THE AUSTRALIAN INSTITUTE OF MARINE AND POWER ENGINEERS

SUBMISSION TO HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON INFRASTRUCTURE, TRANSPORT, REGIONAL DEVELOPMENT AND LOCAL GOVERNMENT INQUIRY INTO AUSTRALIAN COASTAL SHIPPING

The Australian Institute of Marine and Power Engineers

The Australian Institute of Marine & Power Engineers [AIMPE] was formed in 1881 by Marine Engineers in Australia and New Zealand. The national organization brought together local Districts which had formed in the 1870s in the major ports of the colonies.

AIMPE has continuously represented the professional and industrial interests of marine engineers since its formation.

AIMPE has been a Federally registered trade union since 1906.

Today AIMPE has around 2,500 members who are employed on merchant ships [both coastal and international], offshore industry vessels, tugboats, dredges, ferries, floating production facilities and many other specialized vessels.

Marine Engineers operate and maintain the main propulsion systems on these vessels and the ancillary power generation and other machinery which enables the functions of the vessel to be carried out.

Marine Engineers hold operational licences known as Certificates of Competency issued by the Australian Maritime Safety Authority [AMSA] pursuant to a Convention of the International Maritime Organisation [IMO] known as the Standards of Training Certification and Watchkeeping [STCW]. These Certificates require successful completion of Diploma, Advanced Diploma or Degree level studies together with seagoing experience and oral examinations. Australian Marine Engineers are highly respected in the international maritime industry.

In addition State and Territory maritime authorities issue licences for Marine Engineers to operate and maintain smaller powered vessels.

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Executive Summary

The Australian Institute of Marine and Power Engineers [AIMPE] commends the Federal Government for taking the prompt decision to conduct a Parliamentary Inquiry into the Australian Coastal Shipping Industry.

Coastal shipping is a key sector of the Australian maritime industry and plays a vital role in supporting many strategic industries ashore. Yet coastal shipping has languished in comparison with the road and rail freight industries. Government policies and expenditures have overwhelmingly been concentrated on the land-based freight modes.

Currently coastal shipping operates under laws which date back to the early days of Australia's Federation. In the first decade of the new millennium this Parliamentary Inquiry gives Australia an opportunity to overhaul the steam-ship era, colonial style Coasting Trade provisions of the Navigation Act. The Committee has an historic opportunity to identify an appropriate legislative, regulatory, fiscal and administrative framework to replace those inadequate and outdated provisions.

AIMPE's submission proposes the introduction of ***a positive shipping policy*** for Australia. A key part of a positive shipping policy is the substantial amendment of the Navigation Act to ensure that coastal shipping is required to comply with Australian laws in a similar manner to all other sectors of Australia's domestic freight transport industry.

AIMPE also proposes that it is necessary to introduce some ***economic support policies*** for Australian shipping in order to enable the industry to undergo renewal and expansion. In comparison to the existing support policies for the other domestic freight transport sectors these proposals are extremely modest in nature.

AIMPE further proposes that there is significant scope for and need to increase the co-operation between the Australian coastal shipping and the ***Australian Defence Forces***. Such an approach can have substantial benefits for both our coastal shipping and our defence preparedness. Without such an approach Australia will not optimize our maritime security regime.

AIMPE additionally proposes that there is a need for the Federal Parliament to ensure the application of all Australian laws to commercial operators who seek to deploy vessels within Australia's ***Exclusive Economic Zone***.

Coastal Shipping in Australia Today

The forces of globalization have wrought major changes on the economic patterns and relationships around the world in the last 20 years. International trade has grown very rapidly over the last decade and is predicted to continue to rise in the decade ahead.

Shipping in Australia – coastal trades and international trades – responded in the 1980s and the early 1990s with a sequence of major reform measures which saw radical restructuring including massive reductions in the size of crews on ships. Average crew size on Australian vessels went from 36 to 17 in little over a decade. This reduction was accompanied by introduction of new technology in almost all aspects of ships' operations. The changes were achieved by a process that was at times painful but did not involve any industrial disputation. The reform process was tripartite in nature [shipping companies, government and unions] and generally had bipartisan political support.

However the last 11 years have seen a dramatic departure from that tripartite reform period. All Federal Government support for Australian shipping was withdrawn in 1996 and subsequently policies were introduced which have had a severe, negative impact on Australian shipping. That impact is on-going.

The Australian coastal shipping industry is in the worst position it has been in for many decades. Australia's coastal shipping fleet has diminished significantly as has the Australian international shipping fleet. In making this submission AIMPE is referring to the number of coastal ships that are registered in Australia [i.e. ships that fly the Australian maritime flag – the Australian Red Ensign]. There has been some confusion about the number of ships and the size of the decline – this is because different definitions have been applied at different time by different parties.

Under the Navigation Act, 1912, ships that participate in the Australian coasting trade are required to be **licensed** for that purpose. This is a requirement of Part VI of the Navigation Act. Part VI does not require that licensed vessels should be registered under the Shipping Registration Act. In AIMPE's submission this is a fundamental flaw of the current provisions.

The Navigation Act also provides that **permits** may be issued to vessels that are not licensed for the coasting trade. The issuing of permits was originally intended to fill a temporary lack of capacity in the Australian flag fleet, to facilitate development of new trades or to meet a specialized need which Australian shipping could not fulfil. It was intended that the permits would foster the growth and expansion of the Australian flag fleet. Instead permits have been abused such that they are now being used as a tool to undermine the Australian flag fleet.

