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Coastal shipping: an overview

Coastal shipping is an important component of the national transport task. This paper reviews the challenges and issues that the Australian industry faces.

Richard Webb
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Glossary

Australian coastal trading fleet: vessels operated by Australian companies and licensed under the *Navigation Act 1912* to operate on the Australian coast, that is, they can trade between States and the Northern Territory and intrastate. Includes vessels that carry passengers and cargo but not passengers only.

Bulk cargo: homogeneous, unpacked cargoes that can be poured or dropped, as a liquid or solid, into a ship's hold. Bulk cargoes are classified as dry or liquid.

Cabotage: the reservation of the transport of goods or passengers within a country to carriers of that country.

Continuing voyage permit: a permit that the Department of Transport and Regional Services issues allowing a vessel to carry specified cargo between specified ports usually for six months, as an authorised exception to the cabotage policy.

Dry bulk cargo: cargoes such as grain, iron ore and coal.

Liquid bulk cargo: cargoes such as oil, liquefied gas and chemicals.

Non-bulk cargo: cargo that would be damaged if dropped or poured. Non-bulk cargo is classified as shipped in containers or not classified and/or non-containerised. Non-bulk cargo that is not shipped in containers is often described as 'break-bulk' cargo. This includes boxes, pallets or bags loaded directly into the hold of a ship.

Pack type: the way cargo is packaged and moved. It is primarily split between bulk and non-bulk.

Shipowner: a person or firm who owns one or more ships. In practice, the term embraces owners, demise owners, charterers and operators of ships. The shipowner may be a different entity from the employer of crew on board the vessel.

Shipper: a person or company who enters into a contract with a shipping line or shipowner for the carriage of goods.

Single voyage permit: a permit that the Department of Transport and Regional Services issues for a single voyage between designated ports for the carriage of a specified cargo or passengers, as an authorised exception to the cabotage policy.

Twenty foot equivalent unit (teu): the standard used to measure the number of containers. The containers most commonly used are the 6.1 metre (twenty foot) box and the 12.2 meter (forty foot) box. The latter is counted as two teus.

Tonne: one thousand kilograms.

Tonne kilometres: the product of freight carried between two ports and the sea route distance between the two ports.

Executive summary

Coastal shipping is an important component of the national transport task, carrying mostly heavy cargoes over long distances. But the Australian coastal shipping industry faces major challenges. Coastal shipping's share of the domestic transport task has fallen from around 40 to 28 per cent (measured in tonne kilometres) over the past 15 years, the number of Australian-registered vessels is declining, and the fleet is ageing. After peaking in the early 1980s, real non-bulk freight rates have fallen. Australian-registered vessels also face challenges to cabotage, the policy of limiting access to a country's coastal trade to national ship operators or national flag vessels with national crews.

Coastal shipping's most important task is the transport of bulk cargo; in 2001–02, such cargo accounted for 88 per cent of coastal cargo (measured in kilotonnes). Many of the major users of coastal shipping are themselves ship operators, that is, much of the coastal shipping task is in-house. The Queensland bauxite trade, the carriage of gypsum, sugar, steel products, petroleum products and iron ore are examples where commodities are largely transported in ships operated by the cargo owners. The main commodities transported are iron ore, bauxite, alumina, crude oil and petroleum products. The single biggest component of coastal trade is the shipment of bauxite from Weipa to Gladstone in Queensland. However, the volume of interstate cargo is roughly double that of intrastate cargo with shipments of iron ore from Western Australia and of crude oil and petroleum products from Victoria accounting for much of this trade.

The Tasmania trade accounts for about one-third of the non-bulk coastal shipping task. Since the 1980s, real freight rates to Tasmania have declined although they are still above pre-1976 levels. The Federal government subsidises the Tasmania trade under the Tasmanian Freight Equalisation Scheme and the Tasmanian Wheat Freight Scheme. The purpose of the former is to alleviate the cost disadvantage incurred by shippers of eligible non-bulk goods moved between the mainland and Tasmania by sea rather than other modes, while the purpose of the latter to compensate wheat users for the additional costs associated with shipping wheat to Tasmania. It could be argued that both schemes are inequitable and economically inefficient: they favour selected industries and producers for no apparent economic reasons. More generally, it is not clear why Tasmania should have its transport disadvantage singled out for subsidisation when mainland industries and States also have transport cost disadvantages arising from distance. For example, wheat users in Darwin are disadvantaged by distance from wheat growing areas but are not assisted.

Cabotage, the limiting of access to a country's coastal trade to national ship operators or national flag vessels with national crews, is a key issue. Cabotage operates through Part VI of the *Navigation Act 1912* (the Navigation Act). This Act provides that ships licensed to operate on the coastal trade must, among other things, pay applicable Australian wages. The Act also provides for non-licensed ships to operate when no licensed ship is available

or the service that the licensed ship provides is inadequate. A non-licensed ship must have a single voyage permit (SVP) or a continuing voyage permit (CVP) to operate.

Cabotage is basically a form of protection for Australian-registered ships. On economic efficiency grounds, there seems to be no valid reason for continuing cabotage. This is particularly the case since protection for most industries has been wound back considerably. Cabotage can increase the cost to users of coastal shipping. Australian-registered ships generally have higher costs than foreign-flagged vessels partly because Australian ships have to comply with various pieces of legislation that foreign ships operating in the coastal trade do not have to meet. This is not to say that the legislation should be repealed: such legislation reflects Australian community standards. But it highlights the difficulties that Australian shipowners face in competing with foreign ships.

Cabotage can be abolished only by repealing the relevant sections of the Navigation Act. But in a notable departure from competition policy as applied elsewhere in the economy, successive governments have been unwilling to introduce foreign competition by repealing cabotage. The Howard Government has sought to reduce the consequences of cabotage by increasing the number of SVPs and CVPs. This liberalisation has benefited some ship users. Still, while the number of permits issued has increased, the majority of cargo is carried by Australian-registered vessels: over the three years ending in 2001–02, about 13 per cent of coastal trade measured in tonnes and 20 per cent on a tonne kilometre basis was transported under permits.

Reforms to the Australian shipping industry generally, and related activities such as ports and stevedoring, have increased efficiency and reduced the cost of coastal shipping. Crew levels have been reduced and multiskilling introduced. Company employment has replaced the industry roster system, thereby shifting the balance of power against the maritime unions. Still, the cost of Australian-registered ships is generally higher than their foreign-flagged and foreign-crewed competitors partly because Australian-registered ship owners/operators have to pay Australian wages.

The Government's policy towards coastal (and international) shipping is that Australia is a shipper not a shipping nation, that is, that Australia is principally a buyer—not a supplier—of shipping services. Pursuant to this policy, the Howard Government has privatised the Australian National Line, abolished capital grants and accelerated depreciation for ship purchases, wound back cabotage by liberalising the issue of permits, and supported the replacement of industry with company employment. The Government has also ruled out financial assistance to the Australian industry.

The Australian coastal shipping industry faces a number of challenges. They include the liberalisation of the issue of permits, increasing competition from rail in some market segments, and a possible shortage of skilled seafarers. On the other hand, the Government's unwillingness to abolish the cabotage provisions of the *Navigation Act 1912* will contain the pressure from the issue of permits. The Australian industry will continue to provide services in areas best suited to transport by ships such as bulk

minerals. The quality, reliability and safety of Australian flagged vessels are high by world standards, as are the skills of Australian seafarers. Shipping has environmental benefits in terms of energy consumption. An Australian fleet may also have a role in future defence and national emergency operations as it did in East Timor.

Introduction

Coastal shipping is an important component of the national transport task, carrying mostly heavy cargoes over long distances; in 2000–01, coastal cargo accounted for almost 30 per cent of the domestic freight task (measured in tonne kilometres)¹ and 16 per cent of the volume of cargo that moved across Australian wharves.² The cost and efficiency of coastal shipping have important economic consequences affecting, among other things, the profitability of export industries, the viability of mineral processing in Australia, and the cost of transporting goods to and from Tasmania.

The coastal shipping industry has experienced considerable change. Its share of the domestic freight task has fallen from around 40 per cent to 28 per cent over the past 15 years,³ the number of Australian-registered coastal vessels is declining, the fleet is ageing,⁴ the number of Australian-controlled but foreign-flag vessels is increasing, average crew numbers per vessel have halved from over 30 in the early 1980s to around 16, and the number of seafarers has fallen. After peaking in the early 1980s, non-bulk freight rates have fallen in real terms. Australian-registered vessels also face challenges to the policy of cabotage—the limiting of access to a country’s coastal trade to national ship operators or national flag vessels with national crews—resulting from the issue of single and continuing voyage permits. This paper examines these and other major issues surrounding coastal shipping.

Coastal fleet

On 30 June 2002, the coastal fleet comprised 41 vessels of which 37 were Australian-registered and four overseas-registered.⁵ Twenty were bulk carriers, 12 general cargo carriers, and nine were tankers. The bulk carriers transport commodities such as iron ore, coal, bauxite and alumina. Most of the general cargo vessels are engaged in the north Queensland and Tasmania trades, while the tankers are used to transport mainly petroleum products and crude oil. The ports at which these vessels call are located in all the States and the Northern Territory. Vessel names and type, the items they transport, and the ports at which they call are set out in Appendix 1.

Many of the major users of coastal shipping are themselves ship operators, that is, much of the coastal shipping task is in-house. The Queensland bauxite trade, the carriage of gypsum, sugar, steel products, petroleum products and iron ore are examples where commodities are largely transported in ships operated by the cargo owners.

