Submission:
Policy, regulatory, taxation, administrative and funding priorities for Australian shipping

5 March 2019

Position

Ports Australia is pleased to provide comments to the Senate Standing Committees on Rural and Regional Affairs and Transport on the policy, regulatory, taxation, administrative and funding priorities for Australian shipping. Ports Australia has focused its commentary on the following terms of reference:

- the interaction with other modes of freight transport, non-freight shipping and government shipping;
- environmental sustainability;
- workforce development and the seafarer training system;
- port infrastructure, port services and port fees and charges; and
- any related matters.

It would be an accurate assessment to say that Australian shipping is on its last legs and requires significant legislative and policy changes for it to be a viable transport option when considering the management of Australia's domestic freight task. The number of Australian shipping vessels have fallen from over a hundred in the 1990's to about a dozen today. Of these remaining ships none are container ships traversing our capital cities, which is surprising given most of our imports arrive in containers. International shipping lines manned by international crews undertake this freight task as part of operations to/from Asia, Europe and Oceania. The crews on these ships are paid Australian wages in accordance with government regulation. The end result does not benefit Australian shipping or Australian seafarers.

While there is considerable debate on having an Australian fleet of merchant naval vessels, coastal shipping and associated regulations, there is unanimous agreement on having efficient and cost-effective movement of our domestic freight without burdensome regulatory barriers placed on any specific transport mode. This ensures that everyday Australians are not paying an unnecessary premium for their goods while getting value for their tax-payer investment in infrastructure. The Shipping industry would argue there has not been a level playing field and this is reflected in the data.

We are an island nation that relies on over 98 per cent[1] of its total trade with the world through shipping. We also have the fifth largest shipping task in the world. However, our domestic trade movement by shipping only accounts for 15 per cent (down from 27 per cent in 2002).[2]

A key equation to consider in this disparity is the alternative transport modes and their attractiveness to business. All Australian governments' invested $26 billion on construction and maintenance of roads in 2015-16.[3] Since 1999-00 this expenditure had risen by 62%.[4] In addition, under-recovery of damage caused by heavy vehicle road freight is estimated at between $7,000 and $10,500 per truck each year.[5] Rail expenditure

[1] Department of Infrastructure and Regional Development, Containerised and non-containerised trade through Australian ports to 2032-33
[2] Inquiry on to the National Freight and Supply Chain Priorities, Support Paper No.2, Maritime Freight, March 2018
[3,4,6,7] Bureau of Information Transport and Regional Economics, 2017 Yearbook
[5] Productivity Commission, Road and Rail Freight Infrastructure Pricing, 2006 and the National Transport Commission Review Steering Committee, Review of the National Transport Commission, 2009

by all governments was $11 billion in 2015-16.[6] Since 1990-00 this expenditure has increased by 16%.[7] The 'Blue Highway' does not need maintenance, and shipping does not damage the waterways. Additionally, investment in managing the sea channels at our ports is borne by the ports. The Blue Highway also connects every port which is key given that there are around 80 in Australia and approximately 85% of Australians live on the coast[8].

As a nation, our leaders need to decide whether Australian shipping is a viable transport option they wish to effectively utilize and support or, continue to ignore to the detriment of the industry and consumers paying higher end costs than they need to.

Some of the key drivers for our policy-makers and parliamentary leaders are:

- supporting the national freight task;
- creating sustainable cities and regions;
- managing government investment in infrastructure; and
- planning for improved environmental outcomes.

Australian shipping can be a key factor in enabling the desired outcomes on these issues.

With the national freight task expected to grow by 26 per cent by 2026[9], shipping can take the pressure off road and rail transport movements for non-time sensitive movement of goods. This will reduce the conflict between freight and passenger rail, reduce congestion in our cities and fatalities on our roads, improve their liveability, result in significantly fewer CO_2 emissions, enable Governments to allocate greater funding to issues such as health and education as result of reduced infrastructure investment, and create jobs in regional centres.

Shipping can play a significant role in Australia's future, but first our leaders need to understand its potential and decide how to effectively utilise Australian shipping. Ports Australia is happy to engage with the Committee in helping to further discuss the issues outlined in our submission and outline the future potential of shipping in Australia.