During the decade commencing 1996 the numbers of permits that have been issued by the Federal Department of Transport have grown dramatically. In 1995 permit ships carried less than 10% of Australia coastal freight - now well over 30% of Australian coastal freight cargoes are carried on 'permit' ships.

Figures on both single voyage permits (SVPs) and continuous voyage permits (CVPs) are collated by the Bureau of Infrastructure, Transport and Regional Economics (BITRE) and published periodically in their Waterline publication. The largest numbers of permits are issued to container ship operators who typically are engaged in liner services between Asia and Australia. Coastal cargoes are carried to supplement the revenues earned by the carriage of international cargoes. However in terms of quantity the biggest volumes of cargoes carried are bulk cargoes – both dry bulk and liquid bulk.

The dry bulk ship operators who are utilizing permits are moving large amounts of iron ore and other minerals around the coast on a routine basis. Some of these are in triangular trades – where coal from Australia's east coast is exported, the ships return to the

west coast empty and the pick up iron ore for the east coast. There are some vessels in this combined international/coastal trade which still carry Australian crews on Australian conditions.

The liquid bulk cargoes are primarily crude oil and refined petroleum products which are carried by foreign flag tankers with foreign crews in patterns which are organized by the oil majors. Chemicals and other liquids are also carried in specialized tankers.

The Ministerial guidelines on the issuing of SVPs and CVPs have been altered to reduce the transparency of the process. This has had the effect of preventing Australian flag operators and other interested parties from making any submissions to the Department about applications. Furthermore applicants are permitted to artificially construct their applications so as to preclude existing operators from providing their vessels to carry the freight. More recently applicants have simply been allowed to assert that lower freight rates are available by the utilization of foreign flag, foreign crewed vessels.

As a result of the administrative promotion of permits Australian coastal ship operators are actually encouraged to remove their vessels from the coast, terminate the ship's personnel and thereby take the Australian ship out of service. They then change the registration of the vessel to a foreign register and engage a foreign crew and make an application to the Department for permits to operate the vessel. This could be described as the **re-flagging rort**. This has been done on a number of occasions. AIMPE has compiled **Appendix A** which lists the Australian flagged vessels which have been through this re-flagging rort process and brought back on the coast to operate outside of our Australian legal framework.

Additionally some Australian flag vessels have been purchased by foreign interests, removed from the Australian Coasting trade and other similar types of vessels registered under foreign flags have been utilized by the same foreign interests to move the cargoes around the Australian coast using permits.

In this way the existing the administrative procedures have allowed the provisions of Part VI Coasting Trade of the Navigation Act 1912 to be bastardized. Provisions which were intended to supplement the Australian flag coastal fleet have been twisted to facilitate the substitution of the Australian flag by a variety of foreign flags. The Department responsible for the administration of the Australian maritime industry has been complicit in undermining the Australian Red Ensign.

The coastal shipping administrator in DOTARS is contactable by an email address svp@dotars.gov.au. This minor detail is a tragic reflection of the Federal Government attitude to Australian coastal shipping.

If the abuse of permits is not remedied it is only a matter of time before all Australian flag vessels in the coastal trade will re-flag to foreign flags.

Many of these foreign flag vessels are registered in nations which are not signatories to nor comply with the various maritime conventions of the International Labour Organisation. Australia has been an active participant in the ILO since its inception in 1919. Australia has proudly asserted its record in the ratification of ILO Conventions. A new Consolidated Maritime Labour Convention has been completed in 2005 and Australian Governments [State and Federal] are giving consideration to the ratification of the Consoidated Convention. It would be a massive hypocrisy for Australia to ratify the Consolidated Maritime Labour Convention and then encourage our coastal shipping industry to actively take steps to avoid the responsibilities of the Convention by converting Australian flag ships to foreign flags registration of non-complying States.

Some of the operators of these foreign flag vessels employ Australian crews under Australian Agreements however others do not. If the Federal Government does not take action to ensure that Australian laws apply in full to coastal trading vessels of all types [permit or licensed] then there will be economic pressure for all operators to exploit foreign labour under foreign conditions.

The Coasting Trade provisions still

give primacy to licensed vessels over permit vessels and Pan Shipping attempted to exercise the preferred status of licensed vessels when it introduced the Boomerang 1 in 2006. This vessel was operating for some months carrying containerized cargoes from east to west/west to east. The operation collapsed however when its expansion plans led to the chartering of a second vessel which turned out to be unsatisfactory. An AMSA inspection found many defects which would have cost millions to repair.

The Pan Shipping experiment left some foreign permit operators unhappy because they had lost part of their operating revenues. Two of these foreign operators, ANL Containerline Pty Ltd and then subsequently Malaysian International Shipping Corporation Berhad (MISC), took action to protect their operations. Between them they have sought and been granted licenses for 5 container ships to operate on the coast. These are all foreign flag vessels operated by foreign crews and not covered by Australian industrial or related laws. Ordinary seamen on these vessels are working under contracts which pay them as little as US$5,000 per annum. The impact of the Navigation Act is that when they sail the coastal leg they are paid a supplement to bring their daily pay up to minimum Australian award rates. This is well below the prevailing rates in Australia. They do not enjoy normal Australian conditions like leave, superannuation and similar Australian employment entitlements. And they revert to their low wages when they depart the coast. AIMPE has compiled **Appendix B** to identify the licensed vessels operating with foreign crews in the coasting trade. This could be referred to as the **licensed vessel loophole.**

There are several foreign flag vessels that are licensed to participate in the coastal trades which employ Australian crews under Australian Agreements. If the policies of the Federal government are not altered significantly it is only a matter of time before these operators follow the lead and adopt the low-cost model of employing foreign crews on foreign conditions.

