and a tonnage tax could be a workable, internationally acceptable vehicle for reforming taxation arrangements in the shipping sector.

Secondly, no secret is made of the approximately \$3million/annum crew cost premium attaching to Australian crewed vessels. If there is a desire on the part of Govt to see Australian employed in Australian ships and if there is a desire to create an internationally competitive shipping industry for Australia then this cost differential needs to be addressed by adoption of a measure or measures which can be developed by reference to international best practice in shipping policy.

Thirdly, the seafarers tax issue widely referred to as “23AG” should be rectified without delay.

Fourthly, a cap on the effective working life of five years beginning in the year before delivery of the ship to have regard to the very substantial payments that have to be made prior to a ship being delivered to its owner would create a persuasive incentive to invest in modern technically and environmentally efficient ships.

In considering what steps we might propose government take in relation to the reinvigoration of Australian shipping we are conscious of a number of factors. One thing that has been learned by looking at what happens in other countries is that they are “horses for courses” solutions. Many countries have set out to establish and have established practical, workable frameworks to foster their shipping sectors.

Some countries developed workable solutions which had to have regard to international policies. For example EU countries have succeeded in implementing specialised measures for their shipping sectors which are not regarded by the EC as anti-competitive subsidies. This has led to some measures becoming relatively commonplace – the tonnage tax is an example of such a measure.

This Association has considered a wide range of possibilities that could have application to Australian shipping and if applied in the right combination would

reinvigorate Australia's shipping sector. The measures in place in a range of OECD countries which are reasonably regarded as comparable to Australia were discussed earlier in this submission in section 2.4.1 International measures.

What the analysis shows is that the implementation of measures aimed at engendering a national shipping capability, a national shipping business presence, encouragement of investment, development of training for maritime skills, recognition of differential shipping cost regimes and the necessity to tackle some or all these factors is common amongst these countries. Since this is a representative sample of OECD shipping nations it is reasonable to assert that many other nations are similarly minded.

The frameworks differ from country to country because they have different taxation regimes, employment regimes, social security arrangements etc.

In considering what might be a suitable model for Australia this Association believes that there are probably tests that would be applicable to proposed measures to establish whether they are suitable in the Australian context. It seems to ASA that measures proposed for Australia would have to be shown to be:

- Economically beneficial – they would have to show, on balance, a net economic benefit for Australia's economy
- Socially desirable – they would have to be measures that sit comfortably with Australian attitudes
- Commercially viable – they would have to be measures that are capable of contributing to a viable, not loss-making, shipping sector,
- Politically sustainable – measures would need to be established then remain consistently and reliably in regulation
- Industrially acceptable – the measures to be considered would not be those that would be likely to create an industrial bottle-neck. The theme is likely to be one of the social partners – employers and labour working together rather than against one another.

We have every reason to believe that the measures proposed by ASA would meet these tests. We anticipate that further analysis will be required.

4.2 Conclusions

Evaluating and testing possible measures to reinvigorate Australian shipping is a resource intensive exercise. It is beyond the resources of this Association to clinically evaluate all the permutations and combinations of shipping policy steps that could be taken in Australia.

We submit that the Australian Government should continue the process commenced by this inquiry by articulating its vision for Australian shipping.

4.3 Recommendations

ASA recommends that:

6. There be a clearly stated policy to the effect that Australia should have a viable, internationally competitive, indigenous shipping capability.
7. Measures akin to those available in other countries be adopted in Australia with the specific intention of developing a national shipping capability for both international and domestic trades. These might be best implemented via a Second Register.
8. Measures to be included to give effect to an internationally competitive national shipping capability should include but not be limited to:
 - a. A suitable amendment of 23AG of the Income Tax Assessment Act 1936 to give effect to an internationally competitive tax regime for Australian seafarers engaged in international trades.
 - b. A cap of the effective working life of a vessel of the order of 5 years so as to encourage investment in modern, technically and environmentally efficient ships.
 - c. An internationally competitive taxation regime, such as a tonnage tax which may create training obligations.
 - d. A measure or combination of measures to address the \$3 million/annum crew cost differential between Australian crew and foreign crews.
9. A review of the Ministerial Guidelines for the issuing of permits be undertaken;
10. That the Australian Government take a lead role in address the seagoing skills shortage. We recommend the following actions be considered:
 - The entire Australian maritime-related sector contribute to the cost of securing the seafaring skills base on which its organisations depend.
 - A Training Trust be established to provide a single vehicle for the receipt and administration of the wider industry's financial contributions to the cost of seafarer training.
 - Training structures be reviewed with the view of becoming more efficient and effective.
 - Avenues be developed within the industry for individuals to pursue a seagoing career with or without an employer cadetship/traineeship.
 - It is recommended that the Maritime Crew Visa be extended in application to allow foreign riding gangs to work on Australian ships for the specific purpose of general maintenance.

5 Attachments

5.1 Attachment I

5.1.1 Chronology of Australian Shipping

AUSTRALIAN SHIPPING

CHRONOLOGY OF STRUCTURAL CHANGE 1980 – 2008

1980 - Appointment of Sir John Crawford as independent Chairman of a Joint Committee comprising shipowner and union representatives announced by the Fraser Government.

1982 - Minister Ralph Hunt of the Fraser Government approves government financial support for training for seagoing employees and the establishment of the Australian Maritime College.

Crawford Report completed, recommending that:

- Financial incentives be made available providing manning meets levels determined by a manning committee. Extension of investment allowance to ships in international trades (previously applicable to coastal vessels only) results in orders for 12 new ships.
- Depreciation of 20% pa commencing in the year prior to commissioning (previously 6.25% pa).
- 2% import duty on imported ships be abolished.

1984 - Maritime Unions under auspices of ACTU release "*Proposals for the Efficient Development of the Australian Maritime Industry*"

Crawford financial package comes into force April 1984.

Report of Joint Shipping Task Force comprising representatives from the Departments of Trade and Transport, and the Office of the Minister for Trade. The report looked at productivity, terms of trade (the impact of fob terms), the proportion of trade sold cif and c&f, the improvement to the invisibles account of the balance of payments and the increased contribution of Australian shipping with improved shipping technologies (amongst other things).

The Report of the Joint Shipping Task Force led to an investigation by the Transport Industry Advisory Council (TIAC) in relation to matters including the cost of bunkering, fiscal incentives and working arrangements of ships.

(TIAC comprised representatives from all modes of transport from private industry, government and government-owned enterprises, professional and trade associations, academic institutions and users.)

1985 - On the initiative of Minister Peter Morris of the Hawke Government, the industry parties organise an overseas study mission to study manpower and training developments. Following the report of the overseas study mission, the Minister establishes the Maritime Industry Development Committee (MIDC)

June - Investment Allowance withdrawn after only 14 months availability to overseas trading ships.

1986 - TIAC puts submission to Minister “*A Proposal for the Development of Australian Flag Shipping*” recommending three year depreciation, beginning in year before commissioning. The report maintained that the expansion of the fleet following the Crawford report was a consequence of shorter depreciation periods, the extension of the investment allowance to overseas trading ships and the manning reductions on which these concessions were conditional.

October - Maritime Industry Development Committee produces its report “*Moving Ahead*”. The report focussed on a radical reappraisal of shipboard management and work practices:

- crews of 21 on next generation Australian ships
- create integrated ratings
- require Australian Government initiatives to provide a commercial environment in which the industry could prosper
- commends TIAC submission.

December - Government announces endorsement of MIDC report and introduces legislation to provide capital assistance with purchase of new (or newly acquired second-hand) vessels.

Section 57AM of the *Income Tax Assessment Act 1936* provided for a special depreciation allowance on eligible Australian trading ships commissioned on or after 29 July, 1977. From 22 December 1986, the eligibility also depends on the ship qualifying under the Federal Government’s scheme of Capital Grants for such ships.

1987 - April - *Ships (Capital Grants) Act 1987* provides 7% taxable grant to operators of new or second hand vessels providing manning target of 21 is met and maintained:

- incentive to apply for five years in the case of new tonnage (until 30/6/92) and for three years (until 30/6/90 in the case of modern second hand tonnage).

1988 - ANMA (ASA) puts industry plan to the Prime Minister, Bob Hawke, outlining key reform requirements for an internationally competitive shipping industry.

Shipping Reform Task Force chaired by Ivan Deveson established by Federal Government to develop a strategy for further development of the industry.

1989 - April - Report of Shipping Reform Task Force handed to Minister Ralph Willis. The SRTF developed an agreed package of reforms which it anticipated would reduce the operating costs of Australian ships to that of comparable OECD ships with national crews.

Government accepts broad thrust of SRTF and (amongst other things):

- extends the 7% Capital Grant and accelerated depreciation for additional five years - to 30/6/97
- rebates from 1/7/92 that component of marine diesel excise allocated to road and rail (about \$3 m pa).
- contributes up to \$24,000 per package to a one-off redundancy scheme
- introduces programs to reduce crews on existing and new ships
- provides joint funding on a dollar for dollar basis for retraining up to a ceiling of \$5 m over three years for associated non-tuition costs
- established the Shipping Industry Reform Authority for three years from 1/7/89 to oversee the detailed development and implementation of the reform strategy.

July - SIRA commences.

1990 - January - Manning reductions on Crawford and pre-Crawford vessels completed - average reduced from 31.2 to 25.5 in these vessels.

1991 - July - Overseas study mission undertaken by SIRA:

- meets with government, shipowner and union representatives in each of 6 OECD countries and seeks information through diplomatic channels on a further 34 countries (14 responses received).

October - manning reductions in Crawford vessels to MIDC levels completed - average crewing levels reduced from 25.9 to 21.9 in these vessels.

1992 - Negotiation for continuation of SIRA process beyond scheduled end of SIRA1 (30/6/92) takes place in Shipping Reform Negotiating Committee.

August - SRNC reports to SIRA and recommends a further 3 year program of reform:

- objectives of further reform: reduction in average manning to 18.5, introduction of enterprise employment and reduction in crew-to-berth ratio.

1993 - SIRA extended - SIRA2 established to continue for three years (from 1992) until 30/6/95. Rae Taylor appointed Chairman.

1994 - Average crew sizes reduced to 18.

August - Final report of SIRA2 provided to Minister for Transport: SIRA finishes twelve months early. Taylor report highlights competitive gap and creates basis for analysis up to and including the SRG process five years later (see below).

- SIRA2 report included detailed analysis of competitive gap between Australian and representative foreign shipping.

September - dispute over sale of ANL:

- ASA proposes inclusion of PAYE measure in packaged resolution of ANL sale dispute negotiated between Government and maritime unions.
- Government embraces PAYE measure as part of resolution of ANL dispute.

November - Minister for Transport, Laurie Brereton commissions Mick Young to facilitate negotiation of crew efficiency savings equivalent to savings to be generated by PAYE rebate.

Negotiated outcome in *Maritime Industry Reform Agreement 1994*

December – *International Shipping (Australian-resident Seafarers) Grants Act 1995* enacted to give effect to PAYE rebate scheme commencing 1/7/95

1995 - July - PAYE rebate scheme commences.

1996 - May - Coalition Government announces legislation to terminate:

- the PAYE rebate scheme as at 30/6/96, (repeals *International Shipping (Australian-resident Seafarers) Grants Act 1995*)
- the Capital Grant (to have been applicable to vessels delivered on or before 30/6/97) as at 30/6/96 (repeals *Ships (Capital Grants) Act 1987*), and
- the accelerated depreciation provisions (amends *Income Tax Assessment Act 1936* to remove authorisation for special depreciation allowance under S.57AM of the Act).

Retrospective cessation of Capital Grant on 30/6/96 excludes application of Grant to three vessels ordered for delivery prior to 30/6/97. Government subsequently announces restoration of Capital Grant to 30/6/97.