The coastal freight task

Measured in tonnes carried, coastal shipping accounts for only three per cent of the total domestic freight task.⁶ But cargoes transported by sea are generally carried over longer distances than is the case with other modes; in 2000–1, for example, the average distance was 2010 kilometres per tonne for sea transport compared with 257 kilometres per tonne for rail.⁷ Consequently, sea transport's share of the domestic freight task, measured in tonne kilometres, is around nine times higher. The following table shows coastal freight volumes since 1994–95.⁸

Table 1. Australian coastal freight summary 1994–95 to 2001–02 (kilotonnes)

Year	Loaded			Discharged		
	Interstate	Intrastate	Total	Interstate	Intrastate	Total
1994–95	33 692	15 498	49 190	34 180	16 286	50 466
1995–96	31 982	15 815	47 797	31 808	16 229	48 037
1996–97	32 581	16 562	49 143	32 505	17 530	50 035
1997–98	34 322	18 200	52 522	34 741	18 968	53 709
1998–99	31 934	16 454	48 388	31 047	17 053	48 100
1999–00	32 743	18 582	51 325	32 359	18 369	50 728
2000–01	33 216	18 786	52 003	32 783	18 692	51 475
2001–02	32 484	19 949	52 432	33 183	19 652	52 835

Source: Source: Bureau of Transport and Regional Economics, *Australian Sea Freight: 2001–02*, Information Paper 50, January 2004, p. 2. Reasons for the discrepancies between tonnages loaded at ports and discharged at ports are discussed at <http://www.btre.gov.au/docs/ip48/note.html#stats>

Table 1 shows that volumes moved have fluctuated from year to year but have generally risen since 1994–95.

Commodities

Coastal shipping's most important task is the transport of 'bulk' cargo; in 2001–02, bulk cargo accounted for 88 per cent of coastal cargo.⁹ Bulk cargoes consist of 'dry' commodities such as coal, bauxite, alumina and iron ore, and 'wet' commodities such as crude oil and refined petroleum products. Non-bulk cargoes are generally higher valued-added goods such as fruit and vegetables, timber, paper, steel slab and processed food. Table 2 shows the major commodities transported since 1996–97.

Table 2. Coastal freight loaded by major commodity 1996–97 to 2001–02

Commodity	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
Tonnes (millions)						
Iron ore	8.3	8.2	^b 8.6	6.8	6.7	6.5
Bauxite/alumina	10.1	10.3	9.9	12.1	11.6	11.6
Crude oil	8.3	8.9	6.0	6.6	7.5	7.0
Petroleum products ^a	6.9	7.2	6.9	6.5	5.8	6.5
Other cargo	15.6	18.0	17.0	19.2	20.3	20.9
Total	49.1	52.5	48.4	51.3	52.0	52.4
Tonne-kilometres (billions)						
Iron ore	38.1	40.9	^b 40.3	29.7	28.3	26.3
Bauxite/alumina	22.2	22.4	21.8	27.9	25.7	25.6
Crude oil	18.8	21.7	15.1	17.1	15.2	20.3
Petroleum products	12.9	10.7	10.7	9.6	9.4	9.4
Other cargo	20.7	21.2	20.9	24.6	25.9	28.8
Total	112.7	116.6	108.8	108.9	104.5	110.4

Source: Bureau of Transport and Regional Economics, *Australian Sea Freight: 2001–02*, Information Paper 50, January 2004, p. 5.

Notes: a: excludes crude oil in row above. b: adjusted to balance more closely with discharged input/output tables for all iron ore ports

Examples of commodities shipped are:

- bauxite from Weipa to the Gladstone alumina plant operated by Queensland Alumina Limited
- alumina from Gladstone to the Bell Bay aluminium smelter in Tasmania
- the BlueScope Steel Limited steelworks at Port Kembla source iron ore from the Pilbara in Western Australia and Whyalla in South Australia. The steelworks use Port Kembla to receive the iron ore and transport finished products to other ports such as Westernport and Geelong in Victoria
- coal is shipped from Queensland fields to the iron ore smelter ports of Port Kembla and Whyalla
- crude oil is transported from Barrow Island in Western Australia and Westernport in Victoria to Sydney refineries, and
- refined petroleum products are shipped from the refineries in Sydney and Melbourne to the other States.

Interstate and intrastate trade

The following table shows the volume of intrastate and interstate trade in 2001–02.

Table 3. Total coastal freight flows 2001–02 (kilotonnes)

State of origin	State of destination							Total
	NSW	VIC	QLD	SA	WA	TAS	NT	
NSW	1 201	1 249	618	1 046	201	253	6	4 575
VIC	2 578	131	727	368	273	1 990	0	6 067
QLD	1 962	654	12 455	282	77	320	89	15 839
SA	2 283	1 474	704	1 989	149	272	3	6 875
WA	5 385	1 466	878	642	2 887	358	304	11 921
TAS	1 942	2 762	21	237	448	1 122	0	6 532
NT	47	0	3	0	6	444	123	623
Total	15 398	7 736	15 407	4 565	4 041	4 759	526	52 432

Source: Bureau of Transport and Regional Economics, *Australian Sea Freight 2001–02*, Information Paper 50, January 2004, p. 6.

The data in Table 3 show that *interstate* trade accounted for 62 per cent of coastal trade. Western Australia was the state of origin for most interstate trade, reflecting the importance of that state's iron ore and crude oil shipments. NSW was the most important destination with shipments of iron ore from Western Australia and crude oil from Victoria accounting for much of that trade. Table 3 also shows that *intrastate* trade accounted for 38 per cent of coastal trade. The single biggest component of intrastate trade was shipments of bauxite from Weipa to Gladstone in Queensland.

According to the Bureau of Transport and Regional Economics, trends that have emerged over the past seven years include:

- increasing tonnages loaded in South Australia and especially Western Australia and Tasmania, with a corresponding decline in NSW, Victoria and Queensland
- relative stability in the discharge of cargo for all states, with slight declines in Victoria, NSW and Western Australia balanced by increases in Queensland, South Australia and Tasmania.¹⁰

Additional details of interstate and intrastate trade, classified by major commodity group, are in Appendix 2, and the map shows major freight movements.

Tasmania trade

While bulk cargoes dominate mainland trade, the Tasmania trade accounts for about one-third of the non-bulk coastal shipping task.¹¹ In 2001–02, 6532 kilotonnes were loaded in Tasmania and 5360 kilotonnes discharged.¹² Table 4 shows the main commodities loaded and discharged.

Table 4. Main commodities loaded and discharged in Tasmania: 2001–2002 (kilotonnes)

Description	Loaded in Tasmania	Discharged in Tasmania
Cork and wood	1141	957
Metalliferous ores and metal scrap	1760	1323
Petroleum and petroleum products	0	876
Paper, paperboard & articles of paper	589	40
Coal, coke and briquettes	0	99
Non-metallic mineral manufactures, n.e.s.	1205	70
Other	1837	1995
Total	6532	5360

Source: Bureau of Transport and Regional Economics, *Australian Sea Freight 2001–02*, Information Paper 50, January 2004, p. 15.

n.e.s: not elsewhere stated

The range of goods shipped to and from Tasmania is more diverse than those shipped around the mainland partly because goods that would be transported by other modes on the mainland have to be shipped and partly because the goods shipped include a range of consumer and intermediate goods.

The Bureau of Transport and Regional Economics has compiled data on real (that is, adjusted for inflation) non-bulk coastal shipping freight rates for the Tasmania trade. The Bureau found:

Since the 1980's, real shipping rates to Tasmania have declined, but are still above pre-1976 levels (prior to which north-bound rates were subsidised by government).¹³

A number of factors have contributed to the decline in freight rates including Commonwealth government policies that led to the introduction of new ships and cargo technologies, and increased competition. Eight major trading vessels operated by four companies now provide shipping services between Tasmania and the mainland.

Tasmanian freight subsidy schemes

The Federal Government subsidises the mainland-Tasmania trade under two schemes:

- the [Tasmanian Freight Equalisation Scheme](#) (TFES), and
- the [Tasmanian Wheat Freight Scheme](#).

According to the [Directions by the Minister for Transport and Regional Services](#) that govern the TFES, the Scheme's purpose is:

... to assist in alleviating the sea freight cost disadvantage incurred by the shippers of eligible non-bulk goods moved between the mainland and Tasmania by sea.

The TFES provides payments to shippers to offset some of the costs of shipping eligible non-bulk goods. The TFES has two components:

- the northbound component: this covers eligible goods produced or manufactured in Tasmania for permanent use or for sale on the mainland, and
- the southbound component: this covers eligible non-consumer raw materials, machinery and equipment for use in manufacturing, mining, agriculture, forestry and fishing industries in Tasmania.

Goods shipped as bulk cargo are ineligible for assistance because shipping is deemed to be the least-cost form of transport for such goods. Payments under the TFES are demand-driven and are uncapped. Table 5 shows expenditure under the scheme since 1990–01.

Table 5. Cost of Tasmanian freight equalisation scheme (\$m)

Year	Northbound	Southbound	Total
2003–04	na	na	est. 80.1
2002–03	62.2	15.0	77.2
2001–02	58.1	13.9	72.0
2000–01	52.2	14.8	67.0
1999–00	47.6	11.8	59.4
1998–99	33.1	8.7	41.8
1997–98	32.5	8.9	41.4
1996–97	32.1	9.1	41.2
1995–96	35.0	7.7	42.7
1994–95	33.0	6.5	39.5
1993–94	32.0	5.6	37.6
1992–93	28.3	4.6	32.9
1991–92	28.4	4.3	32.7
1990–91	27.5	5.3	32.8

Source: Department of Transport and Regional Services, [Tasmanian Freight Equalisation Scheme Statistics](#), 2003 statistics.

Notes: na: not available. est.: estimated

The purpose of the Tasmanian Wheat Freight Scheme (TWFS) is to compensate Tasmanian wheat users for the additional transport and handling costs (relative to mainland users) associated with shipping wheat to Tasmania. The scheme costs around \$1.2 million annually.

In November 2000, the Government commissioned the Centre for International Economics to prepare an issues paper on the scheme.¹⁴ The Government released the paper in July 2001 and sought comment from interested parties. The paper raised a number of questions about the scheme's justification. For example, the paper pointed to the selectivity of the TWFS:

Assistance is not given to other industries in Tasmania that rely on bulk imports of inputs from the mainland. For example, the metals processing industry in Tasmania does not receive assistance to import ores and alumina from the mainland ... The cost disadvantage suffered by Tasmanian users is not a special case. Wheat-using industries in Darwin are also disadvantaged by their distance from wheat growing regions but they do not receive assistance.

