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THE ECONOMIC IMPACTS OF THE COASTAL TRADING ACT 2012 ON THE QUEENSLAND ECONOMY

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This document has been written as part of a research project conducted through an internship program between Regional Development Australia Brisbane and The Faculty of Business, Economics and Law of the University of Queensland.

The information presented in this document has been taken from different public sources, which are listed in the reference section.

The expressed views, opinions, findings and conclusions or recommendations in this document are those of the author and do not all necessarily reflect the views of the RDA Brisbane committee, although the RDA is in support of coastal shipping reforms to support Australia's regional economic development.

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Introduction

This document provides a critical analysis of the Coastal Trading (Revitalising Australian Shipping) Bill 2012 as a key economic factor, which has affected the development of the maritime sector and impacted regional productivity. This research is the result of an internship at Regional Development Australia (RDA) Brisbane and The Faculty of Business, Economics and Law of University of Queensland. The main objective is to provide a review of the option papers and public submissions of the Coastal Trading Bill 2012 and identify the main economic variables, which have affected maritime trade in Queensland. In order to address the objective of this research, literature review was used as methodology.

The Australian Government collected 87 option papers and public submissions as part of a public consultation process of the current Coastal Trading Bill 2012. There were 20 submissions under confidentiality, which were not available for public review. From a new total of 67 public submissions RDA-Brisbane chose 22 as the most relevant stakeholders in the area. These submissions were classified in terms of the role that the stakeholder played in the ecosystem. The classification was as follows: Maritime and Transport, Education, Public Institutions, Industry and Producers.

The result of this study showed that the Coastal Trading (Revitalising Australian Shipping) Bill 2012 has rigidified maritime transport, stopped competition, and this has introduced uncertainty into the market, generating a negative economic impact. A number of companies in Queensland such as Intermix have been affected by this legislation. To avoid this, effective competition is necessary in order to activate the maritime sector, optimizing resources, reducing operational cost and stimulating and encouraging innovation as main drivers in the economy.

The Coastal Trading (Revitalising Australian Shipping) Bill 2012

In July 2012, under the previous Government's administration, the Coastal Trading (Revitalising Australian Shipping) Bill 2012 was passed by the Parliament. The purpose of this legislation was to reinvigorate the maritime sector through a new regulatory system. Replacing Part VI of the Navigation Act 1912, the idea was to create "Stronger Shipping for a Stronger Economy" (Parliament of Australia, 2012:3). This review of the legislation involved: Australian Maritime Safety Authority Act 1990, Navigation Act 1912, Occupational Health and Safety (Maritime Industry) Act 1993, and Seafarers Rehabilitation and Compensation Act 1992 (Parliament of Australia, 2012). The Coastal Trading Act has had an objective to regulate the activities of vessels that engage in coastal trading and it is the mechanism that allows foreign ships to operate in the domestic market. A licensing system established by the Coastal Trading Act controls the activities of Australian and foreign ships and provides an advantage to Australian ships by allowing them unrestricted access to coastal trade along with the opportunity to compete for voyages proposed to be conducted by foreign ships (Parliament of Australia, 2012).

However, this new reform did not revitalize the industry. Two years later after the passage of this legislation, the Australian Government was concerned about the declining and low-level of movement of freight within Australia via coastal shipping (RDA-Brisbane's project brief 2015). The Deputy Prime Minister and Minister for Infrastructure and Regional Development, the Hon Warren Truss, voiced concern at the rapid decline of the coastal shipping industry and that the fleet of major Australian registered ships has dropped from 30 vessels in 2006-2007 to 15 in 2013-2014. Additionally, shipping's share of Australian freight has declined from 27% to 17% between 2000 and 2012. However, the

volume of freight across Australia has increased by 57% and Australia's overall freight task is expected to grow by 80% in the next 20 years. On the contrary, coastal shipping will only grow by 15%. The Deputy Prime Minister argues that the Coastal Trading (Revitalising Australian Shipping) Bill 2012 has a direct implication in the decline of this sector; he claimed that "the reform has torpedoed the industry" with a drop of 63% in the carrying capacity of the major Australian coastal trading fleet during 2013 and 2014 (Truss, 2015:1).