Ports Australia

Ports Australia is the peak industry body representing port authorities and corporations, both publicly and privately owned, at the national level. Ports Australia is governed by a Board of Directors comprising the CEOs of ten Member port corporations.

Ports Australia works closely with the Government and its agencies on the development and implementation of policies and regulatory settings that will facilitate the safe, efficient and sustainable operation of our ports and provide the ability to develop capacity to meet Australia's freight task.

[8] Australian Bureau of Statistic publication, 2035.0 - Census of Population and Housing: Population Growth and Distribution, Australia, 2001
[9] National Transport Commission, Who moves what where: Better informing transport planning for Australians, discussion paper, 2017

Interaction with other modes of freight transport, non-freight shipping and government shipping

The effective use of rail, road and shipping can lead to optimal social and economic outcomes. While shipping is clearly the main transport mode for Australia to trade with the world, it does not have a similar impact for the movement of domestic freight, accounting for only 15% of the share. Furthermore, the domestic freight task between 1990-00 and 2015-16 grew by around 50%.[10] In that time coastal shipping's contribution grew by 1%; rail's by 210%; and road's by 61%.[11] There is a clear imbalance in the use of our transport mix to effectively move domestic freight.

We advocate for a balance of all three transport modes and consider it essential that the three work together in effectively moving domestic freight. Transport connectivity across the transport modes is a key part of Australia's Ports. The lack of it can result in significant economic costs and unnecessary delays in the movement of goods. With regards to roads, this can be due to:

- Turning performance
- Road space requirements
- Entry length onto main roads and highways
- Approach visibility
- Vertical (overhead) clearance.

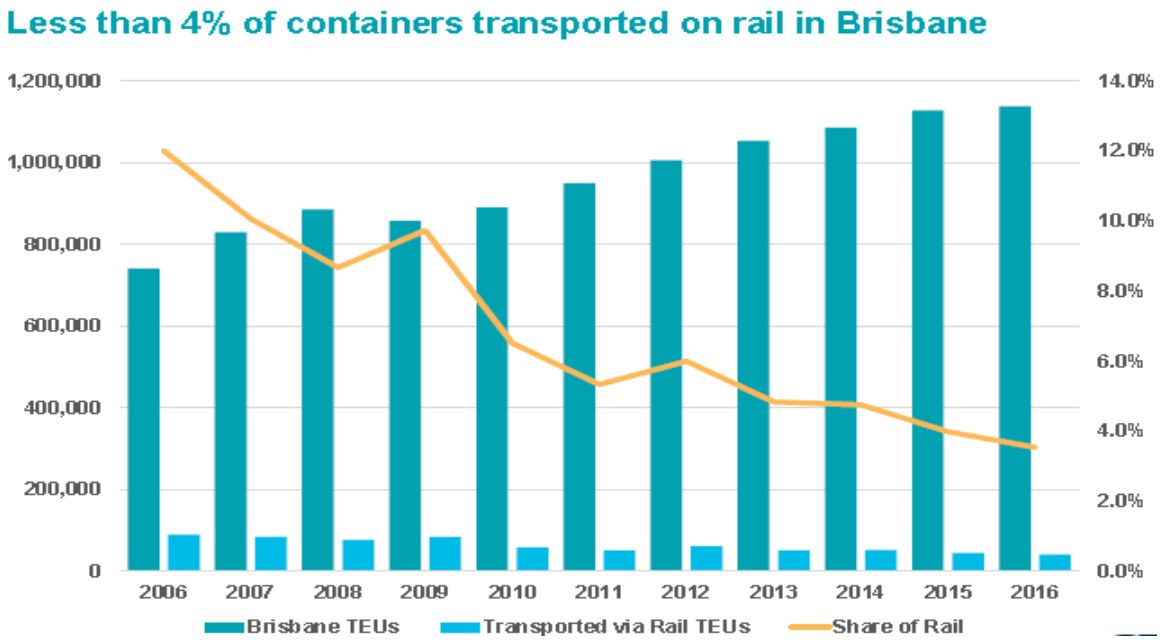
An example of this lack of connectivity is illustrated when bulk grain goods are diverted from the Port of Gladstone through to the Port of Townsville as road trains are not able to enter the Port at Gladstone due to a lack of suitable road infrastructure. Synergy Economic Consulting estimates the increased transport costs of traversing an additional 900 kilometres (circa) to be around $3,000 per day for a typical road movement of a B Double road train between Gladstone and Townsville (this includes no adjustment for a backhaul movement).