By way of separate observation, a number of licensed vessels are registered under flags where the national government has introduced support mechanisms like a tonnage tax. Many if not most significant shipping nations use a tonnage tax to encourage operators to register their ships under their particular flag. These include nations like the United Kingdom. A U.K. flag ship operating on the Australian coast with a licence is able to take advantage of the UK tonnage tax. AIMPE will address the economic policy question later in this submission.

If the permit and licensing laws, regulations and administrative policies are not fundamentally altered the "Australian coastal shipping industry" may well be operated 100% by foreign vessels with guest labour in the not too distant future.

AIMPE's submission proceeds on the basis that it is in Australia's national interest that Australian laws apply to all sectors of the domestic freight transport industry including coastal shipping. Any other approach is inconsistent with our status as a sovereign nation.

A Positive Coastal Shipping Policy

Australia's proximity to the two emerging economic power-houses of the new millennium – China and India- and our wide range and large reserves of various commodities has meant that Australia has seen a boom in our international trade.
Projections indicate a similar boom in Australia's domestic freight task too.

In the 21st century Australia needs to look at all transport options to best manage our national economic and social development. At the moment the Auslink policies [I & II] concentrate almost exclusively on road and rail policy and expenditure. AIMPE believes that there are sound reasons that there should be a positive policy towards Australian coastal shipping. This submission will put forward some of the arguments in favour of such a positive policy stance. These include:

- Economic benefits
  – to reduce the deficit on invisibles;

- Environmental benefits – including CO2 reduction;
- Security enhancement – based on the MSIC and related processes;
- Competitive neutrality between freight modes;
- Self-sufficiency in coastal shipping capacity; and
- Support for the Australian Defence Forces.

A clear signal of the intent of the Government to support the revival of the Australian coastal shipping industry would be to establish a small focused Australian Government body with the task of promoting the expansion of the Australian Maritime Industry. Such a body could turn around the negative outlook caused by the policy uncertainty of recent years and give shipping operators assistance in developing a transport mode which delivers major economic and social benefits to the nation

The Australian Government's national transport policy should be neutral between domestic transport sectors. But in recent years AIMPE submits that Federal transport policy has been negatively weighted against coastal shipping. Foreign shipping operators have been encouraged to seek a variety of ways to circumvent the application of Australian laws in their participation in the coastal shipping industry.

AIMPE submits that all domestic transport sectors should comply with the full range of Australian laws unless there is an explicit policy reason for temporary waiver of specific aspects of those laws. Imported motor vehicles must comply with Australian design and registration laws and drivers in Australia must comply with Australian [State] licensing provisions. When motor vehicles are used for commercial purposes they must comply with Australian commercial laws and regulations. AIMPE submits that the Navigation Act requires amendment to ensure that similar policy approach is applied to all shipping in Australia.

Navigation Act Requires Amendment

The Navigation Act 1912 was the first effective shipping legislation enacted by the Australian Parliament. There are a number of provisions in the Australian Constitution which relate to navigation. The main sections of the Constitution that are of relevance are as follows:

> **51.** The Parliament shall, subject to this Constitution, have power to make laws for the peace, order, and good government of the Commonwealth with respect to:
>
> (i.) Trade and commerce with other countries, and among the States:
>
> (vii.) Lighthouses, lightships, beacons and buoys:
>
> **92.** On the imposition of uniform duties of customs, trade, commerce, and intercourse among the States, whether by means of internal carriage or ocean navigation, shall be absolutely free.
>
> **98.** The power of the Parliament to make laws with respect to trade and commerce extends to navigation and shipping, and to railways the property of any State.

Clearly there is a strong emphasis on the trade and commerce functions as the focus of the exercise of the new Federal Parliament's powers. The cross-reference to "among the States" is also significant. This subsequently led to litigation which effectively put intra-State trading beyond the reach of the Federal Parliament's law.

It should not be overlooked however that the external affairs power of the Australian Constitution has been exercised extensively in maritime matters. Australia has ratified very many Conventions of the UN's International Maritime Organisation. Australia has also ratified almost all of the maritime labour conventions of the UN's International Labour Organisation. Together these represent a complex web of obligations that regulate quality shipping around the world.

While the date of the legislation in its title is 1912, the actual implementation date of the new legislation was deferred until 1923 at the request of the British

Government. This was not too surprising a development as the legislation only took firm shape after a conference in London provided the approval of the 'mother country' of the acceptable form of the new laws.

Australia while asserting its new found independence and creating its own shipping legislation did not cut the apron strings. The Navigation Act 1912 adopted much of the UK Merchant Shipping Act of 1894. When it came to the coastal shipping question the Navigation Act did not set down a clear strong policy about what the nation required. Instead it imposed some limited obligations on those operating in the trade at the time – that they pay Australian wages and that if there was a library for passengers on board it should be made available to the crew. The term "Australian wages" is defined as including emoluments.