Further:

The amount of assistance currently provided under the TWFS approximately covers the *full cost* of importing wheat across Bass Strait rather than just gap between sea freight costs and the costs associated with transporting goods an equivalent distance by road. In contrast, compensation under the TFES scheme is only provided for the gap between sea freight costs and road transport costs over an equivalent distance.¹⁵

The Government has yet to reveal what it proposes to do with respect to the TWFS and is continuing to fund the scheme while considering its future.

More generally, with respect to both schemes, the issues paper noted:

The Tasmanian transport assistance schemes (TWFS and TFES) fail to deliver compensation to all sectors of the Tasmanian community who might be disadvantaged by differential transport costs. The focus of these schemes is on Tasmanian producers, while no attempt is made to address the inequity that Tasmanian consumers may experience owing to higher transport costs of importing consumption goods from the mainland. Therefore the assistance schemes are *limited* in the extent to which they rectify inequities.¹⁶

In short, it can be argued that both schemes are inequitable and economically inefficient, favouring selected industries for no apparent reason. At an economy-wide level, it is not clear why Tasmania should have its transport disadvantage singled out when mainland States and industries also have transport disadvantages resulting mainly from distance. Consumers and industries in Western Australia, for example, are disadvantaged by their distance from the east coast cities. More generally, it is not clear why any State or industry should be selectively assisted for its transport cost disadvantage. In the circumstances, it could be concluded that the existence of the schemes is attributable to political rather than economic factors.

Passenger transport

The main coastal passenger task is the transport of passengers (and vehicles) across Bass Strait. The Tasmanian government-owned [TT-line](#) has two ferries, *Spirit of Tasmania I* and *Spirit of Tasmania II*, which operate daily services between Melbourne and Devonport. The *Spirit of Tasmania III*, provides services between Sydney and Devonport. The ferries also provide roll-on roll-off freight services. In 2001–2002, TT-line carried 348,435 passengers, 138,429 motor vehicles, and 22,525 twenty foot equivalent units.¹⁷ Southern Shipping operates the *Matthew Flinders* between Devonport and Port Welshpool

via Flinders and Deal Islands. Patrick Shipping operates the *Mersey Searoad* between Port Melbourne and Grassy, King Island; this service carries only vehicles and passengers must fly between Melbourne and King Island on a commercial airline service.

All of the above services are eligible under the [Bass Strait Passenger Vehicle Equalisation Scheme](#) (BSPVES), which came into effect on 1 September 1996. The scheme subsidises the cost of travel by sea for an eligible passenger vehicle and its driver. The Commonwealth subsidises the scheme and [Centrelink](#) administers it. The cost of the subsidy is shown in Table 6.

Table 6. Cost of subsidising the Bass Strait Passenger Vehicle Equalisation Scheme (\$'000)

1996–97	1997–98	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04
8 403	12 940	11 122	13 104	15 070	17 054	26 550	30 750

Source: Department of Transport and Regional Services, Portfolio Budget Statements, various years
Note: data for 2003–04 estimated

In addition to the Bass Strait services, there are other passenger and freight services serving islands such as Flinders, Kangaroo and Magnetic Islands.

A criticism of the BSPVES is that it distorts consumer behaviour in favour of one transport mode—shipping—at the expense of another mode—aviation. Given that a purpose of the scheme is to attract tourists, it might be more efficient to subsidise ‘fly-drive’ holidays, that is, fly to Tasmania and hire a car there.

Navigation Act

The Commonwealth’s power with respect to coastal shipping derives partly from section 98 of the Constitution which states:

The power of the Parliament to make laws with respect to trade and commerce extends to navigation and shipping ...

Areas of Commonwealth involvement in shipping and navigation include maritime safety and security, the marine cargo liability regime, and the issue of licences to allow vessels to operate on the coastal trade. While a number of Commonwealth Acts govern coastal shipping operations, Part VI of the [Navigation Act 1912](#) which deals with cabotage, directly affects coastal shipping. The purpose of the Act, when promulgated, was to protect Australian shipping from ‘unfair’ foreign competition and to maintain safety and living standards for Australian seafarers. Part VI was not proclaimed until 1921 so cabotage has applied since then. Around the time of proclamation, concern was expressed about the effects of cabotage on Australia’s economic development. The Royal Commission on the Navigation Act¹⁸, which reported in August 1924, argued for the repeal of Part VI mainly on the grounds of higher shipping costs that, it concluded,

cabotage would impose on coastal shipping services especially the Bass Strait trade and services to Western Australia.

In the Navigation Act, coastal trade is referred to as ‘coasting’ trade. Subsection 7(1) deems a ship to be engaged in the coasting trade:

... if it takes on board passengers or cargo at any port in a State, or a Territory, to be carried to, and landed or delivered at, any other port in the same State or Territory or in any other State or other such Territory ...

Licensing

Ships engaged in coastal trade can be licensed or unlicensed. The Act gives preference to licensed ships but provides for non-licensed ships to operate in the coastal trade in certain circumstances. With respect to the former, the key section is [section 288](#). This requires any ship operating in the coastal trade to be licensed. Although the legislation allows licences to be issued for up to three years, in practice, the Department of Transport and Regional Services issues licences annually at a nominal fee (currently \$22). Licences are granted subject to two main conditions:

- the seafarers employed on the ship are paid Australian wages, and
- a foreign government is not subsidising the ship.

It is important to note that licences are not limited to Australian registered, owned or crewed ships. A licence may be issued to a ship operating under any flag, regardless of the nationality of the crew or national ownership, provided that it meets these conditions.

[Section 289](#) relates to the payment of Australian wages. It states:

Every seaman employed on a ship engaged in any part of the coasting trade shall, subject to any lawful deductions, be entitled to and shall be paid ... wages at the current rates ruling in Australia for seamen employed in that part of the coasting trade ...

The second condition is in [section 287](#) of the Act. This prohibits from the coastal trade a ship that has received in the past 12 months or is receiving or is likely to receive, a subsidy from a foreign country. The purpose of this section is to prevent a ship from using the subsidy to enter the coastal trade by undercutting competitors.

A licensed ship must comply with Part II of the Act, which contains requirements regarding matters such as crew qualifications and numbers, accommodation and wages and conditions.

Continuing and single voyage permits

As noted, the Act provides for non-licensed ships to operate in the coastal trade in certain circumstances. For a non-licensed ship to operate, it must have a coastal trade permit. In essence, permits are issued when no licensed ship is available. [Section 286](#) provides that the Minister may grant permits to unlicensed ships—unconditionally or conditionally—when the Minister is satisfied that, in respect of trade between any Australian ports:

- no licensed ship is available for the service or that the service carried out by a licensed ship is inadequate, and
- that it is in the public interest that unlicensed ships be allowed to engage in that trade.

A permit issued under these arrangements may be a single voyage permit (SVP) or a continuing voyage permit (CVP):

- a SVP is issued for a single voyage between designated ports for the carriage of a specified cargo or passengers
- a CVP enables a vessel to carry specified cargo between specified ports for a specified period (since the introduction of new visa arrangements for foreign crews, CVPs are typically issued for a period of three months).

The Department of Transport and Regional Services has issued a [Single Voyage Permit Information Paper](#) and the Minister has issued [guidelines](#) for granting licenses and permits.

Unlike ships that operate under licence under Part VI of the Navigation Act, ships operating under permits may be in receipt of a subsidy from a foreign government. Subsection 286(2) provides that a ship using a permit shall not be deemed to be engaging in the coasting trade, that is, it is not treated under the Navigation Act as a licensed vessel.

The permit system is discussed further in the cabotage section at page 21.

Shipping industry reforms

Since the mid 1980s, a number of measures have improved the efficiency of Australian ships engaged in international and coastal trade. The following outlines these reforms.¹⁹

Crawford Report

In 1981, Sir John Crawford produced a report for the Fraser Coalition Government titled 'Revitalising Australian Shipping'. The report recommended the provision of financial incentives for investment in new ships in the forms of accelerated depreciation, the extension of the investment allowance to ships trading overseas, and the abolition of the duty on imported ships. These measures were conditional on reductions in crew numbers.

The Crawford recommendations were substantially implemented. Several new ships entered the fleet and there were some reductions in crew sizes although numbers were still above OECD standards.

Maritime Industry Development Committee

In 1985, the Hawke Government established the Maritime Industry Development Committee (MIDC). It recommended the acquisition of new generation ships, multi-skilling of crews, and the abolition of various labour demarcations.²⁰ The Government accepted these recommendations and provided capital assistance for the purchase of vessels under the [*Ships \(Capital Grants\) Act 1987*](#). The resulting investment reduced the average age of the Australian shipping fleet to below the average age of the world fleet. Crew numbers were reduced to the levels on most OECD ships. The abolition of demarcation problems was reflected in a fall in the number of ship days lost through crew disputes; in 1992–93, this number was the lowest in over a decade.

Shipping Reform Task Force and the Shipping Industry Reform Authority

On 11 November 1988, the Hawke Government announced the establishment of the Shipping Reform Task Force. This followed an Industries Assistance Commission report that criticised the industry's efficiency.²¹ On 1 June 1989, the Government announced that it had accepted the thrust of the Task Force's proposals. Key elements were:

- reductions in the size of crews
- extension of capital grants to cover the cost of modifying ships to allow them to operate with smaller crews
- a Government contribution of \$24 000 per package towards a one-off voluntary early retirement scheme up to a ceiling of \$24 million over three years
- funding of retraining programs
- the Prices Surveillance Authority monitoring of coastal freight rates, and
- more flexible guidelines for the permit system to allow unlicensed ships to carry coastal cargoes.

With respect to permits, under guidelines issued before 1989, only SVPs were issued. To increase competition in coastal trade, the then Minister for Transport and Communications, the Hon. Ralph Willis, announced that the SVP system would be made more flexible:

Cabotage policy was carefully examined by the Shipping Reform Task Force. No member recommended its withdrawal but it was suggested that changes be made to the application of the permit system to increase its flexibility ... The Government agrees with

the Task Force that the permit system should be made more flexible and has decided that new guidelines will be issued for the operation of the permit system. These will apply to single voyage permits and will also include the use of permits for continuous trading which, although allowed for under the Navigation Act, have not been issued for 20 years.

