



**CEMENT INDUSTRY
FEDERATION**



**CEMENT INDUSTRY FEDERATION RESPONSE TO THE
PRODUCTIVITY COMMISSION
DRAFT REPORT (JANUARY 2014):
“TASMANIAN SHIPPING AND FREIGHT”**

February 2014



Response to the Productivity Commission's 'Tasmanian Shipping and Freight' Draft Report (January 2014)

This response relates to 'Draft Recommendation 1' of the report:

'The Australian Government should proceed with the foreshadowed review of coastal shipping regulation as soon as possible. The objective of the review should be to achieve the most efficient coastal shipping services feasible for Australia'.

The CIF strongly endorses this recommendation.

As documented in the Draft Productivity Commission Report on Tasmanian Shipping and Trade, the Australian Government introduced new legislation in 2012 to further restrict foreign competition on coastal trading routes (cabotage) in the name of 'revitalising Australian shipping'.ⁱ

In response to the consultation process around this legislation, the Cement Industry Federation (CIF) sought to examine the impacts of Australia's coastal trading arrangements on Australia's cement industry. The CIF found there to be a distinct lack of economic modelling and analysis that could justify the cabotage arrangements that are now in place. To the contrary, the CIF has found that the Government's own regulatory impact statementⁱⁱ and a Deloitte Access Economics studyⁱⁱⁱ, commissioned by Australian dry bulk shipping users (including the CIF), identified significant costs will be faced by Australia's manufacturing and agricultural industries who make up the dry bulk coastal trade.

Australia's coastal shipping trade

The CIF is concerned that the *Coastal Trading (Revitalising Australian Shipping) Act 2012* inhibits economic and productivity reform as it:

- Promotes protectionism of Australian shipping without concern for the impact it will have on Australian manufacturing and industry;
- Significantly impacts on Australian manufacturing and industry costs;
- Will encourage foreign product imports over Australian industry;
- Is being incorrectly promoted as an environment and security reform; and
- Provides too much discretion to the Minister which can lead to further instability and uncertainty than the previous arrangements of single voyage and continuing voyage permits.

During the Senate Committee hearings on the Coastal Trading legislation, the Department of Infrastructure and Transport was unable to provide information on how the new approach to shipping would succeed in increasing the number of Australian ships. This led the Senate Economics Legislation Committee to recommend continuous monitoring by the Productivity Commission or the Bureau of Infrastructure, Transport and Regional Economics.^{iv} This has not occurred since the introduction of the *Coastal Trading (Revitalising Australian Shipping) Act 2012* in July 2012.

The CIF is concerned that these reforms have numerous unintended consequences. For example, heavily protected coastal shipping routes will become even less competitive against international shipping leading to an outcome that negatively impacts on the competitiveness of Australian dry bulk shipping users, including cement and clinker, which will in turn lead to a reduced demand for coastal shipping services.

Deloitte Access Economics Study

Prior to its passing from a Bill to an Act, an informal group of Australian dry bulk shipping users commissioned Deloitte Access Economics, to analyse the specific economic impacts of the Coastal Trading Bill 2012 on the Australian industry and manufacturing, and the economy more broadly.

Deloitte Access Economics undertook a general computable equilibrium model analysis of the economic impacts of the reforms using actual data provided by the companies. The report which examined the impact of the replacement of foreign vessels with domestic vessels on the coast, was made publically available in March 2012.^v

Headline findings include:

- That changed licensing arrangements proposed will lead to an increase in the cost of coastal shipping and, by extension, freight rates of up to 16% if domestic vessels replace foreign vessels.
- A variety of factors, such as the competitiveness of downstream industries and the scope for import competition, suggest that these cost increases are likely to be borne predominantly by the users of coastal sea freight. Not only will this diminish competitiveness, it will also impact negatively and potentially significantly on future investment decisions.
- The precise magnitude of the long term economic impacts is difficult to determine given the myriad of factors at play. However, the modelling undertaken here suggests that, in net present value terms, the aggregate impact on gross domestic product over the period to 2025 will be between -\$242 million and -\$466 million.
- The associated loss of employment over the long term is, in net terms, 200 full time equivalent employees as it is assumed the labour market will remain buoyant and most of the displaced labour will be absorbed in other sectors. In the immediate term, the displacement is considerably higher, with an estimated peak loss of 570 FTE employees. These job losses will mainly be in regional Australia.