John Kavanagh, Principal Kavanagh Law, in an article claims that "there is no doubt that the causes include: regulatory policy settings for Australian flagged ships, subsidies to competing transport modes, industrial relations issues and lack of appropriate infrastructure investment in ports for coastal trading, amongst other things" (Kavanagh 2014:1). Also, he argues that the main causes are the political positions and long-established ideologies which instead of legislating for improving this sector, politicians legislate in favour of their own political benefits. Consequently, this stops any attempt for creating a consistent policy in order to contribute to developing the coastal shipping sector.

In May 2015, Deputy Prime Minister Warren Truss in a speech said "Labor's Act has increased the price of coastal shipping services, hitting Australian businesses hard and adding uncertainty and regulatory burdens without improving the viability of Australian shipping or the quality of shipping services" (Truss, 2015:2). According to the report delivery by the Australian Government (2015), material such us timber, iron, steel and building products are being imported from overseas rather than sourced locally. Australian manufacturers are importing commodities such as bauxite, gypsum, cement clinker, fertiliser and soda ash instead of buying these products from Australian producers (Clyde & Co, 2015). "Sugar is now imported from South East Asia and South Africa while the Australian sugar industry contemplates exporting 100% of its product due to the cost of coastal trading" (Clyde & Co,

2015:4). This has created a considerable threat for Queensland's regions, which generate 94% of Australia's total raw sugar production (Queensland Sugar Limited, 2009). Also, sugar is one of the Queensland's main exports together with coal, metals and meat (Queensland Treasury, 2010).

Companies such as Bell Bay Aluminium have reported a considerable rise in its cost of shipping freight rates from Tasmania to Queensland in the first year of the Fair Work Act, increasing from $18.20 a tonne in 2011 to $29.70 a tonne in 2012 (Truss, 2015). In the same way, shipping dry food powder from Melbourne to Brisbane has the same cost of shipping from Melbourne to Singapore. Conversely, it is cheaper to ship sugar from Thailand to Australia than it is to ship Australian sugar around the Australian ports (Truss, 2015). Kavanagh (2014) also mentions that the road and rail infrastructures are alternative transports, which compete with ports because they offer competitive advantages for road and rail transport over sea transport. He claims that there are some special conditions that must be solved before being granted a Temporary License, such as an applicant for a temporary license must include a minimum of five voyages in a period of 12 months. This is a big issue for Australian shippers who see this regulation as unnecessarily restrictive.

Approaches To Regulating Coastal Shipping In Australia

In order to understand this new reform, listed below are concepts that will help to create a better comprehension about the Coastal Trading (Revitalising Australian Shipping) Bill 2012. This information has been obtained from the Commonwealth of Australia document named: Options Paper: Approaches to regulating coastal shipping in Australia April 2014.

Coastal Trading

"Coastal trading is the carriage of domestic passengers or cargoes on interstate voyages

between ports in Australian States and Territories" (Commonwealth of Australia, 2014:5)

Shipping Registration

This register determines the nationality and the level of access of domestic and international shipping to be eligible to coastal trade in Australia and overseas.

Australian General Register

Vessels on the Australian General Register require hiring crew with Australian work rights (Fair Work Act 2009). Vessels on the Australian General Register are suitable to apply for a General Licence; this has unrestricted access to the Australian coastal trade and this is open only for Australian owned ships or Australian based operators.

Australian International Shipping Register

Vessels under the Australian International Shipping Register are not eligible for holding a General Licence. It is demanded generally for international trade. The crewing requirement is different than vessels on the General Register. An Australian national or Australian resident as the master or chief mate of the vessel and an Australian national or Australian resident as the chief engineer or first engineer of the ship are needed on the Australian International Shipping Register.