These continuous voyage permits, which can be issued for up to three years, will improve efficiency and competitiveness in the coastal shipping market in a number of ways.²²

The Government established the Shipping Industry Reform Authority (SIRA) to oversee the development and implementation of the program. SIRA was established initially for the three years from 1 July 1989 but its term was extended. By 1994, average crew sizes had been reduced to 18 and multi-skilling had been implemented.

Still, shipping costs remained high. In March 1994, the Bureau of Industry Economics published an analysis of the cost of Australian coastal shipping compared with OECD shipping.²³ The study found that, overall, costs of Australian ships were higher than for ships from New Zealand, Norway, the UK and Germany but were less than the costs of American, Canadian or Japanese ships. The analysis showed that while Australian shipping had lower capital costs than any of the other countries, Australian crew costs were around 25 per cent higher than average even though Australian crews were of a similar size to OECD crews. Further, on 26 March 1996, the Australian Competition and Consumer Commission released a report that found that the costs of coastal shipping were continuing to grow despite smaller crews, government subsidisation of capital expenditure in the forms of capital grants and accelerated depreciation, and government contributions to early retirement.²⁴ In May 1996, the Howard Government abolished the capital grants and accelerated depreciation.

Shipping Reform Group

On 13 August 1996, the then Minister for Transport and Regional Development, the Hon. John Sharp, established the Shipping Reform Group (SRG). The Group's task was:

... to provide the mechanism for industry consultation on winding back cabotage and examination of a second register²⁵ for Australian shipping.²⁶

The Group, which reported in March 1997, recommended, among other things:

- labour market reform including the establishment of company employment and the ending of the seafarers' engagement roster system²⁷
- exposure of the Australian shipping industry to increased competition via the wind back and ultimate removal of cabotage, and
- equity with foreign competition through the establishment of an Australian second register.

The Government did not respond formally to the SRG recommendations. But the Government liberalised the permit system including dropping the requirement that CVPs be issued only in circumstances that provided long-term benefit to the shipping industry, and by streamlining the administration of the permit system with new ministerial guidelines issued in June 1998. Liberalisation enabled greater participation by foreign flag vessels in coastal trade. Further, company employment was implemented in July 1998, replacing the roster system.²⁸

On 10 December 1998, the Minister for Transport and Regional Services, the Hon. John Anderson, established the Shipping Reform Working Group to:

... assess progress in implementing the recommendations of the SRG. It will also look at the benefit to the economy of the Australian shipping industry, develop measures for monitoring labour and efficiency reforms such as enterprise employment, and examine support to the shipping industries of other OECD countries and support provided to other Australian industries.²⁹

The Group reported in May 1999. The Minister did not release the report on the grounds that he had pledged that the Group's advice would remain confidential.³⁰ However, a press report claimed that the Group had recommended an annual grant to ensure the international competitiveness of Australian shipping, and had considered the option of mixed foreign and Australian crews on coastal ships.³¹

Other reforms

A number of other reforms have also affected coastal shipping. Major areas of reform are the reforms to ports that State governments have implemented and the waterfront (stevedoring) reforms.

Port reforms

Australian ports have a history of inefficiency characterised by poor work practices and management. This included:

... low productivity of labour and capital equipment, over-servicing by tugs, charges unrelated to the cost of services provided and poor integration with other services as reflected in truck queues at terminals and rail receipt depots.³²

Over the past 30 or so years, ports have undergone major structural changes, in part in response to changing technologies associated with material handling and ship design, for example, containerisation and the increased use of very large bulk carriers and tankers. Reform has also been stimulated by government economic programs such as the national competition policy, which has led to a far greater commercial focus in port operations than was traditionally the case.

Reforms over a number of years have increased port efficiency. In 2002, the Productivity Commission, in its report on the [Economic Regulation of Harbour Towing and Related Services](#), reviewed reforms of port authorities. Reforms have included:

... corporatisation, commercialisation, restructuring, privatisation and the contracting out of some functions. Structural reforms of port authorities also resulted in the restructuring of some entities and the devolution of regulatory functions to independent bodies. The primary aim of the reforms was to replicate market disciplines, including the establishment of clear objectives to eliminate any conflict between commercial and non-commercial objectives. Greater emphasis was placed on the commercial role of port authorities to create incentives for efficient management.³³

The Commission found that the reforms had contributed to a fall, in real terms, in port authority charges for containerised and bulk ships at major ports, improved average ship turnaround time at container terminals in most jurisdictions, and increased labour productivity.³⁴ The Commission also found that in the harbour towing industry:

Labour and capital productivity have improved as a result of changes in work practices over the past decade. Reforms targeted at the towing industry in the early 1990s—partially funded by the Commonwealth Government—reduced crew numbers significantly and changed work practices ... More recently, three man crews have been introduced on many tugs.³⁵

Waterfront reform

Over many years, maritime unions were able to obtain working conditions and incomes that were generous compared with those of many other workers. Restrictive work practices were widespread and industrial disputes common. However, waterfront reforms, before but especially since the dispute between Patrick Stevedores and the Maritime Union of Australia in 1998, have improved productivity in cargo handling and ship turnaround times. [Stevedoring productivity](#) has increased considerably since 1996. Higher productivity has helped to reduce coastal shipping costs.

Commonwealth government policy

The Government's policy towards coastal (and international) shipping is encapsulated in the notion that Australia is a shipper nation not a shipping nation, that is, that Australia is principally a buyer—not a supplier—of shipping services.³⁶ On 19 March 1999, the Minister for Transport and Regional Services, the Hon. John Anderson, summarised the Government's policy towards shipping:

Key among this Government's shipping policies have been privatisation of the Government-owned shipping line A[ustralian] N[ational] L[ine],³⁷ the removal of ad hoc support measures for shipping which did not contribute to the development of an efficient fleet, the winding back of cabotage, an end to outdated industry employment practices on vessels, and the modernisation of shipping legislation.³⁸

On 1 December 1999, the Minister announced that the Government would not provide financial assistance to the Australian shipping industry and subsequently confirmed this policy:

The option of providing direct fiscal support for the Australian shipping industry has, however, not proved feasible. It is also unlikely that this situation will change.³⁹

In February 2000, the Australian Shipowners Association decided that it would no longer seek subsidies from the Federal government to ensure the viability of Australian-owned ships engaged in international as well as coastal trade.⁴⁰

However, effective from 1 July 2000, the Government introduced a 100 per cent rebate of the excise on heavy fuel oil—the main source of power for ships engaged in coastal trade—and diesel fuel used in marine transport.⁴¹ This rebate has continued under section 36 of the [Energy Grants \(Credits\) Scheme Act 2003](#). The rebate eased the cost disadvantage that coastal shipping faces relative to road transport. But the Government also extended the rebate to rail transport, negating to some extent the competitive benefit to coastal shipping.

Independent Review of Australian Shipping

In December 2001, the Australian Shipowners Association announced a review of Australian shipping covering both international and coastal shipping. Two former Federal Ministers for Transport, the Hon. Peter Morris and the Hon. John Sharp conducted the review. The review, titled the [Independent Review of Australian Shipping](#), reported in September 2003. The Review's findings and recommendations, insofar as they relate directly to coastal shipping, include:

- the provisions of the *Navigation Act 1912* that regulate coastal shipping should be reviewed
- the claimed inconsistency between the Government's policy for coastal shipping, that is, to obtain the cheapest shipping services by accessing foreign ships, and its policy of strengthening border protection
- the interaction of a number of items of legislation causes a competitive disadvantage to Australian operators whose ships operate permanently on coastal trades compared to the less onerous regulatory environment applicable to foreign vessels that work on the coast under permits. The Review found that the impact has been exacerbated by ad hoc steps taken to liberalise the coastal shipping market for non-Australian operators without taking into account the competitive disadvantage imposed on Australian operators, and
- the coastal industry could enhance service to shippers.

The Review's findings and recommendations are set out in full in Appendix 3.

Issues

Cost disadvantage

Australian coastal shipping is generally more costly than foreign-flagged competitors mainly because the cost of crews is higher even though Australian crew levels are now close to the international average. The cost of coastal shipping and the need for efficiency gains have been recurring themes in a number of reports. For example, the study by the Allen Consulting Group, commissioned by the SIRA, found that between January 1988 and November 1991, Australian oil tanker freight rates were about 22 per cent higher than the world rate.⁴² The Industry Commission, in its report on mining and minerals processing, argued for efficiency gains by increasing the contestability of transport services provided by coastal shipping.⁴³ According to the Minister for Transport and Regional Services, the Hon. J Anderson, in 1999, the cost disadvantage was about \$3.5 million annually for a typical large trading vessel. This was comprised of \$1 million for capital costs, \$2 million for manning costs and about \$0.5 million for other operating costs. Changes in exchange rates, reductions in capital premiums on the cost of Australian-specification ships, and improved efficiencies have ameliorated these cost differentials in the five years since 1999. Further, coastal shipping competes to varying degrees with road and rail transport (except in those areas where cargoes are particularly suited to sea transport) and both of these modes have improved efficiency.⁴⁵

Another source of disadvantage for Australian ships is that foreign vessels can sometimes charge freight rates based on marginal costs—the additional costs of a voyage such as extra fuel used—rather than higher average costs (the latter include marginal costs and items such as depreciation). For example, when Australian ships plied the container trade between south-eastern ports and Fremantle, to be profitable, they charged a rate per container that covered average cost. Because opportunities to 'backload' cargo from Western Australia were limited, the rate had to cover the cost of the round trip. In contrast, a foreign ship carrying domestic cargo one way as part of a longer international voyage can carry freight does not have to cover the cost of back loading. More generally, limited opportunities for back loading, especially for specialised carriers, keep upward pressure on freight rates.