The Market for Coastal Shipping in Australia

The majority of ships (Australian and foreign flagged) service the international shipping market. According to the latest published data of the Bureau of Infrastructure, Transport and Resource Economics (BITRE 2013):

- A total of 1 167.3 million tonnes of cargo moved across Australian wharves in 2011-12. International cargo movements made up 91.5 per cent of this trade. The coastal trading market only constitutes 8.5 per cent of Australia's sea freight trade.
- Internationally flagged vessels applied to move 23.5 per cent of the Australian coastal trade by regulation (via single voyage and continuing voyage permits) in 2011-12.
- In 2011-12, 23 Australian registered vessels shipped 76.5 per cent of Australian coastal freight in Australia.

This means that if Australian vessels undertook all Australian coastal trading movements, the size of the Australian coastal trading fleet could increase by 23.5 per cent (the equivalent of approximately 5 vessels). The regulatory burden of the Coastal Trading Act 2012 is difficult to justify based on the size and scale of the Australian coastal trading market.

Overview of the cement industry

There are three major Australian integrated clinker and cement producers - Adelaide Brighton Ltd, Boral Cement Ltd and Cement Australia Pty Ltd. Together these companies account for 100 per cent of integrated clinker and cement supplies in Australia. Their operations are located in every state and territory, and include eight integrated cement manufacturing facilities as well as mines to service those facilities and a national distribution network.

The industry employs over 1,600 people and produces over ten million tonnes of cementitious materials, with an annual turnover in excess of \$2 billion.

Cement manufacturing is an import competing industry that meets a demand that is relatively steady, growing predictably with general economic growth. Local manufacturing represents the vast majority of supply, while imports have been increasing in recent years to about 25% of market share.

The Australian cement industry has a long supply chain and distribution network due to the fact that clinker plants are located near to limestone mines while the largest cement markets are based in the capital cities.

Transport costs associated with the long supply, which include coastal shipping of raw materials as well as clinker and cement, can represent a significant proportion of total costs. The supply chain can be easily truncated using imports of either clinker or cement meaning that productive and competitive transport services to the cement industry are as important as the productivity of the industry itself.

At the current time, clinker can be back loaded from Asia on the conveyer of coal ships carrying Australia's export coal and can be supplied to stand alone milling operations located at a port near to market.

The coastal location of Australia's capital cities means that coastal transport must remain competitive with respect to international transport if cement manufactured in Australia is to remain internationally competitive.

At the present time, there is no shipping cost advantage to move clinker from Gladstone to Brisbane over importing cement from South East Asia to Brisbane, for example.

While cement manufacturing must compete internationally, coastal shipping in Australia is protected by a cabotage regime which limits competition and flexibility and has led to the development of a workforce and industry that is far less competitive than that available to our competitor's in other nations.

ⁱ Coastal Trading (Revitalising Australian Shipping) Act 2012

ⁱⁱ Department of Infrastructure and Transport (2011), Regulation Impact Statement: Reforming Australia's Shipping, Commonwealth Government, Canberra, August.

ⁱⁱⁱ Deloitte Access Economics (2012), Economic Impacts of the Proposed Shipping Reform Package, February.

^{iv} Senate Economics Legislation Committee (2012), Coastal Trading (Revitalising Australian Shipping) Bill 2012 [Provisions] and related bills, Australian Senate, Canberra, June. Page 73.

^v Deloitte Access Economics (2012), Economic Impacts of the Proposed Shipping Reform Package, February.