

[5.01 pm]

IVES, Mr Ian George, General Manager, Operations, Canada Steamship Lines Australia Pty Ltd

SORENSEN, Mr Christopher Thomas, Managing Director, Canada Steamship Lines Australia Pty Ltd

CHAIR—Welcome. I am required to remind you that, whilst we are not taking evidence under oath, this is a formal proceeding of the parliament and therefore warrants the respect which proceedings of the House of Representatives are due. I need to remind you that giving false or misleading evidence is a serious matter and may be regarded as a contempt of the parliament. Thank you for your comprehensive submission. I had that emailed to me, so I will acknowledge that. I probably had a little more time to get across it than some of my colleagues. Would you like to make some introductory statements in relation to your submission or some introductory remarks in addition?

Mr Sorensen—CSL is an Australian based company. We operate specialised self-unloading vessels and we are the major shipping supplier to the Australian building industry. Our customers include OneSteel, Adelaide Brighton Cement, Boral, Cement Australia and others. CSL's business started in Australia in 2000 with the purchase of the ANL vessels *River Torrens* and *River Yarra* and one single customer, Adelaide Brighton Cement. The business was in serious decline due to inefficiencies in vessel service and reliability, high costs of operation and high freight rates to our customers.

CSL endeavoured to revitalise the business and improve the service but was seriously restricted by shipboard inefficiencies and outdated work practices. CSL tried to negotiate with the maritime unions to improve the efficiency of its vessels but was unsuccessful. At the same time, CSL sought support from the government to maintain the status of licensed vessels through the permit system. CSL had two options: go broke or foreign flag. We chose to foreign flag. As a result of the reflagging, CSL fought a protracted dispute with the maritime unions whereby the unions sought to rope our CSL foreign crews into the Maritime Industry Seagoing Award. The dispute was finally resolved by Commissioner Raffaelli, who found that the award did not apply to the CSL foreign crews. He also found that the award was outdated and exceeded community standards, that it was a consent award that had not properly undergone the award simplification process.

CSL was able to re-establish and regrow the Australian business basically because the ship service and efficiency it now offered was vastly improved. The business grew with the purchase of the *Iron Chieftain*. CSL was able to crew the vessel with an Australian crew. It was able to do this using Australian workplace agreements. These agreements reflected significant improved work practices and productivity. The business further grew with the introduction of a US\$40 million offshore transshipment terminal for OneSteel, operating in Whyalla; and the construction, which is still underway, of a new US\$45 million self-unloading vessel for our major customer, Boral. Also, the final phase was the purchase of the Cement Australia shipping business, which involved three vessels.

All of the projects above are manned by Australian crews working under the new CSL workplace agreements. CSL spends in excess of \$2 million per annum on in-house training for all of our seafaring employees. CSL business now involves a combination of Australian vessels operating under a licence and servicing trades where we are able to fill the ballast legs. We have customers whose cargo requires ballast legs; we use the backup of our foreign permit vessels.

The combination of licensed vessels and permit vessels is intrinsically linked in the business and has enabled CSL to provide our customers with internationally competitive freight rates. I would like to emphasise at this point that CSL voluntarily opted to operate Australian crewed vessels on the basis of the significant workplace reforms it has achieved and with the overlay of its foreign vessels to support the overall business.

Finally, CSL submits that the current regulatory environment provides incentive for reform and investment in the shipping industry. CSL further submits that, before any changes are considered to shipping policy, there should be a full review and modernisation of the award.

CHAIR—Thank you for presenting that brief of your submission. In terms of the licensed versus permit vessels that you use, what would be the percentage of domestic cargo carried on each of those?

Mr Sorensen—It is not broken down in percentages.

CHAIR—Okay, but how would you do it?

Mr Sorensen—The vessels are overlaid. We operate three permit vessels and we have five licensed Australian vessels.

CHAIR—So, in terms of the volume of your freight trade, you have more Australian flagged ships than you have permit ships, so I assume that most of your freight is on the Australian flagged ships.