The Australian Shipowners Association—which represents Australian shipowners—claims that Australian ship operators have to meet legislative requirements that foreign operators do not. Consequently, Australian shipowners are at a cost disadvantage compared to foreign competitors (these requirements and the Australian Shipowners Association's claims are summarised in Appendix 4). It is true that some legislation imposes additional costs that some foreign shippers do not incur. On the other hand, other Australian industries also incur these costs. Further, the legislation also reflects Australian

standards which few would argue should be given up. On 13 December 2001, the Minister for Transport and Regional Services, the Hon. John Anderson, noted that:

The Australian shipping industry has raised concerns that it is disadvantaged when competing with foreign flagged vessels due to the provisions of Australian legislation relating to such matters as customs, migration, income tax, ship registration, occupational health and safety, compensation and rehabilitation and industrial relations. Some of these concerns are perhaps not without merit and we take them very seriously.

While we must recognise that the legislation reflects community standards, we are, at the same time concerned to ensure that Australian industry is not subject to unreasonable obstacles that inhibit its ability to compete internationally.⁴⁶

Cabotage and permits

Cabotage is basically a form of protection for Australian flag ships provided by the *Navigation Act 1912*.⁴⁷ On economic efficiency grounds, there seems to be no valid reason for continuing cabotage.⁴⁸ This is particularly the case since protection for most industries has been wound back considerably. Cabotage increases the cost to users of coastal shipping compared to foreign-flag vessels that are not subject to the wages and other conditions of the *Navigation Act 1912*.

Abolishing cabotage would have important consequences. A study by Access Economics found:

... notwithstanding the negative impact on our balance of payments, there would be an overall positive economic benefit to the Australian economy if the coasting trade was opened to the most competitive shipping services—even if Australian shipping lost its current share of this trade.⁴⁹

The study also concluded that 80 per cent of coastal activity would disappear if cabotage were abolished.⁵⁰

Cabotage can be abolished only by repealing the relevant sections of the *Navigation Act 1912*. In a notable departure from competition policy as applied elsewhere in the economy, the Government has been unwilling to introduce foreign competition by repealing the relevant sections of the legislation. Rather, the Government has sought to reduce the consequences of cabotage by increasing the number of SVPs and CVPs.⁵¹ The Independent Review of Australian Shipping prepared for the Australian Shipowners Association reported that:

The review heard overwhelming evidence that over the past few years the criteria [for issuing permits] have been administered in such a way that the coastal trade could now be regarded as virtually deregulated.⁵³

The number of single and continuing voyage permits and tonnages is increasing as shown in Table 7. The commodities carried under permits are shown in Table 8.

Table 7. Single and continuing voyage permits

Year	Single voyage permits		Continuing voyage permits	
	Number	Tonnes	Number	Tonnes
1987–88	16	48 732		
1988–89	48	577 239		
1989–90	88	981 142		
1990–91	140	1 098 329		
1991–92	203	1 320 774		
1992–93	307	895 730		
1993–94	470	1 405 516		
1994–95	428	3 367 097		
1995–96	421	3 236 701		
1996–97	572	3 855 263		
1997–98	788	5 121 278		
1998–99	704	6 883 060	41	401 243
1999–00	629	7 335 585	73	687 705
2000–01	642	10 111 112	108	2 011 932
2001-02	na	na	87	2 039 054

Source: DoTaRS at http://www.dotars.gov.au/transreg/str_svp_cvp.htm

Note: data for 1990–91 to 1996–97 are permits used. na: not available.

Table 8. Voyage permits by commodity type 2001–02

Pack type	Permit type	No. of voyages	Tonnes carried	TEUs carried
Bauxite/alumina	SVP	3	82 550	0
Crude oil	SVP	14	920 321	0
Iron ore	SVP	41	2 913 310	0
Petroleum products	SVP	83	1 359 132	11 035
Other	SVP	506	3 336 597	13 719
Other	CVP	350	1 359 132	28 496
Total		997	10 333 859	53 250

Source: Bureau of Transport and Regional Economics, *Australian Sea Freight: 2001–02*, Information Paper 50, January 2004, p. 18.

Table 9 indicates the impact on coastal trade of permits used.

Table 9. Impact of CVPs and SVPs on coastal trade 1999–2000 and 2000–01

Year	Tonnes			Tonne kilometres (billion)		
	Coastal trade loaded	SVPs and CVPs	SVPs/CVPs as per cent of coastal trade	Coastal trade	SVPs and CVPs	SVPs/CVPs as per cent of coastal trade
1999–00	51.3	3.7	7.2	108.9	9.9	9.1
2000–01	52.0	7.0	13.5	104.5	30.2	28.9
2001–02	52.4	10.3	19.6	110.4	23.6	21.4
Average	51.9	7.0	13.3	107.9	21.2	19.8

Source: Bureau of Transport and Regional Economics, *Australian Sea Freight*, Information Papers 47 and 48.

Table 9 shows that the great majority of coastal trade was not carried under permits for the period 1999–2000 to 2001–02 with cargo transported under permits accounting for an average of 13.3 per cent of coastal trade on a tonnage basis and for 19.8 per cent on a tonne kilometre basis.

As to the effect of permits on non-bulk freight rates:

There has been a much greater use of the single and continuous voyage permit system in the 1990s. This has not affected rates on the Tasmanian route, but does appear to have affected routes such as those to and from Perth, where international competition has been most evident. Real coastal shipping rates to and from Perth have dropped by 40 per cent since 1990 and coastal shipping on the route has lifted its mode share from 7 per cent in 1995 to 12 per cent in 2001.⁵⁴

The link between cabotage and the maintenance of Australian labour standards in coastal shipping has traditionally formed the basis of trade union support for cabotage. However, a recent decision of the High Court has shown that link to be unnecessary. On 7 August 2003, the [Court ruled](#) unanimously that regulation of labour standards on board unlicensed—that is, permit-holding—foreign ships engaged in coastal shipping is within the Commonwealth’s constitutional power, and that the Australian Industrial Relations Commission (AIRC) has award-making jurisdiction over such ships.⁵⁷ Without additional legislative change, abolition of cabotage would not, therefore, prevent the AIRC from extending award coverage to foreign companies while they are engaged in coastal shipping. That said, continuing to enforce Australian labour standards on foreign boats would undermine the cost reducing benefits of ending cabotage. Such an approach might also amount to *de facto* cabotage by removing the one factor on which many potential foreign entrants might compete — a lower cost of labour.

Ship standards and safety

While abolishing cabotage would provide economic benefits, there are benefits to retaining Australian flag vessels. These were summarised in a submission to the Industry Commission inquiry into petroleum products:

The quality of vessels under the Australian flag, through regular investment and maintenance, is at a very high level by world standards which ensures that the reliability and safety records of Australian vessels are well above average. Furthermore, the level of initial and ongoing training received by Australian seafarers not only ensures competency in normal vessel operation but also ensures that crews are capable of handling emergencies at sea in a way that minimises the risk to life, its vessel, and the environment. Recent major incidents overseas involving oil tankers and major pollution have demonstrated the value of having well trained and experienced crew.⁵⁸

The House of Representatives Standing Committee on Transport, Communications and Infrastructure, in its report *Ships of Shame*, drew attention to the poor standards of safety and seaworthiness of many foreign-flagged vessels, especially those operating under so-called 'flags of convenience'.⁵⁹ In its subsequent report, *Ships of Shame-A Sequel*, the Committee noted that more needed to be done in respect of vessels operating on the Australian coast under permits.⁶⁰

There is, however, no necessary link between cabotage and ship standards. The Industry Commission, in its report on petroleum products, stated:

Shipping standards acceptable to the Australian community can be maintained, however, without relying on cabotage. Australian standards are continually being developed and amended to ensure that the design and construction of Australian ships is adequate. A set of international shipping standards has also been agreed to, involving stringent requirements for the design, construction, maintenance and operation of both Australian and foreign vessels. Foreign ships calling at Australian ports must also comply with appropriate safe manning requirements for that ship.⁶¹

In short, restrictions on competition such as cabotage:

... are not the most efficient means of regulating safety or environmental standards—such standards should be addressed directly.⁶²

The [Australian Maritime Safety Authority](#) is a largely self-funded government agency with the charter of enhancing efficiency in the delivery of safety and other services to the Australian maritime industry.

Environmental benefits

There are other benefits from shipping services and, in particular, the existence of an Australian trading fleet. There are environmental benefits from using shipping as opposed

to land (mainly rail) transport. In terms of energy consumption, bulk shipping uses only 0.2 megajoules of energy per tonne kilometres. This compares with 0.4 for rail or 1.4 for articulated trucks. Furthermore, sea transport produces lower quantities of greenhouse gases. Bulk sea transport generates 13 grams of carbon dioxide per tonne kilometres compared with 29 grams for rail. Furthermore, air pollution created by shipping is less likely to affect populated areas than land-based modes of transport.⁶³

Defence

A further advantage in having an Australian fleet is its reserve defence capability. Indeed;

The main obstacle to such reforms [liberalisation of cabotage trades] is the pressure that exists within many countries to retain cabotage laws as a means of preserving related employment and maritime know-how necessary in case of external emergencies. However, there are critics of the current provisions who suggest that cabotage has failed to achieve this aim.⁶⁴

Several shipowners have entered a Memorandum of Understanding with the Navy to provide assistance in the case of a national emergency. Some ships have facilities specifically designed to assist the Navy, such as helicopter pads or the ability to provide refuelling facilities.

Conclusions

The Australian shipping industry faces a number of challenges but also has a number of advantages. Among the challenges is the Government's policy of liberalising the issue of permits, which will maintain pressure on Australian operators from foreign vessels. With rail freight becoming more efficient, Australian shipping operators face increasing competition in market segments where the two modes compete such as the east-west transcontinental trades. Another challenge is a possible shortage of skilled seafarers. The Independent Review of Australian Shipping noted:

One of the most prevalent concerns in the Australian maritime sector is the real and genuine concern over a looming shortage of persons with prerequisite seagoing qualifications. The diminishing number of young persons being trained as seafarers in the Australian-controlled fleet is contributing to an ageing skills base. There is also a widespread concern that seafarers are spending less and less of their working lives at sea.⁶⁵

On the other hand, given the Government's unwillingness to abolish the cabotage provisions of the *Navigation Act 1912*, the pressure from the issue of permits to foreign vessels will be contained. The Australian industry will continue to provide services in areas best suited to transport by ships such as the transport of bulk minerals. Further, as noted, the quality of Australian flagged vessels is high by world standards, ensuring that the reliability and safety of Australian vessels are well above average. The skills of

Australian seafarers are also relatively high. An Australian fleet may also have a role in defence and national emergency.

