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**(Embargoed until 3.30 pm Monday 21 February
2011)**

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**PANEL SESSION: A NATIONAL APPROACH TO
PORTS AND SHIPPING**

AUSTRALIAN LOGISTICS COUNCIL FORUM

21 FEBRUARY 2011

MELBOURNE EXHIBITION CENTRE

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Introduction

When I was invited last year to speak at the ALC Forum in February this year I was expecting that I would be participating in a vigorous and mature debate around how we can collectively take advantage of the Government's new policy direction for shipping and ports - essential and long overdue economic reforms that can enhance the productive capacity and performance of the Australian economy.

Instead, I feel have been put in the position of fighting off some of the most ill informed, economically illiterate, commercially irrational and reactionary responses to a package of what are essentially modest reforms.

Regrettably, I include my hosts of today, the ALC, in that category, but that is entirely of their own doing. As a member of ALC we put a package of considered views to assist the ALC in determining its position, but these were ignored. I understand that it did not consult the shipping industry in preparing its submission.

I thought it was only our side of the fence that took deliberate steps to achieving irrelevancy. Its good to know it is a shared characteristic, though it is a sad reflection on the maturity of policy debate in this country.

The reforms are evolutionary not revolutionary

These reforms are not revolutionary – they are modest and responsible – they are evolutionary, with lots of transitional flexibility to boot.

On any objective analysis, they do no more than restore fairness and transparency to the way shipping participates in the domestic freight market.

They also provide a greenfields opportunity for Australian business to participate in international shipping.

Let me make a few observations about the ALC position, contained in its submission in response to the Government's Discussion Paper on *Reforming Australia's Shipping*. The ALC position is illustrative of the quality of the discussion we have had on shipping and maritime reform in this country over the past decade.

Despite over three years of inquiry, consultation and policy discussion, the ALC still fails to understand the distinction between domestic shipping and international shipping.

They are different commercial markets, there are differences in the labour market, they are governed by different laws.

Further there is an unforgivable misunderstanding of the forces of competition in the domestic freight market, and the characteristics of freight competition – or has the ALC conveniently ignored the very same principles it adopts when analysing competitiveness in the other freight modes, in its haste to undermine the policy objectives of the Government to please the international shipping industry who are the prime revenue generators for the domestic container stevedores.

Does the ALC, which at other times has taken a sensible approach to supply chain efficiency, seriously believe that a sustainable and competitive domestic freight market, where all modes have the opportunity to fairly compete for freight, can be built on the spot market characteristics of the permit system, where the metrics are determined by the price of foreign labour in the domestic freight transport system?

Or is the reality that the administration of the permit system by the Office of Transport Security is so poor and corruptible that it enables shippers to manipulate it to the extent that it exhibits the characteristics of a contracted market, as suggested by the BlueScope Steel example quoted in the ALC submission.

The BlueScope submission is instructive. It says, and I quote:

“To date, we have managed this flexibility by scheduling SVP vessels on an individual voyage basis driven by agreed loading windows.”

I ask this question. How is it that an Australian shipper can schedule what is in effect a ‘by chance’ passing of a suitable and available foreign vessel that is only meant to be in Australian waters as part of an international voyage?

And how can it be that a shipper can make that chance passing of a foreign ship fit ‘agreed loading windows’ to integrate with its just in time manufacturing supply chain?

If we took out the artificially deflated cost factor, which is predicated on the unacceptable reliance on developing country labour standards in the Australian economy, and if we took out the manipulation factor, we would be left with a domestic shipping market based on service unreliability and irregularity, irregular scheduling, variable ship quality, uncertain safety and security standards and a lower standard of workforce skills, qualifications and occupational licensing than is acceptable in other parts of the freight transport market.

If that is the solution that the ALC, and others like the BCA is advocating in a modern, advanced, high living standard, growth oriented economy that is in one of the most favourable trading positions of any nation on the globe, and on the cusp of major trade expansion, then I leave it to your judgement as to relevancy.

A missed opportunity at best if it wants to be the ‘go to’ organisation in the freight and logistics industry, as it claimed in its submission.

