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**SUBMISSION TO THE INQUIRY INTO  
THE INCREASING USE OF FLAG OF CONVENIENCE SHIPPING IN AUSTRALIA**

**SYNOPSIS**

This submission addresses the issues raised by the Standing Committee on Rural and Regional Affairs and Transport on the increasing use of so-called flag of convenience shipping in Australia.

This response draws on almost 50 years personal experience in Australia Maritime industry.

The submission does not only address the history of the current situation but also the effect of related matters of changes to the Coastal Trading Act (2012) and the relaxation of the foreign seafarers visa system both of which impact upon the Australian industry.

It is the opinion of this author that commentary on this important issue should not only address the enormous challenges the shipping industry faces but should be able to examine ways of dealing with these problems and finding solutions.

Thinking “outside the box” of novel ways of transporting cargo by sea rather than falling back on the old coastal trader methods are put forward.

Stripping away disincentives to investment in the Australian shipping industry and proposing ways of building a stable workforce are presented to stimulate discussion.

If ever we are to understand the threat that flags of convenience ships present to Australia and how important a home-grown shipping industry is to our island nation, now is the time to act.

**INTRODUCTION**

Twenty three years ago the Ships of Shame Inquiry followed a disastrous period in Australian maritime history. Six ships sank or were lost without trace, two with all hands and all within the space of two years. Added to this was the infamous tanker “Kirki” which literally had the bow fall off mid ocean near the W.A. coast.

These incidents shone the spotlight on flag of convenience ships and resulted in that inquiry along with two subsequent reviews.

The upshot of that inquiry saw an immediate drop in casualties in Australian waters and some regulatory improvements but what remained was the criminal neglect and abuse by shipowners of seafarers worldwide. Make no mistake, these ships (of shame) still exist, they have just been moved off the Australian trades. And regrettably seafaring has become a third world activity.

The concern of flags of convenience ships has again become apparent with the recent sinister events on the “Sage Sagittarius”. There is no doubt that the tragic events on this ship in 2012 have played a part in triggering this inquiry. Three suspicious deaths on one ship in such a short period of time highlight how weak our jurisdictional powers are over the ships that are trading on our coast.



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The increasing use of flag of convenience shipping (read that as foreign ships) on our coast has been a symptom of systematic failures of government and unions over many years to move with the times and realise that nothing, shipping included, stays the same. While we have procrastinated our home-grown fleets have perished only to be replaced by foreign flags.

There seems to be a serious disconnect at government level between this inquiry and last year's Government Options Paper on changes to the Coastal Trading Act and the removal of cabotage.

On one hand we are deploring the increasing prevalence of flags of convenience ships in our waters and on the other we are inviting (indeed welcoming) flags of convenience ships on to our coast. What sort of message is this sending to the industry?

### **BACKGROUND**

Define Australian Shipping: What are we talking about here? Is it Australian owned and managed ships trading on our coast with Australian crews? Or is it merely moving cargo around the Australian coast on foreign ships?

The subject of the increasing prevalence of flags of convenience ships on our coast has more far reaching issues associated with it than just this topic alone.

By singling out flags of convenience ships specifically we are ignoring the fact that there are more than 50 foreign flag ships in regular trade on our coast already. These ships trade internationally and have scheduled visits to multiple Australian ports. They are offering low freight rates on available cargo space to ship goods around the Australian coast.

They are not necessarily flags of convenience but they certainly don't employ Australian seafarers nor do they do anything to add to the Australian economy. No ship repair, no management, no training and nothing contributing to our economy or our border security in any way.

Flags of convenience ships make up almost 50% of the world shipping. Flags like Panama, Liberia, Marshall Islands, Cyprus, Malta, Bermuda, Barbados and Jersey (to name a few) are offering attractive incentives to world shipping like favourable taxation schemes, nominal fee structures and "lip service" to ship safety. Some, not all, abuse the power they have over the health and safety of their seafarers as well.

We are not alone in this dilemma.

What makes Australia more vulnerable is that we are an island nation dependent on foreign shipping as the only form of international trade. Increasingly we are seeing us becoming more vulnerable to fluctuations in foreign markets which are impacting on our way of life and our trade balance. Look at the massive impact that the oil and iron ore prices have had on our economy recently. Australian nationals play virtually no part in that shipping trade. Seemingly we don't "value add" to any of our major exports. Any major market spikes or political disruption overseas has immediate impact on jobs and our economy. Oil, iron ore, livestock, coal and grain markets all feel the impact almost overnight. Economically we are very vulnerable.