Endnotes

1. Bureau of Transport and Regional Economics, *Australian Transport Statistics*, June 2003, p. 6.
2. Bureau of Transport and Regional Economics, *Australian Sea Freight: 2001–02*, Information Paper 50, January 2004, p. 1 at <http://www.btre.gov.au/docs/ip50/IP50.pdf> and Bureau of Transport and Regional Economics, *Australian Transport Statistics*, op. cit.
3. Australian Shipowners Association, *Independent Review of Australian Shipping*, 18 September 2003, p. 15, and Bureau of Transport and Regional Economics, *Australian Transport Statistics*, op. cit.
4. Apelbaum Consulting Group Pty Ltd, *Australian Maritime Transport 2002*, paper prepared for the Australian Shipowners Association, March 2003, p. 22 at <http://www.asa.com.au/upload/news/Australian%20Maritime%20Transport%202002.pdf>
5. Bureau of Transport and Regional Economics, *Australian Sea Freight: 2001–02*, op. cit., p. 37.
6. Bureau of Transport and Regional Economics, *Australian Transport Statistics*, op. cit.
7. *ibid.*
8. Most recent data at the time of writing.
9. Bureau of Transport and Regional Economics, *Australian Sea Freight: 2001–02*, op. cit., p. 9.
10. Bureau of Transport and Regional Economics, *Australian Sea Freight: 2000–01*, Information Paper 48, March 2002, p. 6.
11. Bureau of Transport and Regional Economics, *Freight Rates in Australia*, Information Sheet 19, 2002, p. 2 at <http://www.btre.gov.au/docs/is19/is19.html#Top>
12. Bureau of Transport and Regional Economics, *Australian Sea Freight: 2001–02*, op. cit., p. 15.
13. Bureau of Transport and Regional Economics, *Freight Rates in Australia*, op. cit., p. 2.
14. Centre for International Economics, *Tasmanian Wheat Freight Subsidy Scheme. An Issues Paper*, Canberra and Sydney, January 2001.
15. *ibid.*, p. 9.
16. *ibid.*, p. 9.
17. Tasmanian Department of Transport at http://www.transport.tas.gov.au/road/transport_tas/marine%2003-02-05.html#Passenger%20Ferries
18. *Report of the Royal Commission on the Navigation Act*, Parliamentary Papers, volume 63, 1923–24 session, volume II.

19. A more detailed summary can be found on the Australian Shipowners Association website at: <http://www.asa.com.au/whatsnew.asp#article2>
20. Maritime Industry Development Committee, *Moving Ahead*, AGPS, Canberra, October 1986.
21. Industries Assistance Commission, *Coastal Shipping*, Canberra, 1988.
22. Hon. Ralph Willis, Minister for Transport and Communications, Ministerial Statement, 1 July 1989.
23. Bureau of Industry Economics, *International Performance Indicators: Coastal Shipping*, Research Report 55, March 1994.
24. ACCC, *Coastal shipping makes little headway*, media release, 26 March 1996.
25. Second registers, in countries such as Norway, Denmark and Germany, allow national flag vessels to employ third world crews. The crews are paid through local agreements in their home countries.
26. Report by the Shipping Reform Group, *A Framework for Reform of Australian Shipping*, 1997, p. 11.
27. Under the engagement system, seafarers were centrally registered and assigned to vessels at each port according to a roster system.
28. Department of Transport and Regional Services website, *The Shipping Reform Group*, 1999. (No longer available on the Department's web site).
29. Hon. J Anderson, Minister for Transport and Regional Services, *Government pushes ahead with shipping reform*, media release A18/98, 10 December 1998.
30. Hon. J Anderson, Minister for Transport and Regional Services. Speech to the National Bulk Commodities Group, 13 December 2001 at: http://www.ministers.dotars.gov.au/ja/speeches/2001/as13_2001.htm.
31. Kevin Chinnery, 'Delayed report into shipping slowly leaking', *Daily Commercial News*, 6 September 1999.
32. Industry Commission, *Mining and Minerals Processing in Australia*, 25 February 1991, p. 423.
33. Productivity Commission, *Economic Regulation of Harbour Towing and Related Services*, Report no. 24, Canberra 2002, p. 63.
34. *ibid.*, pp. 68–70.
35. Productivity Commission, *op. cit.*, p. xxiv.
36. Hon. J Anderson, Minister for Transport and Regional Services. Speech to the National Bulk Commodities Group, *op. cit.*
37. In May 1999, the sale of Australian River Co. (formerly ANL Ltd) was completed. The proceeds were \$20.697 million.

38. Hon. J Anderson, Minister for Transport and Regional Services. Closing address: Shipping in the New Millennium, 19 March 1999 at: http://www.ministers.dotars.gov.au/ja/speeches/1999/as05_99.htm
39. Hon. J Anderson, Minister for Transport and Regional Services. Speech to the National Bulk Commodities Group, op. cit.
40. Australian Shipowners Association, *Shipping Reform-Chronology of Progress*, at <http://www.asa.com.au/whatsnew.asp#article2>
41. All ships engaged in international trade, whether Australian-flag or foreign-registered, pay excise if the domestic cargo accounts for ten per cent or more of their cargo capacity. International trading ships carrying domestic cargo on the coast have to pay excise even if they are burning fuel bought overseas. Bureau of Transport and Communications Economics, *Taxes and charges in Australian transport: a transmodal overview*, working paper 34, October 1997, pp. 99–100.
42. Industry Commission, *Petroleum Products*, 5 July 1994, p. 232.
43. Industry Commission, *Mining and Minerals Processing in Australia*, op. cit., p. xii.
45. See, for example, Productivity Commission, *Progress in Rail Reform*, Inquiry Report no. 6, AusInfo, Canberra, 1999.
46. Hon. J Anderson, Minister for Transport and Regional Services. Speech to the National Bulk Commodities Group, op. cit.
47. The United States, Japan, Korea, Turkey and Canada maintain cabotage regulations. In the European Union, national cabotage is gradually being opened up among member countries but cabotage is not open to those outside the EU. OECD, *Regulatory Issues in International Maritime Transport*, Paris 2001.
48. Resources such as land, labour and capital are said to be allocated 'efficiently' when they are used to produce the goods and services that consumers want most and are employed in the most productive industries. Protection distorts the efficient allocation of resources by interfering with decisions to consume, save, work and invest.
49. Hon. J Anderson, Minister for Transport and Regional Services. Speech to the National Bulk Commodities Group, op. cit.
50. Kevin Chinnery, 'Foreign flag or foreign crew-is this the question?', *Daily Commercial News*, 3 September 1999.
51. M. Davis, 'Foreign vessels slowly sinking the shipping industry', *Australian Financial Review*, 5 July 1999.
53. Australian Shipowners Association, *Independent Review of Australian Shipping*, 18 September 2003, p. 13.
54. Bureau of Transport and Regional Economics, *Freight Rates in Australia*, op. cit., p. 2.
57. Re the Maritime Union of Australia &Ors; Ex parte CSL Pacific Shipping Inc [2003] HCA 43 (7August 2003).
58. Industry Commission, *Petroleum Products*, op. cit., p. 235.

59. House of Representative Standing Committee on Transport, Communications and Infrastructure, *Ships of Shame*, December 1992.
60. House of Representative Standing Committee on Transport, Communications and Infrastructure, *Ships of Shame-A Sequel*, November 1995.
61. Industry Commission, *Petroleum Products*, op. cit., p. 236.
62. *ibid.*, p. 236.
63. For a fuller examination of the relative energy intensity of different transport modes, see Apelbaum Consulting Group Pty Ltd, op. cit.
64. OECD, *Regulatory Issues in International Maritime Transport*, op. cit., p. 65.
65. Australian Shipowners Association, op. cit., p. 4.

Appendix 1: Ships in the coastal trades

Name	Trade	Products	Ports called at
<i>Tankers</i>			
Australian Pride	C (o)	Petroleum products	Fremantle, WA ports, Darwin, Adelaide, Brisbane, Fiji, American Samoa, Whangarei (NZ) coastal
Barrington	C	Petroleum products	Botany Bay, Brisbane, Mackay, Gladstone, Townsville, Bundaberg, Cairns, Pt Kembla, Melbourne, Geelong, Launceston, Devonport, Hobart, Wellington, Dunedin
Broadwater	C (o)	Crude oil	Kumul terminal (PNG), Brisbane, Botany Bay, Dampier, Singapore, Korea, Varanus Terminal, Saldin terminals, Botany Bay, Pt Bonython, Botany Bay, Hastings, Botany Bay, Sydney
Helix	C	Petroleum products	Geelong, Hobart, Devonport, Brisbane, Townsville, Botany Bay, Sydney, Singapore, Esperance
Palmerston	C	Petroleum products	Brisbane, Botany Bay, Geelong, Townsville, Cairns, Mackay, Gladstone, Bundaberg, Pt Kembla, Wellington, Dunedin
Samar Spirit	C (o)	Crude oil Petroleum products	Hastings, Dampier, Kumul Terminal (PNG), Vietnam, Botany Bay, Brisbane, South East Asia
Seakap	C (o)	Bitumen & bituminous materials, chemicals	Newcastle, Pt Kembla, Botany Bay, Portland, Launceston, Whyalla, Gladstone, Taiwan
Stolt Australia	C (o)	Chemicals	Vic, Tas, NSW ,SA, Qld, WA, New Caledonia, and Tasmania
Tasman	C	Petroleum products	Melbourne, Geelong, Burnie, Launceston, Sydney, Botany Bay, Pt Lincoln, Pt Stanvac, Adelaide, Eden, Brisbane
<i>Bulk Carriers</i>			
Aburri	C	Metal concentrates	Bing Bong
Accolade II	C	Limestone	Adelaide, Klein Point
Alltrans	C (o)	Alumina	Gladstone, Launceston, Bluff, Gove, Bluff
Cementco	C (o)	Cement, alumina	Cement: Gladstone, Newcastle, Adelaide, Brisbane, Melbourne, Sydney, Devonport, Geelong, Launceston, Portland, Mackay, Darwin, Townsville. Alumina: Bunbury, New Caledonia, Geelong, Portland, Pt Kembla
Endeavour River	C	Bauxite, alumina	Bauxite: Weipa to Gladstone. Alumina: Gladstone to Newcastle
Enterprise	C	Bulk carrier	NSW, SA, Tas, Vic, Qld
Fitzroy River	C	Bauxite	Weipa, Gladstone, Newcastle
Goliath	C	Cement	Devonport, Melbourne, Sydney, Newcastle