Foreign Registries

Foreign flagged vessels are allowed to participate in coastal trading through the Temporary Licence system but are not allowed to apply for a General Licence. Vessels registered in foreign countries may be subject to less rigorous requirements around workforce pay and conditions, safety, security, environment, taxation, and other fees, charges and levies under the rules of its flag state when compared to Australian ships.

Licence System

Four types of licence are available under the existing legislative framework:

1. Unrestricted access to engage in coastal trading in Australian waters for five years is available to General Licenses on ships under the Australian General Shipping Register.

2. Transitional General Licence is intended to assist ships operating under the former arrangements to transition to Australian registration, is issued for a period of five years and may be renewed once. A Transitional General Licence affords the ship it is issued to the same rights as a General Licence.

3. "Temporary Licence may be granted to a shipper, or the owner, charterer, master or agent of a vessel registered on the Australian International Shipping Register or under a law of a foreign country and provides restricted access to engage in specific coastal trading voyages over a 12 months period" (Commonwealth of Australia, 2014:7).

4. "Emergency Licence may be granted to a shipper, or the owner, charterer, master or agent of a vessel registered in the Australian General Shipping Register, the Australian International Shipping Register or under a law of a foreign country to respond to significant national emergencies, as outlined in the regulations, for a period of no more than 30 days" (Commonwealth of Australia, 2014:8).

Methodology

Literature review was used as a methodology to achieve the objective of this research. RDA Brisbane identified the key stakeholders and selected the public submissions made to the Australian Government's review of coastal trading (Options Paper: Approaches to regulating coastal shipping in Australia,

2014) and in particular the Coastal Trading (Revitalising Australian Shipping) Act 2012 taking into consideration the role of each stakeholder in the maritime industry, and their impact on the Queensland regional economy. From a total of 87 option papers and public submissions collected, there were 20 submissions under confidentiality, which were not available for public review. From a new total of 67 public submissions RDA Brisbane chose 22 as the most relevant stakeholders for this research. These submissions were classified in terms of the role that the stakeholder played in the ecosystem as follows: Maritime, Education, Public Institutions, Worker Associations, and Transport Services.

Once the submission papers were reviewed, the result was presented in a matrix, which was organized by common variables in order to have a more clear understanding of the study. Following the methodology, the result of this submission was analysed considering the economic impacts on Queensland regions. A case study based on Intermix Australia Pty Ltd. Company, located in Beenleigh Queensland, was provided in order to illustrate the economic impact. Initially, three variables were taken into consideration to answer the research question: coastal shipping market, education, and labour law. However, during the study new variables appeared which had more impact on Queensland's regional economies than the other ones. A total of six variables were analysed in order to provide a good analysis of this reform and its impacts. Once all the variables were identified, the research focused on the three variables, which were the most critical for this study. In addition, an interview was conducted with the Director of The Marine and Shipping Law Unit (MASLU) TC Beirne School of Law of University of Queensland, Dr Craig Forrest, in order to

understand the legislation.

