QUEENSLAND MANUFACTURING INDUSTRY FORUM

QUEENSLAND MANUFACTURING INDUSTRY FORUM

TRANSPORTATION POLICY

AUGUST 1997

Ampol Refineries (Q'land) Ltd BOC Gases Australia Limited Boyne Smelters Limited
Comalco Aluminium Limited
CSR Limited lCI Australia Limitedelncitec LtdeMIM Holdings Limited CNI Limited
Queensland Alumina Limited
Queensland Cement Limited Queensland Metals Corporation Ltd Rio Tinto Enerav Limited WMC Fertilizers Ltd
Correspondence to:

Incitec Ltd
PO Box 140
MORNINGSIDE qld 4170

Queensland Manufacturing Industry Forum

The Queensland Manufacturing Industry Forum (QMIF) is a recently-formed apolitical group representing the majority of Queensland's major industrial manufacturers. Member companies of QMIF are represented by each company's most senior executives.

QMIF offers a consolidated view from this sector on key issues which may not be adequately represented through other existing industry or business associations.

The purpose of QMIF is to foster economic growth, investment and thereby employment in Queensland, and Australia, by adopting the following principles:

- International competitiveness of all business inputs;
- Identification and exploitation of natural strategic advantage;
- Rationality, equity, clarity, certainty and timeliness in Government decision-making;
  Unlocking value through private sector investment in, and operation of, Government businesses:
- Competitive markets; and
  Environmentally sustainable development.

Member Companies

Ampol Refineries (Q'land) Ltd BOC Gases Australia Limited Boyne Smelters Limited Comalco Aluminium Limited CSR Limited ICI Australia Limited Incitec Limited M.l.M. Holdings Limited QNI Limited Queensland Alumina Limited Queensland Cement Limited Queensland Metals Corporation Ltd Rio Tinto Energy Limited WMC Fertilizers Ltd

919/97 1

TRANSPORTATION POLICY

Policy Objective

The objective of the QMIF transportation policy is to secure more competitive prices for Queensland goods delivered to the consumer, by achieving international efficiency and competitiveness in the areas of rail, shipping and ports.

Why Transportation Is Important

Efficient, low cost transport of raw and processed materials, and finished and semi-finished products is essential for Queensland's manufacturing industry to be competitive in both the interstate and international marketplaces and for new industries and projects to be attracted to the State.

The Queensland Manufacturing Industry Forum (QMIF), whose members are significant users of transport, is interested in working with Government to target transport issues that industry sees as capable of being improved, with the view to achieving competitive low cost transport in Queensland.

What Needs to be Done

Queensland transport has significant inefficiencies that need addressing, because they are adversely affecting the Queensland economy and attracting large subsidies from Government in the form of Community Service Obligation payments.

For example, Queensland Rail should not be in the business of providing transport services by rail, where the service is more appropriately provided by road transport; and Government should not subsidise rail transport, when road transport or shipping represents a wiser use of resources.

Significant progress has been made to improve the efficiency of transport services in recent years; Government plans for further improvements and competition in the future, are commendable. Government transportation policy must be directed towards:

Removal of regulatory impediments that hinder competition,

Restructuring of public monopolies to eliminate monopoly pricing; and
Establishing an environment that encourages competition in transport.

A priority is open access to the rail network, which is precluded by the current asset valuation procedure and resultant access charge regime.

What Can Be Achieved

Manufacturing adds value to the natural resources of the State. Encouraging this activity increases higher paid employment opportunities, develops local technology and ensures a greater return on raw materials.

Transport charges which are well above the cost of providing those services, or in excess of the charges made by efficient systems internationally, represent a significant deterrent to manufacturing. Realistic charges would assist in making the manufacturing industry in Queensland more world competitive, and would attract new investment to the State.

Queensland industry must continue to improve product quality, to strive for greater efficiencies, and to reduce costs in production and manufacturing. In addition, market appraisal and other business knowledge must be applied to generate new opportunities, ventures and enterprises.

Industry has the commercial know-how to bring to fruition Queensland's financial benefits from improvements in Government policy. Regulatory and administrative reforms allow the manufacturing industry to use its commercial expertise to develop industrial growth in the State.

How It Can Be Achieved

Cost-effective transport in Queensland can purposefully be achieved by exposing the industry to competition. It cannot be achieved in a monopolistic environment fettered by subsidies and out-dated practices.

Exposing previously protected transport services to competition will lead to reduced charges to customers and long-term growth in industry and employment.

This competition would also mean reduced income from Government services and job losses in the short term. In some locations, rail transport services would be replaced with road services.

The lack of a clear strategy for intermodal co-ordination provides potential for investment in inappropriate infrastructure. The target of economic viability for transport infrastructure should sit within an intermodai framework of shipping, road and rail.

