



**MARITIME
INDUSTRY
AUSTRALIA**
L I M I T E D

Inquiry into a
sustainable Queensland
intrastate shipping
industry – Submission
by Maritime Industry
Australia Ltd

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Introduction

This submission is made on behalf of Maritime Industry Australia Ltd (MIAL). MIAL represents Australian companies which own or operate: international and domestic trading ships; floating production storage and offloading units; cruise ships; offshore oil and gas support vessels; domestic towage and salvage tugs; scientific research vessels; dredges; workboats; utility vessels and ferries.

MIAL also represents employers of Australian and international maritime labour and operators of vessels under Australian and foreign flags.

MIAL represents the collective interests of maritime businesses, primarily those operating vessels or facilities from Australia. MIAL is uniquely positioned to provide dedicated maritime expertise and advice, and is driven to promote a sustainable, vibrant and competitive Australian maritime industry and to expand the Australian maritime cluster.

Executive Summary

benefits that nations accrue by virtue of having a strong shipping industry include the creation of skills and knowhow; control of strategic assets; a degree of supply chain security and economic returns to the nation.

For these reasons, MIAL's overarching position concerning shipping policy in Australia is that we ought to have a sustainable, viable shipping industry. This activity can occur anywhere - coastal trades, offshore activity or international operations.

MIAL advocates for a fiscal and regulatory regime that makes it attractive for shipping and maritime businesses to exist in Australia and affords those Australian businesses every opportunity to compete for work on a level playing field.

Within the coastal trading space, both interstate and intrastate, there is no question that there needs to be policy settings that encourage the use of ships as a form of transport.

The degree to which those policy settings in coastal trades encourage or support the use of Australian vessels and Australian seafarers are the areas of constant contention. Australian operating costs and wages far exceed those on foreign ships and the cost differential between an Australian ship and a foreign ship has consequences for the users of that service.

Queensland has vast areas where shipping operations provide essential services and these need to be recognised and supported to ensure they remain a viable business proposition.

There is almost certainly opportunity for greater use of coastal shipping along the Queensland coast, and beyond, if the right investment in shoreside infrastructure is made. Based on figures compiled regarding the efficiency gains from small changes to the freight task, such investment would be quickly rewarded.

The submission that follows directly addresses each of the Terms of Reference provided by the Committee.

That the Transport and Public Works Committee inquire into and report to the Legislative Assembly by 26 April 2019 on a sustainable Queensland intrastate shipping industry.

In undertaking this inquiry, the Committee should consider:

- (a) The regional economic development and labour market benefits of a sustainable intrastate shipping industry in Queensland;*

The implications on the broader community and economy of coastal shipping policy are strongly influenced by what that policy consists of.

A policy that promotes shipping but does not support local/Australian content therein, such as ownership, management, crewing etc., will realise far fewer benefits than a policy that supports a level of Australian involvement in the provision of the actual ship.

A strong, local industry ensures Australia is better able to control domestic and international freight services and ensure service reliability as well as price stability to domestic markets. It provides to the nation the benefits that flow from a diverse maritime economic cluster and will ensure a pipeline for the necessary skills that allow an island nation to prosper.

Importantly, a strong and sustainable local shipping industry has valuable strategic defence linkages.

A strong local shipping industry provides for reliability and price stability in freight services. A greater degree of Australian control in the provision of shipping services will improve Australia's economy via growth in national shipping activity and the maritime economic cluster – an inevitable flow on effect resulting from a stronger local shipping industry. It will also ensure that Australia retains the required expertise within its workforce to provide reliable and efficient shipping services.

A report prepared by PwC¹ in 2015 shows that in Australia in 2012-13 the total (including the direct and induced impacts) contribution of the shipping industry was \$21 billion in GDP; 45,000 jobs and \$1.3 billion in tax revenue.

The report went on to identify, that with positive shipping policies a further \$4.25 billion would be added to the GDP; 9,000 jobs; and \$867 million in tax revenue.