August - Minister John Sharp established Shipping Reform Group (SRG)

1997 - March - Report of Shipping Reform Group handed to Minister Sharp.

August - Minister Sharp seeks alternative proposals to SRG recommendations.

September - Negotiations commence with MUA for introduction of enterprise employment.

- Ministerial responsibility for maritime industry transferred from Transport and Communications to Workplace Relations and Small Business.

November - Minister Reith states industry must fix enterprise employment and crew-costs before consideration would be given to fiscal measures.

1998 - April - Document detailing implementation of enterprise employment of ratings finalised. (Waterfront dispute commences).

July - Implementation period of enterprise employment commences.

August - Minister Reith agrees to consider progress made on enterprise employment and crew-cost reductions and establishment of working group to consider, amongst other things, the reforms needed to create an internationally competitive Australian shipping industry.

October - Coalition Government re-elected. Maritime returned to Transport Portfolio and John Anderson, (then) Deputy Leader of the National Party appointed Minister for Transport and Regional Services (and later Deputy Prime Minister). Cheryl Kernot appointed Shadow spokesperson for Transport and Regional Services; subsequently transferred to Martin Ferguson.

November - Shipping industry meets with Minister Anderson. Working Group to be implemented and industry provided with details as to Shipping Reform Working Group arrangements. Terms of Reference subsequently amended.

December - Shipping Reform Working Group commences its deliberations.

1999 - 13 May - Shipping Reform Working Group Report handed to Minister Anderson (SRWG report never released).

1st December – Minister Anderson announces Government will not provide fiscal assistance to Australian shipping industry but that Cabinet is still considering maritime policy issues.

2000 – February – ASA members meet and determine to cease seeking fiscal assistance from Coalition Government and to ensure instead that Australian owners and operators are not disadvantaged in Australian domestic shipping vis-à-vis their foreign competition in Australian domestic trades.

14 April – Minister Anderson writes to ASA, saying: “I can confirm...my intention to progress the recommendations (of a 1997 review of the Shipping Registration Act) as quickly as possible, including removal of the obligation on Australian shipowners to register vessels in Australia.”

2001 - March - ASA publicly promotes inequity of application of Australian laws imposing costs on Australian ships while Government promotes use of permits under Part VI of *Navigation Act 1912* which allows foreign ships to compete with Australian ships but escape costs imposed on Australian ships because foreign ships escape importation under *Customs Act 1901*.

2 April – Letter received from Secretary, DOTRS saying the Department is investigating and analysing the industry’s concerns over being disadvantaged by imposition of Australian legislation not applicable to foreign operators.

October – Coalition Government re-elected.

13 December – Minister Anderson announces at NBCG Annual Dinner that shipping industry’s contention that it is subject to an anti-competitive regulatory regime is “not without merit”.

2002 - 27 September – Announcement of Independent Review of Australian Shipping (IRAS) sponsored by ASA and Co-Chaired by former Ministers for Transport the Hon. John Sharp and The Hon. Peter Morris.

Also 27 September – Full Bench of the Australian Industrial Relations Commission finds that foreign crews in CSL (formerly Australian but now foreign flag, foreign crewed) vessels operating continuously in coastal trades under Continuing Voyage Permits should be subject to award conditions.

December – Cabinet considers a package of measures designed by Department of Transport (without consultation with industry) to assist shipping industry by supporting a maritime skills base through a levy on permit cargoes. Industry advises these measures may not be ideal and Cabinet refers matter to an Inter-Departmental Committee.

2003 3 March – ASA meets with Minister Anderson seeking clarification of regulatory issues surrounding shipping legislation.

7 March - ASA sends letter formalising request for clarification of regulatory issues.

2 June – Response received from DoTARS to letter to Minister of 3rd March, 2003.

7 August – High Court hands down decision holding that Australian Industrial Relations Commission has jurisdiction to determine whether workers in foreign vessels in coastal trade should be subject to Australian terms and conditions of employment. (Cf 27 March 2006).

3 October – Independent Review of Australian Shipping releases report – “A Blueprint for Australian Shipping”.

2004 - 19 February – Senator Campbell delivers Minister John Anderson’s speech at National Shipping conference in Melbourne stating that Minister Anderson will progress Income Tax Assessment Act S23AG issue with federal Treasurer and that Shipping Registration Act will be amended provided stakeholders reach agreement (cf 14 April, 2000 above).

2005 - 24 June – Kerry O’Brien appointed Sadow Minister for Transport.

4 July - John Anderson steps down as Minister for Transport and Regional Services. No outcomes on ITAA S23AG. No amendment to Shipping Registration Act.

5 July – Warren Truss sworn in as Minister for Transport and Regional Services.

2006 – March – Pan Shipping commences coastal container service between east coast and Fremantle. Pan claims cargo being loaded on foreign ships utilising CVPs is cargo reserved for licensed vessel.

27 March – Workchoice Regulations enter into force: Item 1 of Table 1.1 of subsection 1 of section 1.1 of Division 1 of Part 1 of the first substantive chapter of the Regulations provides that foreign crews working on permit ships and their foreign employers are not covered by the *Workplace Relations Act*. (Cf 7 August 2003)

11 July – *Stolt Australia* loads cargo for final voyage as Australian ship. Ship withdrawn from Australian crewing and Australian flag after permit granted to foreign ship to lift cargo which operator of licensed *Stolt Australia* was “available” to carry. Department of Transport and Regional Services had determined that freight rate quoted by licensed ship to carry coastal cargo is criterion for determining availability of licensed ship for purposes of Ministerial Guidelines for SVPs and CVPs. *Stolt Australia* was determined to not be an available licensed ship as the freight rate quoted by *Stolt Australia* was apparently too high.

Media release from Minister Truss says, amongst other things:

“Some industries would find it cheaper to import goods rather than carry them large distances around the Australian coast at high cost in Australian ships.”

September – Warren Truss stands down as Minister for Transport and Regional Services

September – Mark Vaile becomes Minister for Transport and Regional Services.

September - De-Anne Kelly appointed Parliamentary Secretary to the Minister for Transport and Regional Services with responsibility for shipping.

2 October – PAN Shipping appoints administrator and ceases trading.

10 December – Martin Ferguson resumes role as Shadow Minister for Transport, Roads and Tourism.

2007 – February – Minister for Transport and Regional Services, Mark Vaile, speaking at Australian Logistics Forum says shipping is not referred to as part of Australian domestic transport policy because it (shipping) is “not sexy”.

May – Report provided by Meyrick and Associates to Australian Maritime Group “International and Domestic Shipping and Ports Study”. Report notes that:

“There is a desire by governments, and Australian shipping, to seek opportunities and methods to increase (the share of domestic transport undertaken by sea) with the benefits of an increased coastal shipping industry”.

June – CSR Shipping introduces time-chartered vessel “Clipper Trust” to replace Australian-flag, Australian-manned tonnage in coastal trades. Cementco Shipping sells its three ships to CSL and enters into COA for its shipping requirements.

July – DOTARS and state government meet with ASA on Meyrick report.

July – The House of Representatives Standing Committee on Transport and Regional Services releases report “The Great Freight Task” including a chapter (Chapter 7) supportive of Coastal Shipping.

August – Senate Committee on Employment Workplace Relations and Education releases report “Workforce Challenges in the Transport Industry”, including a Recommendation (No 6) that S 23AG of the Income Tax Assessment Act be changed to remove disadvantageous treatment of seafarers.

November 24 – ALP wins Federal Election

November 29 - Anthony Albanese appointed Minister for Transport.

2008 – March – Government announces Review of Coastal Shipping.

Prepared by ASA Secretariat – Updated February 2008

5.2 Attachment II

5.2.1 Short History of Australian Maritime Industry

Short History of the Australian Maritime Industry Prepared by the Secretariat of the Australian Shipowners Association, April 2008

1. Definition of “Australian Maritime Industry”

- 1.1 The relevance of shipping to Australia
- 1.2 Sea transport in Australia’s external trade
- 1.3 Sea transport in Australia’s domestic freight task

2. A Short History of Australian Shipping

- 2.1 The heyday of coastal shipping
- 2.2 World War II
- 2.3 The 1950s
- 2.4 The 1960s
- 2.5 The 1970s
- 2.6 The 1980s
- 2.7 The 1990s
- 2.8 The 2000s

1. Definition of “Australian Maritime Industry”.

For the purposes of this short history, the Australian Maritime Industry is taken to mean the Australian shipping industry.

Most if not all the discussion in this paper deals with the operation of ships by Australian entities. Australian entities operate ships as owners, bareboat charterers, time charterers or voyage charterers.

The major Australian ship operators are members of the Australian Shipowners Association. The Association has twenty-two members who are reckoned to operate around seventy vessels under the definition of ‘operation’ in the preceding paragraph. It is difficult to be precise with the number of ships as ships are chartered-in and returned to their owners on a regular basis.

Whereas up until the end of the 1980s, “Australian shipping” was understood to mean Australian-registered ships crewed by Australians, that term is now taken, by ship operators at least, to mean ships operated by Australian entities regardless of the flag of the ship or nationality of its crew.

For example, in 1980, there were around a hundred ships operated by Australian entities, very few of which would have been registered outside Australia.

In 2007 there are probably seventy ships under the regular control of Australian entities and these are variously registered in Antigua & Barbuda, the Bahamas, Belgium, Cyprus, Denmark, the Isle of Man, Liberia, the Marshall Islands, St Vincent and the Grenadines, Singapore, the United Kingdom and Australia.

This is a marked change in the circumstances of Australian shipping. Up until as recently as 1995 the attitude of the Australian shipping industry was one of seeking to influence the Australian Government to create circumstances conducive to the business of operating Australian ships from Australia. Now a more global attitude prevails.

Australian shipping interests have either left the industry or have taken their ship operating activity outside Australia.

Companies such as ANL, ASP, Howard Smith, TNT, BHP and Adelaide Steamship Company have either left the industry (Howard Smith and TNT), transmogrified into other maritime sectors than ship operating (Adsteam, now Svitzer) or expanded overseas leaving Australia partially or largely behind (ASP and ANL – not necessarily in that order).

Confidence in Australia as a ship-operating environment conducive to investment for commercial ship operators is small and such operators have been inclined to look for other countries in which circumstances are more conducive to such investment.

At the same time, however, a number of corporations have determined that their long-term internal supply chain requirements will rely in whole or in part on Australian shipping. A round of investment appears to have begun, starting in 2006 with

companies commissioning internally or through outsourced shipping providers, new and more efficient tonnage to meet their internal needs. The carriage of bauxite from Weipa to Gladstone, the carriage of alumina from Western Australia to Geelong and the carriage of sugar and gypsum from Queensland to Victoria are cases in point.

The material set out in this paper should be absorbed against the background of this metamorphosis of attitude: an attitudinal shift from asking how Australia can help the Australian shipping industry to asking instead how far Australians need to go to reinvent themselves as foreign ship operators to take advantage of a more favourable treatment of foreign ship operators compared to Australian ship operators.

1.1 The relevance of Shipping to Australia:

The relevance of shipping to Australia becomes obvious from the most cursory glance at a map of Australia in an Atlas. Australia is a long way from her trading partners and there are long sea lanes separating Australian from those trading partners.

Australia is a very large land mass and has a very long coast line: the mainland alone has a coastline of about 36,000 kilometres.

Australia is an island continent. Large volumes of goods and commodities are carried over large distances. The characteristics of the transport industry in Australia are not unique in the world, but they are certainly unusual in the developed world.

1.2 Sea transport in Australia's external trade:

The sea transport sector in Australia, like the air transport industry, operates in two arenas - domestic and international.

Australia's international freight task in 2004/05 was 70.25 million tonnes of imports and 610.85 million tonnes of exports⁵¹. Of that volume, 99% is carried by sea⁵² with the remainder being carried by air.