Subsequently the coasting trade provisions have been amended so that the legislation now says far more about how ships can be exempted from these limited requirements than about the requirements themselves. The requirements of licensed ships have been "clarified" by narrowing the meaning of the term Australian wages to minimum rates of pay only rather than prevailing wages and conditions generally.

When the maritime unions sought to have minimum award conditions apply to ships regularly and exclusively trading on the Australian coast, the High Court judges by a decision in 2003, agreed 7-0 that the Australian Industrial Relations Commission had jurisdiction to handle this matter. The company concerned, CSL Pacific Shipping Inc., used every procedural tactic that it could to frustrate the AIRC in the exercise of this jurisdiction. However the Howard Government in the legislation known as "Workchoices" stripped the AIRC of this jurisdiction. Regulation 1.1, Chapter 2 of the "Workchoices" legislation excluded permit ships and the seafarers in the clearerst example of the exploitation of guest labour in Australia today.

It is against this long-term legislative background and the more recent developments of the 21st century that AIMPE submits it is time that the Australian Federal Parliament set down a clear and coherent legislative framework for the coastal shipping industry. That framework should be contained in the Navigation Act. The Parliament should set down in the Navigation Act that the legislation has as one of its objectives the promotion of Australian coastal shipping as a part of the domestic freight transport industry. Whether this is in Part VI or elsewhere is a moot point but the Act should set out this fundamental objective before detailing the specifics required of coastal shipping.

This should include legislative amendment to Part VI of the Navigation Act 1912 to bring it into line with contemporary social policy requirements. The Navigation Act should clearly and comprehensively set down minimum requirements relating to ships that participate or seek to participate in the Australian coastal shipping industry. To be granted a coasting trade licence an applicant should meet the following requirements:

- Ships licensed to participate in the Australian coastal shipping industry should required to be registered under the Shipping Registration Act 1981; and
- Ships registered under the Shipping Registration Act should continue to be required to be Australian-owned however to ensure the effectiveness of this provision, the exemption for chartered foreign vessels [s12(2) Shipping Registration Act] should be removed. Chartered vessels should be required to register under the Shipping registration Act; and
- Ships licensed to participate in the Australian coastal shipping trade should be managed and operated by an Australian citizen, an Australian resident or a corporate entity registered in Australia; and
- All seafarers on board ships licensed to participate in the Australia coastal shipping trade should be Australian citizens, Australian residents or persons otherwise

authorized to work in Australia and all such persons should possess appropriate maritime qualifications issued by Australia; and

- Regarding ships licensed to participate in the Australian coastal shipping industry, the owners, managers, operators, employers and the seafarers working on these ships should be subject to all of the normal Australian laws with respect to immigration, industrial relations, taxation, health and safety; and
- Ships licensed to participate in the Australian coastal shipping trade should continue to have priority over permit vessels; and
- Permit vessels should only be exempt from the registration and crewing obligations – they should be required to guarantee compliance with all other Australian laws as part of the permit application process.
- Additionally, there should be limitations placed on the number of times a shipping owner, operator or manager may seek a permit [whether svp or cvp] for a cargo type. Repeated permit applications should not be granted. The applicant should be required to source tonnage for deployment under the Australia flag.
- In the case of an applicant who operates a bona fide service which combines international and coastal cargoes, the operator should be permitted to enter into an agreement with the Department to operate a proportion of its fleet as Australian registered vessels meeting all of the coastal shipping requirements. This proportion would not ordinarily be less than half of the fleet. In these circumstances the remained of the fleet could be issued a permit conditional on retaining the Australian registered vessels.

AIMPE also submits that abuses of s.457 visas are occurring on Australian ships. Seafarers are being flown into Australia to work on ships and then flown home to their native country. In no sense are these people able to exercise the rights that the Australian Parliament has determined should be applicable to s.457 visa holders. They are in all practical senses denied those rights. This matter should be dealt with in the recently announced review of s.457 visas. **Appendix C** outlines in further detail an example of the abuse of s457 visas in the maritime industry.

Government Support Required

Since the mid-1990s, there has been a significant reduction in the size of the Australian coastal shipping fleet and a clear ageing of the remaining fleet. In the context of the infrastructure support provided by the Federal Government to road and rail via the Auslink programs, AIMPE submits that there is a need to facilitate expanded private investment in Australian coastal shipping. Under previous Governments of differing persuasions the Federal government has provided capital grants to Australian companies committing to build new ships for the coastal trades. This support should be re-established with a clear a definitive timetable to provide the necessary certainty for commercial operators.

Further to the question of capital grants, the Federal Government should re-introduce the accelerated depreciation which applied in years past. This, together with the capital grants, would help rectify problem Australia faces with an ageing coastal shipping fleet. By contrast without re-investment Australia's fleet will deteriorate in the coming decade.

There is likely to be a reaction from some quarters against the proposal for clearer cabotage provisions to be enacted by way of amendment to the Navigation Act. The argument is likely to be presented that it is cheaper to use foreign flag vessels with foreign

crews under foreign conditions to transport freight around the Australian coast. One of the key reasons for this cost differential is the tax burden on ship operators in Australia.