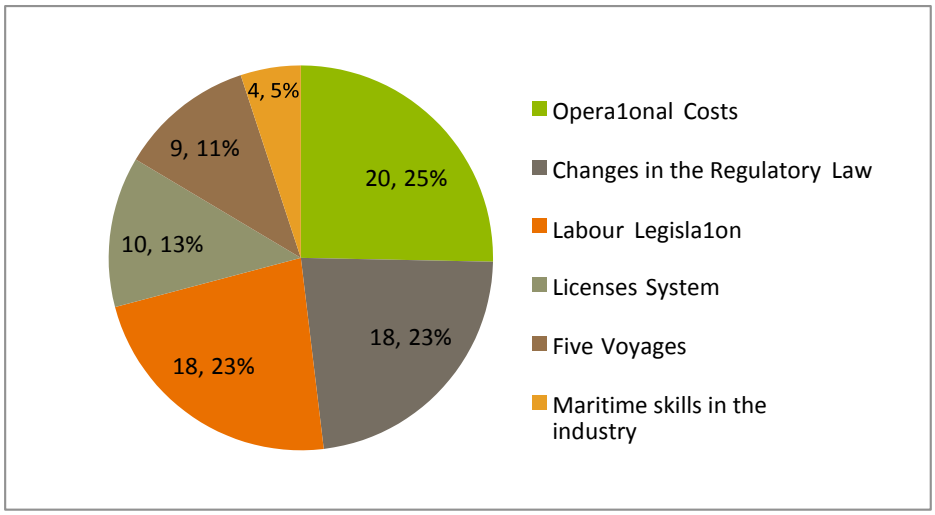
Results

The review of the 22 submission papers gave a result of a number of six variables that were discussed for the stakeholders such as: operational costs, changes in the regulation law, five voyages, labour legislation and licenses system. Table 1 shows the results of this 22 submissions review and the five groups of classification of the stakeholders.

Table 1. Review of 22 Submission papers on the Coastal Trading Act 2012

Sector	Submission Nº	Stakeholders	Operational Costs	Changes in the Regulatory Law	Five Voyages	Maritime skills in the industry	Labour Legislation*	Licenses System
Maritime and Transport	4	North Queensland Bulk Ports Corporation (NQBP)	1	1	1	0	1	1
	56	Port of Brisbane	1	1	0	0	1	0
	44	Maritime Engineers Pty Ltd	1	1	0	1	1	0
	47	Port of Townsville	1	1	1	0	0	1
	49	Australian Coastal Shipping	1	1	0	0	1	0
	22	CSL Australia	1	1	1	0	1	1
	70	Australian Railway Association	1	1	0	0	1	0
Education	32	University of Queensland	1	1	1	0	1	1
	7	Australian Maritime College	0	1	0	1	0	0
Public Institutions	23	Australian Competition and Consumer Commission	1	0	0	0	1	0
Workers Associations	72	Maritime Union of Australia	1	0	0	0	1	0
	48	Australian Maritime Officers Union	0	1	0	1	0	0
Industry and Producers	35	Australian Institute of Marine and Power Engineers	1	0	0	1	1	0
	40	Australian Industry Group	1	1	0	0	1	0
	29	CSR	1	0	0	0	0	0
	34	National Farmers Federation	1	1	1	0	1	1
	50	Minerals Council of Australia	1	1	1	0	1	1
	54	Australia Aluminium Council	1	1	1	0	1	1
	59	Business Council of Australia	1	1	1	0	1	1
	66	Australian Institute of Petroleum Ltd	1	1	1	0	1	1
	83	Australian Food and Grocery Council	1	1	0	0	1	0
	85	SuperYacht Australia	1	1	0	0	1	1
* Australian Fair Work Act 2009		Total	20	18	9	4	18	10

A pie chart is presented in order to illustrate which variables were more critical and were most discussed for the stakeholders (See figure 1).**Figure 1. The Coastal Trading Act 2012, Variables more Discussed by 22 Stakeholders**



Findings From The Economic Perspective

From a review of 22 submission papers selected by RDA Brisbane, it is possible to infer that from the stakeholder point of view, the major variable discussed by them is the operation cost (20.25%). In second place, there are two variables that appear both with 18.23%; these variables are: the changes in the regulatory law and labour legislation (Australian Fair Work Act 2009). In third position, licenses system emerges with 10.13%. On the contrary, maritime skills were covered only by 4 stakeholders (4.5%). As a result of the change in legislation, there has been a decline of 63% in the capacity of coastal trading vessels. 18 out of 22 stakeholders state the major issue of Australian remuneration being significantly higher than International Transport Workers' Federation rates - reducing competitiveness in the sector, especially for foreign-flagged ships if they are employing foreign crew. Additionally, cabotage by foreign

registered ships can only operate when Australian flag ships are not available.