The total value of Australia's external trade in 2004/05 was \$A 248.5 billion. Around three quarters of that is moved via sea transport, indicating that a higher proportion of higher value freight is carried into and out of Australia by air.

So sea transport carries 99% of Australia's external trade by volume and around 75% of that trade by value.

The combination of volumes carried and the distance of Australia from the international market place results in Australia being one of the largest shipping markets of the world – Australian sea trade represents around 9.2% of world seaborne trade by mass.

⁵¹ Australian Maritime Transport 2005 - Australian Shipowners Association – prepared by Apelbaum Consulting Group

⁵² Australian Government Transport & Logistics Fact Sheet - BTRE 2005

Sea transport is thus a vital link for Australia with the world.

1.3 Sea transport in Australia's domestic freight task:

Australia's widely dispersed population centres give rise to an infrastructure nightmare. Australia is a developed country and Australians enjoy a high standard of living. It is expected that road and rail systems connecting major population centres will be modern, safe and efficient.

The trouble is that modern, safe and efficient road and rail systems come at a high price – too high to connect, say, far flung mining centres with manufacturing centres. The answer is an optimised combination of road, rail, sea and air transport.⁵³

The task facing the freight transport network in Australia is to carry large volumes of materials over long distances. The task of carrying manufactures or semi-manufactured goods between the major population centres of Melbourne and Sydney, Melbourne and Brisbane and Sydney and Brisbane is relatively small compared to the task of carrying commodities such as iron ore from Port Hedland in Australia's north-west to Port Kembla in the south-east of the continent⁵⁴. The long distance transport task most visibly epitomised by trucks and trains on the main interstate freeways and rail tracks is known as the domestic non-urban freight task.

The non-urban freight task is measured as a function of mass and distance expressed in tonne-kilometres. That is, the mass of freight lifted (tonnes) and the distance it is then carried (kilometres).

The non-urban freight task measured in tonne-kilometres in 2003/04 was undertaken by rail (40.8%), road (31.0%) and sea (28.2%)⁵⁵.

The market shares of the road, rail and sea sectors in Australia's transport network have altered appreciably since the mid 1980s. Table 1 shows that road transport has increased its market share from 22.15% to 30.95% of Australia's non-urban freight task measured in tonne-kilometres, rail has increased its share from 33.63% to 40.83% while sea transport has reduced from 44.15% to 28.17%.

In other words, road has moved from third place to second place, rail has moved from second place to first place and sea has moved from first to third place.

As mentioned earlier, the role of air transport is negligible in this analysis.

⁵³ The volume of freight carried interstate and intrastate by air is negligible for the purposes of this discussion.

⁵⁴ There are many examples of commodity movements that are high volume and long distance. Alumina, cement, bauxite, iron ore, crude oil, refined petroleum products, chemicals, molasses, sugar, gypsum are

⁵⁵ Australian Maritime Transport 2005 - Australian Shipowners Association – prepared by Apelbaum Consulting Group at p 10.

**Table 1: Market Shares in the Movement of Australia's non-urban Domestic Freight
(Billion tonne-kilometres)**

Year/Mode	Domestic Mode								Total b TKM
	Road		Rail		Sea		Air		
	b TKM	% share	b TKM	% share	b TKM	% share	b TKM	% share	
1984/85	48.78	22.15%	74.07	33.63%	97.26	44.15%	0.16	0.07%	220.27
1987/88	58.11	24.57%	81.57	34.49%	96.64	40.87%	0.16	0.07%	236.48
1990/91	67.93	26.53%	91.53	35.74%	96.48	37.68%	0.14	0.05%	256.08
1994/95	80.82	27.05%	105.79	35.41%	111.97	37.47%	0.21	0.07%	298.79
1997/98	94.33	27.78%	124.10	36.54%	120.91	35.60%	0.25	0.07%	339.59
2000/01	107.76	30.56%	139.41	39.54%	105.16	29.83%	0.25	0.07%	352.58
2001/02	111.83	29.91%	150.13	40.15%	111.73	29.88%	0.24	0.06%	373.93
2002/03	118.52	30.07%	160.44	40.71%	114.94	29.16%	0.21	0.05%	394.11
2003/04	129.07	30.95%	170.25	40.83%	117.49	28.17%	0.20	0.05%	417.01

Source: Australian Maritime Transport 2005 ASA April 2006– Apelbaum Consulting Group

The significance of this change in the pattern of non-urban long distance transport stems from environmental, infrastructure cost, social trauma and fuel efficiency considerations. On these criteria sea transport is most benign, road transport least benign and yet the pattern is of a move of freight in the wrong direction.

The Australian Maritime Industry today is shaped by its history.

2. A Short History of Australian Shipping⁵⁶

The core Australian coastal trading fleet has declined from around 190 vessels in 1949 to around 50 vessels in excess of 1,000 dwt at the end of 2006. Whilst these vessels are much larger and more productive than their predecessors, the industry has without doubt declined against the trend of economic growth over that period.

In absolute terms there was substantial growth in coastal cargoes from 13 million tonnes in 1951-52 to 53.2 million tonnes in 2003/04. But shipping has declined in relative terms with respect to total interstate cargo movements and the economy at large. Further, there has been a dramatic shift in the composition of the cargo carried – away from high value general cargo to low value dry and liquid bulk cargoes.

2.1 The heyday of coastal shipping

Australian-owned ships were vital to the Australian economy throughout the 19th Century. Perhaps the peak of their importance was in the 1880s. When the Steamship Owners Association of Australia met in 1886, there were 25 companies present owning between them 171 steamers, tenders and launches.

⁵⁶ This historical description is an updated version of: "Australian Shipping – Structure, History and Future" Chapter 4. Australian National Maritime Association 1989 pp100 - 109

By 1890 the Australian coastal trade was developed, vigorous and competitive, but the first interstate railways were being completed, thus providing a challenge to coastal passenger ships though not, at the time, in general cargo.

Ocean transport then was much cheaper than land transport, and the first interstate railways could compete with ships only in carrying first-class passengers and the mails. In general cargo the new Melbourne – Sydney railway (1883) had no chance of competing with coastal ships at that time. Trade between the capital cities and small ports was also vigorous and the small coastal steamers and ketches usually undercut the railways even when heavy subsidies were applied by the railways in the hope of ousting the intrastate steamers. Shipping companies were glamorous and profitable, and some of the biggest companies on Australian stock exchanges in the 1880s were shipping companies. In the Australian coastal trade, foreign ships provided little competition except in carrying mail and passengers between Albany-Adelaide-Melbourne-Sydney and Brisbane, being ports on the Europe-Australia route. Few foreign-owned ships carried coastal cargoes but foreign ships, especially British, usually dominated the carrying of Australia's imports and exports.

But there were already danger signs: wages on the coast were lower than those on land in Australia; the long railways between the four main capital cities were being built; and in local politics were initial signs of that all-pervasive protectionism which by the early 1900s tried to insulate many Australian employers and employees from strenuous overseas competition.

The crippling maritime strike which began in August 1890 and the great depression of the early 1890s impaired an extremely competitive, low profit industry. Agreements between the coastal companies broke down, and rate wars flourished. The difficulties were alleviated partly by the demand for shipping to service the gold rush to Western Australia from the mid-1890s and by the economy's slow recovery from depression and drought.

Growing competition from overseas mail steamers (in receipt of subsidies from their governments and paying lower wages), stiff coastal competition, and a desire to present a united front to labour and governments led to the formation of the Australasian Steamship Owners' Federation (ASOF) in June 1899. The membership represented approximately 90% of the then interstate tonnage, and in 1902 five of its members formed what was known as the "Collins pool" to manage and deploy tonnage with profits and losses shared between them. This "combine", formed as a result of the needs of owners engaged in regular trades to protect themselves against ruinous economic fluctuations, was disbanded in 1910, with prosecutions under the Industries Preservation Act following in 1911. An appeal to the Full Court reversed the position and a further appeal by the Commonwealth to the Privy Council was lost in 1913. Before the "combine" was re-established, World War 1 had broken out and vessels were requisitioned for war service. In the meantime the Navigation Act was finally passed in 1912 but at the British Government's request and on the outbreak of World War 1 its coming into operation was postponed. It was not until 1921 that the "coasting" provisions received Royal Assent.

The withdrawal of foreign ships, in particular British vessels, owing to the demands of the war in Europe, left Australia in a position of being unable to move grain and wool exports to market. This so impacted the Australian economy and its ability to finance the war effort that the Commonwealth Government established the Commonwealth Line of Steamers. The line consisted of 43 ships until sold in 1928.

To the requisitioning of vessels during World War 1 was added government control of freight rates and a refusal to allow any increase from 1916 onwards. Savage strikes beset the industry in the second half of 1917 and for fear that owners would direct their ships to more profitable overseas trades after the war, ships were not released from government control until 1920. The release was conditional upon owners maintaining their ships as a single operating fleet, and a formal agreement between the seven largest companies encouraged by the Government was established in 1921. This cartel was to remain in operation for the next 40 years. Between 1914 and 1922, admittedly a period of inflation, unions gained increases in wages of up to 65 per cent for seamen and 137 per cent for waterfront labour. In 1924 employer-operated labour bureaus, established in 1917, were abolished and the WWF re-established its control of the supply of labour. Further disputation reversed the position again in 1928 and WWF control of labour was removed under the provisions of the Transport Workers Act.

Although most interstate trains were hindered by a break of gauge, the railways had expanded enormously. Services which had originally fed the ports from the hinterland regions were now comprised of systems which were designed to openly compete with shipping services. Passenger trades in particular were affected and the completion of the trans-Australian railway in 1917 more than halved the number of passengers travelling by steamer between the west and east coasts. The Queensland coastal railway reached Cairns in 1924. The passenger fleet measuring 174,063 tons before the war dropped to only 56,166 tons. The interstate coal trade went into decline in the late '20s and by the end of 1930 – with the world depression arriving – huge lay-ups of tonnage had occurred and freight rates were reduced.

2.2 World War II

The emergence of diesel powered vessels and bulk trades largely serving the steelworks at Newcastle and Port Kembla led the recovery in the mid to late 1930's. The outbreak of World War II soon put paid to that. The exigencies of the war prompted the federal Government to own merchant ships (later to become the Australian National Line) and in July 1941 the majority of coastal ships were requisitioned by the Shipping Control Board, leaving a very depleted coastal fleet. War-risk insurance was high and the reduced fleet resulted in reduced regularity and quality of service. The rail systems saw and took the advantage. The railways were also at this time being protected by State legislation and petrol rationing from road competition.

The maritime unions openly declared their intention to exploit wartime exigencies and seamen were awarded a number of wage increases and improvements in working conditions (including a substantial reduction in working hours). Under a Government sympathetic to organised labour, the chaotic waterfront saw strikes, delays and cargo disappearances.

The shortage of vessels continued after the war with requisitioned vessels not being returned to their owners until 1947. In 1948 the Government ships carried 45% of total coastal cargo, BHP carried 18% (all in house) and the private owners carried the remaining 37% (including most of the general cargo).

The wartime exigencies contributed significantly to the decline of intra-state shipping and of the large interstate passenger trade which in the 1930s had been so well served with new motor vessels. The shortage of tonnage was directly mirrored in reduced services and reliability, and profits were insufficient to justify re-tonnaging for a reduced demand.

2.3 The 1950's

Following the war the private owners faced similar problems to those encountered after World War I – lack of reserves to replace tonnage, ageing tonnage (by 1954 more than half the capacity of private owners was more than 25 years old), further competition from road and rail and a highly militant workforce. They were in no position to engage the Government in rate wars and to add insult to injury the Government's post-1945 shipbuilding policy dictated that every new ship be built in high cost Australian yards. The companies argued that the shipbuilding subsidies introduced were not sufficient to offset the cost impost.