Mr Sorensen—It comes back to the statement I made where we had certain ballast legs. I guess there are also different services for different customers. But generally it is an overlay of customers, who are contracted customers, where we have been able to fill the ballast legs. For instance, the best example I can give you is Adelaide Brighton Cement, where they deliver cement clinker to their plant in Brisbane. We have a trade for them that goes up there and then we have been able to get another customer to link with the trade coming back down south. So the vessel is able to load in Adelaide, then go to Brisbane and discharge, then make a short voyage to Gladstone to load a backload and then come back to Melbourne. So we have basically balanced that leg. We have other customers where we cannot balance the leg, and that is mainly where we use the overlay of our foreign vessels.

CHAIR—We have heard a bit of evidence today about the east-west trade and the converse being a problem. Can you talk about that? How engaged are you in that trade?

Mr Sorensen—Meaning the west?

CHAIR—Yes.

Mr Sorensen—We are not.

CHAIR—You are not at all.

Mr Sorensen—All of our customers are eastern board customers.

CHAIR—We have also heard evidence from, I think, two witnesses today who both said that the crew costs are now not so much of an issue in relation to the differential between Australian licensed vessels versus foreign flagged vessels—that it is the way in which you integrate your operation that is really the issue for whether you can be cost competitive or not. Can you comment on that?

Mr Sorensen—I would like to give you the facts. A vessel such as the *Iron Chieftain*, which is basically a 50,000-tonne self-unloading vessel—a big vessel—should cost around \$6.9 million a year to run. Smaller vessels along the lines of the *Goliath* or the *CSL Pacific* lift about 25,000 tonnes and cost us \$5.9 million a year to run. They are both Australian vessels. An ITF vessel—or the sister ship to the *CSL Pacific* or the *Goliath*—like the *Stadacona* costs \$3.8 million. So on a like-for-like basis—vessel size—there is a \$2 million gap.

CHAIR—And you are saying that that is crew or wages basically?

Mr Sorensen—Yes, it is mostly crew costs.

CHAIR—That is quite different to the evidence we previously heard from another company.

Mr Sorensen—That is straight off our operating costs.

Mr NEVILLE—You mentioned workplace agreements. Did they ameliorate the problem of Australian wage costs? I am not trying to be unduly political about this. If we were not talking about Australian workplace agreements, we might be talking about EBAs or what replaces them. There will be some form of replacement, no doubt, in the industry. I just want to know the extent to which those types of agreements reinforced the Australian industry.

Mr Sorensen—I stressed that in my summary. The AWA way of doing things was the way that we were able to go forward. Our company had come down to Australia with the intention of investing in the industry down here. We just were not going anywhere. We were going broke. As I said, we exited the business and joined the foreign flagged people. The only way that we could get our business to grow was to go into a new industrial relations regime with our employees. We used the AWA process to do that. For a vessel like the *Iron Chieftain*, contrary to a lot of the publicity, the wages did not go down. We were able to pay our people more money but at the same time increase the productivity such that we can afford to run that vessel at a higher cost. Because of the efficiencies in the way that we run it—we fill the ballast legs both ways; we got our discharging rates up to where the vessel is designed to run—we were able to come back into the business.

CHAIR—Obviously we are looking at the competitiveness of the Australian industry. What do you think governments could have done to make you make different decisions in terms of flagging your vessels? Or is there nothing?

Mr Sorensen—There are certainly a lot of statements about the permit system and abuse of the permit system. The permit system is a tariff. It is a different way of applying a tariff. It is a protectionist system. I have been at sea for not quite as many years as my predecessor at this table but for many, many years. The problem for the Australian shipping industry was that we inbred and we had consent awards. Because there was no competition, we were able to charge our customers what we thought we could charge them, and to some extent they just had to pay. The permit system does that. Cabotage does that. By the time that we had entered the business in Australia, shipping companies had exited the business because there was no incentive to invest. Our costs were high and customers such as Adelaide Brighton Cement and Orica were importing products because it was cheaper to bring a tonne of clinker from Japan to Brisbane than it was to shift a tonne of clinker from Adelaide to Brisbane. So we lost the business.

CHAIR—What you are saying now, though, with the system as it operates now, is: ‘Don’t mess with it. Leave it alone.’ Is that essentially your submission?

Mr Sorensen—We are saying that.

Mr SULLIVAN—You guys would be probably some of the best people to give us information about the differences between running licensed vessels and permit vessels, because you have a couple of both. I would be interested in a chronology of how your fleet has developed. We have heard that you bought the ships and you were going broke so you took them offshore, then you came back under a foreign flag. Five is a significant number of licensed vessels, so I would be interested to have a chronology of how your fleet has developed. It may be something that you can just give us briefly, or maybe you can pass it on later.