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As are our vast and unprotected borders. Our border protection fleets cannot physically cover the miles of uninhabited coastline from illegal activities already: people smuggling and drug smuggling is becoming increasingly sophisticated and with no Australian coastal fleet anymore how many incursions go unreported?

Environmentally our country's biosecurity and our fisheries, the Great Barrier Reef and our pristine marine parks are all totally vulnerable.

There are so many sound economic and security reasons why Australia should have its own coastal shipping industry. Yet politically we seem to be heading in entirely the opposite direction.

### **DISCUSSION**

Firstly we have to recognise some home truths. Australia can hardly be recognised as a maritime nation. We are a bit player on the world stage of shipping. Our strict ship safety and labour laws are largely ignored outside of Australia by ship owners who are subject to commercial market pressures.

With the exception of LNG almost all world freight rates are currently depressed and charterers will always opt for the cheapest option. This will be in the form of substandard ships and sadly, exploitation of crews.

There are other forces at work which further undermine our ability to counteract the increase of flag of convenience ships on our coast.

### **REMOVAL OF CABOTAGE**

There is a push to remove the cabotage policy from the Coastal Trading Act to free up the "red tape" of trading permits and make it even easier for more flags of convenience/foreign ships to trade on our coast and provide cheaper (not necessarily safer) shipping.

But what is cabotage protecting exactly? We don't have a shipping industry any more. Our Minister for Infrastructure, the Hon. Warren Truss stated in his recent speech to parliament that we have no more than 15 Australian flagged ships of greater than 2000 t deadweight trading on our coast. I struggle to believe that he has set the bar so low. 2000 t deadweight ships were a thing of the 1950s. Today's ships, even the modest sized geared coastal traders, can carry 10 times that amount of cargo.

So in fact we have far less than 15 true "ships" bearing the Australian flag. This can hardly be called an Australian shipping industry.

Cabotage was meant to protect home-grown fleets. It has failed miserably. It is outdated and worthless. If it is to be removed from the Coastal Trading Act it shouldn't be given away lightly without some significant trade-offs to replace it.

Trade-offs like true incentives to rebuild a home-grown shipping industry.



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### **WORK VISAS FOR FOREIGN SEAFARERS**

Then there is a move to simplify the visa system for foreign seafarers to work on our coast. This again is an expedient move and shows a complete lack of confidence in offering seagoing careers for young Australians.

The home-grown seafarer is becoming a thing of the past; young people aren't attracted to seagoing careers – too difficult to get into in the first place, very limited career paths, too much time away from home and too much easy money in FIFO jobs. All very short sighted attitudes.

All of these moves, the removal of cabotage, and the entry of more foreign nationals into what remains of our marine workforce should be a serious concern to the broader industry, a concern we should be voicing. Governments aren't listening.

Question: How do you reverse the increase of flags of convenience ships trading on our coast?

Answer: You displace them with a more efficient home trade fleet.

### **A WAY FORWARD**

Let's face it; we don't have a shipping industry to revitalise. It's a dead parrot.

What needs to be done is to build a new shipping industry done in such a way that it can compete with foreign ships trading on our coast.

A daunting task and one which at this present time I don't believe either sides of government has the fortitude or the will to take on. The long term future of what was once our shipping industry is in the balance and while we welcome a senate inquiry into flags of convenience ships this is only the tip of the iceberg. The iceberg being the crisis Australia faces when we've given away almost every part of our home grown maritime industry.

### **A MODEL FOR REBUILDING THE AUSTRALIAN SHIPPING INDUSTRY**

There is no profit in bemoaning past mistakes by shipping companies, unions and government.

We have to have some solutions if we want something which will build a substantial shipping industry and give Australian shippers and the public confidence in this type of transport.

We have to look at all our trade's both domestic and international and see how we can be as clever as the rest.

How does one go about rebuilding an industry that almost ceases to exist? Try this for an almost impossible starting point:

- We have to have bi-partisan support from both sides of government. No more political points scoring.



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- Then we have to have a stable workforce. No business can survive with a disruptive work force or a confrontational union movement.