The opportunity created by the reform package

The Australian domestic freight market

How then are the central players, and others with vision and a reform appetite, viewing the opportunity that has been presented by the Government after a careful and long gestation period of policy renewal?

Put another way, what will constitute success, and why will it be good for Australia, as well as being good for shippers, good for ship operators and good for shipowners?

First, it creates the conditions for restoring reliability into freight scheduling, creating the conditions for securing long term contractual relationships that are the foundation for investment in modern, advanced technology ships suitable to the particulars of the Australian domestic freight market.

Second, it will create the conditions for innovation and collaboration in supply chains to secure ship utilisation rates that will also support investment and provide supply chain solutions in manufacturing supply chains.

Third, it creates the conditions that will enable shipping operators to offer a competitive option to the other freight modes in certain market segments, through application of all the attributes that determine competitiveness - such as service standards, flexible scheduling, technological options to provide fit for purpose vessels i.e. ship suitability, capacity to lock in term contracts securing price stability and certainty, safety, security, workforce development and skill development, opportunity to reduce greenhouse emissions, integration and collaboration with freight forwarders and stevedores.

All these aspects of competition affect the freight price.

It is all these factors that underpin efficiency, productivity and competitiveness.

The decision just last week by the Asia Australia Alliance container line consortium to halt weekly calls at Bell Bay and Fremantle is indicative of the unreliability of the permit system and the spot market culture.

We also saw the limitations of the current system earlier last year when the major international container and car carrier lines threatened, in what looked awfully like a collusive action which appeared to be orchestrated by Shipping Australia Ltd, to withdraw their availability to move coastal containers and vehicles.

They quickly reversed their decision, instead adopting a price gouging strategy, when confronted with a possible ACCC investigation into collusive behaviour, but the action shows just how fragile is such a dominant reliance on the permit system. And how easily a decision taken in Tokyo or Athens can cause havoc in the Australian domestic freight market.

Fourth, and contrary to concerns that the package could lead to scarcity or unavailability of shipping, it will actually result in better availability and suitability of shipping and potentially even over supply.

I want to briefly explain how I believe the reform package is intended to work and has the potential to work if the carpers and blockers will get out of the road and leave it to the pragmatists, the visionaries, the nation builders and investors to design.

If there is capacity i.e. volume, to sustain a dedicated service in a particular trade such as coastal containers or bauxite or cement, as there is, shipping operators will offer that service under the General license. That becomes the default position – just as it was in the pre Howard era.

That shipping operator will need to offer a service that is competitive with rail and road in market segments where there is contestability (and of course in markets where shipping is the only option). In contestable markets, freight forwarders will, if the package is carefully implemented, have the full range of modal options to offer their customers. Shippers will for the first time in many years have the opportunity to secure reliability, and term contracts that meet their service, supply chain, inventory and cost parameters.

Where there is excess capacity in a trade that does not at a point in time demand an additional Unrestricted licensed ship or where volumes in a trade are not yet to the stage of sustaining a dedicated Unrestricted licensed ship, that capacity will be available to be transported in a Restricted licensed ship for specified time periods.

Those Restricted licensed ships might be made available by the primary Licensed ship operator in that trade, or a partner shipping operator or by an entrepreneurial shipping operator independent of the primary operator. This is a matter for the parties – shipping operators, shippers and freight forwarders - to determine, based on their commercial judgements.

What it will require is a business case proposal that demonstrates that an Unrestricted licensed ship is unsustainable at the time, but that subject to expected trade growth or as a result of competitive pressures and tensions in the freight market, volumes will in time reach levels that can sustain another Unrestricted licensed ship. That is where the transitionary scope and flexibility in the package lies.

That is also presumably the foundation for the Government's objective for the licensing system which is, and I quote:

“to support the long term interests of a competitive Australian Shipping Industry, including explicit consideration of the employment of Australian seafarers and numbers of vessels in the Australian trading fleet, and taking into account the proposed operations of both the individual ship and the applicant's broader fleet.”

For the ship operator, there is the opportunity to secure the commercial conditions to offer a service using Unrestricted licensed vessels supplemented by dedicated or partially dedicated Restricted licensed vessels (from their own fleet or a partner's fleet or simply provided by a competitor who sees commercial opportunity, thus creating competitive tension and downward pressure on freight pricing).