Operating costs – which included spiralling stevedoring costs, increased dramatically. One study showed that rates between Adelaide and Melbourne and Adelaide and Sydney had risen by 291 and 259 per cent respectively between December 1946 and June 1955 whilst first and second class rail freight rates on the same routes had increased by only 46 per cent and 48 per cent respectively.

Railways, subsidised from the public purse, were charging below costs on many routes, seeking new traffic. The railways' competitive position continued to improve with the introduction of lower cost diesel-electric locomotives and the completion of the standard gauge link between Victoria and New South Wales in 1962.

With post-war sale of army surplus 15 ton semi-trailers, the abolition of petrol rationing and the changes of mode forced by shipping shortages, the road haulage industry expanded rapidly on conclusion of the war. This was despite the complex regulations and taxes imposed in the 1930s by State governments to protect their railways and despite a price disadvantage. However road transport offered an increasingly desirable quality – door to door service. Shipping was unreliable and its cargo suffered an increasing degree of damage and pilferage after the war. Industrial strife both on board ships and on the waterfront had been unrelenting, and efficiency had declined. By the time the Judicial Committee of the Privy Council decided in the Hughes & Vale case that State governments under Section 92 of the Constitution were not able to regulate interstate road transport and in a further decision invalidated all regulations levying excessive charges on the use of roads, coastal shipping seemed to be on the verge of total disintegration.

The Hughes & Vale case of 1954 resulted in a reduction in road taxes from \$11.00 to \$1.50 per tonne on the Sydney-Melbourne route for example. The decision prompted

a sudden influx of long-distance road hauliers and resulting rate reductions by the railways. Heavy losses of cargo by coastal shipping were soon incurred.

Industrial strife in the post war years had been a further contributing factor to difficulties encountered. Politically motivated action taken in 1950 by the Seamen's Union was followed by crew shortages which increased the union's power to make further demands in respect of wages and conditions. Disputes between employers and employees were rife at a time when cargoes were declining.

Immediately after the election of 1949, the Government advised the private owners that it was prepared to withdraw from ship operations on the proviso that the private owners took over the Government ships and kept them operating. Without guarantee that a future government would not re-enter the industry and after consideration of the terms, the private owners were unable to accept the offer.

A further offer on a similar basis (but higher prices) in 1952 was not regarded as feasible by the private owners and in April 1954 the Government abandoned the sale. The Government then initiated discussions with coastal owners and agreement was eventually reached which would allow private operators to continue in their trades whilst the Government's position would be restricted and defined.

The outcome was the Australian Coastal Shipping Commission Act 1956 and the Australian Coastal Shipping Agreement Act 1956.

The two Acts appear to have been a satisfactory outcome in the eyes of the private owners. In the meantime, the parlous state of the private owners continued as operating costs continued to rise and freight rate increases followed.

The industry was racked by both moderate and extremist elements in the union movement and political undercurrents. The then Conciliation and Arbitration system was unable to control the situation.

A most damaging dispute took place between the private shipowners and the Merchant Service Guild (now the Australian Maritime Officers Union) in 1955-56 in respect of remuneration for the use of pilotage exemption certificates. Seagoing problems, waterfront problems and government problems amounted to insurmountable barriers for some operators.

With the threat of Government control of shipping now in abeyance, the private owners determined to recapture trades previously lost and to increase their share of emerging bulk trades. An operating company "Bulkships Limited" was established in 1958 and orders were placed at Whyalla for two bulk carriers. Programmes of "unitisation" and "containerisation" were embarked upon.

More cargoes were being handled in bulk as improved handling equipment both on-shore and on board, became available. For example, between 1957 and 1960 bulk handling facilities for sugar became operational at five Queensland ports. Vessels previously requiring 3 weeks in port to load 10,000 tonnes of bagged sugar could be loaded in two days.

Shipbuilding programmes, improved turnaround times as a result of improved vessel and cargo handling technologies, a reduction in New South Wales coal demand and a progressive and general reduction in general cargo for reasons previously discussed, resulted in post war shortage of ships being replaced with a surplus.

By the end of 1958, 16 vessels were laid up and substantial losses were incurred by the combined private companies in 1958, 1959 and 1960 in particular.

2.4 The 1960s

A further massive contraction of interstate general cargo took place in 1960-61 concurrent with, and in substantial part arising from, an increase in industrial disruption.

In the first six months of operation, the standard gauge railway opened between Melbourne and Sydney in 1962, carried more than double the quantity of freight carried in the corresponding period of the previous year.

Road transport was flexible, travelling anywhere, providing for the lifting of a little or as much cargo as the shipper wanted, involving the shipper in only one payment and very little documentation. On the other hand shipowners held themselves only responsible from wharf to wharf and involved the shipper in numerous separate payments (to the company, to port authorities etc, etc) and paperwork. Moreover shipowners based freight rates on deadweight in some cases and on measurement in others with the result that large volume, low deadweight shippers looked to other modes. On reflection, it is clear that opportunities (subsequently taken up by freight forwarders) for shipowners and operators were lost at this time.

Meanwhile disquiet amongst some shipowners had led to an interport conference to consider unitisation in 1958 with the result that, firstly, palletised and pre-slung cargoes were encouraged and later a marketing programme for containers had to be instituted. In 1960-61, 2.7% of cargo carried on conventional ships was in containers but by 1964-65 this had risen to 37%.⁵⁷

Two factors had previously worked against the introduction of pallets and containers:

- Specialised dock and handling equipment was not generally available, and
- The strength of shipbuilding materials were such that pronounced sheer, camber of the decks athwartships, pillars, bulkheads and other strengthenings were required.

Developments in these areas of technology were fundamental to the widespread introduction of unitisation.

In 1964 the “Kooringa”, a specially-designed cellular container vessel, entered service between Melbourne and Fremantle. This represented the “grasping of the

⁵⁷ Australian Stevedoring Industry Authority, Annual Report 1965

nettle” by the private owners. Performance was vastly superior and new life was instilled into the industry at this time as a number of companies increased their investment in specialised bulk cargo vessels and RO/RO vessels.

“Kooringa”, owned by Associated Steamships⁵⁸ was a success and the company was encouraged to invest in two more container vessels. Special terminal facilities had by that time been developed so as to enable reliance on shore-side loading and discharge gear. (This service was terminated in 1975 after heavy losses. The losses were principally attributed to the low freight rates charged by the competing railways which, during the previous year, had operated with a loss of nearly \$200 million. Almost immediately upon the cessation of the shipping service, rail freight rates between the eastern states and Western Australia rose dramatically.)

At the same time the Australian National Line was setting the pace in bulk carriage and investing in new specialised tonnage for general coastal cargo (RO/RO vessels). It began experimenting with overseas services which, during the 1960s contributed significantly to its operations.

In 1964 the first Australian crewed tankers were introduced, the forerunners to a sizeable increase in Australian tonnage and ensuring an Australian capacity to meet the growing demand for crude oil and petroleum products.

The rationalisation of companies and specialisation of tonnage led to an increase in cargo carriage in interstate shipping which continues - as is evidenced by the figures⁵⁹:

Date	Tonnes Cargo (approx)
1939	10,800,000
1953-54	10,800,000
1954-55	11,757,489
1956-57	13,000,000
1965	17,761,979
1971	24,000,000
1993-94	45,270,000
1998-99	48,390,000
2003-04	53,190,000

Whilst general cargo was still subject to considerable pressure from alternative transport, the interstate bulk shipping industry was in the early 1960s entering a phase of steady growth.

Improved vessel designs, more efficient cargo handling techniques and upgraded port facilities were introduced in the 1960s, but potential efficiency gains in the general cargo trades were not realised.

⁵⁸ Associated Steamships Pty Ltd was an amalgam of Adelaide Steamships Co and McIlwraith McEachern Ltd

⁵⁹ “Australian Shipping – Structure, History and Future” Chapter 4. Australian National Maritime Association 1989 p 111 and “Australian Maritime Transport 2005” ASA April 2006– Apelbaum Consulting Group Table A-7 p39

Commencing in 1960 a series of disputes arose in relation to manning and engagement and discharge arrangements for Australian seafarers. The supply and demand for seafarers seemed never to be in balance. Agreement between the owners, the Government and the rating unions resulted in what became known as the Seamen's Engagement System.

Disputes in respect of wages, leave and hours of work predominated during the mid to late 1960s. 1969 was a particularly difficult year, with industrial disputes concerning manning and leave systems remaining contentious.

2.5 The 1970s

Claims by the maritime unions for aggregated wages combined with a series of domestic disputes accompanied further leave claims through the 1970s.

The 1970s saw the introduction of a single maritime industry industrial award. This was a major development towards standardisation of terms and conditions of employment and a reduction in inter-union disputes. Aggregate wages were extended to encompass all vessels, and inequities created under the previous wages and overtime system were eliminated. A dramatic decline in shipboard productivity has been attributed to the introduction of the aggregate wage system however, and to a large extent this loss of productivity offset the benefits achieved by its introduction. The first award also set in cement the progressive improvement in the leave factor applicable to ships' crews. The leave factor remains the largest contributor, in labour costs, to the uncompetitiveness of ships crewed by Australians.

The widespread introduction of unitisation (reducing costs and turnaround times) eventually reversed the long decline in general freight. Coinciding with strong growth in the economy generally, new tonnage was introduced at this time to accommodate a rapid increase in demand which occurred between 1968 and 1972, peaking in 1973-74 and declining thereafter. The number of vessels engaged in the non-bulk trades declined during this period, reflecting faster turnaround and the larger size of the vessels.

A substantial fall in non-bulk cargoes between the mainland ports (ie excluding Bass Strait trade) between 1975-76 and 1977-78 reflects the withdrawal of the ASP service to the West in late 1975 following the expansion of the Railways of Australia Container Express (RACE) Service.

The 1970s also saw the development of Australian shipping in the overseas trades. ANL entered the Japanese trade with one vessel in 1967 and it introduced a further 9 ships between 1969 and 1977 in the Europe, Japan, Korea, S E Asia and east and west coast of America trades, joining the appropriate conferences. Four bulk carriers were introduced in 1976, 1977 and 1979 into the iron-ore trade with Japan and the ANL also entered the phosphate trade to Christmas Island in 1981.

Meanwhile on the coast, general cargo services across Bass Strait were experiencing difficulties. With freight rates falling behind costs, operators were making losses. The acceptance by the Government of some aspects of the Nimmo

Inquiry saw freight rates in Bass Strait raised and the position at last relieved. Other general cargo services were still operating with financial difficulty pursuant to Federal Government direction.

1976 also saw the introduction of an investment allowance by the Government for new vessels engaged solely in coastal operations. The allowance applied in addition to normal depreciation for taxation purposes, as an initial amount of 40% of the capital expenditure for ships ordered between January 1976 and June 1978, and brought into service by June 1979. For ships ordered between July 1978 and June 1983, and first used by June 1984, the allowance was 20% of the capital expenditure.

Even at that time, Commissioner Summers of the Maritime Industry Commission of Inquiry was of the view that irrespective of how long the investment allowance was available to other industries, it should be kept operating for a longer time than was proposed for shipping. In the alternative the Commission recommended that improved depreciation allowances be introduced to take account of the very high cost and longer lead time associated with new vessels and the need to encourage and maintain a modern fleet. The Commissioner, noting the financial assistance given by other nations to their shipping companies, pressed for "some other special forms of assistance (to) be extended to Australian overseas shipping operations".⁶⁰

2.6 The 1980s

In 1980 and 1981 two manning disputes resulted in newly built vessels being delayed in Japan and Australia and resulted in 225 days being lost. These massive disputes heralded the beginning of a number of damaging manning disputes in the 1980s, which in themselves reflected the need for rationalisation of the Australian fleet.