The impact of the economic cluster that develops around a robust shipping industry cannot be underestimated. Economic diversity is provided not only via direct shipping activities but also through the resultant maritime cluster activities. The PwC Report provides detail regarding direct and indirect impacts of these activities on employment. Increased shipping activities particularly in regional and remote areas generates employment opportunities within that community. A small amount of these may be on board ships involved in intrastate coastal trade but a much larger amount of employment opportunities would be afforded to those maintaining shore side infrastructure within terminals and ports, those providing services to the operations (suppliers, provedores etc) as well as the opportunity to develop critical services such as ship repair and dry docking facilities if the market is such to sustain these.

There is also a strong case for increasing the participation of shipping overall.

In 2013/14 the public funding (from all Governments) provided to road and rail was:

- ~\$25 Bn (Commonwealth, State/Territory and Local) for road; and
- ~\$8.3 Bn (Commonwealth and State/Territory) for rail.²

¹ PwC, "The economic contribution of the Australian maritime industry", February 2015

² ABS (2015 c,e & h), BITRE estimates

Further, it is estimated that each one per cent increase in freight efficiency saves the national economy \$1.5 billion.³

There is little doubt that with the right policy settings shipping could deliver at least a 1% efficiency gain. A case for modal support for **all** forms of surface transport clearly follows.

A fraction of the expenditure provided to road and rail would greatly enhance the competitiveness of shipping vs those modes and increase the market share of this form of transport, with resultant economic and environmental benefits given the significantly greater tonne mile efficiency of sea transport.

Specifically, public investment in the infrastructure to encourage dedicated coastal ro-ro services for containerised cargo and trucks has been identified⁴ as being something that would likely have immediate impact and provide confidence to investors to provide that transport option.

All Governments could assist grow a coastal shipping industry by planning for and helping to fund port infrastructure. The European Union “Motorways of the Sea” concept is an exemplar of a focus on sea transport being considered critical to overall transport strategy. One of the major advantages identified is decrease road congestion through modal shift.
https://ec.europa.eu/transport/modes/maritime/motorways_sea_en

Importantly, coastal shipping policy should encourage the use of local Australian businesses not frustrate them (and their customers) to the point where they would rather do business elsewhere or use another transport mode.

(b) Current intrastate coastal shipping task and identify any barriers and options to strengthen the intrastate shipping industry;

MIAL is not in a position to comment comprehensively on the specifics of this term of reference.

(c) Queensland’s contribution to, and the need for, an Australian inter-state shipping industry, and identify ways in which Queensland could contribute to improving the Australian inter-state shipping industry;

MIAL is not in a position to comment on the specifics of this term of reference which is best left to those directly affected to comment on.

Generally speaking, however, there are clear advantages to be gained from increasing the role of coastal shipping in meeting the national freight task. Numerous previous studies have identified the need for shipping to do more in terms of meeting the growing transport requirement.

Should additional intra-state shipping services develop the degree of modal shift that is likely is difficult to quantify given the inherent advantages / disadvantages of the various modes. Previous analysis has indicated that the scope for modal shift to sea is very low⁵ at between 2-4% however, the scope for modal shift and competition between modes within Queensland may be greater than previously identified.

³ NSW FREIGHT AND PORTS STRATEGY, November 2013

⁴ Coastal Trading Green Paper – A Maritime Transition, December 2016

⁵ National Transport Commission, “Twice the Task” A Review of Australia’s freight transport tasks, Sinclair Knight Merz Pty Ltd and Meyrick and Associates, February 2006, p. 91

Coastal shipping certainly has many advantages in supporting future freight growth within Queensland. How that is structured and who provides such service would determine the ultimate benefits that might be realised.

(d) Opportunities for future common user port infrastructure, and any adjustments to the provision of port services, to support the viability of a regular intrastate freight shipping service;

The concept of mini-ports and dedicated coastal terminals with favourable price structures would likely serve to encourage new participants in shipping services and may provide inducement to existing shipping companies to carry coastal cargo.

Even the most advantageous of settings around port infrastructure, services and pricing may well be insufficient to overcome the impact of other, deleterious coastal shipping policy settings. Such policy settings include the payment of Seagoing Industry Award Part B wages (required under the *Fair Work Act 2009*); and the importation of vessels participating in intrastate trade.

Such policy settings mean that carrying coastal cargo is for many a highly undesirable activity to participate in.