The 2003 report of the Independent Review of Australian Shipping [IRAS] co-chaired by John Sharp and Peter Morris dealt with Australia's domestic and international shipping sectors. IRAS highlighted the tax disadvantages suffered by Australian operators in the international trades in comparison to their foreign competitors. With the expansion of permit ships, the re-flagging rort and the licensed ship loophole Australian flag operators employing Australian seafarers in coastal trades are suffering at a tax disadvantage to the foreign operators. This tax disadvantage flows from corporate tax differences and from personal tax differences. Most foreign flag operators structure their operations to ensure that they pay minimal corporate income tax. Seafarers around the world are exempt from the payment of income tax – generally as long as they are on board a ship or ships for more then six months. By contrast Australian ship operators with Australian flag vessels in the coastal trades get no taxation relief. Likewise Australian seafarers pay income taxation in the same way as every other Australian worker.

If the Australian Government is persuaded that the economic attractiveness of cheaper freight is a compelling argument, then AIMPE submits that the taxation arrangements will need to be addressed. A tonnage tax should be introduced on the earnings of coastal ship operators. Most significant maritime countries have introduced a tonnage tax regime over the last decade or more in order to ensure that their shipping fleet is able to remain under their national flag. However in most nations the tonnage tax is designed to apply to international trades. Tonnage tax is basically a highly concessional tax rate for ship operators who register their ships under the national flag. The UK introduced a tonnage tax which brought a large number of ships back under the UK flag. AIMPE is critical however of the fact that the UK tonnage tax does not require UK personnel to operate the vessel. The USA has a tonnage tax for international trades.

Further, to put Australian flag shipping on the same terms as foreign shipping with foreign seafarers it would require special taxation arrangements for Australian seafarers which would deal with the personal income tax burden that the permit and licenced ship operators can and do avoid.

AIMPE notes however that some of the major industry players who take advantage of current permit arrangements are extremely profitable organizations which are not genuinely able to point to an incapacity to comply with normal Australian conditions including labour standards. BHP Billiton has reported profits of over $14 billion. Iron ore and coal are some of the large volume commodities moved with the benefit of permits. The oil majors appear to be profitable too with most reporting more then $1 billion annual profits each. Oil is another of the major commodities moved around the coast with permit vessels.

Economic Benefits

The economic role of shipping in the Australian economy is enormous. 99% of Australia's exports and imports are carried to and from Australia by ships. If not for shipping Australia would not have developed its export industries of wool and wheat in the 19th century. Without shipping the iron ore and coal export industries could not have developed. The hard reality however is that almost all of this enormous international shipping task is carried out by foreign flag shipping.

The majority of the far smaller coastal shipping task is still carried out by Australian flag shipping but foreign flag shipping is increasing its share of the coastal shipping task.

As a consequence the financial benefits attributable to the freight task are moving out of Australia at a strong and increasing rate. The Australian Bureau of Statistics reported in its 2007 Trades Statistics the following:

	2004-05	2005-06	2006-07
	$m	$m	$m
Freight Services credits	704	608	607
Freight Services debits	-7,500	-7,776	-8,044

Extracted from *ABS International Trade in Goods and Services, 5368.0, October 2007.*

The ABS figures demonstrate that Australia is earning less and less by way of freight credits and paying more and more. Australia's Freight Services imbalance is a chronic, long term issue that needs to be recognized by the Committee and Government as such. There are few other individual components of Australia's trade statistics which are so clearly, consistently and starkly trending against Australia's financial best interests.

It also needs to be recognized that this chronic freight services deficit is a product of Government policies. A change in domestic coastal shipping policies will not correct the imbalance but it may slightly reduce the magnitude of the freight services deficit. AIMPE submits that a positive set of policies for domestic coastal shipping is an essential first step in a long term process.

Australia's international shipping policies would need fundamental review to produce any further reduction in the massive freight services deficit. AIMPE submits to the Committee that a subsequent process needs to be undertaken to examine the very difficult issues surrounding the international shipping policy settings. These were addressed by the IRAS Report however no action was taken by the Federal Government at the time.

The Australian Maritime Group [AMG] commissioned research by Meyrick and Associates which led to a 2007 report titled "International and Domestic Shipping and Ports Study". The projections contained in the Meyrick Report include:

1. international container traffic to increase from 4.3 million TEU to 12 million TEU by 2020;
2. iron ore exports to increase from 272 million tones to around 510 million tones by 2020;
3. coal exports to grow from 243 million tones to 390 million tones by 2020;
4. alumina exports to grow from 16 million tones to 29 million tones in 2020.

During this same period, domestic freight movement is also likely to grow significantly. This is likely to apply both to bulk commodities and non-bulk freight.

The total shipping task is set to double if not triple in slightly more than a decade. The economic consequences of retaining the existing set of policy settings will be a doubling or tripling of the freight services deficit by 2020. That is Australia faces a freight services deficit in the order of $20 billion per annum [in 2007 dollars] by 2020.

Shipping is a key strategic industry which has been the basis of the economic strength of nations for decades, centuries indeed millennia. Australia's economic survival thus far has been attributable to an ability to supply initially agricultural and subsequently mineral commodities to a series of keen buyers [e.g. UK, Japan and China]. Australia has chosen a set of policies for Australia's shipping needs which sees these exports and hence the economic success of the nation built on services supplied by the ships of other countries. These services are provided largely by Flag of Convenience ships which are operated in a low cost, low tax environment. Yet the sheer quantity of the shipping services that Australia generates the chronic freight services deficit revealed in the ABS figures.
AIMPE submits that Australia must revise its policy approach towards Australia's international shipping task or else risk an unsustainable freight services deficit.