Name	Trade	Products	Ports called at
Tankers			
Iron Carpentaria	C (o)	Iron ore, dolomite, alumina, coal	Pt Latta, Pt Kembla, Ardrossan, Pt Kembla, Gladstone, Newcastle, Gladstone, Pt Kembla, Launceston, Whyalla, Newcastle, Singapore
Iron Chieftain	C	Iron ore, coal	Whyalla, Pt Latta, Pt Kembla, Pt Kembla, Hay Pt, Whyalla
Iron Sturt	C	Cement, metal concentrates, alumina, zinc	Adelaide, Burnie, Geelong, Hobart, Newcastle, Pt Pirie, Portland
Kowulka	C	Gypsum, salt, sugar, alumina, chemicals	Thevenard, Sydney, Melbourne, Pt Alma, Mackay, Sydney, Gladstone, Geelong
Lindesay Clark	C	Alumina, coke, fertiliser, ilmenite ores	Bunbury, Fremantle, Gladstone, Geelong, Portland, Newcastle, Portland, Adelaide, Bunbury, Whyalla, Fremantle
Ormiston	C	Gypsum, sugar, chemicals, dolomite	Thevenard, Melbourne, Sydney, Pt Kembla, Mackay, Bundaberg, Melbourne, Sydney, Devonport, Hastings, Pt Kembla, Mackay, Hay Point, Melbourne
Pioneer	C (o)	Sugar	Mackay, Sydney, Philippines, Singapore
Portland	C	Alumina, metal products, gypsum	Fremantle, Bunbury, Geelong, Portland, Ardrossan, Pt Kembla, Adelaide, Whyalla, Fremantle
River Boyne	C	Bauxite, alumina, cement	Weipa, Gladstone, Gladstone, Newcastle, Townsville
River Embley	C	Bauxite, alumina	Weipa, Gladstone
Wallarah	C	Bulk coal	Catherine Hill Bay, Newcastle
Warden Point	C	Cement	Gladstone, Townsville
General Cargo			
ANL Bass Trader	C	General	Melbourne, Launceston, Burnie (occasional)
Claudia	C	Blue metal	Bass Point, Sydney
Frances Bay	C	General cargo	Nth Australia
Iron Monarch	C	Steel products	Pt Kembla, Westernport
Kimberley	C	General cargo	Fremantle, WA coastal, Darwin
Konowe	C	General cargo	Cairns, Qld cape, Weipa
Searoad Mersey	C	General cargo	Melbourne, Devonport, Grassy
Searoad Tamar	C	General cargo	Melbourne, Devonport, Launceston
Spirit of Tasmania	C	General cargo, passengers	Melbourne to Devonport, Burnie
Tasmanian Achiever	C	General cargo	Melbourne, Burnie
Trinity Bay	C	General cargo	Cairns, Cape York, Gulf ports
Victorian Reliance	C	General cargo	Melbourne, Burnie

Source: Source: Bureau of Transport and Regional Economics, *Australian Sea Freight: 2001–02*, Information Paper 50, January 2004, pp. 40–42.

Notes: C: coastal. (o): also undertakes occasional overseas voyages.

Appendix 2: Coastal freight loaded by major commodity groups 2000–01

State of origin	State of destination (kilotonnes)							Total
	NSW	Vic	Qld	SA	WA	Tas	NT	
Food and live animals								
NSW	29	1	1	0	37	30	1	98
Vic	1	0	26	5	60	195	0	286
Qld	203	333	45	36	33	0	0	649
SA	29	0	0	0	0	0	0	29
WA	4	3	1	0	10	2	3	23
Tas	0	568	0	0	84	3	0	655
NT	0	0	0	0	0	0	0	0
Sub total	266	904	72	42	223	230	4	1 742
Beverages and tobacco								
NSW	0	0	0	0	12	0	0	12
Vic	0	0	1	1	4	31	0	38
Qld	0	1	0	0	1	0	26	28
SA	0	0	0	0	0	0	0	0
WA	2	0	0	0	0	0	0	2
Tas	0	101	0	0	9	0	0	110
NT	0	0	0	0	0	0	0	0
Sub total	2	102	1	1	27	31	26	190
Crude materials inedible except fuels								
NSW	324	102	2	0	7	21	0	456
Vic	0	0	5	0	19	115	0	139
Qld	1 202	198	9 330	69	13	312	0	11 125
SA	2 007	423	200	1 937	0	254	0	4 822
WA	4 094	1 026	133	65	18	48	2	5 386
Tas	1 332	287	21	221	61	1 106	0	3 028
NT	47	0	3	0	2	444	5	501
Sub total	9 007	2 036	9 694	2 292	120	2 300	7	25 456

Coastal shipping: an overview

State of origin	State of destination (kilotonnes)							Total
	NSW	Vic	Qld	SA	WA	Tas	NT	
Mineral fuels lubricants and related materials								
NSW	787	134	470	982	3	103	0	2 480
Vic	2 534	123	623	318	11	658	0	4 268
Qld	175	28	1 925	42	3	0	0	2 172
SA	196	547	193	52	34	16	3	1 232
WA	1 221	323	741	558	2 814	0	293	5 759
Tas	0	0	0	0	0	0	0	0
NT	0	0	0	0	0	0	0	0
Sub total	4 914	1 155	3 952	1 953	2 865	776	296	15 911
Animal and vegetable oils, fats and waxes								
NSW	0	1	0	0	0	0	0	2
Vic	1	0	1	0	1	13	0	16
Qld	8	5	35	0	0	2	0	51
SA	0	0	0	0	0	0	0	0
WA	0	0	0	0	0	0	0	0
Tas	0	0	0	0	0	0	0	0
NT	0	0	0	0	0	0	0	0
Sub total	10	6	36	0	1	15	0	69
Chemicals and related materials nes								
NSW	9	18	63	0	70	60	0	220
Vic	9	1	25	19	29	116	0	199
Qld	266	80	94	96	11	5	2	554
SA	72	29	0	0	1	0	0	102
WA	13	75	0	9	10	0	1	108
Tas	36	266	0	11	117	22	0	452
NT	0	0	0	0	2	0	3	5
Sub total	404	468	183	136	239	203	6	1 639
Manufactured goods classified chiefly by material								
NSW	45	989	70	26	45	33	5	1 213
Vic	31	4	25	5	104	154	0	323
Qld	93	9	956	0	11	0	55	1 124
SA	15	475	311	0	104	2	0	907
WA	37	29	2	5	23	1	3	100
Tas	579	1 149	0	0	171	0	0	1 898
NT	0	0	0	0	1	0	40	41
Sub total	800	2 655	1 363	36	458	191	102	5 606

State of origin	State of destination (kilotonnes)							Total
	NSW	Vic	Qld	SA	WA	Tas	NT	
Machinery and transport materials								
NSW	0	0	1	0	12	1	0	14
Vic	0	0	1	0	9	65	0	77
Qld	4	0	0	0	2	0	0	6
SA	0	0	0	0	0	0	0	0
WA	2	2	0	0	4	0	1	10
Tas	0	98	0	0	0	0	0	99
NT	0	0	0	0	1	0	0	1
Sub total	7	101	3	1	27	66	1	207
Miscellaneous manufactured articles								
NSW	1	5	6	1	15	3	0	30
Vic	1	1	6	5	31	545	0	589
Qld	0	0	41	0	2	0	3	46
SA	0	0	0	0	0	0	0	0
WA	7	5	0	1	0	0	0	13
Tas	0	7	0	0	1	0	0	7
NT	0	0	0	0	0	0	0	0
Sub total	10	16	53	6	49	547	3	685
Commodities and transactions nes								
NSW	4	0	5	0	2	2	0	13
Vic	1	0	14	14	5	100	0	133
Qld	10	0	70	0	1	0	3	84
SA	1	0	0	0	10	0	0	12
WA	4	4	1	3	7	306	1	327
Tas	0	268	0	0	5	9	0	282
NT	0	0	0	0	1	0	75	76
Sub total	20	273	90	17	31	418	79	927
Total	15 440	7 716	15 447	4 484	4 041	4 779	526	52 432

Source: Bureau of Transport and Regional Economics, *Australian Sea Freight 2001–02*, Information Paper 50, pp. 12–14.

Appendix 3: Summary of the key proposals of the independent review of Australian shipping

I Clarity and certainty of Government policy and regulation

The Review concluded that a business environment in which regulatory policies and the administration of legislation is certain and stable over time is essential to sound investment decision making. Instead, investment decisions are currently being made that reflect the current atmosphere of change and uncertainty.

The Review also heard evidence that the regulatory activity of Government had in some cases actively discriminated against the Australian industry.

There is clear evidence that there are sectors of the Australian industry capable of competing effectively where the regulatory framework is clear, consistent over time and applied equally to all participants.

The provisions of the *Navigation Act 1912* that regulate the conduct of coastal shipping should be reviewed. The review should have regard to transport, customs, immigration, taxation, workplace relations, competition and other relevant policy considerations.

II Provide optimum shipping arrangements for shippers

The Review considers that effective competition must clearly be service-oriented, i.e. that the Australian industry must be capable of providing shipping services that meet the needs of shippers. The Review heard evidence that new ventures providing shippers with regular services at competitive prices could be a reality if a clear and consistently applied regulatory environment were available.

