

AUSTRALIAN SHIPOWNERS ASSOCIATION

INTERNATIONAL LINER CARGO SHIPPING: A REVIEW OF PART X OF THE TRADE PRACTICES ACT 1974

Reference is made to Australian flag shipping operators in three substantive sections of Part X of the Act:

Section 10.01 (1) (c)

Section 10.45 (a) (v)

Section 10.53

Section 10.01 (1) (c) refers to ensuring that **efficient Australian flag shipping is not *unreasonably hindered from normal commercial participation*** in any outwards liner cargo trade.

Section 10.45 (a) (v) refers to the Minister not giving a direction in relation to a registered conference agreement unless the Minister is satisfied that of one or more of a variety of matters one of which is that parties to the agreement have given effect to or applied, or propose to give effect to or apply the agreement in a manner ***that prevents or hinders an Australian flag shipping operator from engaging efficiently*** in the provision of outwards liner cargo shipping services ***to an extent that is unreasonable***.

Section 10.53 provides that a registered non-conference ocean carrier with substantial market power ***shall not prevent or hinder an Australian flag shipping operator from engaging efficiently*** in the provision of outwards liner cargo shipping services ***to an extent that is reasonable***.

Each of the three relevant sections refers to two issues:

. that a degree of hindrance to participation which is expressed in terms of whether such hindrance is reasonable or unreasonable has to be present for the section to have application, and

. that an Australian flag shipping operator has to be efficient or be capable of engaging efficiently in the services concerned.

This submission therefore addresses two issues:

1. That Australian flag shipping should continue to be afforded a measure of access to Australia's outward liner cargo shipping and that an Australian operator participating in those services should be allowed to do so to an extent that is reasonable, and
2. That Australian flag shipping operators operate efficiently within certain constraints compared to their foreign competition and that certain steps are currently being taken to address this question.

1. That Australian flag shipping should continue to be afforded a measure of access to Australia's outward liner cargo shipping.

1.1 Earnings of Australian shipping

The value of total transport earnings on Australia's external trade is very significant. In 1997/98, shipping earnings totalled \$10.3 billion (a 13.6% increase on the previous year) with the share of total earnings generated by shipping being maintained at 86.1%.

Earnings by Australian resident ship operators increased by \$117 million or 10% to \$1.3 billion in 1997/98. However, the declining presence of Australian shipping in serving Australia's international maritime trade has resulted in its share of Australia's shipping earnings contracting from 14.4% in 1995/96 to 12.5% in 1997/98.

The impact on the current account of the reliance on foreign shipping to carry Australia's external trade has a significant impact on the current account. The net transport services deficit increased by \$0.5 billion (or 20%) to \$3.2 billion in 1997/98. The annual contribution from Australian shipping to net services increased by \$147 million (or 253.4%) to \$205 million in 1997/98. At the same time the contribution of foreign shipping to the net services deficit grew by \$444 million (or 17.8%) to \$2.9 billion in 1997/98.

Despite the growth in the annual deficit on net services from foreign shipping, the burgeoning current account deficit has ensured that the contribution of foreign shipping to the current account deficit declined marginally from 12.6% in 1995/96 to 12.3% in 1997/98.

The contribution of Australian shipping to the current account improved by \$147 million in 1997/98 to \$205 million. The enhanced Australian shipping contribution was achieved despite net investment in the Australian fleet being maintained at 1996/97 levels.

1.2 Australia's International Seaborne Trade

The Australian seaborne trade grew by 5.5% in 1997/98 to 478.8 million tonnes, its twelfth annual increase since ASA's analysis commenced. The annual growth in the general cargo trade was 4.6% in 1997/98, less than the 7.6% growth recorded in 1996/97.

The unit value of Australia's international trades grew from \$265.2 per tonne in 1996/97 to \$279.3 per tonne in 1997/98 with general cargo trades recording the largest annual increase of 7.5%.

Exports grew by 5.7% in 1997/98 to 427.1 million tonnes. The unit value of exports increased by 3.8%. The general cargo export trades grew in volume from 17.7 million tonnes in 1996/97 to 17.99 million tonnes in 1997/98, an increase of 4.21%.