Industry wishes to work with Government in managing these issues, as part of a longer term strategy of achieving efficient and less costly transportation services in Queensland

Rail

Current Situation

Rail transport in Queensland is characterised by the following:

Queensland Rail owns all rail infrastructure, and owns and operates all trains;

Queensland Rail controls the intermodal interfaces, such as rail freight yards and container transfer facilities;

Queensland Rail has a legislated monopoly position when negotiating freight rates and contract conditions;

Inefficient practices are prolonged and competition is stifled, by subsidised losses in Queensland Rail's general freight business;

Apart from the special purpose coal railways, Queensland Rail is operating with an infrastructure that was designed for a different age. Queensland Rail still provides rail services to locations which may be serviced more cost effectively by road.

In this context, there are significant rail issues which need to be addressed.

Third Party Access To Queensland's Railway Infrastructure

The Queensland Commission of Audit in its June 1996 Report stated:

Queensland Rail has never operated in a truly competitive environment. The existence of competition will provide the greatest incentive for Queensland Rail to contain costs and improve its efficiency in both operational service delivery and asset creation.

It is the recommendation of the Commission of Audit that there be the genuine separation of the provision and maintenance of infrastructure from the provision of transport services, with each being provided by separate commercial providers. This arrangement should be put in place as soon as possible.

The Commonwealth *Competition Policy Reform Act 1995* and the *competition Principles Agreement Act 1995* provide the enabling framework within which private operators may contest the provision of major infrastructure services by incumbent, government owned monopolies like Queensland Rail.

q/a~07 A

CM I F Transportation Policy

However, government-run coal rail services were made exempt from the Acts' third party access provisions for five years. This was done at the insistence of the Queensland Government of the day. The exemption acts like a brake on meaningful coal rail reform in Queensland, and the Government should not invoke the exemption to protect revenue from inflated coal freight rates.

Exposing Queensland Rail To Competition

Until Queensland Rail's monopoly position in above-track business, is challenged by exposure to competition, freight rates are unlikely to be reduced to real commercial or market levels, and monopolistic behaviour will continue.

Larger transport users should be encouraged to call tenders for the provision of their transport requirements, with Queensland Rail being put in the position of having to tender in a competitive environment.

In New Zetland, the monopoly on rail service has been removed and the public corporation has been privatised. Over the period 1983-1993, freight rates decreased by 50% and staff decreased by 80%. Privatization should be a goal of Queensland's competition process.

Valuation Of Queensland Rail Assets

Queensland Rail's assets have been valued at $S,846 million and in the 1995/1996 financial year, return on assets was 9.77%. The book value of these assets reflects the considerable amount of infrastructure funded by industry.

Australian National Railways and Rail Access Corporation in NSW found that customers were not prepared for operators to pass on access charges calculated on infrastructure valuations, which were estimated using methods adopted by Queensland Rail. Customers expect operators to pay a price for access that reflects market affordability, in keeping with road transport.

Because of the approach taken with roads, the cost of much of Australian National's infrastructure has been treated as "sunk cost". The resulting access charges are significantly less than those that Queensland Rail would be required to charge, if a 10% return on its high valuation were expected. The New Zealand model should be considered as a means of achieving a level of valuation, which can produce a reasonable return.

Queensland Rail's infrastructure has been overvalued in comparison with other railway systems. Since freight charges reflect the value of the infrastructure, it is considered that more appropriate valuation techniques should be adopted.

Independent Monitoring Of Transport Infrastructure Charges

The monitoring of Queensland transport infrastructure charges to ensure fairness and to control monopoly pricing, is the responsibility of Queensland Treasury and Queensland Transport.

The Queensland Competition Authority, an independent authority, should be established and made responsible for monitoring pricing to ensure fair charges are set.

Community Service Obligation Payments

A number of Queensland Rail's operations are subsidised by Government through Community Service Obligation payments.

For example, in 1995-96, these payments were:

· Suburban passenger $277 million

· Long distance passenger $49 million

· General freight operations $268 million

· Some branch lines $0.7 million

Since 7.5 million tonnes of freight were hauled that year, the $268 million represented a subsidy of 535/tonne. In total, the payments were $595 million and represented:

a third of Queensland Rail's operating revenue of $1,810 million; and
almost twice the operating profit before tax (equivalent) of $329 million.

There is no satisfactory alternative to suburban rail services. However, cost effective alternatives exist for other subsidised rail services.

Rail Conclusions

Queensland Rail must become more efficient and be exposed to competition, where third party access to the rail infrastructure is available at genuinely competitive rates, by:

Establishing genuine separation of responsibilities for the provision of rail infrastructure and rail transport services to ensure fair and unhindered access to the infrastructure by third party operators;

Rail assets should be written down to their true economic worth taking into account: market affordability; industry funded assets; redundant

and surplus infrastructure; under-utilized assets; and non-economic investment decisions of the past and future;

Investment in transport infrastructure should target economic viability of the operation and fit a total intermodal transport model of shipping, road and rail;

Establishing a truly independent authority to monitor transport charges where there is little or no competition, and to monitor infrastructure access charges to third party operators;

Reviewing policy on Community Service Obligation payments to Queensland Rail, to ensure that they do not ensconce existing inefficiencies, that they do not prevent fair competition and that they do not prohibit more cost effective forms of transport .

Ultimately, there is no good reason for the Government to own the above track operations of Queensland Rail; in fact, there is good reason for privatization of operations.