Mr Ives—When CSL Australia started, they bought the *River Torrens* and the *River Yarra*. Those ships inherently had problems with industrial relations and unions on board. They were trying to get productivity up and the wages were still quite high. The combination of the crew on board was fairly inflexible, because the crews at the time were all dictated by what the union sections wanted. There was no actual structure on board that would allow you to maintain the ships. So you had a growing set of ships that were actually being undermaintained as well as being high cost. So that is when the two ships went off the coast and were both reflagged. They came back with the foreign crews, and the foreign crews have a totally different make-up. They have a minimum operational crew, which allows the ships to sail from A to B, and they also have their inbuilt maintenance crew on board as part of the crew. That is something Australian ships do not have.

When we did the *Iron Chieftain* agreement, we negotiated with the MUA—we did the AWAs first—and we put in the agreement the flexibilities we needed to actually maintain our ships effectively. We basically wrote our own industrial relations set-up to be able to run an efficient vessel. That is something that, if you have to deal with three unions, is nearly impossible to do. The *Iron Chieftain* was, I suppose, the foundation for bringing ships back to the coast, because we had AWAs, and then we went to the unions. Out of the three unions, only one agreed to adopt the new principles we wanted implemented, and that was the Maritime Union of Australia. We did an enterprise agreement with the MUA on the same terms and conditions as the AWA. I guess that was the basis for the start of bringing back licensed ships because not only could we run the ships effectively and productively but also we could maintain them. That was the first ship to come back, and then we bought the *Goliath* and the *Cementco*.

The agreements that we had with the MUA were then varied even further to get more productivity for the smaller sized vessels to make them cost competitive. The numbers went from 17 down to 13, and we introduced another concept, called the riding gang, for the small crews to be able to maintain the ships. The process of evolution was the agreements we made with the Maritime Union to increase productivity and get rid of the work practices that used to be on those ships. We can actually maintain our own ships now without bringing in shore contractors. That makes an Australian ship very cost competitive, and that is what we have basically done to bring in the *Iron Chieftain*, the *Goliath*, the *Cementco*, the *CSL Pacific* and the new one coming in, the *CSL Thevenard*. They will all be based on those agreements. The agreements we have are only certified agreements with the MUA. Where you have ships that do not have trades where they can reliably all have back cargoes—on the other side we have the *Stadacona*, the *Enforcer* and the *Naftocement*—and which have single ballast legs in them, we can not really run them effectively at this stage with Australian seamen on board to be cost competitive.

Mr SULLIVAN—Not even if you were to use the same staffing arrangements that you have on the licensed vessels?

Mr Ives—No, because it is a balance between the industrial policy on board as well as what cargo is available.

Mr Sorensen—And it is a cost. With a voyage from Adelaide to Brisbane, you are looking at a six-day voyage, and if you have to bring your vessel back in ballast that is a cost that has to go against that cargo.

CHAIR—Do you have another question?

Mr SULLIVAN—No, I do not want to pursue that. It is logical that that is a cost. One of the submissions indicated that there were 236 single-voyage permits issued in Australia between January and March of last year. That seems like an awful lot of single-voyage permits for people who are opportunistically picking up cargo for which there is not an Australian licensed vessel, in my mind. It is an awful lot. I have had somebody else earlier today characterise those as opportunistic loads. I would hope that an operation like yours might be a really good place where it could start to happen that some kind of regular voyaging is used with your permit ships to pick up some of those loads and actually turn that into, potentially, another licensed vessel operating on the Australian coast—particularly if you have the agreement of one of the unions that are active. I do not know what your relationship is with the other unions, but I would imagine that you would be hoping to have complete industrial harmony, so you would be talking to them at least.

Mr Sorensen—For us, and certainly for our board, owning a ship is a risky business in the sense that you invest \$40 to \$50 million for 20 years and it lives in probably the harshest environment in the world. To convince a board to invest that money, first of all you need the customer; secondly, you need the people, and if the customer is going to pay, you need to know what he is going to pay; otherwise you are not going to get the business. You also have to be able to make your operating costs and your capital costs all line up so that there is an enthusiasm by the company to invest that money in that ship. Our company has found that.

