



TIME FOR A SEA CHANGE IN AUSTRALIAN SHIPPING



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Message from Paddy Crumlin, National Secretary, MUA

Now is the time to rebuild an ailing fleet, to ensure shipping can compete on equal terms with road and rail in the domestic

freight market. A competitive shipping option is critical to the growing of a national freight market and to deliver jobs and skills to Australian workers.

It's time for a Sea Change in Australia Shipping.

It's time to reverse the neglect under the previous Government that saw the number of Australian registered ships in the major trading fleet drop from 55 to 40 in 10 years.

Australian registered and licensed ships have progressively lost coastal trade to overseas vessels and crew because of abuse of our regulatory rules. Australian seafarers and their ships have been disadvantaged by this unfair competition.

Shipping is part of Australia's essential infrastructure upon which national and international trade primarily relies.

Our nation's share of the world freight task (tonne/kilometres) is 9.6%, but the industry represents less than 1% of the world fleet.

The Rudd Government has quickly seen the need for change and the Infrastructure and

Transport Minister, Anthony Albanese, last year commissioned a report – *Rebuilding Australia's Coastal Shipping Industry*.

The report recommends tax, regulatory and other changes which will provide a level playing field for Australian coastal and international shipping and secure and expand maritime jobs and skills.

' Shipping is the most sustainable freight solution, less energy intensive than any alternative.'

The MUA is working with groups who have a genuine interest in the future of shipping – workers, shippers, ship owners, commodity exporters and the Government – to make the changes happen as quickly as possible.

With the economic cycle bottoming, now is the time for countercyclical capital investment decisions.

The industry isn't looking for special treatment. What it seeks is better regulatory settings and investment incentives which are now accepted as best practice in many of the most important economies in the world, like the UK.

Incentives mean the UK's fleet size has increased from around 380 to nearly 650 in eight years from 2000. The industry contributes \$19.6 billion a year to British Gross Domestic Product, supports 212,000 jobs and provides \$5.8 billion to the UK Treasury.

Shipping is the most sustainable freight solution, less energy intensive and producing less carbon emissions than any alternative.

Infrastructure Partnerships Australia/ Pricewaterhouse Coopers forecast that post-2020 coastal shipping will experience renewed growth with the need for greater use of efficient and low-carbon methods of transport.

A strong local shipping industry is also vital for an island continent to source key skills and expertise to help address defence force shortages and national security needs.

There's an urgent need to stabilise the number of Australian-crewed licensed ships by ensuring that ships leaving the licensed fleet due to age are replaced with Australian licensed ships.

We are supporting the Rudd Government's stated policy that these overdue changes need to be urgently acted on.

The MUA is supporting the Government's delivery of key shipping reforms including:

- Clearer focusing of the regulatory rules of Australian shipping to promote fair competition, thereby enabling the domestic shipping industry to compete on equal terms in the Australian freight market.
- Effective taxation changes and industry support to encourage reinvestment in Australia's ageing fleet and to promote investment in new ships, both coastal and international to assist Australia's competitors.
- One important fiscal measure is tonnage tax based on the size of a company's shipping fleet, similar to the initiative employed in all the major shipping nations where shipping is making an essential contribution to the economy.
- Investment incentives such as accelerated depreciation as proposed in the Henry Tax Review.
- Structural support for our internationally trading vessels, growing the business of operating ships from Australia for use in the international trades.
- An enhanced training regime including a national maritime skills strategy to address the skills shortage. This will ensure a supply of essential maritime skills required for all aspects of the maritime industry, including pilotage, port authorities and maritime regulations.
- A shipping industry task force – with representatives from shippers, producers and commodity suppliers, Government and workers – to implement changes and begin work immediately to see this policy is converted into action.



'I've seen it shrink to nothing – fewer ships and more foreign vessels going back and forward on the coast'

— Gary Lesmond – IR, Goliath

Why we need the Sea Change

Shipping is vital for Australia. We're an island continent where much of the population is spread along the coast with an economy that relies almost completely on trade.

While major world economies have encouraged and invested in shipping as a valuable part of the freight mix over the past ten years, the previous Federal Government shunned shipping after generations of bi-partisan support. As a consequence the Australian fleet is ageing and dilapidated and the pool of Australian maritime skills is shrinking at a critical point in the nation's economic cycle.

From 1994 to 2008 the median age of the Australian fleet increased from 14 to 19 years, while the international median fleet age dropped from 15 to 12 years.

The number of Australian registered ships dropped from 55 to 40, despite the domestic Australian freight task more than doubling over the same period.

The share of domestic freight carried by foreign registered permit vessels, mostly Flag of Convenience vessels using tax havens, increased from 6% to around 30% at the same time.