The on-going industrial disruption, improved land freight services and increasing shipping costs encouraged the substitution of road and rail transport for coastal shipping, particularly in general cargo.

The early 1980s also witnessed bold attempts by Australian companies to enter overseas trades. BHP built 3 ships to trade in a triangular pattern from Australia's west coast to east coast, then to Japan and finally returning to the west coast. TNT in conjunction with ABC Container Lines also introduced an Australian manned vessel into the around the world trade, being a combined bulk and container vessel.

Whereas imported crude oil was carried exclusively in foreign flag vessels in the mid 1970s, Australian manned tankers commenced trading internationally both to and from Australia and also in the overseas tramp trades. Gas carriers were introduced to Australian tonnage also.

⁶⁰ Commission of Inquiry into the Maritime Industry Report June 1976. Parliamentary Paper No. 314/1976.

The natural advantage in the movement of bulk commodities substantially protected bulk shipping from the effects of improved land transport and the predatory pricing practices being pursued by the railways.

The reason for the survival of the bulk trades is the integral role that such products play in heavy industry in Australia where raw materials are frequently far from each other, from the main processing and manufacturing centres and from the markets.

Nevertheless, gains made in the bulk trades failed to offset the virtual demise of general cargo shipping.

By the early 1980s it was widely recognised that the Australian shipping industry was in a parlous state and a number of inquiries have reflected the concern.

A process of reform of the shipping industry commenced with the express purpose of revitalising the industry.

In 1981 the then Minister for Transport, Mr Ralph Hunt⁶¹ appointed Sir John Crawford to chair a committee representing shipowners and unions to examine ways to revitalise Australian shipping. The Crawford Committee made a number of recommendations which were subsequently implemented through the Maritime Industry Development Committee established by Minister for Transport Peter Morris⁶² in 1986.

When it was first accepted in the 1980's that something drastic had to be done to make the industry competitive, it was thought there were essentially four issues that had to be addressed.

One was that the industrial relations record of the industry was terrible. Up until the mid 1980's about 4% of ship days were lost through industrial disputes. This was addressed and industrial stoppages have been virtually eradicated from the industry.

It is worth noting that part of the rationalization that was to reform the Australian shipping industry was a reduction in the number of unions represented in Australian ships. In 1980 there were eight unions represented. By the mid 1990s there were three.

Secondly, the manning levels on Australian ships were way too high. In the mid 1980's Australian ships typically had manning levels in the low thirties. Negotiations which began in the late 1980s led typical manning levels to be reduced first to around twenty-six, then to twenty-one then to eighteen and now to less than that on many vessels.

⁶¹ This was under the Fraser Government. Ralph Hunt was a member of the Country Party (now the National Party) and was member for the Northern NSW seat of Gwydir, later to become the seat of former National Party Leader John Anderson.

⁶² Peter Morris was Minister for Transport in the Hawke Government. The initiatives of the Fraser Coalition Government to revitalise shipping were adopted and implemented by the subsequent Hawke Labor Government.

Thirdly, the system by which ratings were allocated to ships – the Seamen’s Engagement System, was an impediment to efficiency in the industry. This was a highly sensitive industrial, and, later, political issue. It was in April 1998 that this was really pushed as an issue of principle in the industry. It was also in April 1998 that the waterfront dispute erupted.

The shipowners’ industrial representatives and the Maritime Union of Australia managed to negotiate the engagement system out of existence without any industrial disruption whatsoever and the industry benefited as a result.

The fourth issue was that of fiscal assistance. During the 1980’s and up until 1996 there had been in place a combination of measures available which comprised the following:

The *Ships (Capital Grants) Act 1987*, which provided a taxable grant equivalent to 7% of the purchase price of the vessel. Vessels were eligible for the grant provided that they were crewed by Australian resident seafarers.

An amendment to the *Income Tax Assessment Act 1936* at Section 57AM which provided for accelerated depreciaton of vessels over five years commencing in the year prior to the vessel’s commissioning.

The *International Shipping (Australian-resident Seafarers) Grants Act 1994* (see Attachment 4) provided a grant which amounted to a rebate of the amount of Group Tax remitted by the employer on behalf of the crew in an eligible ship This is a common measure internationally, adopted by OECD countries such as Germany, Denmark and Sweden. To be eligible the ship had to be in overseas trade for more than 50% of the vessel’s time.

The first two of these measures had been introduced in the 1980s. The impact was such that between 1988 and 1994 alone, thirty-six new vessels were introduced into the Australian fleet which represented a turnover of some 45% of the fleet at that time.

The new vessels were generally larger, more fuel efficient, able to load and discharge cargo more quickly and more cost-effectively. The additional and replacement vessels represented an investment of over AUD 1.6 billion – in 1994 dollars.

2.7 The 1990s

One of the very first things the Coalition did on attaining office in 1996 was to repeal these measures. As a consequence, the shipping industry entered what it saw as a policy vacuum.

But in 1997 the then Minister responsible for Shipping, Peter Reith made it clear that the government would not even consider fiscal measures for the industry unless or until the seafarers’ engagement system had been dismantled. So its dismantling was negotiated and it was dismantled.

In 1998 the Minister for Transport , John Anderson, commissioned a report to advise on the creation of an internationally competitive Australian shipping industry, previous fiscal assistance measures and whether there were genuine threats to the long term sustainability of an Australian industry.

That report was handed to the Minister in May 1999. It was never made public.

In December 1999 the Deputy Prime Minister and Minister for Transport and Regional Services, John Anderson at a dinner in Melbourne announced that “Australia is a shipper nation, not a shipping nation”. This was an announcement that the fiscal measures which were the remaining outstanding issue, would not be provided by the Coalition Government.

The response of Australian ship operators was one of resignation. After four years of waiting for the Federal government to announce a policy direction on shipping the industry was not surprised to hear this response.

On a positive note, the Government’s negative response caused the industry to discover a series of points which the policy position had ignored.

The 2000s

One was that the Australian shipping industry labours under a legislative disadvantage caused by legislation that imposes costs on Australians that the foreign operators with whom the Government requires Australians to compete in coastal trades escape completely. This is because of the way certain parts of Part VI of the Navigation Act are applied.

Part VI of the Navigation Act provides for permits to be issued to foreign ships to allow them to operate in Australia.

It is interesting to note that the number of permits being made available by the Department of Transport and Regional Services has increased markedly. DOTARS contends that permits are made available where no suitable licensed ship is available to carry the cargo for which the permit is sought.

The attitude of the Australian shipowners to the proliferation of permits is in two parts: first, there is continuing dissatisfaction with a lack of consistency, predictability and informed administration in connection with the issuing of permits.

Secondly Australian shipoperators will charter ships into Australia using permits so taking advantage of a system that is regarded as very malleable.

The general view in the shipping industry in Australia is that administration of the permit system, and interpretation of the terms by which it is administered, is aimed at providing foreign shipping with as unfettered access as possible to Australian coastal shipping trades within the terms of Part VI of the Navigation Act.⁶³

⁶³ It is Part VI – The Coasting Trade - of the Navigation Act that gives effect to what is thought to be a cabotage policy in Australia.

The philosophy behind that objective is taken to be that the marginalization of Australian operators and the facilitation of foreign operators in Australia's coastal trades is providing cheaper freight rates to those who move cargo around the Australian coast by sea. This reflects the proposition that "Australia is a shipper nation, not a shipping nation".

Australia's well-established, increasing and policy impelled reliance of foreign shipping is damaging to Australia's economy.

How sustainable this position is is not clear and the status of the industry and the response of the Australian ship operators in that environment is a matter that the Rudd Labor Government elected in November 2007 said it would review.

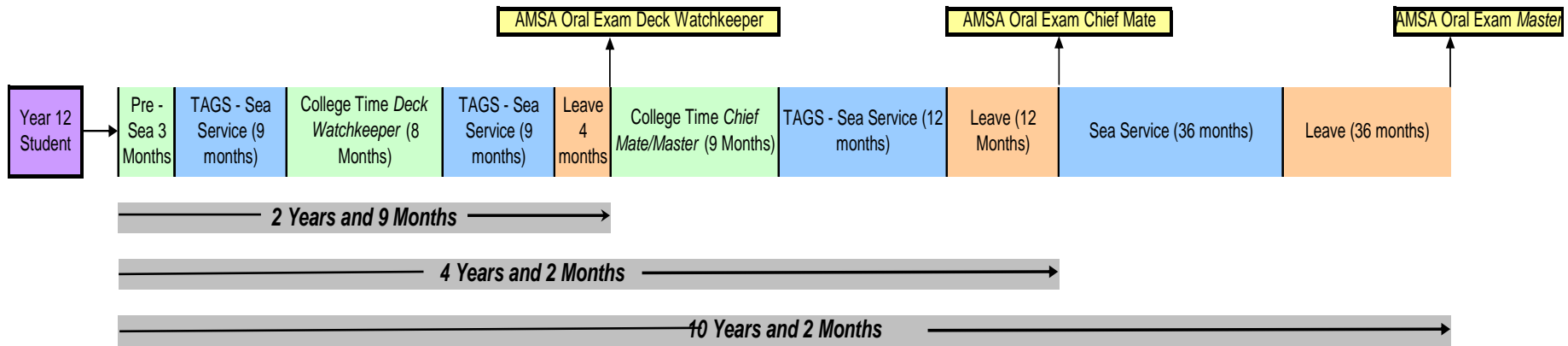
* * * * *

In March 2008, the Rudd Government announced a wide ranging review of Australian shipping to be undertaken by the House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government on coastal shipping policy and regulation.

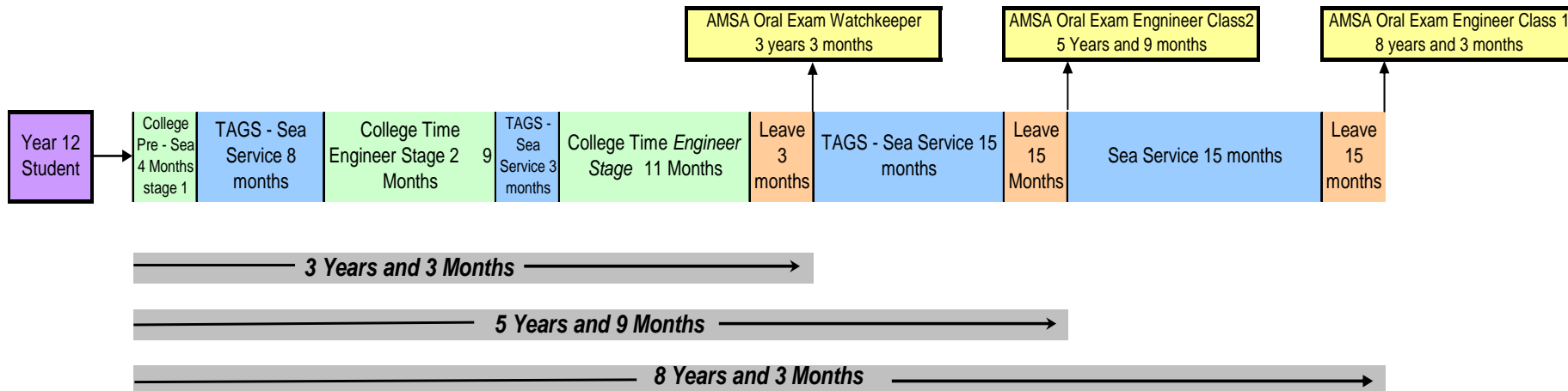
5.3 Attachment III

5.3.1 Seafarer training timelines

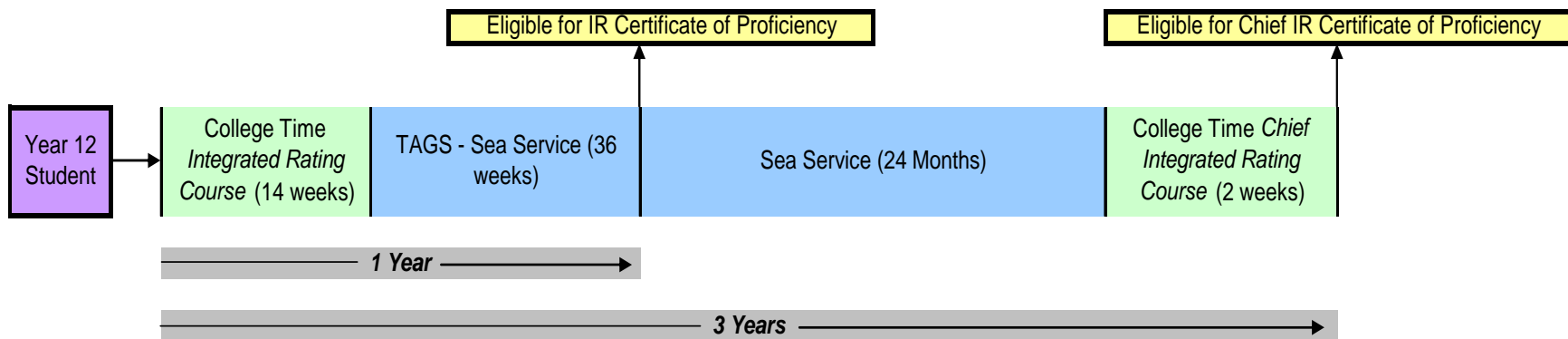
TIMELINE - Deck Officer Training
Marine Orders Part 3