With regards to rail, the biggest concern is the underutilisation of the network for freight movement to and from the port, impacting the ability of shipping to be effective. This has occurred for various reasons including, port-rail interface issues (e.g. a lack of adequate below-rail infrastructure, lack of flexibility in train windows and unreliable train departure and arrival times), conflicts with passenger movements on the same lines, inconsistent state and territory network regulations and operating conditions, and maintenance and investment costs that are not supported by required utilisation rates.

Maximisation of network capacity by reforming railway access is critical. Current access requirements add significant costs and impediments to railway operations. These impediments include high administrative and compliance costs, constraints on the infrastructure providers' ability to deliver and price service efficiently,

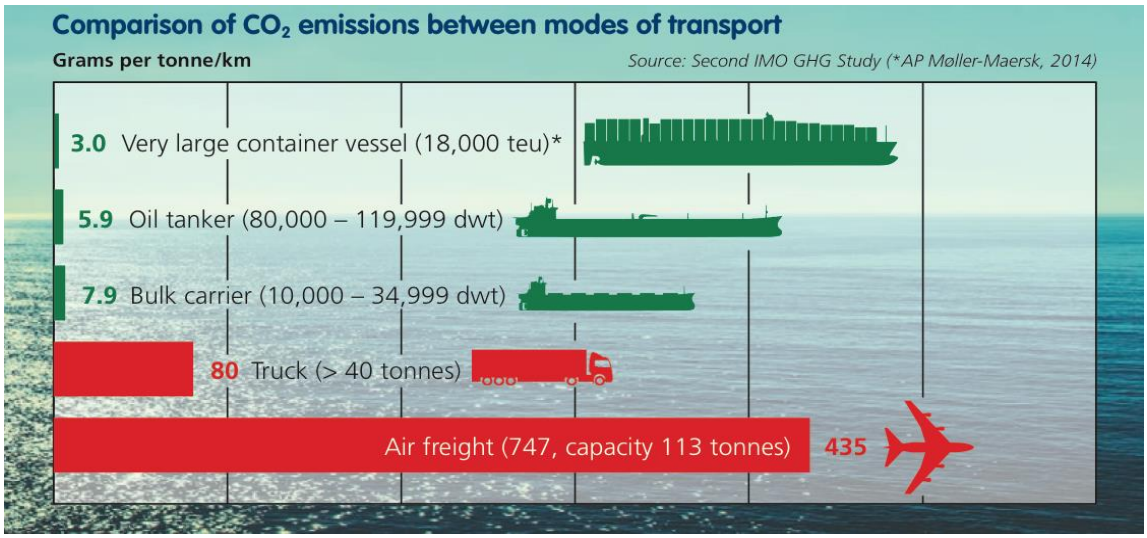
[10,11] Bureau of Information Transport and Regional Economics, 2017 Yearbook

reduced incentives to invest in infrastructure facilities and inefficient investment in related markets. As a result, this ineffective transport connectivity leads to the type of utilisation rates seen at the Port of Brisbane (sourced from the Port of Brisbane).



