

Business  
Council of  
Australia



Submission to the Productivity  
Commission Inquiry into  
Tasmanian Shipping and Freight

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The Business Council of Australia (BCA) brings together the chief executives of more than 100 of Australia's leading companies, whose vision is for Australia to be the best place in the world in which to live, learn, work and do business.

## About this submission

The BCA is pleased to have the opportunity to provide comments to the Productivity Commission Inquiry into Tasmanian Shipping and Freight.

While this is an inquiry about Tasmania, our submission highlights concerns with the costs of coastal shipping not only between the Australian mainland and Tasmania but on all national shipping routes due to restrictions on the use of foreign vessels under Commonwealth legislation. This submission argues that economic deregulation of the coastal shipping sector should be implemented to increase competitiveness and reduce costs, with positive flow on impacts for productivity, investment and jobs in Tasmania and other regional economies across Australia.

## Key points

- Tasmanian based businesses engaged in interstate trade are highly reliant on the coastal shipping market given the absence of alternative road and rail options to transport bulk goods.
- The *Coastal Trading (Revitalising Australian Shipping) Act 2012* (the Act) introduced a three-tiered licensing system that gives preferential treatment to Australian general licence holders over foreign vessels operating under a temporary licence, according to a highly prescriptive set of rules.
- Since the 2012 legislation was introduced, there is evidence that the costs associated with using coastal shipping services across Australia (including routes to and from Tasmania) have risen. One company has experienced a 63 per cent increase in shipping costs to Tasmania. Another company estimates an additional 1,000 hours of labour annually are required to administer the new scheme.
- This review is an opportunity to test whether current policy settings are causing uncompetitive shipping costs and excess administration costs that raise the cost of doing business in Tasmania and elsewhere in Australia and make it harder for Australian businesses to export and compete with imports. High shipping transport costs harm opportunities for investment and employment in Tasmania and other parts of regional Australia.
- Deregulation of coastal shipping that reduces unnecessary red tape and removes undue restrictions on competition is needed to lift the competitiveness of the sector, reduce costs on business and grow opportunities for new investment and employment.

## Key recommendations

The BCA recommends that:

- the Productivity Commission in this inquiry should prioritise the assessment of the impact of coastal shipping policies on the costs of coastal shipping services in Australia, including to and from Tasmania, and the broader implications for investment and employment in Tasmania and the rest of Australia. The assessment should inform an economic deregulation agenda for this important transport sector.
- in the immediate term, the Commonwealth Government should take action to reduce administrative costs associated with the current coastal shipping licensing regime, including:
  - Abolish the requirement of five voyages for a temporary licence and extend the 12-month temporary licence period.
  - License the entire consignment to cover all ports used by the vessel while unloading the consignment, instead of requiring each port visited to be specified.

- Enable licences to be granted within two days, particularly where there is an urgent business need.
  - Enable late changes to licences.
  - Greatly expand the thresholds that trigger a requirement for a notice of variation.
  - That the key date in a temporary licence be based on the date a vessel tenders its Notice of Readiness rather than the load date.
  - Remove the requirement to negotiate with a General Licence holder if there is evidence that negotiation has already occurred, or no suitable General Licence vessel is available.
  - Reduce information requirements in forms and reporting to the minimum specified in legislation.
  - Remove duplication of administration with related regulators, such as Customs and the Australian Maritime Safety Authority.
- The Commonwealth Government should also begin to prepare a substantive legislative reform program in 2014 to deregulate coastal shipping and lift the global competitiveness of the sector. Changes for consideration should include the removal or reduction in the preferential rights of general license holders over temporary licensed ships, or replacing coastal shipping licences altogether with a system of ‘negative licensing’ that maintains minimum standards for safety, working conditions and environmental impact.

## **The need to assess and reform coastal shipping policy**

### ***Costs associated with existing coastal shipping policy***

The Act introduced a new system of General, Temporary and Emergency licences for coastal trading where Australian general license holders are given preferential rights to supply coastal shipping services over temporary licensed foreign vessels. (The system it replaced instead issued foreign vessels with Single Voyage Permits and Continuing Voyage Permits.)

Since the introduction of the Act, member companies advise that it has become more costly and more difficult to use coastal shipping services to transport goods around the Australian coast.

Cost impacts linked to the introduction of the new licensing regime under the Act include:

- tonnage rates between Tasmania and Queensland charged by Australian shippers increased from \$18.20 a tonne in 2011 to \$29.70 in 2012, or 63 per cent. This compared with \$17.50 a tonne being charged by international operators in 2012. Demurrage rates also rose from \$14,000 in 2011 to \$35,000 in 2012
- an extra \$4 million has been added to Bell Bay Aluminium in Tasmania’s costs<sup>1</sup>
- another company saw freight charges increase by over \$3,000 a day up and down the east coast of Australia since 2012
- one company estimates an extra 1,000 administration hours a year is required to comply with the new system.