TIMELINE - Engineer Officer Training
Marine Orders Part 3



TIMELINE - Integrated Ratings
Marine Orders Part 3



5.4 *Attachment IV*

5.4.1 Measures available in other OECD Nations

MERICK REPORT

Prepared for

Australian Shipowners Association (ASA)

FINAL REPORT

4th April 2008

Stage One - Comparative overview of government shipping policies

Introduction

This Report has been prepared for the Australian Shipowners Association (ASA) by Meyrick and Associates as preparation for an imminent submission and review process by the Australian federal government regarding future strategies and policies for the Australian shipping fleet (international/domestic).

The objective of the Stage 1 Report is to inform on the types and the broad workings of the policy measures in selected overseas countries which aim at strengthening and maintaining their respective shipping industries.

From late 1990s, developed countries, in particular European countries, have actively taken measures to protect their fleet under national flag and to enhance the international competitiveness of the shipping industry. Many of these measures have evolved around fiscal incentives, such as:

- Tonnage tax which is a lump sum tax based on the tonnage of the ship rather than on profits. Countries have applied various tonnage tax models - the majority of which give shipowners the freedom to choose between the traditional income taxation system and tonnage-based taxation system
- Favourable depreciation measures, which may include accelerated depreciation, advance depreciation, initial depreciation and favourable depreciation rate for vessel acquisition.
- Special exemption for the replacement of vessels with new ones (roll-over relief).
- Reduction in seafarers' social contribution, in which the social contribution is refunded in whole or in part to shipowners or seafarers.
- Reduction in or exemption of seafarers' income tax
- Subsidy for the dispatch and repatriation of seafarers, in which part of the repatriation fee is subsidized for seafarers' embarkation and disembarkation at foreign ports.

At the same time, the tendency towards establishing second or international registries and alleviating nationality requirements in the first registries has continued. Second or international registers set up by certain OECD member countries to provide tax exemptions for national seafarers and the freedom of contractual recruitment of seafarers belonging to non-member countries (at lower wage levels) have been playing an important role in the shipping policy of these countries. These registers are considered a viable alternative to subsidisation in order to maintain a national flag fleet, although it is argued that such registries are not capable of completely compensating for the cost advantages of vessels flagged under open and bareboat registries. A number of the second/international registers are 'indirect' and make use of former colonial or administered country's flags – this is particularly the case for the UK, France and The Netherlands.

The rest of this report will firstly present a snapshot of the shipping industries in selected countries. It then will describe the Governments' policies and strategies to strengthen their respective shipping industries.

The forthcoming Stage 2 Report will analyse the motives of the Governments in supporting their respective shipping industries and the importance of the resulting maritime clusters to the national economy.

Snapshot of shipping industries in selected countries

Selected OECD countries

A snapshot has been made of shipping industries in the selected OECD countries as shown in Table 1.

Table 1: Selected countries for overview of shipping industries and government policies

SELECTED COUNTRY:	REGION
1. UNITED KINGDOM (UK)	EUROPE
2. GERMANY	EUROPE
3. FRANCE	EUROPE
4. THE NETHERLANDS	EUROPE
5. DENMARK	EUROPE
6. UNITED STATES (US)	NORTH AMERICA
7. JAPAN	ASIA
8. SINGAPORE	ASIA

Scope of shipping industries – ‘maritime clusters’

Shipping industries in various countries can have a multitude of dimensions reflecting whether the country is positioned at a key intersection of a maritime trades leading to the need/opportunity for “physical” shipping industries, has an offshore oil and gas industry close by, is attractive for regional cruise-ship tourism, and/or the country has policies which make the registering, commercial management or crewing of ships very attractive. The activities of these shipping industries can be seen as ‘maritime clusters’.

‘Physical’ maritime clusters may comprise:

- Ship operations when calling at ports for direct (international and domestic) or transshipment trade – local shipping or shipping agent port offices
- Supply and replenishment services (crew, stores, fuel, etc.) for ships and/or offshore facilities.

‘Service-based’ maritime clusters may comprise:

- Cruise-ship tourism
- Insurance, finance and legal
- Ship registration
- Crewing (manning)
- Training and technical testing facilities
- National and international safety and environmental organisations
- Regional or international headquartering of commercial ship management

- Location of ship-brokering, cargo- and shipping- trading exchanges.

A country may be lucky enough to be endowed with “physical” opportunities and/or adopt strategies and policies aimed at growing and maintaining maritime clusters as an important component of the national economy.

Overview of shipping industries in selected countries

The United Kingdom (UK)

The maritime industry is considered by the government and industry as vital to the UK economy. According to the UK’s Department for Transport:

Ninety-five per cent of the UK's international trade in goods travels by sea and the combined net overseas earnings of maritime services and shipping is worth about GBP 2.5 billion a year.

Furthermore:

The City of London is the world's leading maritime centre, controlling about one fifth of the world fleet. Overseas owners with agencies in the UK sustain more than 4,500 City jobs including shipping law, banking and insurance. The United Nations International Maritime Organization (IMO) is based in London which adds a significant level of prestige and spin-off.

Germany

The maritime economy in Germany is a branch of the economy with very positive future prospects and a high total economic significance. On the basis of its close interconnections with the rest of the economy, it is of central interest to the Government’s industry policy; moreover, a large proportion of German external trade is seaborne.

According to Germany’s Federal Ministry of Transport, Building and Urban Affairs:

More than 220,000 people work in the maritime economy. The largest sector is maritime shipping (with approximately 49,000 employees and a turnover of more than 9 billion euros in 2003) which represents almost 32 percent of the national creation of goods and services and 23 percent of national employment.

As one of the world's leading exporting nations, Germany has a very great interest in free sea traffic on secure sea routes, since the largest proportion of German external trade is seaborne.

Furthermore, Germany also serves as a significant centre for shipping:

In 2004, 2,397 commercial ships were in the ownership of German shipping companies. In the strongly growing container ship sector the proportion of German owners with 903 ships is at 31 percent. Germany thus lies ahead of Japan, Greece, Taiwan and Denmark, which if taken together come to the same value.

France

France has traditionally had a shipping industry which supports its international trade and links with administered or former colonial overseas territories. In terms of the world's top twenty container shipping lines, the number three position is held by a French private shipping company (CMA-CGM) which also has interests in container stevedoring operations both in French and overseas ports. In general, it can be assessed that France's maritime cluster is less significant to the national economy than other prominent shipping nations in Europe (notably the selected countries of the UK, Germany, and Denmark).

The Netherlands

According to the Dutch Ministry of Transport, Public Works and Water Management:

Half of the goods-flow to and from the Netherlands occurs by sea, and amounts to over 430 million tonnes a year. Globalisation is also causing considerable growth — container shipping, for example, increases by seven to ten percent annually, particularly due to economic developments in China.

Shipping forms the heart of the 'maritime cluster', i.e. all companies involved in shipping and the sea: ship building, ports, inland shipping, offshore activities, fishing, marine, water sports, and so on. Shipping accounts for 35 percent of the total maritime cluster's turnover and is therefore of great economic importance.

Denmark

The scene in Denmark is set by the following series of statements made by Denmark's Ministry of Transport:

The Danish merchant fleet is recording steady progress. Business in the shipping industry is on the upswing. Key figures for the Danish fleet, such as tonnage, turnover and employment, are all continuing a positive trend. Due to an ongoing substantial newbuilding programme corresponding to some 75 per cent of the current size of the fleet, the average age of the Danish merchant fleet is now seven years, compared to a world average of about 13 years.

The 500 ships registered under Danish flag, with a total deadweight tonnage of 9 million tonnes, constitute one of the most modern and technically sophisticated fleets in the world. Shipping has become Denmark's second most important export earner, with an aggregate turnover of more than 100 billion DKK. This revenue derives mainly from international cross-trade operations between foreign ports. Danish shipping is truly international, and only 5 per cent of the tonnage is employed in national and neighbouring countries' waters. In fact, 75 per cent of the activities do not even include calls at European ports.

Danish ship owners employ more than 20,000 nationals and some 3,000 foreigners in the shipping industry alone. The inclusion of associated and maritime-related activities brings the estimated figure up to a total of 70,000 employees. Although Danish nautical schools provide excellent training facilities and the industry offers outstanding carrier opportunities, Danish owners are like many of their competitors experiencing problems recruiting a sufficiently large number of seafarers.

The United States (US)

The United States has traditionally had a shipping industry which supports the interests of national security (defence) and the protection of their domestic trades through cabotage regulation (the Jones Act – also justified as a function of national interest). In recent times (the late 1990's), the United States has ceded the need for a nationally-owned liner shipping company serving the US's international trades (i.e. the sale of CSX's 'Sea-Land' to Denmark's Maersk Line). In general, it can be assessed that the United States maritime cluster is less significant to the national economy than other trading shipping nations (the two specific exceptions in the United States being a significant level of maritime operations supporting the offshore oil and gas industry in the Gulf of Mexico, and a large cruise-ship tourism industry based in Florida).

Japan

According to the Japanese Shipowners' Association:

Japan depends heavily on imported energy resources as well as many indispensable commodities such as food, clothing and shelter, in which shipping industry plays a pivotal role in providing the stable transportation of these necessities from overseas. Seaborne trade accounted for 68.2% and 99.7% of Japan's trade in terms of value and tonnage respectively. Shipping serves as a leading means of transport for Japan's trade.

Singapore

According to the Singapore Ministry of Transport, the Government's view is:

To be an attractive maritime hub, offering a comprehensive suite of maritime ancillary services. A vibrant International Maritime Cluster (IMC cluster) will not only complement and reinforce Singapore's hub port status, but serve as an additional engine of growth for Singapore's economic progress.