Environmental sustainability

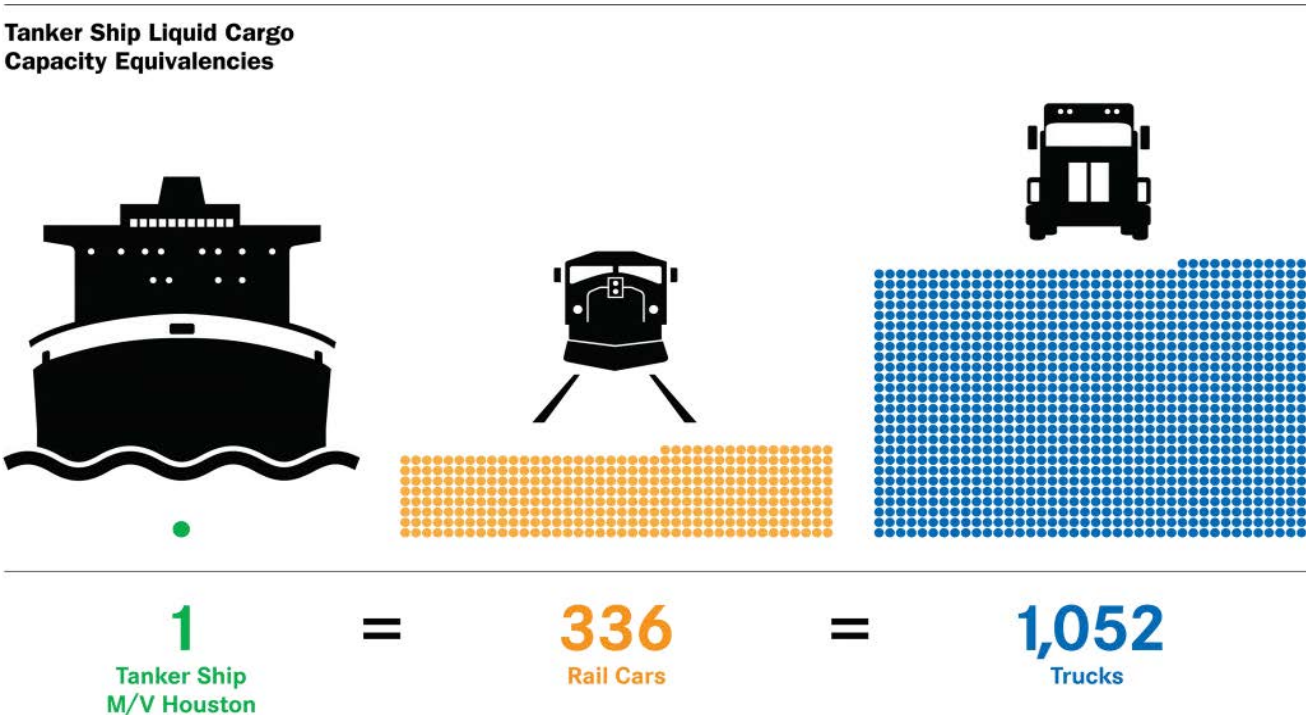
Shipping is the most environmentally friendly and economically viable solution for the mass movement of freight. A report by Deloitte Access Economics produced for Ports Australia in 2018 indicated that shipping produces 1/5 the carbon emissions of road per tonne-km. Given the current global considerations with regards to greenhouse gas emissions and mitigating climate change impact policies, it is concerning that Australia is not making efficient use of its waterways.



According to the Climate Institute, Australia is the 13th highest overall emissions pollution contributor, right behind Germany (the highest emitter in the European Union) and more than United Kingdom, Italy or France. Given our meagre population base compared to most countries this is an alarming fact and this translates to having the highest per capita emissions in the OECD, with 26 tonnes of greenhouse gasses being emitted per person every year. Our emissions intensity is also high, at around 640 tonnes per unit of GDP. As a comparison, the United Kingdom has an emission intensity of around 220 tonnes per unit of GDP.[12]

Further concerning facts that should push policy-makers to incorporate greater Australian shipping in the domestic freight task is that the cost of existing urban transport congestion in Australia's capital cities is forecast to increase from approximately $13.7 billion to $53.3 billion by 2031 unless significant infrastructure investment and planning is undertaken.[13]

The impact on our local environment and health from such congestion should be a key factor in the policy debate. A clear illustration of the solution shipping presents is provided below.[14]