We came down here thinking it was golden and rosy and we invested in the ANL business. But it was at the bottom of the pile and we had to work it back. We are finding now that there is certainly an enthusiasm from our board to invest down here. We have this new vessel coming down later this year. We want to continue down that track. We are seeding it with our foreign vessels. We are starting the business and we are growing some business. We can then overlay it with some of our other business. That gives us the opportunity to step in then and convince the board that we can bring a ship in, operate it and get the rewards we should for taking that risk.

CHAIR—I want to ask you this question first and then I will go to the question around balance. Do you actually think there should be an Australian owned shipping industry?

Mr Sorensen—I am an Australian. Yes, I do.

CHAIR—Why?

Mr Sorensen—Because we are an island nation and we are so far away from everyone else. It makes sense that we should have some of our own shipping to service our coastal customers. We are never going to be, and we cannot be, a country where shipping is our prime business. We do not have the population and we do not have the tonnes to move. We see the number of permits and that in itself says one thing, but then you go and find that there are probably three containers going from A to B. We have been accused of being serial abusers of the permit system, but we have used the permit system to build a business. We have not looked for any government assistance. We have found that we are on our own. We started from scratch, built the business and our board wants to invest further down here. We think the field is pretty level now. We just want it left as it is.

CHAIR—One of the things we are hearing is that, whilst the amount of freight being carried on shipping is increasing, the number of Australian owned vessels has been in decline. What sort of balance is needed and what sort of government policy and regulation is needed to get that balance? Or is it all fine as it is, even though the amount of Australian owned ships is in decline?

Mr Sorensen—There are arguments which I am sure others have put about tax regimes and all those sorts of things. We are past that. We pay tax in Australia. Our company has moved some of its investments down here. We think that the tax system is working for us. We do not think that it is necessary to subsidise us in any way because, if you do, we are going to end up fat and ugly again. The best thing to grow Australian shipping is to be efficient. We need to get efficient work practices. We can sit and moan all we like about how we are not employing Australian seafarers, but we have to be efficient. Once we become efficient and we can operate vessels and customers come and knock on our door and say, 'Listen guys, what can you do for us?' that is when you will grow shipping, not by applying tariffs and reintroducing stringent controls over the permit system. That will chase companies like us away.

Mr NEVILLE—Let me build on that last question. I accept your answer and I am not quibbling with it. I think it is a very good answer. I know this is a hypothetical question in a way, but why is it that Australian companies cannot seem to do what Canadian companies or British companies do? What is the malaise in this country that stops us from building a shipping line, which you have effectively done. Although you are a subsidiary of a company, you have got an Australian unit and that Australian unit has to be profitable. In effect, you have got this

Australian unit that is effective and it is profitable. What were the Australian owned shipping lines doing such that they could not do something similar—that is, start off with a blend of permits and Australian manned vessels and, once you got the balance right, put on more and more Australian crews? What is the magic? What is the silver bullet or the key that we are missing?

Mr Sorensen—I first went to sea in the late sixties. BHP had 20 ships and ANL had 30 ships, and to some degree we were efficient. Then we went through a stage of getting fatter and fatter. We protected ourselves, as we have already talked about, with the permit system to the extent that customers just would not use Australian ships—they found a way around it. With bigger ships coming from Japan, it was easier to get down 50,000 tonnes of clinker and discharge it in Brisbane than it was to load 30,000 tonnes of clinker in Adelaide. We have gone the full cycle. The industry inbred: we had consent awards, where shipowners would sit in a room with the unions and we would agree and then the prices would go up. We kept squealing to government about assistance, so we had all the Crawford and MIDC reviews and assistance from government, and we got fat and ugly. We believe—and I have said this so many times—protectionism just makes you that way. The only way that we can be world competitive is to get out there and compete with the world.

Mr Ives—The Shipping Reform Group produced the last report with Peter Morris, and the industrial relations we have implemented on our ships are exactly what were in that report. Someone has got to have the willpower to get up and say, 'All right, we're going to do this.' If you do not have the drive to get up and take the unions on to make the change and to force them to make the change then you will never improve. Fred Ross was talking about the number of trainees in the industry—we spend \$2 million per annum on training. In our own fleet we currently have 70 trainees. Captain Ross was talking about 70 trainees in the entire fleet—we have that many in our own.

Mr NEVILLE—In the Australian market?