Training - vital for the future

In the last decade there has been a serious lack of sufficient numbers of Australians trained with maritime qualifications. The main training institutions – the Australian Maritime College in Launceston [now part of the University of Tasmania], Hunter TAFE, Newcastle and Challenger TAFE, Fremantle

– have been struggling to find sufficient Australian students to justify continuation of maritime courses.

The age profile of qualified Australian Marine Engineers is currently extremely skewed. There are a disproportionately high number of Marine Engineers who are over 50 including a very large number who are over 60. On the other side of the ledger there are a very small fraction of Australian marine engineers who are under 30. This means that without urgent remedial action Australia will face a crisis in the supply of Australian marine engineers within the next 5 years.

There are also a high proportion of Australian marine engineers who hold Engineer Class 1 and Engineer Class 2 Certificates of Competency and a very small proportion who hold the Engineer Watchkeeper Certificate of Competency. The Watchkeeper qualification is the entry level qualification for marine engineers on coastal shipping vessels. This reflects the lack of new young engineers being trained over the last decade or more.

This current labour supply situation for Australian marine engineers is detailed further in **Appendix D**.

Explanations for this maritime labour supply problem include the demise of the National Maritime Industry Training Committee and the withdrawal of some major players from the direct operation of their shipping task – e.g BHP, Ampol, Caltex, Shell, BP and more recently CSR. These major corporations previously ran their businesses on a vertically integrated basis and manpower planning was something they took responsibility for and managed actively.

On top of this the sale of ANL saw the disappearance of a public sector operator which historically trained very significant numbers of Australian marine engineers and other seafarers. The earlier demise of Western Australian Stateships saw the exit of another player which formerly carried a large training load for the important State of WA.

These changes did not automatically impact on the industry. They are changes which take a long time to percolate through the system. The young Australians trained by these public and private sector shipping companies are now moving through middle age. Many are heading towards retirement. They cannot keep the industry going forever.

To address the shortage of marine engineers, AIMPE submits that an industry target for annual training intakes needs to be established. This would best be directed at long term requirements for all of the Australian maritime industry [not just coastal shipping – offshore oil and gas, port operations and shore-side positions]. AIMPE suggests that a figure of 200 persons per annum would be a starting point for training new marine engineers. Not all of these would successfully complete the courses and not all would stay with industry for the long term. But this should be enough to meet the looming retirements of current engineers aged over 60. There is a following cohort aged 55-60 years who will also need replacement. This is not a short term solution.

The supply-side problem for the coastal shipping industry has been exacerbated by the recent growth in maritime employment in the off-shore oil and gas sector. As Australia and the world run short of petroleum, exploration for new sources of the precious resource has pushed out into deeper and deeper waters. The new technology of floating facilities has been favoured over the old-style fixed rigs standing on legs which thrust down to the seabed.

Australia's off-shore oil and gas industry used to be restricted to the Bass Strait in the 1970s. In the 1980s development of the North West Shelf gather pace and has continued to expand through the 1990s and the 2000s. On top of that the Timor Sea developments have expanded in the last decade. As a result the off-shore oil and gas sector has become a major source of employment for Australian seafarers. Indeed it is possibly now the largest sector of the Australian maritime industry.

The rising price of energy in the last few years has meant that the off-shore oil and gas sector also has the capacity to pay higher

wages and more favourable conditions than the coastal shipping industry.

The search for and extraction of oil and gas in Australia's deepwater hydrocarbon fields has been a significant factor in the increasing demand for maritime labour in Australia over the last decade. This has been most intense over the last five years.

AIMPE anticipates that the Australian off-shore oil and gas sector will continue to be a major employer of maritime labour for the next twenty or more years. To date the offshore oil and gas sector has not made any industry-wide plans for future labour supply. AIMPE has negotiated training clauses in collective agreements but these have come nowhere near producing sufficient numbers of trained personnel to meet the sector's labour demands.

Whilst the offshore oil and gas sector is not the specific focus of the current terms of reference, it is not possible to address the question of maritime training needs without a comprehensive consideration of the demand for maritime qualified personnel in Australia. This actually includes port and shore-based personnel in addition to the shipping and off-shore oil and gas sectors.

AIMPE proposes that the Committee recommend that a the new Skills Australia should make an allocation of resources to the training needs of the coastal shipping and related maritime sectors as a matter of priority.

AIMPE also proposes that the Committee should recommend to the Minister that all maritime operators should be required to train a minimum number of new entrants on their vessels. That number should be at least two trainees per large vessel and one trainee per smaller vessel.

National Security

In addition to the social and economic policies addressed by this submission, there is a need for the Australian Government to recognize, as do so many of our allies, the importance of a constructive relationship between our merchant marine and our defence forces. In the USA this relationship is so strong that the merchant marine is referred to as the fourth arm of defence. In the UK the relationship between the merchant marine and the defence forces is far, far stronger than the relationship here in Australia.

The Federal Government should commence operating certain Australian Navy ships with civilian merchant marine personnel as the operational crew supporting specialist defence personnel in other functions. This policy would be limited to supply and support ships not engaged in naval battles.