For others, who are already participating in coastal trade and wearing the increased costs associated with policies that increase costs of doing business in Australia, any incentive in port pricing or infrastructure would be welcomed and would positively impact the service they provide.

(e) Working conditions and safety practices on current coastal shipping vessels, comparing international vessels to Australian vessels;

The shipping industry is highly regulated to international standards developed at the International Maritime Organization (IMO) and International Labour Organization (ILO). Depending on the size and nature of operation of vessels working along the Queensland coast they will be governed by either these international standards, as adopted by the Australian Government through Commonwealth legislation such as the Navigation Act 2012, or by the National Law for Domestic Commercial Vessels.

It is considered by MIAL that both regimes provide an appropriate level of working conditions and safety practices and in circumstances where these are breached Australia, through the Australian Maritime Safety Authority (AMSA), has a strong regulator and enforcer which encourages only the better vessel operators to visit Australia. Indeed, over the last few years AMSA has exercised powers to ban vessels from visiting Australian ports where these vessels do not meet international standards.

(f) Any practices that are being used to erode working conditions, such as entitlements and legislative protections that currently apply to employees in the industry;

MIAL is not aware of any practices that are being used to erode working conditions to employees in the coastal shipping industry.

The largest risk to Australian workers in the coastal shipping industry is that of losing their jobs to foreign competition due to coastal shipping policies that are not fit for purpose across the breadth of Australian trades and immigration policies that do not always adequately assess the local labour market capabilities.

- (g) *Options for legislative, regulatory or policy reform that could strengthen the intrastate shipping industry, and ensure that Queensland's labour market would benefit from this expanded industry, considering current Commonwealth legislation, reviews and constitutional limitations;*

MIAL contends that the following legislative reform and supportive industry policy opportunities would be required to strengthen the entire Australian maritime and shipping industry. They are largely drawn from the Coastal Trading Green Paper⁶:

Fiscal measures

- Introduce deemed franking credits in respect of dividends to resident shareholders, to make vessel ownership and/or operation from Australia more internationally competitive.
- Introduce dividend withholding tax exemption in respect of dividends to non-resident shareholders, to make vessel ownership and/or operation from Australia more internationally competitive.
- Provide for the Seafarer Tax Offset to be available to Australian crew even if not working internationally in order that the operating cost of the ship can be reduced (i.e. cost saving vests with employer) thereby increasing the competitiveness of a ship employing Australian workers.
- Provide complementary seafarer income tax structure for those not employed by Australian companies or on Australian flagged ships (to ensure that Australian's are treated on an equivalent basis as their international counterparts).
- Extend application of taxation structure to broader shipping industry including the offshore sector.
- Provide fiscal incentives that acknowledge the subsidisation of road and rail modes and which incorporate the idea of the blue highway.

Coastal Trading (Revitalising Australian Shipping) Act 2012

- Clarify the Object to eliminate ambiguity. A reformed Object might be to:
 - Require or support maintenance of a strategic fleet in the national interest i.e. maintenance of a level of Australian content and define what that fleet might comprise.
 - Enhance the efficiency and reliability of Australian shipping as part of the national transport system.
 - Promote competition between Australian providers of coastal ships and fair competition with road and rail modes in domestic freight transport.
 - Promote a narrowing of the cost gap between Australian ships and international ships in coastal trade.
 - Quarantine national interest trades, routes or market segments.
- Streamline the licence application process including removing the restrictions on some temporary licenses and the voyages undertaken therein as per flowchart provided in Coastal Trading Green Paper.
- Contestability:
 - Overhaul the contestability provisions to minimise transaction costs i.e. remove red tape, to acknowledge shipping industry commercial imperatives;
 - Provide clear direction regarding factors to be considered – current uncertainties due to lack of clearly defined parameters that must be considered.

