CEMENT INDUSTRY FEDERATION

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RESPONSE TO THE JOINT STUDY DISCUSSION DRAFT:

"STRENGTHENING TRANS-TASMAN ECONOMIC RELATIONS"

October 2012

Key recommendation

The Productivity Commissions of Australia and New Zealand released a discussion draft on 18 September 2012 to set out preliminary recommendations for strengthening trans-Tasman economic relations. This submission focuses on recommendation (DR 4.12):

"In order to ensure benefits for the wider economy, when reviewing the restrictions on competition for coastal shipping, the Australian Government should adopt a broad cost-benefit framework, and drawing on New Zealand's experience.

The CIF strongly endorses this recommendation.

It is suggested that the time scale for undertaking this analysis be designated as being an immediate or 'short term' initiative for the Productive Commissions as a comparative study has the potential to substantially benefit both the New Zealand and Australian economies through productivity improvements in shipping services.

Recently, the Australian Government introduced new legislation 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 statement[ii] and a Deloitte Access Economics study[iii], 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.

In the absence of any economic evidence in support of the policy, the Australian Government has not sought to outline any indicators or measures for success of its reforms and has instead taken a 'see how it goes' approach.

The Australian Senate Economics Legislation Committee has responded to this approach by recommending the reforms are placed under continuous monitoring by the Productivity Commission or the Bureau of Infrastructure, Transport and Regional Economics.[iv]

Given the recommendation for continuous monitoring, the need for rigorous comparative economic studies on the differing arrangements in Australia and New Zealand is clear – and urgent.

Australia's coastal shipping trade

Approximately 60 per cent of the Australian coastal shipping task is comprised of dry bulk goods (with liquid bulk goods comprising 26 per cent, containers 9 per cent and non-bulk 5 per cent).[v]

Australian coastal trade can only exist if there is demand from customers. To maintain demand, coastal shipping services must be affordable compared with alternative options such as other transport options or importing overseas manufactured product direct to market.

The Australian *Coastal Trading (Revitalising Australian Shipping) Act 2012* has been in place since 1 July 2012 and replaced the previous regulatory arrangements under the *Navigation Act 1912.*

With 17 Australian vessels carrying 70% of Australia's dry bulk coastal trade[vi] it is difficult to understand why further regulation of Australia's coastal trade is required.

The CIF opposed the Government's *Coastal Trading (Revitalising Australian Shipping) Act 2012* on the basis that it was not an economic and productivity reform as it:

- Promotes protectionism of Australian shipping without concern for the impact it will have on Australian manufacturing and industry;
- Will significantly impact 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 current arrangements of single voyage and continuing voyage permits.

Contrary to competition policy, and in the absence of any proper analysis of the impacts on shipping users, and an identified lack of consultation with the Department of Treasury, the Productivity Commission or the Australian Competition and Consumer Commission, the Australian Government managed to pass into law, the the Coastal Trading Bill 2012 which will further protect the Australian shipping industry operating in the Australian coastal trade.

During the Senate Committee hearings on the legislation, the Department of Infrastructure and Transport made it very clear that it had no real indication as to whether 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.[vii]

The CIF is concerned that these reforms could have numerous unintended consequences.

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.

Given that New Zealand has taken an approach to Coastal Trading which is fundamentally different to Australia and one that involves opening coastal routes to foreign competition, there are potential benefits in comparing the two approaches.

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.[viii]

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 recommendation for a comparative study of coastal trading regulation would help to ensure Australia maintains some regulatory competitiveness. The CIF believes this to be a needed analysis that is urgently required.

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 20% 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.

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[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] Department of Infrastructure and Transport (2011), Regulation Impact Statement: Reforming Australia's Shipping, Commonwealth Government, Canberra, August. Page 11.

[vi]Calculated from - Department of Infrastructure and Transport (2011), Regulation Impact Statement: Reforming Australia's Shipping, Commonwealth Government, Canberra, August. Page 14.

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

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