III Identification of the National Interest

The Review appreciates that the development and implementation of Government policy must take account of the "national interest". In particular, some legislation specifically requires that regard be had to the national interest. The Review is aware, however, that it is not always clear how the national interest is determined, and by whom. The Review is also conscious of the fact that what may be in the interests of one sector of the nation is not necessarily in the interests of another sector

The Review considers that, where the national interest is a factor in developing or applying shipping policies, the process by which the national interest is determined should be clearly identified and that those affected should have adequate opportunity to contribute.

IV Personal tax treatment issues.

The Review heard very strong evidence that the inconsistent interpretation in Australia of the concept of employment in a foreign country discriminated against Australians in finding employment in international seafaring trades. Therefore, Section 23AG of the *Income Tax*

Assessment Act 1936 needs to be reviewed to ensure consistent interpretation of the concept of employment in a foreign country.

The Review also considered Section 23AF of the *Income Tax Assessment Act 1936* and found similar concessions available for consultants and contractors working overseas, and considers that these principles should be tested to see if they apply to Australian seafarers. The Minister for Trade, responsible for the granting of these concessions under 23AF, should consider a proposal for an international vessel to be deemed to be a project for the purposes of this section of the *Income Tax Assessment Act 1936*.

V Flexibility of crew numbers/skills

The Review heard evidence that some operators had difficulty in getting maintenance done on-board at a reasonable cost. Others had observed that in some situations shore-based maintenance could be more costly. It was suggested to the Review that consideration could be given to the possibility of a wider range of occupations being represented in crews in some circumstances; fully trained integrated ratings may not be required for all tasks on board ship. The Review sees merit in employees and employers discussing the possibility of a more flexible range of occupations and skill levels on board ship.

VI Mixed manning

For the purposes of equity and jobs growth, it is necessary to ensure that the circumstances of Australian resident taxpayers in international trading vessels are no different under the *Income Tax Assessment Act 1936* from other Australians employed in a foreign country. In that context, the Review notes that some participants have agreed that for the development of Australian seafarers' and Australian shipping interests' participation in international trading there are opportunities to crew vessels in new trades with a combination of Australian seafarers and foreign seafarers.

Some vessels may be subject to special pre-existing agreements as to their Australian manning and such vessels would remain subject to those agreements.

For example, some vessels may be fully Australian manned while others may be mixed-manned with the level of Australian participation being dependant upon the viability of the trade, the nature of the ship and the applicable legislation including the taxation position.

This will create training, job and career opportunities for Australians in an expanded presence in international trades, including Australian ratings who may choose to further train as officers. The skills base of qualified Australians in the maritime and related industries will be enhanced as a result.

VII Ship registration

Although not unanimously supported by stakeholders, the Review urges that the recommendations of the review of the *Shipping Registration Act 1981*, particularly with regard to Section 12 of the Act be implemented as soon as possible.

VIII National security

The Review notes the apparent inconsistency between the Government's policy for coastal shipping, i.e. to obtain the cheapest priced shipping services by accessing foreign ships, and its policy of strengthening border protection.

The Review notes measures to be undertaken by the US Government to limit access to its coastline to those vessels and crew from nations regarded as having a high degree of security. The Review received evidence that Australia risks losing access to US markets due to the use of foreign flagged vessels and crews that do not have the high degree of security required under their strengthened border protection regime.

Evidence was provided confirming that increased security would result in increased costs that will be borne by the shipping task. Australia faces the challenge of remaining competitive, as some competitor's governments will meet all or a portion of the increased security costs. Therefore any new measures would need to be pursued within competitive bounds.

IX Customs Act

The Review heard evidence of differences between Australia and countries in competition for shipping business in their treatment of some items for customs purposes. The Review again draws the attention of Government for the need to remove barriers to competition by Australians.

Training

The Review heard evidence of the need for skilled seafarers for a wide range of occupations in the industry. The Review also heard evidence of the need for an industry forum, such as National Maritime Industry Training Council (NMITC), to progress and enhance career paths and competencies. In this context, concern was expressed that existing federal Government funding could be more effectively channelled.

XI Seafarers' compensation

The Review strongly urges the participants to investigate alternative forms of coverage under the existing *Seafarer's Rehabilitation and Compensation Act 1992* that reduces the cost of providing comparable cover. The participants are also urged to rectify negative perception of the performance of the industry.

XII Tonnage tax

The Review considers the introduction of a tonnage-based company tax should be given urgent consideration in Australia as an alternative to traditional company tax. This has led to a revitalised shipping industry in countries that have adopted such a system.

Appendix 4: Legislative requirements that affect Australian coastal shipping

Australian ship operators have to meet legislative requirements that foreign operators do not. The operators—as represented by the Australian Shipowners Association (ASA)—claim that these requirements result in cost disadvantages. The following summarises the ASA’s claims regarding these requirements.

1. *The Navigation Act 1912*

A vessel entering Australia is, for practical purposes, first considered under the Navigation Act 1912. A vessel introduced by an Australian entity to operate permanently on coastal voyages would seek and be provided with a licence under Part VI of the Act. Even if a licence was not sought, the vessel would be deemed to be engaged in the coasting trade and to fall within Part II of the Act, which deals with masters and seamen. A vessel introduced to undertake a one-off or occasional voyage carrying domestic cargo would obtain either a single voyage permit (SVP) or a continuing voyage permit (CVP). The Department of Transport and Regional Services (DoTaRS) refers to vessels issued with *permits* as ‘operating in the coastal trade’. Vessels operating under *licences* are referred to as ‘engaging in the coasting trade’. The ASA claims that if the foreign permit vessel were treated as ‘engaging in the coasting trade’, it would be defined as licensed and so be subject to the competitive disadvantages arising from Australian vessels having to comply with several acts including the Navigation Act.

2. *The Customs Act 1901*

A key question is whether a ship entering Australia to carry domestic cargo is imported under the Customs Act. A major consideration is the DoTaRS permit because that is taken to be evidence of compliance with the Government’s policy on cabotage. The practical result is that a ship with a licence will be considered imported and a ship with a permit not imported. A ship—even one not registered in Australia—that is imported is deemed by the Navigation Act to be an Australian ship and is covered by that Act. A ship covered by Part II of the Navigation Act is covered by the *Seafarers’ Rehabilitation and Compensation Act 1992 and the Occupational Health and Safety (Maritime Industry) Act 1993* (see below). A ship that is not imported is not covered by Part II of the Navigation Act or subject to these other Acts.

3. *The Migration Act 1958*

Under this act, the crew of a ship entering Australia are taken to hold a special purpose visa (SPV) and may remain for up to three months provided the ship leaves Australia at least once in that period. If a ship entering Australia is imported under the Customs Act, the SVPs held by the foreign crew would be voided and the foreign crew would be required to hold long stay business visas. If Australian labour is available to perform the work of seafaring, long stay business visas would not be made available. The ASA claims that the Migration Act effectively prevents Australian operators of ships imported (under the Customs Act) from engaging foreign labour whilst allowing operators of ships not imported to employ foreign labour with SVPs while carrying cargo under permits. The practical effect is that foreign workers paid (lower) rates of pay are able to work in the coastal trade for periods of three months (or longer if the vessel undertakes a voyage outside Australia then returns with a new SVP application).

4. The Workplace Relations Act 1996

Due to the combined effects of the Customs Act, the Migration Act and the Navigation Act, the operator of a ship trading continuously on the Australian coast must employ Australian labour, which is subject to the Workplace Relations Act. Ships trading under permits on which foreign labour can be employed are not subject to this act. Agreements negotiated under the Workplace Relations Act give rise to labour costs substantially higher than those for ships employing foreign labour. Further, a foreign able seaman working in a ship under permit may work in coastal shipping for three months (or, in practice, if the vessel goes overseas once, six months, or if it goes overseas twice, nine months).

5. The Seafarers' Rehabilitation and Compensation Act 1992

The vessels to which the Seafarers' Rehabilitation and Compensation Act (the SRC Act) applies are covered by Part II of the Navigation Act. A vessel which is imported under the Customs Act is deemed to be Australian and so is subject to the SRC Act. This act creates liabilities for employers such that protection and indemnity clubs—the regular insurers servicing ship operators world-wide for crew and cargo insurance cover—will not cover employers whose employees are subject to the SRC Act. Premiums are therefore increased for Australian operators. Crews of foreign vessels trading in Australia but which are not imported (and thus not deemed to be Australian ships) do not fall within the SRC Act. Such vessels are covered by protection and indemnity insurance which is available at less expensive premiums than those paid by employers of crews in ships covered by the SRC Act.

6. The Occupational Health and Safety (Maritime Industry) Act 1993

The Occupational Health and Safety (Maritime Industry) Act (the OHSMI Act) applies to Australian vessels. The shipping industry internationally is subject to the International Safety Management Code which prescribes, amongst other things, auditable standards of crew health and safety. Crews of vessels covered by the OHSMI Act must have standards exceeding those in the Code. Crews of vessels not deemed to be Australian ships do not fall under the OHSMI Act but are covered by the Code. The more prescriptive provisions of the OHSMI Act thus increase costs to employers of Australian ships compared to foreign vessels.

7. The Shipping Registration Act 1981

The Shipping Registration Act prescribes that a vessel owned by an Australian entity shall be entered in the Australian register of ships. Most ships operating continuously in coastal trades (and therefore licensed and imported and subject to Part II of the Navigation Act) are owned by Australian entities and registered in Australia. Foreign-owned ships operating under permits are not deemed to be Australian and maintain foreign registry. The benefits of foreign registry are fiscal and tax relief measures. Australian registration confers no such benefits, so Australian ships are disadvantaged by the combined effects of the Shipping Registration Act and the Navigation Act. Further, foreign vessels operating under permits may be in receipt of subsidies from foreign governments whereas an Australian ship operating under licence cannot be in receipt of a subsidy because an Australian-owned vessel is required to be registered in Australia where no subsidy is available.

Map: Major coastal freight flows 2001-02 (tonnes)