⁶ Coastal Trading Green Paper – A Maritime Transition, December 2016

- The concept of a professional independent arbitrator seems a step in the right direction but would need the addition of commercial industry expertise.
 - Development of an “Index + reasonable % for Australian content” was considered achievable. This would assist with consideration of price differentials.
- Minimise the scope of decision making by the Delegate by introduction of commercial principles where possible, including a maritime arbitration facility to resolve commercial disputes and ACCC oversight to monitor pricing in monopoly trades.
- Separate out national highway and essential service operations.
- Introduce special arrangements for essential service operations consistent with those available for the national highway, i.e. the Tasmanian Freight Equalisation Scheme (TFES).
 - Tasmanian Freight Equalisation Scheme (TFES) is an Australian Government program providing Tasmanian industries with equal opportunities to compete in other markets. It reduces the cost of transporting freight across Bass Strait for Tasmanian shippers who are not able use road or rail to move their goods interstate. (<https://www.business.tas.gov.au/managing-customers-and-suppliers/The-Tasmanian-Freight-Equalisation-Scheme-TFES>)
 - Assistance is also available for eligible non-bulk goods shipped between the main island of Tasmania and either King Island or the islands of the Furneaux Group. (<https://infrastructure.gov.au/maritime/tasmanian-transport-schemes/tasmanian/>)
 - The communities of the Islands within Bass Strait and those off the Queensland coast have the same issues with regard to lack of connection to the mainland and it would seem logical that the same support should apply around the nation.
- The Coastal Trading Act 2012 operates on the basis of port pairs – that is a voyage is considered to be from a port to another port; not a network or chain of port visits. This operating model does not work for a range of Northern Australia port visits where it is the network of voyages that allows the business to service what would otherwise be unprofitable routes to remote communities. The shipping task amounts to an essential service as without regular ship calls the communities would be reliant on-air services or in some cases, completely isolated. Allowing a TL to undertake a single leg of the network of voyage places the entire operation at risk.
 - It is therefore suggested that this trade (i.e. Northern Australia to the communities in Torres Strait and across the top end) be considered “essential services”. Australian operators in this trade could benefit from a change to the definition of voyage in the Coastal Trading Act so that it recognises the network of voyages as being ‘the voyage’. This would ensure that foreign competition could not cherry pick the profitable routes only, which would render the services to some more remote communities commercially unviable and service would likely cease.
- There is a clear distinction within the cruise industry between the operators of large ships and the expedition cruise market.
 - The large ship sector is currently exempt from the coastal trading provisions and it is suggested that this remain the case.
 - A determination needs to be made regarding the appropriate settings for the expedition cruise sector. The structure and features of this sector are far more akin to land-based tourism than ‘shipping’ and as a determination needs to be made regarding the appropriateness of expedition cruising being included within the jurisdiction of coastal trading (economic regulation) at all.

Shipping Registration Act

Specific changes to this Act would go to improving the attractiveness of the Australian International Shipping Register (AISR), a register which is a feature of some of the most vibrant economic maritime clusters the world over.

- Remove time off the coast requirement for AISR ships entirely (currently AISR ships must spend more time in international trades than coastal ones).
- Minimum Australian crew component to be required rather than designated roles.
- Remove reference to the Single Bargaining Unit as the exclusive means of determining terms and conditions on board AISR vessels.
- Broaden the types of vessels eligible – change international trading to something describing “international maritime activities” so that offshore vessels can be registered on it.
- Fix ambiguity regarding *Fair Work Act* implications when under a temporary licence and not covered by Part B (i.e. first two voyages) – Fair Work Act is dis-applied when engaged in international trading, meaning that at all other times the Fair Work Act applies (s61AA(a) of the *Shipping Registration Act 1981*).
- Implement improvements in the process of obtaining certificates of equivalence for seafarers.
- Implement improvements (difficulty and expense) in the survey requirements for re-flagging in Australia.

Customs Act

- Provide for circumstances whereby importation is not in the ‘national interest’ (e.g. ship used as temporary storage facility)
- Introduce a timeframe during which vessels in Australia will not be deemed imported (e.g. 90 consecutive days)
- Exempt vessels using Australian dry-dock facilities from importation.

Improve the ship/port interface for Australian ships

- Provide discounts / exemptions to Australian ships for port and regulatory fees.
- Invest in dedicated coastal ship terminals as critical infrastructure.
- Ensure port planning processes provide priority access to ports and berths for Australian ships and shoreside facilities for their cargo

(h) Options for legislative, regulatory or policy reform to maintain the safety, rights and protections of workers in Queensland ports and maritime industry; and

MIAL believe that there is a group of maritime workers that would be better off if certain changes were made. The Queensland workers compensation scheme is a superior scheme to that which covers a subset of seafarers, being those nominally engaged in inter-state and international trades, known as the Seacare scheme. Consistency in the workers compensation rights for all Queensland maritime workers would be desirable to better protect workers and avoid any confusion about which scheme an individual is covered by depending on the vessel they work on or the voyage they are undertaking on any given day.