These higher shipping costs and administrative costs raise the cost of doing business in Australia and affect the competitiveness of the broader economy. Higher coastal shipping costs make it more expensive for Australian industries to move raw materials around the coast for processing, putting Australian business at a relative cost disadvantage to fully imported final product that can be shipped directly to Australia at low cost. The impact is particularly felt in Tasmania given the absence of alternative land-based transport options.

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1. Wilson, J., 2012, *Australia’s New Maritime Era Faces its New Test in Court*, Lloyd’s list DCN, 29 November 2012.

Reasons for these increased costs include:

- a less competitive coastal shipping sector because Australian ships and crews supplying coastal shipping services are shielded from competition from foreign vessels operating on a temporary basis
- excessive information requirements and inflexibilities around changes to shipping loads and itineraries for temporary licences that cause higher administrative costs and delays
- the recent extension of the Seagoing Industry Award to foreign vessels supplying coastal shipping services has led to higher labour costs.

We recommend that in the course of this review, the Productivity Commission gather data on administrative and commercial costs in the coastal shipping market and assess where higher costs are connected to the introduction of the new licensing system in 2012 (and other relevant policy changes in recent years). This analysis should be used as a basis for recommending a substantial reform agenda for coastal shipping policy design to raise its competitiveness and provide long-term economic benefits (discussed below).

### ***A reform agenda for coastal shipping policy***

The section sets out two steps to reforming coastal shipping policy:

- Immediately improve the administration of the existing coastal trading licensing regime and reduce costs.
- Design a legislative reform program for implementation in 2014 to deregulate coastal shipping provision and raise the competitiveness of the coastal shipping market.

BCA members have provided feedback on inefficiencies and compliance problems with the existing licensing regime. Based on that feedback, we recommend the government immediately make the following changes to the administration of the temporary licence regime (we note that the existing legislation is highly prescriptive in detailing how the licensing scheme works, so some of these changes may require changes to the Act):

- Abolish the requirement of five voyages for a temporary licence and extend the 12-month temporary licence period.
- License the entire consignment to cover all ports used by the vessel while unloading the consignment, instead of requiring each port visited to be specified.
- Enable licences to be granted within two days, particularly where there is an urgent business need.
- Enable late changes to licences.
- Greatly expand the thresholds that trigger a requirement for a notice of variation.
- That the key date in a temporary licence be based on the date a vessel tenders its Notice of Readiness rather than the load date.
- Remove the requirement to negotiate with a General Licence holder if there is evidence that negotiation has already occurred, or no suitable General Licence vessel is available.
- Reduce information requirements in forms and reporting to the minimum specified in legislation.
- Remove duplication of administration with related regulators, such as Customs and the Australian Maritime Safety Authority.

To lay the foundation for more substantive deregulation of the coastal shipping sector that will lift competitiveness and lower business costs, we recommend that the Productivity Commission, either within the scope of this review or in a separately commissioned review, make recommendations for legislative reform of coastal shipping for consideration by the parliament sometime in 2014.

The Productivity Commission should apply the legislation review principles contained in the 1995 National Competition Principles Agreement – that is, remove any restrictions on competition unless it can be demonstrated that the benefits of competition outweigh the costs, and the policy objectives can only be achieved by legislation.

To inform a coastal shipping reform agenda the Productivity Commission should in our view:

- assess the international cost competitiveness of Australian coastal shipping services and the drivers of costs
- evaluate the economy-wide impacts of the reforms under the Act and whether the Act is the most cost-effective way of meeting its objectives
- make recommendations for legislative change that will improve the competitiveness of the coastal shipping market.

Consideration of comprehensive legislative reform of the *Coastal Trading Act 2012* that could lift the competitiveness of the Australian coastal shipping market should include:

- reducing or removing the rights of general licence holders to submit a notice in response to a temporary licence application to negotiate to carry all or some of a load
- replacing licences altogether with a 'negative licensing' system where vessels must comply with minimum safety standards and International Transport Federation working conditions, enforced by risk-based inspections.

Reforms along these lines would be consistent with the objective in the Act to promote competition in coastal trading. It is acknowledged that these reforms may conflict with a separate objective in the Act to maximise use of Australian registered vessels; however, where there is conflict among objectives, the pursuit of Australia's long-term national interest should be the overriding consideration.

## Conclusion

Coastal shipping offers an important freight transport service for Australian value adding industries, especially for Tasmanian businesses that do not have a land-based transport alternative. By restricting the temporary use of foreign vessels, Australia's coastal shipping laws make the coastal shipping sector less competitive than it otherwise could be, leading to higher shipping costs. This Productivity Commission review should recommend practical steps the Australian Government can take to deregulate Australia's coastal shipping market so that business input costs can be lowered and to support opportunities for investment and jobs in Tasmania and other regional parts of Australia.

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