Workforce development and seafarer training system

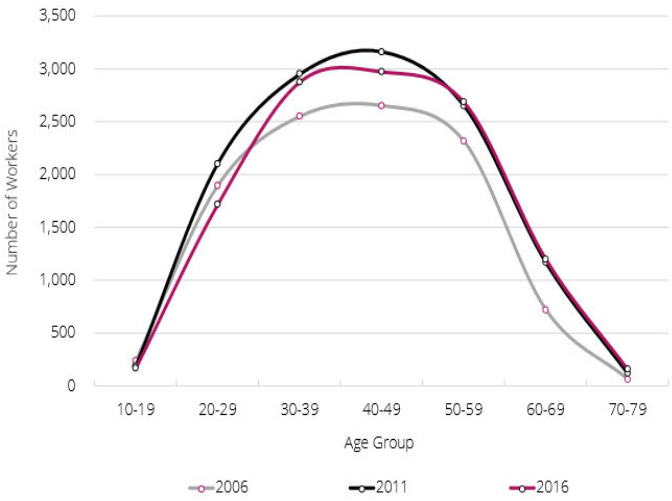
Ports Australia put forward in December 2018, a submission to the Senate Legal and Constitutional Affairs References Committee on the effectiveness of the temporary skills visa system in managing the genuine long-term maritime skills shortage in Australia. This submission included our grave concerns with the current

[12] The Climate Institute, Factsheet, Australia's emissions: what do the numbers really mean?
[13] Australian Infrastructure Audit, 2015.
[14] http://www.usshipcorp.com/modal-advantages

maritime workforce development in Australia and the future impact on maritime jobs, including for the operations of our ports.

The decline in Australian shipping to numbers of around a dozen cargo ships operating around our coast in 2019 has consequently meant that there are reduced numbers of Australian seafarers employed in shipping. As a result, there will be less qualified and experienced Australian seafarers who are eligible to undertake key marine operational roles in our country, such as Harbour Masters and Marine Pilots. Additionally, the pipeline of new seafarers coming in to the industry is significantly impacted given that there are limited training berths.

Consequently, we are seeing that the average age of a maritime personnel is 49 years with many workers 45 years or older (62.7%).[15] This is consistent with the global average. According to the Australian Industry Standards, the alarming trend is that the number of Maritime workers under the age of 30 has gone backwards in the 10-year period to 2016, falling 11.7 per cent, while the number of workers aged 60 and over have grown almost 73 per cent over the same time.[16] The statistics highlight an aging workforce and a significant supply problem of new seafarers coming through the pipeline to undertake future maritime vacancies. This is not dissimilar to road and rail, with average ages around 53[17] and 49[18] respectively.



Current data and industry analysis indicates that there is a skills shortage in the maritime sector coming our way, with some employers already unable to fill certain specialist roles. In a recent industry survey 75% of employers are reporting experiencing a maritime skills shortage in the last 12 months.[19]

This future shortage of experienced seafarers in not limited to commercial operations. The Royal Australian Navy has recognised this matter and is currently considering potential solutions within its ranks and through the support of civilian seafarers to ensure the naval fleet is appropriately manned. This solution is consistent with those already taken around the world, e.g. Canada, the United Kingdom and the United States of America. This considered solution also highlights the shortfall of experienced mariners in the global fleet which will affect Australia's future ability to secure experienced and qualified professionals from overseas to service our operations. It is expected there will be a global shortfall of around 80,000 seafarers by 2020.[20]

[15] https://joboutlook.gov.au/Occupation.aspx?code=2312
[16] Australian Industry Standards, Skills Forecast 2018, Maritime
[17] https://www.natroad.com.au/news/industry-first-address-driver-shortage
[18] Train and Tram Drivers, https://joboutlook.gov.au/Occupation.aspx?search=Career&code=7313
[19] Australian Industry Standards, Maritime Industry, 2018 Key Findings Discussion Paper
[20] Australian Maritime Officers Union Submission: Coastal Trading (Revitalising Australian Shipping) Amendment Bill 2017 [Provisions]

These findings should be a grave concern to those shaping the future of our country given that over 98% of Australia's trade is undertaken through our ports in the maritime environment. Ports Australia wishes to highlight this matter to the Committee because a lack of action to resolve this issue will result in, and is not limited to:

- reduced fuel security;
- delays on imports and exports;
- increases in the cost of goods;
- safety incidents to infrastructure and people;
- impact on the sustainability of some Australian businesses; and
- inability to support the Royal Australian Navy in times of conflict or emergency relief.

Port infrastructure, port services and port fees and charges

Port charges on the whole have warranted significant attention over the last 12 months. This is attributed to the increased infrastructure charges placed by stevedores. The Australian Competition and Consumer Commission (ACCC) undertook analysis of the stevedoring sector with a focus on infrastructure charges, and released its report in October 2018, *Container stevedoring monitoring report 2017-18*.

