

Dr Tony Fletcher

Subject: Added to my submission No 23

Review of Part X of the Trade Practices Act 1974 Draft Report Submission 23 from Dr Tony Fletcher Further to my previous submission I wish to add the following comments having now read your Draft Report to the Review of Part X as it relates to International Liner Shipping.

The crux of the review is contained in the comment on page 126 ... the carriers are in a powerful position and with this in mind the imbalance in their favour needs to be redressed towards a more balanced position.

What is missing from the review is a cost analysis of actual sea freight paid by importers and exporters. We know the number of containers moved in and out of Australian ports, their value, where they go how fast they get to their destination, the number of crane moves and much, much more. Nevertheless the Review is not going to bring home the iniquities imposed on importers, exporters and "the public benefit" of sea freight costs set by shipping companies responsible to no one other than their investors.

The only data I have been able to find is a sample cost-plus calculation produced by Austrade Canada, Tradeport and Australian Business Ltd

| | | |
|---|---------|--|
| On an item which has a factory price of | \$7.50 | |
| Add | 0.70 | domestic freight to port |
| Add | 0.50 | export documentation |
| Add | 1.20 | ocean freight & insurance |
| Add | 9.58 | import duty, wholesale, importer/distributor & retail markup |
| Total | \$20.30 | |

Therefore the CIF value of the goods is \$9.90 and the freight/insurance component is 16% of the value at the landing point all other charges being levied after the good (s) has been landed at its port of destination.

For a description of the complexity of trying to define value in the apparent absence of one in the BTE statistics I quote from A Statistical Definition of Value , Max Kummerow ,Curtin University, January 2002.

Keywords: Appraisal theory, valuation theory, market value, definition of value. Value definitions provide the target valuers aim to hit. Different definitions of value can lead to different value estimates. Moreover, value definitions determine appropriate valuation methods so different definitions require different methods. Courts, academic authorities and practitioners have had differing perspectives on how to define real estate values.

I am assuming that "value" in the context of the BTE statistics means cost + insurance + freight CIF.

Taking the data from BTE paper 50

"International freight by region of loading/unloading 2001-2002"

| | | | | |
|----|----|-------------------------------|--------------------|-------------------|
| | | The total value of Imports is | A\$85,235,003,000 | |
| :: | :: | :: | :: Exports is | A\$99,484,343,000 |
| | | Total | A\$184,719,346,000 | |

The ocean freight/insurance component is A\$29,555,095,360.

From

Bureau of Transport and Regional Economics

INFORMATION PAPER 50

AUSTRALIAN SEA FREIGHT, 2001-2002

Chapter 5

Table 5.2

There are ONLY FIVE Australian General Cargo ships trading in overseas trades of these

Arafura Endeavour carries general cargo to Darwin Dili & Singapore

Northern Guardian carries general cargo Norfolk Island to NZ

OOCL Australia carries containers Botany Bay Melbourne, Brisbane to Japan, Korea, Taiwan

Coral Trader carries general cargo Brisbane, Townsville, to Port Moresby, Lae, Darwin

Norfolk Guardian carries general cargo Yamba, Norfolk Island, Auckland.

AND

Table 6.1 Port calls at Australian ports 2001-2002 (CONTINUED)

| Visits | Total | First port of call in Australia | |
|--------|-------|---------------------------------|-------|
| | ships | voyages | ships |
| 21 358 | 3 250 | 8 779 | 3 107 |

Statistically the five Australian ships make no impact on the total number of ships calling at Australian ports. Therefore it is fair to say that say A\$29,555,095,360 goes overseas to foreign ship owners.

Conclusions. The ship owner domination of Australian overseas trading arrangements must be broken.

Recommendation 1

In light of these estimations of annual freight earnings for overseas ship owners then their protection under Part X be scrapped on the grounds that "public benefit" is not being served.

Recommendation 2

Exporter and Importer organisations be required by Government to jointly negotiate freight rates with ship owners. Those freight rates to be scrutinized by the ACCC and only agreed if they are demonstrated to be for the "public benefit".

Recommendation 2a

Ship owners be required to INDIVIDUALLY to make expressions of interest to carry cargoes on specific routes designated by the Exporter and Importer organisations. Should there be no ship owner interested to take up a particular trade then the Exporter/Importer group look to make a voyage charter arrangement on the open charter market.

This will break down all ship owner "conferences, cartels, and consortia".

Recommendation 3

As demonstrated above the Australian Merchant Marine fleet is virtually non-existent. The only way to break foreign ship owner domination is to form a "national" fleet of cargo ships tailored for the trade routes most advantageous to our commercial interests.

As mentioned in my previous submission forming a "national" sea carrier requires a will by Government to use provisions in any Trade Agreements in the future to ensure that a proportion of the trade be carried in our national flag ships.

Potential Australian ship owners must be given every encouragement by Government to initially bareboat charter ships then build their own using Australian shipyards.

To make this work it is no use ignoring the industrial relations side of crewing these ships. Technology is such that nowadays ships can sail with less than the 11 persons now considered a minimum. Aircraft can fly great distances with two or three pilots; ships can be navigated with six people; two being on duty on the bridge at any given time. Everything else can be computerized/automated. Food is stored frozen or chilled. All maintenance be done by shore based crews of engineers and seamen/stewards who board before the ships dock to tie up and work while the ship is in port. All this can be negotiated with the existing maritime unions, institutes and guilds.

One small error in an otherwise excellent production. The first container ship in the Australian market was commissioned in 1964. It was MV Kooringa owned by Associated Steamships Pty Ltd (ASP) of Melbourne. She was followed by Kanimbla & Manoora in 1968. These three ships traded Melbourne-Fremantle-Melbourne until 1975. The service closed because Australian Rail and Freight forwarders undercut freight rates. Also Freight Forwarder TNT had bought a dominant share holding in ASP and disposed of the ships. I saw it all happening.

18 Nov. 2004.