1.3 Australian participation in Australia's international seaborne trade.

Despite an increasing Australian seaborne market, the cargo carried by Australian shipping continued to decline (a reduction of 9% relative to 1995/96) to 10.3 million tonnes in 1997/98. As a result, the market share achieved by Australian shipping diminished to 2.2% in 1997/98, the lowest contribution since ASA's analyses commenced in 1988/89. Despite a growing indigenous market the demand for Australian shipping has declined.

1.4 Investment and Disinvestment in Australian shipping

Net annual investment in Australian shipping is measured by the traded value of vessels sold or acquired and an imputed value of vessels chartered to/from third parties that have been introduced or withdrawn from the Australian fleet. ASA's analyses incorporate two components:

- . nominal investment - reflecting actual Australian dollars of the day;
- . real investment - the annual nominal investment discounted by the construction materials price index.

The figures attached confirm that net investment in Australian shipping has slowed appreciably since 1995/96 (inclusive), averaging a net annual *outflow* of \$0.9 million (real) compared with a net annual average investment of \$288.4 million (real) between 1989/90 and 1994/95 (inclusive).

The primary reason for the decline in the Australian fleet illustrated by the reduction in the number of vessels in the fleet from 78 vessels of 3.5 million dead weight tonnes (dwt) as lately as 1994 to 56 vessels of 2.7 million dwt at April 1999 reflected by the net disinvestment referred to in the preceding paragraph is that there has been a lack of a comprehensive shipping policy in Australia such as to engender investment in Australian shipping.

1.4 Summary

- ☐ **The decline in Australia's shipping presence should not be interpreted as a ground for removing a provision from the Trade Practices Act that affords Australian shipping a measure of access to Australia's outward liner cargo shipping.**
- ☐ **A vibrant competitive Australian shipping industry could take advantage of the economic opportunities presented by the 97.8% of Australia's external trade carried by foreign shipping.**
- ☐ **There has been a decline in Australian shipping caused by the lack of a comprehensive shipping policy in Australia which is exacerbated by the cost structure of Australian shipping and the commercial circumstances of outward liner shipping trades.**
- ☐ **The circumstances of Australian shipping in 1999 are such that, without a comprehensive shipping policy, participation by Australian flag shipping in outward liner trades may be problematic but that level of participation could readily change with changed circumstances, and the provisions in the Act should be retained to accommodate that possibility.**
- ☐ **Steps that are currently in train and which are described below should lead to the creation by Government of a comprehensive shipping policy and the emergence of an internationally competitive Australian shipping industry.**

2. That Australian flag shipping operators operate efficiently within certain constraints compared to their foreign competition and certain steps are currently being taken to address these constraints.

2.1 Australian ship operators are efficient.

There are essentially three reasons why Australian shipping is uncompetitive:

. Australian wages are substantially higher than labour costs in (mostly third world) crew supplying countries

. Australian labour on-costs are higher eg leave, compensation costs arising from the application of legislation etc., and

. there has not been a comprehensive shipping policy which provides for Australian ship operators access to a wide range of tax and fiscal measures made available by the Governments of other nations to the shipping industries of those nations.

Within these constraints, Australian ship operators are as efficient and productive as any in the world.

2.2 A Shipping Reform Working Group has addressed these constraints.

A Shipping Reform Working Group was established by the Minister for Transport and Regional Services, John Anderson with terms of reference that directed to, amongst other things, the above three points. The Shipping Reform Working Group has completed its report which coincidentally, coincidentally, is being handed to the Minister on the day this submission is being finalised.

The intention of the Shipping Reform Working Group report to the Minister is to create a setting in which a comprehensive shipping policy can be created by Government which allows further efficiencies to be developed by Australian ship operators. Over a period of time significant reforms have been undertaken in the Australian shipping industry and the proposal being put to the Minister takes that process to a point where Australian ship operators can be internationally competitive.

2.3 Summary

☐ **Australian shipping is efficient but is subject to severe constraints which are directly or indirectly associated with the requirement for firm policy settings in shipping.**

☐ **Positive steps, initiated jointly by the Government and the shipping industry, are being taken to address these constraints.**

☐ **Should the Government respond positively to the proposals being put before the Minister, the scene will be set for further efficiencies to be gained and for the establishment of a truly internationally competitive Australian shipping industry.**

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If the Commission so requires, we would be pleased to develop further the points we have raised at a convenient time.