The report detailed that in 2017–18 the average prices charged by stevedores to shipping lines had fallen further from the previous year, resulting in a drop in stevedoring profit margins to a low of 4.5 per cent from 14.7 per cent. The ACCC noted that shipping lines have been able to negotiate cheaper rates because of growing competition between stevedores and consolidation in the shipping line industry, resulting in an 8.5 per cent fall in quayside revenue per lift for stevedores. Meanwhile stevedores increased infrastructure charges adding costs to the supply chain.

The report noted that stevedores continued to rapidly increase infrastructure charges applied to truck and rail companies delivering or collecting containers at port. Stevedores have justified these charges with increases in operating costs and the need to invest in infrastructure to handle the increasingly large ships visiting Australian ports.

The Chairman of the ACCC, Mr Rod Sims, acknowledged concerns "about the potential impact of these charges"[21], but noted that the ACCC does not have the power to determine stevedoring charges as they are not a regulated asset. He suggested that, "State governments, which regulate stevedores and ports, may need to conduct further detailed examination and, if warranted, use their regulatory powers"[22].

[21,22] ACCC Media release No. 218/18, Competition reduces stevedores' profitability, but infrastructure charges are up

With regards to Ports, which generally act as the landlords leasing out space and infrastructure to operators such as stevedores, the following types of charges are applied: wharfage fee, wharf access fee, channel fee, berth hire fee, and a security fee. Details for each Australian Port's fee is accessible on website of the port.

It should be noted that the ACCC report did not outline that fees levied by the Ports industry were a key contributor to increases in stevedore infrastructure charges, which was largely a result of the consolidated power of the shipping lines. The Port of Melbourne charges was acknowledged as a contributor, however this was a result of the recent privatisation of the Port.

Other Matters

The Australian shipping sector can contribute significantly to our growing nation. Some additional considerations are improved safety outcomes and serviceability during natural disasters.

Work Safety

Australia is one of the fastest growing countries in the world, with our population projected to grow from 25 million at present to 30 million by 2030.[23] Australia's current transport network is not equipped for this growth. Roads are already reaching (and even surpassing) capacity. Road fatalities in 2018 involving heavy trucks saw 154 people die from 136 fatal crashes.[24] The number injured or survived is not included in this.

According to analysis undertaken by Synergy Economics Consulting, under a scenario in which 1 million tonnes of freight per annum is shifted from road to sea between Brisbane and Townsville, the reduction in accident costs would be approximately $30.7 million per annum. This largely entails a significant reduction in long-haul truck journeys transporting freight.

Last month, the Chair of Infrastructure Australia, Ms Julieanne Alroe stated that, "Infrastructure deficiencies certainly have a role to play in causing accidents, and the expected increase in heavy freight vehicles on our roads could lead to further fatalities".[25] The cost to Australian lives and the impact on the infrastructure network should be a key driver in developing policies that enable modal shift to Australian shipping.

Natural Disaster Serviceability

Road and rail closures resulting from natural disasters impact the ability of communities to be serviced while also temporarily shutting down our valuable export market that cannot reach our ports. According to a report by IAG in March 2016[26]:

- The annual cost of natural disasters in Australia is expected to increase from $9 billion to $33 billion by 2050.
- More than $450 million was spent by Australian governments each financial year on restoring essential

[23] Australian Bureau of Statistics Catalogue 3222.0 Population Projections Australia
[24] Bureau of Information Transport and Regional Economics, Fatal Heavy Vehicle Crashes Australia – Quarterly Bulletins, December 2019
[25] https://infrastructureaustralia.gov.au/news-media/media-releases/2019/2019_02_14.aspx
[26] https://www.iag.com.au/natural-disasters-cost-australia-33-billion-year-2050

public infrastructure assets following extreme weather events between 2002-03 and 2010-11.

- $17 billion will need to be spent on the direct replacement costs of essential infrastructure impacted by natural disasters between 2015 and 2050.

Coastal shipping offers a more reliable service during natural disasters that ensures the functionality of communities while also providing an avenue to provide natural disaster relief services.