We aim to do this by:

- *Attracting a core group of ship owners, operators and managers to base their operations in Singapore through a variety of fiscal incentives, and promoting and growing the Singapore Registry of Ships (SRS) as a quality flag;*
- *Developing the breadth and depth of maritime ancillary services offered in Singapore; and*
- *Enhancing Singapore's maritime operating environment through conducive and responsive regulatory and fiscal policies. This includes efforts to develop our maritime manpower, leveraging on IT and technology, and developing Singapore as a maritime R&D centre.*

Overview of government shipping policies & strategies in selected countries

This section provides a quick check-list and summary of which policies/strategies are being adopted by each of the selected country government's in supporting the development and maintenance of their respective shipping industries. In some cases, for instance the United States, it is clear that little government support is being provided in addition to the traditional measures aimed at protecting security / national interests.

Check-list of government shipping policies and strategies in place in selected countries

A check-list of government shipping policies and strategies in place in selected countries follows.

TABLE 2: QUICK CHECK-LIST OF GOVERNMENT SHIPPING POLICIES AND STRATEGIES IN SELECTED COUNTRIES

Strategy Areas	Measures	UK	Germany	France	Netherlands	Denmark	US	Japan	Singapore
Fiscal support	Tonnage tax	✓	✓	✓	✓	✓	✓		
	Favourable depreciation measures	✓	✓	✓	✓	✓	✓	✓	
	Special exemption for the replacement of vessels with new ones (roll-over relief)	✓	✓			✓		✓	
	Reduction in seafarers' social security premium	✓		✓	✓				
	Reduction in/exemption of seafarers' income tax	✓	✓		✓	✓			
	Subsidy for seafarers' dispatch & repatriation	✓				✓			
	Other tax concession			✓			✓		✓
Maritime skills	training	✓	✓						
Ship registry	Second/international registry	✓	✓	✓	✓	✓		✓	
Other	International maritime cluster	✓	✓		✓				✓

Summary of government shipping policies and strategies in selected countries

TABLE 3: OVERVIEW OF GOVERNMENT SHIPPING POLICIES AND STRATEGIES IN SELECTED COUNTRIES

Country:	Major policies to strengthen national shipping industries:		Remarks:
UK	Tonnage incentive	Tax <ul style="list-style-type: none"> • Follows the Dutch model. • Shipping companies that opt to tonnage tax have obligation to either provide training at a rate of one trainee per 15 officers or bear relevant financial responsibility. 	<ul style="list-style-type: none"> • Tonnage tax regime was enacted in August 2000 and is applied retroactively from 1 January 2000. • Till 2004 there was a 50% increase in UK flag vessels. • Main reason for re-flagging: the net tonnage of time chartered vessels is restricted to no more than 75% of the total tonnage of owned and chartered vessels, thus shipping companies have to increase the number of owned ships to apply tonnage tax to all ships.
	Favourable depreciation measures	Depreciation 25% on the reducing balance basis. Maximum depreciation ratio over the period of 5 years after acquisition of new vessels is 76%.	
	Roll-over relief system	<ul style="list-style-type: none"> • Taxes on income from the sale of old vessels deferred for 6 years if new replacement vessels are of UK, Commonwealth or EU registry. • No regulation on term of registry. 	It is reflected in Finance Act 1996.
	Reduction in seafarers' social security premiums	Medical insurance fee reduced 0.5% for UK-registered oceangoing shipping companies	It applies to seafarers on board vessels navigating in non-European waters.

Exemption of seafarers' income tax	Refunding or exemption of income tax to seafarers working outside the UK for at least 183 days in a year.	Regardless of the registry of the boarding vessel.
Crew relief	<p>Subsidizing the cost of operating with seafarers by meeting part of the expenses of relieving these crews in foreign ports. Such as:</p> <ul style="list-style-type: none"> • Section 76 of the Merchant Shipping Act 1995 allows financial assistance for travel costs for crew members who are UK resident • British Crew Relief Costs Scheme provides assistance in meeting the cost of flying British crew to and from distant ports (UK registry contributes GBP 1.4 million to this per year) 	<ul style="list-style-type: none"> • In normal case subsidizing 20% of normal economy class airfare. • The cost should be incurred by travel to or from a port which is outside Western European waters.
Support for maritime training scheme (SMarT)	<ul style="list-style-type: none"> • SMarT 1: training for first seaman's Competency Certificate • SMarT 2: onshore training for second level seaman's Competency Certificate • SMarT 3: onshore training to upgrade ratings' skills • SMarT 4: onshore training for officers in liner with the Amended STCW Convention 	SMarT is the integration of the Government Assistance for Training (GAFT) scheme and the Development of Certificated Seafarers (DOCS) scheme.
Second registry	Indirectly the Red Ensign Group category 1 registries of Bermuda, Cayman Islands, Gibraltar and the Isle of	These second/international registries provide the benefit of no crew nationality limitations (except that in general,

		Man; plus Anguilla, British Virgin Islands, Channel Islands, Falkland Islands, and Turks & Caicos Islands	levels of training / certification need to be equivalent to national flag or recognised as such). Gibraltar, the Isle of Man and Channel Islands registries do provide access to European cabotage (coastal trades), but in general this is reserved for UK and other European flag first registries.
<i>Germany</i>	Tonnage tax	<ul style="list-style-type: none"> • Follow the Dutch model • Shipping companies must do business and corporate management in Germany. Foreign shipowners must register their vessels in Germany and manage them from Germany. 	Main reason for re-flagging: as applicable vessels are limited to owned/co-owned ships of German registry, shipping companies have to increase the number of ships in these categories so that more vessels will be affected by tonnage tax.
	Favourable depreciation measures	Depreciation 25% on the reducing balance basis. Maximum depreciation ratio over the period of 5 years after acquisition of new vessels is 76%.	
	Roll-over relief system	<ul style="list-style-type: none"> • 50% tax on income from the sale of vessels deferred • Income from the sale of vessels owned for more than 6 years may be deducted from the value of acquired assets or of the vessels sold if replaced by new ones within 4 years. 	
	Crew nationality requirements	Amended to “captain (German) and 1 to 4 German or EU-national crew members”.	A further amendment is under consideration which requires German captain and one officer/rating of EEA nationality.
	Income tax relief	The German shipowners are allowed to retain 40% of	

for seafarers	the income tax which is deducted at source, for seafarers that work at least 183 days a year on German-flag ships engaged in international trades.	
KG-system ship financing	<ul style="list-style-type: none"> • Sufficient liquidity provided by German investors: ship financing is perceived as an essential part of the private investment portfolio • Competitive cost of equity, as due to the German Tonnage Tax system: pre tax returns almost equal to after tax returns • Readiness of investors to share market risks and corporate risks of charterers • Well established rules and procedures within the German shipping community 	
Second registry	In 1989, Germany established International Shipping Register (ISR) as a second register.	The objective of second register is to stop the flagging out of German ships by opening the possibility not to apply the German system on wages. Note: Assumed that crews can be non-German nationals. The ISR does not allow access to German cabotage (coastal trade).
Training	<ul style="list-style-type: none"> • Subsidy under Maritime Alliance for wage-related ancillary costs of seamen from Germany, as well as from the rest of the EU, employed on board German merchant ships. • Increase of financial contribution for seafarers training which incorporates a financial 	In order to promote seafarer training, from 2002, the financial contribution of the German Federation was increased to EUR 30,000 Euro per trainee.

		commitment on the part of German Shipowners Association.
<i>France</i>	Tonnage tax	<ul style="list-style-type: none"> • Open to companies that are liable to the French corporation tax and which generate more than 75% of their revenues from the operation of commercial ships • Qualifying ships include commercial ships of 50 or more gross tons, operated for the carriage of passengers or goods, towage in high seas, salvage activities, or maritime assistance or transport in connection with activities necessarily provided at sea • Owners or joint owners of qualifying ships may elect to enter the tonnage tax system for a renewable and binding 10-year period if: they operate the ships directly; ships are time-chartered or voyage-chartered; ships are bareboat-chartered, provided that the bareboat charterer is a related company that also has opted for the tonnage tax.
	Favourable depreciation measures	<ul style="list-style-type: none"> • Depreciation 31.25% of the declining balance method. • Maximum depreciation ratio over the period of 5 years is 94%
	Reduction in seafarers' social	<ul style="list-style-type: none"> • A 50% reduction in social security premiums borne • Only crew members on board French flag ships are

contribution	by shipowners	affected.
Professional refund	tax Refund shipping business proportion of professional tax (tax professionnelle, municipal tax)	
Oceangoing shipping modernization subsidy		
Second register	Indirectly – Kerguelen Islands (French Southern & Antarctic Territories), Wallis & Futuna Islands	These second/international registries provide the benefit of no crew nationality limitations (except that in general, levels of training / certification need to be equivalent to national flag or recognised as such). These registries do not provide access to cabotage (coastal trades).
<i>Netherlands</i> Tonnage tax	<ul style="list-style-type: none"> Choice between ordinary corporate tax based on profit, or tonnage tax based on net operating tonnage. Once opt to tonnage tax, the minimum block-in time is 10 years. Apply to companies incorporated in Netherlands, controlled mainly from Netherlands, or managed through a branch located in Netherlands 	Main reason for re-flagging: because all chartered vessels as well as excessive tonnage fall out of application if net tonnage of time charter exceeds three times the total net tonnage of owned/co-owned ships and bareboat charter vessels, the shipping company must increase the number of owned ships in order to apply tonnage tax to all vessels.
Favourable depreciation measures	The rate for decreasing depreciation (based on book value) is set at 11.8% for new buildings. In addition to this the possibility has been created for accelerated	

		depreciation of 5x20% with the usual residual value of 10-15%.	
Measures to promote employment of seafarers	to the of	<ul style="list-style-type: none"> Shipowners are granted an income tax and social security premium refund equal to 40% of seafarers' wages. 10% maybe deducted for crew members on board Dutch flag ships that do not reside in Netherlands. 	Only crew members on Dutch flag ships are affected by these measures.
Relief nationality restrictions for crew members	in for	Non-Dutch captains of EU or EEA nationality passing certain tests are allowed on board for a maximum of two years.	
Second registry		Indirectly – the Netherlands Antilles	This second/international registry provides the benefit of no crew nationality limitations (except that in general, levels of training / certification need to be equivalent to national flag or recognised as such). No access to cabotage (coastal trade).
Crew nationality requirement		<ul style="list-style-type: none"> The liberalization of the “Dutch Manning Act” with regard to the nationality requirements concerning the captain in 2004. All foreign candidate captains, chief officers and chief engineers, have to pass an exam in Dutch shipping legislation that includes a section on security issues, before a Dutch endorsement of recognition is issued. 	<p>Under the new requirement, candidates of captains should be:</p> <ul style="list-style-type: none"> Dutch or EU or EEA national or A national from one of the countries with which the Netherlands had concluded a Memo of Understanding concerning the recognition of

seafarer certificates, as indicated in Regulation 1/10 of the STCW.