The stability of ship supply will be managed through the business case assessment process, where there will be, or should be, ample flexibility to ensure both shipping operator incentives to provide ship supply and for the shipper, ample tonnage to meet their shipping and supply chain requirements.

On top of that, permits will be available for emergency situations.

In other words, under the three tier licence/permit system as proposed and as it is intended to operate, there should never be a circumstance where a shipper cannot access a ship at a competitive price to move their freight.

Further, there is every likelihood that there will in fact be substantially more coastal freight moved by ship in the future, as both shipping operators and freight forwarders are able to offer their customers a reliable and sustainable competitive shipping option.

The Ports Australia submission in response to the Government's Discussion Paper as reported suggests that Ports Australia or its members have simply not understood the way the new regulatory arrangements are designed to operate in practice.

Not only that, I would have thought that the ports and the service providers they manage, like stevedoring companies, would be champing at the bit to offer pricing and service incentives, in collaboration with shipping operators and freight forwarders, to take advantage of the new regulatory framework to secure greater market share for shipping and help grow their businesses.

The port regulators are meant to be commercially savvy and deliver returns to their shareholders, be they public or private.

Instead of carping against the reform package, I suggest they reach out and find ways to collaborate with the shipping operators who will be investing in Unrestricted licensed ships and in securing Restricted licensed ships, to ensure those shipping operators get the best possible port access and wharfage configurations, the best possible support services, berthing slots etc, at competitive prices, to successfully operate in the domestic freight market.

I challenge the port operators and the stevedoring companies to use shipping reform and the national ports strategy to move beyond parochialism, Statism and short termism to focus on commercial opportunity, productivity and investment.

I want to see the ports and their service providers participate in the development a truly national, multi-modal and efficient freight market in Australia – and one where shipping becomes part of the mainstream commercial mix, but built on a sustainable business model that is in the national interest.

The international freight market

I want to say a few words about the international shipping component of the reform package, and then return to the National Ports Strategy.

The Government's proposal to establish an Australian international shipping register, if designed with the right parameters, has the potential to be a major incentive for vessel owners engaged in international shipping, be they Australian or foreign, to register their ships in Australia and operate their international ships from Australia.

This would help ensure that a much greater proportion of ship strategic and commercial management is conducted from within Australia (which will need to be a pre-condition for accessing the tonnage tax), and could be a key factor in helping build a maritime cluster in Australia.

A competitive international ship registration system is a key commercial consideration in international ship operations. The investment incentive created by a tonnage tax necessitates a ship registration system that can accommodate international ships as an alternative to the use of sub-standard foreign ship registries.

I acknowledge that an Australian international ship register creates very limited employment opportunities for Australian ratings. However, the union has responded to the policy development process around an international register on the basis that it has the potential to deliver major economic benefits to the nation, in helping build the maritime cluster, and because it is complementary to reforming the domestic shipping sector.

In a report prepared for Government in 2008, entitled *An economic appraisal of Australia's shipping future*, Meyrick and Associates estimated that a 5% increase in the use Australian-flagged vessels on the main international bulk trades could result in an aggregate Australian fleet increase of some 20 vessels, rising to almost 40 vessels with a 10% share increment and 75 vessels with a 20% increment.

The rising estimates of resource exports suggests these numbers are conservative, so it is conceivable that 100-200 international bulk commodity export vessels could fall under an Australian international register in the foreseeable future.

The opportunity to service and support such vessels is unlimited, creating enormous multiplier impacts in the near coastal and onshore maritime industries.

The Meyrick and Associates study found that in terms of the aggregate economic impacts, an expanded Australian flagged trading fleet, would result in:

- Australian seafarer numbers in a mixed crew situation increasing from over 100 with a 5% market share increment to around 450 in a 20% market share increment, leading to an expansion of the Australian seafarer wages sector of around Aust\$30 million per year and over Aust\$100 million per year respectively; and
- A positive Balance of Payments effect in a mixed crew situation of over Aust\$200 million per year with a 5% market share increment, to over Aust\$800 with a 20% market share increment.