### **WORKFORCE MODEL**

Unions have to look beyond jobs for their members only. Jobs don't come out of thin air. They come from viable reliable trade routes. Flexibility (a difficult concept for unions to grasp) to adapt to changes in market demands will create jobs. Losing ships like the "Alexander Spirit" and other Australian ships to spot time-charters of foreign ships is an example of how markets drive trades and thus workforces.

We must start with a stable workforce. This is pivotal to any form of success. And success can only be achieved by winning over the hearts and minds of the unions.

Look at the history and success of the biggest maritime union, the MUA. Hard fought battles over pays and working conditions since the 1920's have won the loyalty of their members. They always stand behind their members and maintain their strength and solidarity through their simple edict. While the bigger shipping companies were struggling in the 1970's and 80's the MUA was consolidating with its merger with the Waterside Workers Federation, pulling together all the fragmented smaller unions like the cooks and stewards, the divers, stevedores, painters and dockers and the shipwrights to form one of the most powerful transport unions in Australia.

The significance of this should not be taken lightly: the MUA controls the labour in every facet of shipping and freight movement in and out of Australia.

So to achieve any form of success in rebuilding the Australian shipping industry one has to have the involvement and collaboration of all the maritime unions and in particular the MUA. If they show the way hopefully the others will follow.

Australian trade won't rebuild overnight. We are talking 5 to 10 years at least. Union executives have to be in touch with shipping trends and market demands as much as the shipping industry itself. The cost of freight drives every decision. Union executives must see that other types of trading methods are good for their members. It works overseas with unions collaborating with industry.

### **TRANSFER OF SKILLS**

The Gorgon project in Western Australia has created a massive seagoing workforce through its construction phase. Now that workforce is out of work as the project starts to come online. We've gained skills that we never had before; like ocean towing for example. Now we're going to lose those skills.

Why not transfer these skills to a coastal tug and barge service: a much cheaper way of moving cargo than by conventional shipping.

### **NOVEL METHODS OF CARGO MOVEMENT**

What about the use of the highly successful articulated tug and barges (ATB's)?



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The use of ATB's for oil cargoes overseas has provided increased safety by virtue of being able to separate the propulsive unit from the cargo unit in the event of an emergency. Efficiency in freight rates can also be achieved with these configurations and the ability of the tugs moving from one barge to another thereby reducing turnaround times.

### **UTILISATION OF REDUNDANT/LAID UP VESSELS**

Then there are the Australian offshore vessels which are running out of work with the downturn in the oil and gas industry. These vessels have excellent cargo carrying capacity ideal for some of the smaller spot charters currently going to foreign vessels.

### **CLEVER APPROACHES**

We, as an industry, have got to think smarter than the traditional shipping fleet methods we once had. We have to change and adapt.

How do you attract Australian shippers back into the Australian market? There has to be incentives to stimulate interest.

We have to look at the advantages the competitors enjoy which our industry lacks and provide financial incentives to investing in marine ventures in Australia.

Tax breaks, insurance subsidies, contributions to seamen's repatriations schemes, subsidies on new building and accelerated depreciation rates on new vessels. And then preferential discounts for Australian flag vessels on port charges, light dues, berthage and pilotage fees.

Other maritime nations adopt these policies as a matter of course. They know they'll recoup their investments many times over.

### **CAREERS IN SHIPPING**

How to attract seafarers? Make it attractive to be part of a growing industry with a future at sea and ashore with meaningful career paths.

This is building a new industry from the bottom up. We still have the remnants of this skill base we once had. Can this be applied to unique and modern transport methods to meet our domestic needs?

### **CLOSING**

It's a bold plan and one which Australia can put itself on the map of the maritime industry and prove a lucrative trading model for others to follow.

The chairman of the 1992 Ships of Shame Inquiry, Peter Morris, former Federal Transport Minister of the early 1980s had a true understanding of the importance of the Australian shipping industry and coastal trade, it's synergy with other marine related industries and the strategic importance to our economy.



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The spin-offs are there for ancillary activities such as ship repair and providoring, shipbuilding, a growing skills base and career path for young people at sea and ashore.

As above all else we need a driver for this model like Peter Morris.

Transport Ministers and Shadow Ministers with the knowledge and passion for their portfolios making long-term decisions that are good for Australia.

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