The licensing system emerged as another critical point, particularly for foreign ships which must demonstrate at least five voyages in 12 months in order to operate on coastal trade with a temporary license. From the view of Forrest (2015) Director of MASLU, TC Beirne School of Law of University of Queensland, it is difficult for companies to know how many clients they will have during one year. This requirement has been an important obstacle for foreign companies to obtain the license. High operating costs, labour arrangements and the license system have created a lack of competitiveness for Australian shipping, which has led to a drop in its participation in national trade. Australia is strongly dependent on shipping, with 99% of international trade volumes transported by sea freight, therefore the economic impact has been significant.

As an example, a company from Queensland called Intermix Australia Pty Ltd based in Beenleigh produces approximately 30,000 metric tonnes of dry-mix blends, pre-mixes and ingredients per annum for the beverage, dairy, confectionary, bakery and nutritional sectors of the processed food industry. In the past they purchased 70% sugar and 30% milk powder being one of the largest purchasers in Queensland (Public Submission, 2014 – Australian Peak Shippers Association Inc). Previous to the Fair Work Act, the company carried approximately 9,000 m/tonnes p.a. of milk powder from Melbourne to Brisbane by cabotage. As a consequence of the new reforms, during 2010-2011 they were advised there would be an incremental increase of 56% per m/tonnes in terms of wages and administration cost (Public Submission, 2014). In 2012, the cost to ship milk powder from Melbourne to Brisbane was $130 m/tonnes, and the cost for moving the same product from Melbourne to Singapore was only $72. As a result, the freight cost involved has encouraged companies to buy products from overseas instead of from local producers.

Major Impacts On Coastal Trading

All the factors mentioned above have rigidified maritime transport, stopped the competition, and this has introduced uncertainty into this market, so companies do not want to invest in new fleets and have ceased improving their services. The number of vessels in the Australian register has halved in a three years period, because it is becoming unviable to operate under these regulations. As a result, there are not enough ship owners in the market, there are less workers, less cargo so from an economic perspective this situation has increased the prices because of a lack of competition. Also, temporary licenses are seen as an unnecessary restriction. Cabotage by Australian ships is less available and therefore forcing freight onto road or rail, and replacing domestic products with the importation of raw materials

In Queensland, Companies such as Intermix have been affected by this legislation. Sugar producers are being threatened because buyers prefer to import sugar from overseas rather than purchase from local producers, because of the high cost of coastal trading.

Conclusion and Recommendations

The Coastal Trading (Revitalising Australian Shipping) Bill 2012 has generated uncertainty in the Australian maritime industry. This reform has been complex and caused confusion with stakeholders who recognize difficulties in its interpretation. The coastal trading has suffered a negative economic impact over the two years after this regulatory system.

From an economic perspective and in particular in relation to the economies of regional Queensland it is necessary to enable effective competition, optimizing resources, reducing operational cost and stimulating and encouraging innovation as the main economic

drivers. This research project concludes that action must be taken to reduce uncertainty and promote competition in the maritime sector, creating the necessary incentive to stimulate investment in the maritime sector and companies to invest and open the market for new entrances.

The Coastal Trading Bill 2012 also has affected Queensland's regions. Companies are choosing to import raw material from overseas instead of buying the same product locally. As an example, if this situation continues it will not be surprising find sugar from Asia or Africa at the supermarket rather than sugar produced in the region.

The Shipping Legislation Amendment Bill 2015 has been introduced to the Parliament on 25 June 2015 and will be called to the Coastal Shipping Act 2015. This Act wants to replace the licensing system with a single permit system. The modifications include Part B of the Seagoing Industry Award 2010 (Award) when the Fair Work Act 2009 (Fair Work Act) applies to sailors who work mostly in coastal trading.

For future studies, it would be interesting to review if the Shipping Legislation Amendment Bill 2015 will be able to fix the market failure such as uncertainty and lack of competition in the maritime industry.

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