We know from a study by Braemar Seascope that in 2008 demurrage payments cost Australian shippers, mainly coal companies, Aust\$1.84 B, all of which was capital outflow to foreign shipowners. While the reforms by themselves may not immediately reduce shipping queues and therefore demurrage costs, those demurrage payments would be paid to Australian entities under a reformed international ship register regime.

We also know that the Brazilian Government and Brazil's largest iron ore exporter, Vale, are in collaboration to try to reduce the competitive disadvantage that Brazil faces due to its longer distance from the Chinese market, adding about US\$12 per tonne differential with Australia.

One strategy it is adopting is ownership and control of the ships, the largest bulk carriers conceived. Unless Australia adopts and vigorously implements new

strategies itself, we will lose our global competitive advantage in the freight rate component of our iron ore exports.

The Government's reform proposals, if combined with a stronger shift away from FOB sales terms, provides the opportunity to stay ahead of the international commodity competition.

The National Ports Strategy

The MUA, along with the other key transport unions – TWU and RTBU – welcomed the Gillard Government's National Ports Strategy when released in January.

I said at the time that recent history has shown productivity at some of our ports has been severely hampered by limitations on our infrastructure, investment and by planning issues following over 10 years of policy negligence under the Howard Government.

Despite some limitations, really by omission, I view the National Ports Strategy as complementing the shipping reform policy that focuses on building a more dynamic and sustainable domestic and international shipping industry for Australia's freight corridors and highways at sea.

The problem has been a lack of coordination and appetite for the reforms the strategy recommends. The challenge will be at the State level where we need to be convinced that the States/NT can effectively manage the responsibilities placed on the State ports and freight forwarding planning bodies.

We are also keen to understand where the responsibility will lie at the Commonwealth level for monitoring and reporting progress against the Strategy.

I note that last week's COAG did not actually endorse a National Ports Strategy but rather, the need for one, so I am assuming COAG wants to see the implementation plan that the new Australian Transport and Infrastructure Council (ATIC) has been asked to develop for COAG consideration by August this year, before actually signing off on the Strategy.

That could provide the opportunity between now and August to ensure that the States actually spell out how they intend to address some of the issues I raised in my speech to the Ports Australia Conference in October last year.

Those issues go to the need for capital deepening as well as capital broadening to address productivity.

I outlined 5 areas of port development required to achieve this:

- Scale – we say that scale is important in maximising productivity and efficiency.
- Labour relations – there is scope to achieve better harmonisation of labour relations arrangements across the supply chain.

- Workforce planning and training – we say this remains an area of neglect, and our current stevedoring bargaining negotiations are proving just how difficult it is to engineer cultural change in this area.
- Safety – we said that the safety culture must change and that a new regulatory framework is required, and to the credit of the Federal Government, it supported the establishment of a forum within the OHS harmonisation process to address those issues.
- Use of contemporary technologies – we said there is a role for technological change, subject to its utility and the way it is introduced.

Much of the leadership on these issues has traditionally come from the Commonwealth, so we are interested to know how the States and NT, which have the responsibility for developing port plans, will address these issues.

One thing we know for certain – there cannot be sustained productivity improvement without the cooperation of the workforce, and without a commitment to workforce development strategies.

Summing up

There can be no question that shipping and ports are the two key pieces of infrastructure that underpin the nation's economic performance, and which form the backbone of the nation's freight system.

This is why the Government's shipping reforms, its ports strategy and development of a national freight plan must be considered to be among the big economic reforms of the current term of Government.

Then Deputy Prime Minister and now Prime Minister, Julia Gillard, advised the MUA National Conference in April 2008 that:

“Ensuring Australian shipping can compete – while upholding community standards – is therefore an important economic policy objective.

The Australian people understand this imperative. And they expect the Commonwealth Government to do all it can to help the industry modernise and become competitive, while respecting the serious safety and security issues involved.

“That's what we intend to do”.

My union is committed to stand above the ideological debates, the blockers and the self serving interest groups and be an agent for change in the reconstruction of the economy in the vital strategic sectors - ports and shipping – in the national interest, consistent with Government policy objectives.

I leave you with this question - are the rest of you on board?

END