Mr Ives—Yes. It is possible to do these things as long as you have the drive and the settings right to be able to do them.

Mr NEVILLE—Why does your parent company want to invest more in Australia?

Mr Sorensen—Because we are getting a return on the investment. When we bought the ANL vessels we were losing money. The good thing about a ship is that when you lose money you can just take it away. The board had made the decision that they would exit Australia, and it was only on the weight of one director that we decided to stay and give it a go. There is another factor, which could be debated by many people in this room: we are a private company owned by a family. What they are happy to do is put money back into the business. They are not reporting to shareholders and do not have to meet certain shareholder restrictions. The most successful shipping companies in the world are the privately owned shipping companies.

Mr RAGUSE—I spoke about the market earlier today, and I must commend your organisation for operating within the environment it does. My suggestion earlier today was about the depth and width of this market. Quite obviously you are operating within the constraints, but everything indicates the demand for this sort of coastal shipping is either diminishing or not

going anywhere. Your organisation is such that you are able to operate and make profit in that environment using different tactics. You are trying to grow the market—and I know it is not your responsibility directly. I would put to you—and it has been suggested today—that because of the narrowness and the shallowness of the market right now, if you take the ore and all of that type of cargo out of coastal shipping, only about three per cent of the total amount of freight moved around this country would be in coastal shipping. If that became 10, 15 or 30 per cent, would that create a whole range of new opportunities? That might not be something you can necessarily answer, but I would like you to consider it. In the environment you are operating in, your model works but, with expansion and all the other opportunities we have talked about, a different set of circumstances might arise creating more Australian shipping, more investment, more Australian jobs.

Mr Sorensen—I am not too sure whether you want me to answer, but what I see in what you said is that you need to knit it together. You cannot simply say: 'There's a cargo that's being shipped from Hobart to Sydney. You've got to go and put that on an Australian ship.' First of all you have got to get the ship to Hobart, so you have got this ballast leg that is a cost, especially with fuel costs as they are. Then you have got to get it loaded and get it up to Sydney. You have got to be able to knit something else in with it to build that business up. That is what I think we have done well at, and that is what we are continuing to do. We have new Australian customers coming to us saying, 'Listen, guys, is there something you can do for us?'

We are a specialist company. We have got self-unloading vessels so there are a lot of advantages for the environment—there is no dust, there is no spillage and all of that sort of stuff. People are starting to become more aware of that. We have exploited that. It is a specialist thing that we think we can add value with. You still have to knit those customers together. He might come and say, 'Look, I want to move that cargo from Adelaide to Sydney.' Unless we can knit it with something else, we might have to say to him, 'We cannot do it for you now. We will keep it in mind and when we have got something else we will come back and talk to you.'

Mr RAGUSE—I accept that. I am suggesting that it is about economies of scale in the market. It is not your responsibility as a company to grow that market. It is up to the government or the industry as a whole to say, 'How do we encourage more of the freight onto coastal shipping?' I think it may mean there is a whole range of new circumstances.

CHAIR—I want to briefly ask you about the national emissions trading scheme—and I am sorry if I have not noted it in your submission. Have you contemplated at all whether there are any potential advantages for you under that? I know it is fairly rudimentary at this stage as to what information is around.

Mr Sorensen—Nothing is environmentally friendly when you burn fossil fuel, but we are certainly at the better end of it. Our company has put a lot more work into this in North America. A lot of effort has gone in and we are starting to get the benefit of it down here where we are looking at fuel emissions and control of that sort of thing. My answer to you here is: it is an opportunity for shipping.

CHAIR—It seemed to me from some of the evidence we had today that, whilst people are recognising it is an opportunity, not a lot of work has actually been done on how you are going

to capture the benefits of that yet as an overall industry. Thank you very much for presenting before us today.

Mr NEVILLE—It was very good evidence.

CHAIR—Yes, thank you for that. If we do have further questions—and I suspect that we will given the rushed time frame of this inquiry—the committee secretariat will write to you with those. You will get a copy of the *Hansard* with the evidence you have given today, for editorial changes only. They will not change the content for you. I have tried once before and it does not work! I note that you have issued an invitation to me to visit one of your ships. Given my physical state at the moment, that is probably not possible. I have passed it on to the secretariat and I suspect there may be some members of the committee who wish to take that up. Thank you very much.

Committee adjourned at 5.33 pm