Such naval support vessels should also be available to be used for training of new merchant marine recruits in order to address the current shortages of maritime personnel and the difficulties associated with obtaining the necessary sea-going experience.

The Federal Government should establish an on-going relationship with the merchant shipping operators to ensure that in times of operational need ships could be requisitioned by the defence forces to meet short term defence related requirements. Such a military support program would involve an annual subsidy to commercial operators contingent upon meeting specific vessel standards.

Futhermore the Federal Government should utilize merchant marine personnel to maintain reserve naval vessels which would otherwise have to be sold or scrapped. This would ensure additional naval capacity in future times of need. This type of approach is common among Australia's allies – the United Kingdom and the United States of America.

These submissions are brief and preliminary – they are not the core focus of the current inquiry. However AIMPE submits that a separate process involving the Australian Defence Forces and the coastal shipping industry should be initiated to deal with these questions in a more comprehensive manner.

Post 2001, maritime security has taken on a much higher priority in policy formulation. The International Ship and Port Facility Security Code [ISPS] was developed and agreed at the IMO in 2002 for implementation from 2004. Australia has been

relatively quick in putting the ISPS Code into practice.

Commencing 2005 and enforceable from 1 January 2007, all Australian seafarers are required to obtain and wear a Maritime Security Identification Card [MSIC]. Each applicant for an MSIC is given a background check by the Australian Security and Intelligence Organisation [ASIO], the Federal Police [AFP] and the Department of Immigration and Citizenship [DImC].

The national security improvements achieved by requiring seafarers on Australian registered ships to obtain MSICs are negated if these seafarers are made redundant and replaced by foreign seafarers not checked by ASIO, AFO and DImC. If there is national security value in the MSIC screening process, then the Australian Government should ensure that the maximum proportion of the coastal shipping task should be carried out by vessels operated by seafarers with MSICs.

There is a further national interest in Australia having a critical mass of experienced Australian maritime personnel to enable shore based maritime positions to be filled domestically. Without a pool of qualified and experienced seafarers from which to recruit people for positions such as Harbourmasters, Marine Surveyors, Pilots and other shore-based maritime jobs, Australia will be caught short. It is in the national interest that these key positions should be filled by people with experience and understanding of the Australian coast and the Australian maritime industry.

Environmental Efficiency

AIMPE does not seek to advantage coastal shipping relative to the other two major modes of freight transport – long-distance rail and road. AIMPE seeks that the modes all be treated as integral parts of the Australian freight transport system. However work that has been done both in Australia and elsewhere around the world indicates that shipping is the most energy efficient method of transporting freight. And this is particularly so over long distances. DoTaRS has collated some of this material.

In a period of widespread concern about global warming AIMPE submits that the most energy efficient form of transport deserves to be the form of transport favoured by national environmental policies.

The Bureau of Infrastructure Transport, Regional Development and Local Government [BITRE} has recently released its publication Australian Transport Statistics, Yearbook 2007. This shows at p.24 that in billion tonne kilometres the various transport modes carried the following amounts of freight in 2004-05 [the most recent year available]:

Road	168.9
Rail	183.0
Shipping	114.0
Total	465.9

This shows that coastal freight represents almost 25% of the freight movement task when distance is taken into account. These figures were similar to the preceding year 2003-04.
The same publication shows at page 137 that in the preceding year 2003-04, road freight vehicles [articulated trucks and rigid trucks but excluding light commercial] generated 15,212 gigagrams of carbon dioxide compared to the maritime output of 2,054 gigagrams of carbon dioxide. Light commercial trucks generated 10,793 gigagrams of carbon dioxide in 2003-04. The point is however that even on the narrower comparison, maritime transport generates much lesser carbon dioxide per tonne kilometre than does trucking.

Rapidly rising fuel prices [and energy prices generally] are being widely forecast and AIMPE predicts that industry will select the most energy efficient mode or modes of freight transport when it simply becomes clear that it is uneconomic to do otherwise.

However when a nation pours vast amounts of public resources into particular modes – road and rail – and virtually ignores the other main mode – shipping – then the playing field is heavily skewed. There is no level playing field between the three modes. There is no competitive neutrality in the pattern of public expenditure – far from it. This fiscal imbalance exacerbates the regulatory

AIMPE submits that the Federal Government needs to recognize and acknowledge that there

has been a lack of competitive neutrality in national policy to date. Auslink and Auslink 11 provide large amounts of public funding over long periods of time to the construction and maintenance of land based infrastructure necessary for road and rail freight. BITRE reports [page 54, Australian Transport Statistics, Yearbook 2007] that annual expenditure on roads in Australia was approaching $10 billion in 2003-04 [$9,347.9 million in 2004-05 prices] for all levels of government in Australia.

Meanwhile ports have been required by and large to fund port infrastructure by way of industry fees and charges. Public funding of certain specific projects, whilst significant, pales by comparison with the billions directed to road and rail. Navigation dues, regulatory dues and harbour and berth fees are imposed on shipping [both coastal and international] to raise the funds necessary to operate and maintain the infrastructure and the regulators and port administrators.

Coastal shipping cannot operate without port infrastructure and access. In this regard coastal shipping may actually be squeezed out by international shipping which is a far larger and more influential customer for most Australian ports. There is a need for the Federal Government to ensure that port authorities around Australia plan for and allocate resources to facilitate coastal shipping.

