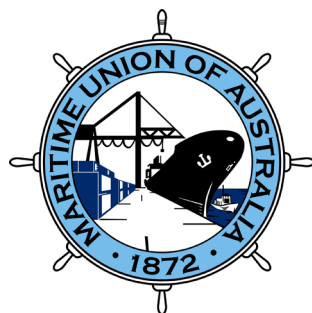




Rebuilding the Australian shipping and maritime industries – a policy and investment framework

MUA Policy Briefing Paper



March 2021

Shipping is a vital component of national transport infrastructure

The Australian shipping and maritime industries must be viewed as a vital component of national transport infrastructure, integrated with the functionality, productivity and efficiency of other industries such as manufacturing, agriculture/aquaculture, resources, energy and tourism.

Ten per cent of the world's sea trade passes through Australian ports and Australia relies on sea transport for 99 per cent of its international trade (by volume).¹ In 2016–17, the value of Australia's exports by sea was \$252.1 billion and it imports by sea, \$193.1 billion. This involved 28,584 ship arrivals by 5,981 individual foreign-flagged ships in 2019.²

Australia is the largest iron ore exporter with 57 per cent of the world market, the second largest coal exporter with 30 per cent of the global market and the eighth largest grain exporter with 4 per cent of the world market. Globally, Australia is the fourth largest user of ships.³

Ships and the ports they use are a critical component of the supply chains that support other wealth generating industries. Ships are critical to the import and export supply chains for all facets of manufacturing, resources and energy including refined petroleum products, agriculture, aquaculture, fishing, tourism (including the growing marine tourism and cruise sectors), wholesale and retail distribution, and construction.

Bulk commodity ships and other trading ships used in these supply chains create demand for a range of other marine services including towage, pilotage, bunkering (refueling), mooring, waste removal, provisioning, firefighting, salvage and marine rescue as well as requiring port services and stevedoring services. Ships perform vital supply and support roles to the offshore oil and gas production sector and will perform similar marine support roles as offshore wind energy production takes hold.

¹ Department of Infrastructure and Regional Development, Trends: Transport and Australia's Development to 2040 and Beyond, 2016, https://www.infrastructure.gov.au/infrastructure/publications/files/Trends_to_2040.pdf

² Australian Maritime Safety Authority, Port State Control Australia, 2019 Report, p.2.

³ United Nations Conference on Trade and Development (UNCTAD), Review of Maritime Transport 2019, https://unctad.org/en/PublicationsLibrary/rmt2019_en.pdf. Note that the Report of the Senate Rural and Regional Affairs and Transport References Committee Inquiry into Policy, regulatory, taxation, administrative and funding priorities for Australian shipping says at Para 1.33 that Australia is the fifth largest user of shipping.

Australia is overly dependent on foreign ships

Australia is overly dependent on foreign ships for its sea transportation and maritime support needs. There is a fundamental incompatibility between the excessive use of foreign ships with foreign crews on Temporary Licences in coastal trading and the need to build supply chain security and resilience. There is an urgent need for the nation to mitigate its dependency on foreign shipping in both domestic and international trade.

Foreign shipping cartels protected by Part X of the *Competition and Consumer Act 2010* are price gouging in the Australian container freight market. Foreign shipowners/operators/charterers are exploiting flaws in the *Coastal Trading (Revitalising Australian Shipping) Act 2012* to eliminate Australian flagged ships and employment of Australian seafarers in the domestic freight market. Migration laws operate to facilitate the use of non-national seafarers in domestic shipping at the expense of national seafarers. Australian taxation and customs laws applying to ships favours foreign shipowners and foreign corporations. Australian ship procurement policy provides no support for Australian merchant shipbuilding nor favours use of Australian ships in the transportation elements of government procurement and transportation of goods.

No government subsidies or industrial policy support is provided to Australian shipping, unlike the road and rail sector. The domestic freight market is not a level playing field. This distorts modal choice and disadvantages Australian shipping. This was a key finding by the Senate Inquiry into shipping, which found that “... *there is an uneven playing field, due to government subsidisation of road and rail transport, which disadvantages coastal shipping as a viable alternative. This is further compounded by the fact that, as indicated by the Australian Competition and Consumer Commission (ACCC), heavy vehicles may not be paying an appropriate price for the use of Australian roads, and that there are increasing charges at Australian ports.*”⁴

The continued decline in Australian based maritime economic activity puts at risk Australia's sovereign industrial capability and threatens supply chain security and resilience. It undermines the maritime skills base of an island nation so dependent on sea transportation and a highly skilled maritime workforce for the many marine and logistics services that support sea transportation, so necessary for the nation's economic welfare. It diminishes our Defence and Naval capability, maritime security and emergency response provision.