<i>Denmark</i>	Tonnage tax	<ul style="list-style-type: none"> Choice between ordinary corporate tax based on profit, or tonnage tax based on net operating tonnage. Regardless if ordinary corporate tax or tonnage tax was chosen, minimum block-in time is 10 years. Applicable to Danish companies, EU companies with permanent facilities in Denmark, or companies managed or paying taxes in Denmark. 	<p>Main reason for re-flagging: time charter vessel tonnage is restricted to 80% or less of the sum of tonnage of owned ships and charter vessels, shipowners have to increase owned ships to apply tonnage tax to all vessels.</p>
	Favourable depreciation measures	<ul style="list-style-type: none"> The method of advance depreciation is allowed. Depreciation 30% of the declining balance method. Maximum depreciation ratio over the period of 5 years after acquisition of new vessels is 88%. 	<p>The conditions for applying advance depreciation include:</p> <ul style="list-style-type: none"> A binding contract is entered into The contract is for delivery or completion of assets within 4 years following the awards of the contract The original contract price exceeds EUR 165,785.
	Danish international ship registry system (DIS)	<ul style="list-style-type: none"> Allows the employment of non-Danish crew members other than captains at a pay scale equal to that in their home country Income tax exemption for crew members on board DIS vessels 	<p>An alternative second/international registry also used is the Faeroe Islands (Note: Assumed that crews can be non-Danish nationals). The DIS does not provide access to Danish cabotage (coastal trade).</p>
	Income tax	Exemption of taxable income for crew members on	

	exemption for board DIS vessels seafarers	
	Seafarers repatriation aid	A 50% subsidy of the repatriation fee for seafarers on board for more than 6 months.
US	Tonnage tax	<ul style="list-style-type: none"> • Job Creation Act 2004 allows corporations that operate “qualifying vessels” to elect a tonnage tax on their shipping activities in lieu of the regular US corporate income tax. • The tonnage tax is calculated based on the tonnage of the vessel and the days used in US-qualifying trade. • “Qualifying vessels” are self-propelled US-flag vessels of not less than 10,000 deadweight tons used in US foreign trade. • Foreign corporations may elect the tonnage tax if they have qualified vessels, without impacting the exemption from freight tax under applicable equivalent exemptions or treaties.
	Favourable depreciation measures	Under the accelerated depreciation system for shipping investment, by using the liberalized provisions for computing depreciation a business can recapture 50% more of its investments in a fixed asset during the first half of the asset’s useful life than it could when it was limited to straight line depreciation as in actual depreciation.
	Maritime Security Program (MSP)	<ul style="list-style-type: none"> • Since 1997, MSP is introduced based on the Maritime Security Act, which stipulates the maintaining of a national flagship merchant fleet • The annual amount of subsidy is \$2.13 million per vessel.



Stage One - Comparative overview of government shipping policies

		<p>deployable in emergencies.</p> <ul style="list-style-type: none"> A total of \$100 million per year is subsidized for up to 47 US flagships for 10 years, starting from fiscal year 1997. 	<ul style="list-style-type: none"> Till September 2003, 47 vessels from 10 shipping companies have received this subsidy.
	Second registry		Use is sometimes made of the Marshall Islands as a second/international registry (Note: Assumed that crews can be non-US nationals). No access to cabotage/Jones Act trade.
<i>Japan</i>	Favourable depreciation measures	Accelerated depreciation 18% and normal depreciation of the declining balance method over the useful life of 13 to 15 years. Maximum depreciation ratio over the period of 5 years after acquisition of new vessels is 61% (66% for tanker and 67% for double hull tanker)	
	Roll-over relief	Shipowners are allowed to reserve profits on the sale of ships for a number of years on a tax-free basis, provided that these profits are reinvested in ships.	This is defined under the 1996 Amendment to the Maritime Transport Law of 1949.
	Second registry	Employment of foreign seafarers is allowed at a pay scale equal to that in their home country. A reduction in or exemption of their income tax under certain conditions is also allowed.	Note: Likely this does not provide access to cabotage (coastal trade).
<i>Singapore</i>	Approved International Shipping	To qualify, companies had to be significant owners and operators and have directly attributable business spending of at least S\$4 million a year in Singapore. A	

Enterprise Scheme (AISE)	<p>company was required to have at least 10% of its fleet registered under the Singaporean flag.</p> <p>Foreign shipping companies awarded AISES status are exempt from paying tax on income earned from trading outside Singapore.</p>	
Ship registry	<p>The Singapore register is open to citizens and permanent residents of Singapore, as well as companies incorporated in Singapore.</p> <p>There is no any restrictions on the nationality of crews of foreign going ships, and accepts certificates of competency from countries party to SCTW and from most Commonwealth countries.</p> <p>Income derived or deemed to be derived from the operation of Singapore ships is exempt from income tax in Singapore.</p>	<p>In the case of a company incorporated in Singapore, there are no restrictions on the proportion of equity that may be owned by foreign interests. The company must, however, have a paid up capital of a minimum paid up capital of S\$50,000 or 10% of the value of the first vessel registered under its ownership, whichever is the lesser. This requirement is capped at S\$500,000.</p>
Tax exemption	<ul style="list-style-type: none"> • The Government offers automatic withholding tax exemption on interest payable on offshore loans taken to acquire a group of Singapore-registered ships. • For a period of 5 years from the financial year ended 2004, gains from disposal of vessels owned by an AISE are also exempt from Singapore income tax. This exemption is also available to non-AISE shipping companies but limited to the sale of Singapore-registered ships. 	

Conclusions

By reviewing the information for the selected OECD countries, a number of overarching conclusions and general directions can be inferred:

- Governments do recognise, acknowledge, and support the valuable role that shipping industries can play for a national economy
- They have implemented and refined policy measures and strategies over the last 10-15 years to turn around the erosion of shipping industry competitive positions and grow their national fleets either directly or indirectly
- The supportive policy measures adopted by governments tend to centre on two main pillars, both of which being linked in lesser or greater degrees to the need for training (growing the national seafaring workforce) but at the same recognising the relatively high cost position of nationals versus cheaper (non-national) labour (i.e. foreign / mixed crewing in the first and second registries). The two pillars are:
 - Promotional policies which include fiscal (taxation relief) and the establishment of “second/international registries” (note: these registries have restrictions and do not generally provide access to cabotage/domestic trades)
 - Deregulation and relaxation of regulatory regime, which include cabotage and alleviation of officer nationality requirements.
- The supportive policy measures are being used in a complimentary (not either or) manner as part of a national shipping industry strategy to nurture and maintain important maritime clusters, of which the national shipping fleet is an important part.

5.5 Attachment V

5.5.1 Number of CVPs Issued

The Australian Shipowners Association maintains a database which tracks Continuing Voyage Permits made available to non-licensed vessels pursuant to Part VI of the *Navigation Act 1912*. The containerised traffic tabulated above is, except for the exceptions in the Tasmanian and Western Australian trades above, carried in the non-licensed vessels which are granted permits by the Minister for Transport under guidelines administered by the Department of Transport and Communications.

Table 5 summarises the ASA database from December 2002 when the data began to be collected, to March 2008.

Table 5: Continuing Voyage Permits (CVPs) – summary of permits issued and periods of currency – December 2002 to March 2008⁶⁴.

Total CVPs in database		637
Foreign ships permitted to carry domestic cargo in period		131
CVPs current at August 2004		22
Number of vessels for which successive permits had been sought and granted		86
Number of current permits which are successive permits		7
CVPs issued – ship types	Container ships	91
	General cargo ships	15
	Self-discharging bulk carriers	3
	LPG Tankers	11
Current CVPs – ship types	Container ships	12
	General cargo ships	3
	Self-discharging bulk carriers	2
	LPG Tankers	4
Main ports: permits issued	Melbourne	427
	Sydney	410

⁶⁴ Note that this analysis does not include Single Voyage Permits issued by The Department of Infrastructure, Transport, Regional Development and Local Government.

	Brisbane	454
	Fremantle	220
	Adelaide	198
	Gladstone	118
	Townsville	108
	Newcastle	74
	Bell Bay	101
	Separate Australian ports for which permits valid	39

Source: ASA CVP Database

The reference to ‘successive permits’ means instances in which three month permits are sought and granted contiguously – either without a break in time or with a break of 1 month or less. The administration of the permits and the visa availability for the foreign crews of the vessels concerned are aligned in such a way that vessels with permits can operate in Australia’s domestic sea freight industry continuously provided only that they leave Australia and travel to a port outside Australia at least once in any three month period.

This criterion is readily and conveniently met by foreign vessels engaged in overseas container trades in which Australia forms part of their trading loop. It also means that Australian operators, subject as they would be to Australian legislative requirements not applicable to their foreign counterparts operating in Australia, encounter foreign competition at foreign cost levels in Australia’s domestic sea transport industry.

Foreign ships are largely protected from Australian competition in the market for the carriage of containerised freight in Australia’s domestic sea transport industry.

The question of the competitive advantage enjoyed by foreigner operators using foreign labour in foreign vessels in Australia’s transport logistics industry, and the associated question of the appropriateness of the competitive disadvantage imposed by Australian law on Australians seeking to participate in that industry are complex.

They are raised in this submission to draw attention to an anachronism of regulation that exists within Australia’s transport regulatory environment. Be the disparate regulatory environment of foreign shipping in Australia and Australian shipping in Australia as it may, the attractions of the use, where practicable, of sea transport over road and/or rail transport are numerous.

5.6 Attachment VI

5.6.1 Commentary on PAN Shipping

In 2006 a start-up Australian ship operator, PAN Shipping decided to introduce container ships into the coastal container trade.

It was well known that foreign ships using permits were carrying increasing volumes of containerized cargo and PAN apparently felt that there was sufficient cargo to sustain a permanent, dedicated shipping service.

PAN started with one near-new container ship. The problem with one ship is that it is not possible to maintain a frequency of service such that the ship can pick up cargo three days either side of the date on which the cargo can be carried – this is referred to as the six-day “window” provided for in the Ministerial Guidelines.

If a licensed ship can pick up cargo during the six-day window then it has satisfied at least one of the criteria determining whether a licensed ship is available to carry the cargo. If not, then the licensed ship is said not to be available and a permit will be issued for the carriage of the cargo by a foreign ship.

PAN introduced a second ship and intended to introduce a third which presumably would have provided the “availability” necessary to access the cargo needed to make the operation viable. Unfortunately the second ship had serious technical problems and it appears that the operation never got up and running in the way its proprietors had hoped.

The PAN venture attracted a lot of attention. The ABC ran a “7.30 Report” item on it and the industry watched with interest as a real-life new example of how the permit system is administered was played out. For example, a permit ship had to unload domestic containers so that the licensed ship could carry them.

PAN Shipping’s various difficulties became insurmountable and they stopped trading later in 2006.

The PAN experience gave rise to a number of developments. First, it so happened that early in 2006, ASA had been developing the concept of a new kind of permit that would have fitted neatly into the existing permit structure and would have provided for the evening-out of some of the worst disparities between licensed and permit ships operating under the Navigation Act.

The concept had gained the support of ASA’s members, some of whom are amongst the largest cargo interests in Australia and globally. Steps had been taken by ASA to canvas the concept with manufacturing groups to see whether they saw an attraction in having a dedicated, reliable, competitive Australia coastal container shipping service. They did see merit in that proposition and were indicating support for the idea.

Then PAN started operations and the impression was created, whether rightly or wrongly we do not know, that a dedicated Australian coastal container shipping service was unreliable and uncompetitive. The sentiment that had been supportive of the ASA concept became distinctly unsupportive outside ASA's membership and ASA's idea had to be shelved.

It may even have been that some groups thought that the PAN venture was the same idea that ASA had been talking about. It was not. The coincidence of ASA developing its concept and the rise and fall of PAN was purely coincidental.

So the PAN experience did the Australian shipping industry and its aspirations no favours at all.

The second development was that some of the foreign ships that had been carrying coastal containers under CVPs suddenly saw an Australian, licensed PAN ship materialize and claim preference to some of the containers that the foreign ships had previously been lifting. The astute response of one operator was to obtain licenses for two of its foreign container ships.

This was a first. It gave rise to some interesting questions about coverage of certain regulatory issues. It also called for more flexible criteria for determining whether a ship on an international voyage was imported or not and it required an answer to the question as to what "Australian rates of wages" meant under Section 289 of the Navigation Act.

Had PAN had access to three ships of the technical quality of their first ship the outcome might have been different. We are aware that there was a range of issues behind PAN's demise but the main one for the purposes of this discussion is that with the equipment available, PAN was not able to break into the Australian coastal container trade.

The PAN experience did Australian shipping a great disservice. It created the impression amongst the industry's customers that Australian shipping was somehow not capable of competing against foreign interests operating in Australia.

But on a positive note it may have inadvertently pointed the way to at least the possibility that an Australian carrier could once again be a significant player in coastal general cargo trades by sea.