Exclusive Economic Zone

Australia is actively involved in the exploitation of resources on our continental shelf. This is taking Australian extractive operations into deeper and deeper waters. There is little doubt that in the long run this trend will continue and the need to provide a naval defence capability for these commercial operations cannot be discounted. If we are not active in the management of our Exclusive Economic Zone [EEZ] Australia will not be able to justify our claim to these vast offshore regions.

All commercial vessels operating in Australia's EEZ should be regulated in the same way as coastal shipping vessels are – under the Navigation Act. This of course does not apply to vessels claiming rights of passage under the freedom of the high seas. It does however include vessels imported into Australia for contract or project work. These vessels should not be permitted to operate in Australian waters if they are not prepared to operate with Australian crews under Australian standards enforced by Australian regulators.

Australia's coastal shipping policies have traditionally focused on the trading of cargoes between mainland or island ports. However with the continued offshore developments referred to above there are increasing maritime operations taking place outside conventional port settings.

AIMPE submits that there is a need to ensure clarity in the legislative approach to these operations. Vessels however described should continue to be required to comply with all international maritime conventions to which Australia is a signatory. Fixed structures must be dealt with by specific separate legislation. The desire of extractive industries for single unitary legislation cannot be allowed to over-ride common-sense and international norms. Specifically, the vessels known as Floating Storage and Offload vessels, Floating Production, Storage and Offload vessels and other like vessels should be covered by Australia's Navigation Act insofar as it regulates vessel structure, maintenance and operations.

The Navigation Act currently has provisions which apply to certain vessels operating within the EEZ in the offshore oil and gas sector. These are contained within Part VB Off-shore industry vessels and off-shore industry mobile units. However these provisions are not clear and are based on the deeming of certain vessels to be covered by the Act.

Further complicating matters, despite the existence of extensive provisions relating to all types of vessels operating in the off-shore oil and gas sector, these provisions are effectively null and void as it relates to FSOs and FPSOs and similar vessels. This is because of an amendment to the Petroleum (Submerged Lands) Act which disapplies the Navigation Act to vessels when they are connected

to the sea-bed. AIMPE submits that this is bad law. The P(SL)A disapplication provisions have been justified on the grounds of eliminating competing health and safety regulations. The effect of the disapplication provisions however is that international maritime conventions applying to all vessels [including tanker vessels] do not apply to FSOs and FPSOs when they are attached but do apply when they detach – for instance to sail away from a cyclone.

The essential value of FSOs and FPSOs is that they are re-locatable. As floating vessels they have been treated by Australia and other countries as part of the maritime industry and subject to international maritime conventions. Australia has created an absurd position where those conventions only apply when the vessel disconnects. Convention compliance cannot be achieve by the flick of a light switch.

Consolidated occupational health and safety legislation did not require disapplication of the entire Navigation Act. The 2006 disapplicationamendmentsshould be repealed. The Navigation Act should continue to apply to FSOs and FPSOs and all other off-shore oil and gas vessels at all times. This would ensure that the relevant IMO conventions [SOLAS, MARPOL, ColRegs, STCW] all continue to apply for the safety of all vessels and seafarers and for the protection of the environment.

The "Dampier Spirit" incident of 2007 demonstrated that there are serious, potentially disastrous, consequences attached to the absurdity that is the PSLA disapplication provisions. The "Dampier Spirit" went within a few kilometres of being Australia's latest environmental disaster when it was out of control and unable to make any headway as a direct result of trying to treat it as something other than a vessel covered by the same rules and standards as all other such vessels around the planet.

Should the Committee feel that this matter is not within the scope of its terms of reference, AIMPE submits that the Committee should recommend that there be a subsequent inquiry to deal with this urgent issue.

Single Maritime Jurisdiction

Additionally there is a provision whereby off-shore vessels not prima facie within the jurisdiction of the Navigation Act can be brought under the Act by the owner or operator seeking a declaration under s.8A that the vessel comes under the Act. This is an opt-in provision. A similar provision exists for intra-State trading vessels. That is found in s.8AA.

AIMPE submits that the Navigation Act should cover all such vessels at all times. It should not be an optional matter. There should be no uncertainty about the scope of the legislation. There should be one authority and one authority only in Australia with the power and responsibility of regulating trading and commercial vessels. It is not realistic, nor efficient, for the States and Territories to continue to exercise jurisdiction over trading and commercial vessels – and to have to employ personnel with the necessary qualifications and experience to implement the regulations that Australia has adopted by way of ratification of IMO Conventions.

Achieving this change would require the agreement of the States and Territories and may not be strictly within the scope of the current Parliamentary Inquiry. AIMPE submits that a this matter should be referred to the Australian Transport Council for the early consideration of all governments.

By way of example AIMPE cites the 2008 instance of the request by Inchcape Shipping Services to the Queensland Government for the issue of a Restricted User Flag [RUF] for the carriage of liquid ammonia between Brisbane and Gladstone. The tanker required to transport this cargo and the 9 other such cargoes it plans to transport in the next 12 months may well have other tasks on the Australian coast. While Queensland is doing the right thing in attempting to deal with this application, the pattern of trade may well be part of a bigger jig-saw puzzle. A jig-saw puzzle which the relevant Federal body should regulate.