Any future disruptive event such as a cyber security attack, another pandemic or a geopolitical conflict that impedes foreign ship availability could impact severely on supply chain resilience and capability and quickly bring the economy to a standstill, including civilian food supply, manufacturing, refined petroleum products and other production, health sector supplies, household essentials and Defence capability. Transitioning away from foreign ship dependency must be a high national strategic priority.

The 2020 global crew change crisis is the most immediate manifestation of this supply chain vulnerability. All of Australia's seaborne exports and imports rely on the international ships' crew drawn from countries around the world with only one exception – there are four Australian international trading ships that employ Australian seafarers, carrying LNG for export from the North West Shelf LNG project. However, Woodside Energy has flagged its intention to reduce the level of Australian content in its LNG shipping.

⁴ Report of the Senate Rural and Regional Affairs and Transport References Committee Inquiry into Policy, regulatory, taxation, administrative and funding priorities for Australian shipping, December 2020, Para 3.80, P51, https://parlinfo.aph.gov.au/parlInfo/download/committees/reportsen/024290/toc_pdf/Policy,regulatory,taxation,administrativeandfundingprioritiesforAustralianshipping.pdf;fileType=application%2Fpdf

Each one of the almost 6,000 ships carrying Australian imports and exports is affected by the current crew change crisis that involves 400,000 seafarers working well beyond the end of their seafarer employment agreements (contracts of employment).

Critical vulnerabilities in the nation's supply chains were initially highlighted in a leaked Defence Department report from 2019 that revealed essential services would break down within months in a major crisis.⁵ The MUA has been arguing for some years that unless there are actions taken to address these risks, a future military conflict, natural disaster, economic crisis or pandemic that cuts or significantly impedes inbound or outbound international seaborne trade will result in catastrophic consequences for the Australian economy.

The key threats to the nation if policy, regulatory, fiscal, funding and institutional adjustments are not made to support Australian ships

In the absence of a coordinated shipping policy response, the key threats to the nation are:

- That Australia will lose its entire merchant trading fleet, increasing its dependency on foreign-owned and controlled ships for supply of fuels for Defence, industry and citizens; for the export of mining and energy resources and primary agricultural outputs that sustain the Australian economy; and for importation of inputs to production and finished goods. A single disruption to foreign ship supply in the event of a conflict in the Asia Pacific region or another pandemic that crippled international ship availability would have immediate and catastrophic consequences for the Australian economy;
- The downward spiral in the number of Australian trading ships operating under medium to long term contracts of affreightment (COA) to service the manufacturing and agricultural industries has consequentially increased our reliance on the spot shipping market. This means Australia will lose complete control of ship scheduling and opportunities to create efficiencies in coastal trading through the use of a balanced mix of Australian ships and foreign ships with a Temporary Licence as was intended by the CT Act when introduced in 2012. The CT Act was intended to create opportunities to smooth out freight rates and utilise triangulation and cargo aggregation to reduce ballast legs, which keeps freight rates lower;
- That the maritime skills base will reach unsustainable levels. Maritime skills are necessary for a maritime dependent island nation with a strong demand for maritime skills in shipping related

⁵ ABC 7.30 Report, 28 April 2020, Confidential report predicted how long it would take for essential services to break down during a major crisis, <https://www.abc.net.au/7.30/confidential-report-predicted-how-long-it-would/12195072>

services like towage, pilotage, mooring, bunkering and harbourmaster; and in onshore roles in ship regulation, safety, training, freight forwarding, marine insurance, marine chartering, ship financing etc; along with the capacity to support Navy alternative crewing models, essential for merchant navy support for the Defence Forces;