Such consistency is best achieved by abolishing the Seacare scheme and allowing coverage to be provided by Queensland.

(i) *Options to minimise any potential impacts on the Great Barrier Reef from a strengthened intrastate shipping industry*

It could be argued that increasing the volume of shipping through the Great Barrier Reef (GBR) poses greater protection to the GBR than it does an increased risk. This is due to the overall positive impact greater use of shipping has on reducing carbon emissions vs land transport options and the resultant impact on climate change – which is widely understood to be one of the greatest threats to the reef.

In 2005 MIAL undertook a detailed review of sea transport efficiency and atmospheric emissions.⁷ Some of the key findings were:

- Shipping Supports 28.15% of the domestic freight task but contributes to just 2% of total emissions from the transport sector.
- For every small product tanker (~ 50,000 DWT) operating around the coast, over 800 B Double trucks would be needed on the road to move the same amount of cargo.
- New build engines are estimated to be able to achieve up to 30% greater efficiency than existing technology.

The international shipping industry has recently committed to further reducing GHG emissions by 50 percent from 2008 levels by 2050. Clear government policy in relation to shipping and a serious commitment to emission reductions in the transport sector is essential in order to encourage modal shift and foster the significant private investment required to achieve further emission reduction in the Australian shipping industry.

Australia has an incredibly robust set of arrangements in place to protect the GBR and Torres Strait from the impacts of commercial shipping. They include, but are not limited to:

- Compulsory coastal pilotage;
- Rigorous port state control regime to enforce international law (IMO, ILO, Law of the Sea etc);
- A managed vessel traffic management system (Reef VTS);
- Internationally recognised special treatment as a Particularly Sensitive Sea Area; including being considered 'nearest land' for a variety of international instruments regulating shipping;
- Designated shipping area and passage planning guidance;
- Cetacean strike avoidance advice;
- Biosecurity controls;
- Firefighting foam controls;

More details on these measures can be found at: amsa.gov.au and agriculture.gov.au.

However, critical to providing these protections is the assurance that professionals with appropriate seafaring skills and knowledge will be available to provide critical 'shore side' roles. Such roles include (but are not limited to) marine pilotage for safe vessel transit through the GBR and Torres Strait; port state control officers to conduct robust safety inspections of visiting foreign vessels; Harbour Masters to manage the safety and day-to-day operation of the States ports and to work on board the tugs providing essential harbour towage services.

The only way for trainee seafarers to obtain the necessary experience is on board vessels of a certain size, power and duration of operational activity, as dictated by international convention (Standards of Training and Watchkeeping Convention or STCW). In many cases such vessel size requirements can only be met by the trading fleet of ships.

Without a strong, fleet of appropriately sized vessels to train such people, Australia will necessarily become dependent on immigration in the future to secure such expertise. Relying on Australia's

⁷ Sea Transport Efficiency and Greenhouse Gas Emissions, Australian Shipowners Association, 2005.

ability to attract an international workforce (that is likewise in demand by other nations) for such critical roles introduces considerable risk to Australia's maritime capability, not to mention to the billions generated through exporting products from Australian ports.

The existence of a local large ship industry, where STCW qualifications can be obtained and experience gained, is critical to securing these skills.

There are grave concerns that the section of the industry that has historically provided the training for STCW qualifications are no longer employing and training this strategically vital skill set in the numbers needed to sustain the national need.

It is therefore essential that any coastal shipping policy not only focus on encouraging shipping as a mode of transport but also encourages Australian participation therein to secure the strategic critical skills that Queensland, and the nation, will always require.

Furthermore, all users of seafarer skills, including those ashore such as pilots, Harbour Masters, safety regulators, etc. should contribute to the cost of training an appropriate number of people with the right skills to ensure these nationally strategically valuable roles are able to be filled into the future.