And the number of seafarers has declined from 3000 to some 2200 today.

A major opportunity to boost Australia's economy and balance of payments is being missed.

Domestic and International Shipping – They work hand in hand

While the shipping inquiry focused on coastal shipping, the domestic sector will struggle to achieve optimum value without change and incentive in the international sector.

An Australian regulatory structure for international vessels would grow the business of operating ships in Australia.

Maritime clusters could be promoted – clusters of a long list of maritime services and jobs including ships management facilities, key training and re-skilling centres, ship financing and insurance, repairs and dry docking and providing jobs and economic opportunities.

The economics driving the Sea Change

Australia's freight needs are currently stretched to capacity, as identified in the report *Meeting the 2050 Freight Challenge*, recently released by Infrastructure Partnerships Australia and PricewaterhouseCoopers.

That report says by 2050 Australia's freight task will be 1540 billion tonne-kilometres – three times its current level. It means Australia needs to build capacity representing a *tripling of our freight task*.

Post-2020 coastal shipping and rail will experience renewed growth with the need for greater use of efficient and low-carbon methods of transport.

And incentives could drive dramatic change in Australian shipping.

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'Its getting flagged out to other countries. Crew manning is going down with a loss of personnel on board – there have been huge changes in the last four years.'

— Jeremy Close – Chief IR, Goliath

>> A conservative 5% increase in the use of Australian-flagged vessels on the main international bulk trades could result in an Australian fleet increase of 20 vessels, rising to 40 vessels which is a 10% increase (According to modelling by Meyrick & Associates, 2008).

Support for international trading vessels would provide an opportunity to bring seafarers from our regional neighbours like Timor, PNG and the South Pacific Islands into an expanded Australian shipping industry, consistent with our regional development programs.

What follows is a potentially positive balance of payments boost in a mixed crew situation of over \$200m a year with a 5% share increase, rising to \$800m with a 20% gain.

How a switch to tonnage tax brought UK shipping its Seachange.

The tonnage tax has allowed the UK shipping industry to be healthy and competitive. Before it embraced change and adopted a tonnage tax in 2000, the industry was on its knees.

The tonnage tax has been vital to the transformation of the UK shipping industry in a global environment characterised by stiff tax competition, as countries seek to attract investment because of the economic benefits that the shipping industry generates.

The number of UK-registered ships was 646 in 2007 well above a low of just 379 in 2000.

Estimates are that the shipping industry is between three and five times larger than it would have been without these changes.

Allowing for those directly employed and for supply chain and consumer spending multiplier effects, shipping contributes £9.8 billion (\$19.6 billion) a year to GDP and supports 212,000 jobs and over £2.9 billion (\$5.8 billion) to the treasury.

In 2007 the UK shipping industry



directly employed 96,000 employees. Of these 30% were UK officers or ratings, 10% UK shore-based jobs and the remainder foreign nationals working as both officers and ratings.

And the UK industry is a productive one. In 2007 each worker produced 11.4% more Gross Domestic Product (GDP) than the average worker in the UK economy.

A sustainable Seachange

Freight transport emissions account for around 6% of Australia's Greenhouse Emissions, 84% of these emissions are attributable to road transport, 15% rail and just 4% to shipping.

An Australian Institute report Climate Change and Australian Coastal Shipping commissioned by the Maritime Union of Australia (MUA) in 2007, found coastal shipping is the least energy and emission intensive, being 10 times more energy efficient than trucks.

Defence

The importance of the merchant marine to Australia's national security and Defence cannot be overplayed. The Defence White Paper of May 2009 focuses on lifting our marine capabilities, and suggests that the merchant marine capability is closely integrated with that defence objective.

An enhanced presence in our coastal waters consolidate our national security risks. The Department of Defence has indicated that a growing shortage of maritime skills and the consequent impact on Australian ports is a concern.

It's about winning back control of shipping outcomes

Export dollars are vital for our economy but our poor regulatory controls mean we are putting exports, and our reputation, at risk.

International ships exported more than \$25 billion of iron ore in 2008-09 at a charter cost of \$7.1 billion.

But we've slowly lost control of shipping outcomes, often relying on poorly regulated Flag of Convenience vessels like the *Pasha Bulker* whose grounding was a wake-up call.

These vessels typically have poor training and management support systems, placing themselves and other vessels at risk. They use flags like Panama or Liberia to avoid regulatory standards and accountability.

Recently 60,000 tonnes of iron ore destined for China was stranded when the Filipino crew of a laden bulk carrier in Geraldton north of Perth refused to sail, owed \$180,000 in wages. It is a regular occurrence in an industry often marred by labour exploitation and tax avoidance.