- Mainstreaming the use of non-national seafarers in routine coastal trading, who enter and remain for up to 3 years in Australia under a Maritime Crew Visa is the largest single threat to Australia's border protection regime, and also places unnecessary pressure on Australia's biosecurity regime;
- That human biosecurity cross border transmission risks will be more difficult to manage due to lower levels of control over the work health and safety practices and adoption of health protocols on foreign ships. Utilisation of Australian ships that use a consistent core complement of Australian crews who can be subject to close health monitoring, tracking and tracing, and who can be trained in all the best practice COVID-19 control measures, is an essential and urgent post COVID-19 requirement to ensure supply chain integrity and continuity;
- That Australia's greenhouse gas and particulate emissions targets will be more difficult to achieve if it loses control of the regulation of all coastal trading ships as will be the case if the entire merchant fleet is lost and replaced with foreign ships, invariably flag of convenience (FOC) ships operating from registries that have considerably less regard for environmental standards; and
- That Australia's ability to protect its coastal, ocean and marine environments will be diminished in the event that all coastal trading is undertaken by foreign ships, whose registries do not adopt the same standards of ship safety, crew skills and qualifications to ensure that those ships meet Australia's stricter marine pollution standards.

Emerging opportunities for Australian ships

Equally, the national shipping and maritime industry policy framework is not geared to take advantage of emerging sea transportation opportunities that could provide a role for more Australian ships. Those opportunities are arising from industrial transformation, being driven largely by renewable energy policy, new technologies such as automation and digitalisation, and from business development in areas such as expedition cruise shipping, aquaculture and bunkering of alternative marine propulsion fuels. Simultaneously, Australia is responding to industrial restructuring driven by globalisation, such as a decline in oil refining capacity in Australia, necessitating much higher levels of seaborne imports of refined petroleum products.

The emerging industrial transformation trajectory in Australia could see a renaissance of shipping over the next several decades. A shipping renaissance is possible (or likely) for these reasons.

First, the likely increased demand for ships as Australia restores its manufacturing capability. According to experts like Professor Ross Garnaut ⁶, Australia's international competitiveness in electricity supply will strengthen as all nations move away from use of fossil fuel in electricity supply. This is because fossil-based energy can be imported relatively cheaply by countries with poor energy resources (like Japan), but renewable energy is not as readily transportable for both technical and cost reasons.

⁶ See Ross Garnaut's book entitled *Superpower: Australia's Low Carbon Opportunity*, La Trobe University Press, 2019

If key industrial processes such as the production of steel, aluminium, silicon, ammonia and lithium (where Australia is already an exporter) can all transition away from fossil energy to use of renewable energy, Australia can potentially become a major metals and chemicals processing nation (rather than an ores/fossil fuel exporting nation) based on industrial production using electricity produced from renewable energy, where we have an abundance of supply at internationally competitive prices.

This eventuality will substantially increase the demand for ships – to transport the raw material inputs (like iron ore, bauxite and other minerals/rare earths) to domestic processing plants (cabotage trade) and to deliver the processed or semi-processed products to international markets (international trade). The energy transition is also creating other opportunities for ships – in energy production itself, such as offshore wind energy production and in transportation of renewable gas such as green hydrogen ⁷.

Second, shippers, governments, port operators and policy analysts are regaining an interest in the shipping mode based on modal advantages of shipping such as ship's reduced energy intensity and emissions advantage relative to other transport modes, their freight cost advantages over certain distances, improved stevedoring productivity resulting in lower stevedoring unit costs and the option of containerisation of a wider range of cargoes.

This opportunity will be facilitated by global and regional shipping strategy developments that are coming into alignment, particularly the renewed interest in short sea shipping that provides the feeder services to a global container hub and spokes configuration favoured by international liner service operators.

Third, economic and national security policy experts and opinion leaders are beginning to recognise the role that Australian ships need to play in energy security, in border security and for better integration of merchant or commercial shipping to complement the Defence Force's maritime and sea lane protection requirements.

Fourth, the emergence of a national dialogue on the important, but until recently unrecognised role that ships play in national emergencies, demonstrated through the 2019-2020 climate induced bushfire crisis.

The potential to build a green steel export industry, to retrofit aluminium smelters to create a revival of aluminium production, to take advantage of Australia's abundant lithium and other rare earths to develop new sustainable industries, to lead on production of green hydrogen and other renewable fuels like ammonia and biofuels – requiring sea freight transportation of inputs to production and finished and semi-finished outputs, both domestically and internationally, needs to be incorporated in contemporary shipping and maritime policy.

⁷ There are no natural hydrogen deposits on earth. It must be extracted from other compounds by a chemical process. Most industrial hydrogen is currently produced from natural gas through a process known as steam methane reforming or SMR. Producing hydrogen in this way is sometimes referred to as brown or grey or even blue hydrogen. Hydrogen can also be produced by the electrolysis of water (using an electric current to break water, H₂O, into its component elements of hydrogen and oxygen). If this electric current is produced by a renewable source (e.g. Solar PV or a wind turbine), the clean hydrogen produced is known as green hydrogen

Support for Australian ships is good for Australian jobs

Every additional Australian crewed trading ship creates a minimum of 34 direct seafarer jobs and through the multiplier effect, an additional 30-40 jobs in ship support services, and jobs along the transport supply chain.

We have identified the possibility for an increase of over 50 Australian coastal trading ships if changes to current shipping policy were to be progressed:

That would create around 1,700 direct seafarer jobs and an additional 3,000 maritime industry jobs in ship support services (for an overall impact of around 4,700 jobs).

As an initial step we have proposed the establishment of a national strategic fleet of ships requiring about 35 ships, creating nearly 1,200 direct seafarer jobs and around an additional 2,400 indirect maritime jobs (for an overall employment impact of around 3,500 jobs).

Shipping requires industry policy support

The shipping industry requires modest levels of industry policy support to help transition the industry to a position of greater Australian content (and reduced dependency on foreign ships) aimed at increasing supply chain resilience and improving national security. This is also necessary to help level the playing field to promote genuine modal competition. That means industry policy financial support as well as regulatory and taxation support. While the 2012 reform package included taxation incentives to support shipping, they have not delivered their intended outcome and need to be adjusted.

But importantly, the industry requires financial support to ease the impact on the industry to transition to Australian ships and Australian employment, and for new entrant Australian shipping companies to start-up. The Queensland Government has provided a model in its 2020 election announcement, *Backing Queensland Maritime Jobs: \$21 Million to Revitalise and Strengthen Intrastate Coastal Shipping*. That policy committed the Qld Government to:

- Support local maritime jobs and encourage more Queensland ships which are locally crewed and privately-operated;
- Provide incentives to new and existing operators to commence a new regular Brisbane to Townsville shipping service and for existing operators to switch to Queensland crews; and
- Work with publicly owned ports to invest in landside infrastructure which has the potential to facilitate coastal sea freight cargo, such as investing in portainer cranes and potentially in improved RO-RO wharf facilities.

What is now required is a shipping infrastructure fund with an initial allocation of several million dollars in seed funding to support that transition and to support the establishment of a strategic fleet. The Australian shipowner's association, Maritime Industry Australia Ltd (MIAL), has proposed that around A\$200 million annually is required, which it says equates to just 2.4 per cent of rail funding and 0.7 percent of road funding (in 2016/17) annually.

In addition, there is a need to review government policy and its implementation to position shipping alongside other transport modes. For example:

- The National Freight and Supply Chain Strategy and associated Action Plans do not address shipping, and ignores coastal shipping;
- The Infrastructure Australia priorities do not appear to consider shipping and its port related priorities do not consider Australian coastal shipping;
- The National Transport Commission focusses almost exclusively on land transport – there is no related body undertaking strategic work around shipping technologies and marine renewable fuels etc.

Investment in strategic fleet ships needs to be considered in rebuilding Australian shipping

A number of options are available for initial investment in strategic fleet ships that will operate commercially, such as refined petroleum product (RPP) tankers.

A government stakeholding in commercial shipping operations is not new in Australia. The Commonwealth previously owned Australian National Line (ANL) and, it established the Australian River Company Ltd which owned coastal bauxite ships for a period of time. The WA Government has previously operated State Ships and the Qld Government has committed to invest in a new Qld coastal shipping venture, aimed at building supply chain resilience in Qld coastal trade where other transport modes often face disruption due to floods and other weather events. The Tasmanian Government owns TT Line.

The Commonwealth also leases (charters) ships to perform a range of non-commercial Government functions such as emergency towage and marine rescue (e.g. the *Coral Knight* based in Cairns and operated by AMSA), research, supply and oceanographic ships such as those operated by or chartered to the CSIRO, the Australian Antarctic Division of the Department of Environment and Energy for example the *Aurora Australis*, and marine authorities such as the Great Barrier Reef Marine Park Authority. The Government also operates Australian Border Force ships.

All these examples demonstrate a commitment of public finance to an essential government function. Reducing sovereign risk in supply chains through the development and maintenance of a national strategic fleet in critical segments of the supply chain, such as sea freight transportation capability in refined petroleum product is a legitimate and essential basis for allocation of public funds.