Shipping

Current Situation

Shipping in Queensland is characterised by the following:

Ship owners and operators comply with Australian (higher than international) standards for labour, health and safety, and the environment;

Large volumes of foreign vessels pass along the Queensland coast with only ballast as cargo, due to Australian cabotage laws;

Competitiveness of Australian shipping falls far short of international standards, because of the cost of crew work conditions;

Seafarers on an Australian vessel are not paid employees of the shipowner or operator, but are effectively employees of their union;

Consideration of the shipping industry cannot be separated from consideration of the supporting infrastructure of the port industry. The problems in these industries mirror each other, and have the same underlying causes;

Reform in shipping and ports is difficult, because of the nature of the entrenched interests in the status quo.

In this context, there are significant shipping issues which need to be addressed.

Cabotage

The current *cabotage* practice which gives right of first refusal to Australian vessels, irrespective of cost, should be removed. Furthermore, the SVP (Single Voyage Permit) and CVP (Continuing Voyage Permit) system is a wholly inadequate means for restoring some element of competitive balance or for enabling long term planning by Australian shippers for shipping domestic cargoes at competitive rates.

Cabotage (Navigation Act 1912, Part 6) greatly limits competition within the coastal shipping industry. As a consequence, shipping costs within Australia are substantially higher for Australian-sourced goods or materials than for foreign-sourced goods shipped directly into Australia

In short, cabotage makes Australian goods and materials less competitive in the Australian market than foreign goods.

Second Register

An Australian second register should be established to provide shipping operators with the means to meet international standards for pay and, most particularly, conditions.

Establishment of a second register provides a middle path between the current unacceptable situation and that of an unregulated open register. It will permit ship owners and operators to reduce greatly the current exorbitant cost of crew work conditions, whilst ensuring that those owners and operators comply with international standards for labour, health and safety, and the environment (standards defined by the international Labour Organisation and the international Maritime Organisation).

In this way, Australian shipping can be competitive with foreign shipping, and the benefits of a more cost-efficient industry will flow on to Australian producers and *manufacturers throughout the national economy. This can all be achieved with a second register which would still be subject to proper national regulatory and government oversight.*

Crew Engagement

The current system of crew engagement should be abolished and replaced with proper company employment.

Under Schedule X of the Maritime Industry Seagoing Award tMlSA), seafarers on an Australian vessel are not paid employees of the shipowner or operator, but are effectively employees of their union. The Maritime Union of Australia controls the allocation and working conditions of all general crew members of a ship, and an employer has no discretion in the hiring of new crew members. It is not permitted to rotate a crew through different ships in a fleet on a needs basis.

One of the more ludicrous outcomes of this system of union-controlled labour pools, is that unemployed seafarers are paid "attendance" money to check the union roster for work. This attendance money is wholly subsidised by the shipping industry "employers".

Indirect Cost Of Crews

Manning levels on Australian ships are comparable with OECD fleet vessels, although high compared with international standards. Reduced manning is not the end in itself; if crew members were multi-skilled, competent and industrious, forming part of a riding squad who move from ship to ship within a fleet, first class shipowners may choose to use large crews for maintenance and reduce dry-dock costs.

It is the indirect cost of labour, in addition to the direct cost (ie. wages), which contributes very substantially to the fact that the Australian coastal shipping industry is so uncompetitive by international standards.

Typically, current manning level practices compel a crew complement of 18, compared to relevant international benchmarks of 12-15. Furthermore, the Australian crew-to-berth ratio is 2.2 compared with an international benchmark of 1.6-1.7.

This disparity is reflected in a paid leave system which is exorbitantly costly. In addition, ship operators are expected to cover the costs of crew travel to and from their assigned ship - from any home location in Australia.

Shipping Conclusions

Aside from concerns in the particular matter of shipping reform, there are wider, strategic issues which need to be resolved. It is fundamental that:

there be an understanding of the importance of the coastal shipping industry as a link in the value chain which determines the international competitiveness of Australian products. If shipping competitiveness failed to be measured by international standards, and were measured instead against some less stringent local standard, then Australian exports would be disadvantaged in the international market-place;

reform on coastal shipping cannot be separated from reform in the supporting infrastructure of the waterfront and tugboat industries. The problems in these industries mirror those in shipping, and have the same underlying causes. The success of any reform in shipping will be critically dependent on identical reform in these industries; and

notwithstanding any legislative reform which has the purpose of freeing up competition in shipping, the waterfront, and the tugboat industry, no progress will be made on developing a world's best practice shipping industry unless State governments, Federal government, and (critically) the industry players are united in their determination to make the reform work in practice. The nature of the entrenched interests in the status quo is such that no single player can drive reform to a successful conclusion.

While shipping is a Commonwealth responsibility, lack of progress means that the Queensland Government needs to influence the Commonwealth Government in the interests of Queensland industry.

Ports

Current Situation

Port operations in Queensland are characterised by the following:

Waterfront productivity and reliability are significantly below international benchmark standard, resulting in service costs significantly above best practice;

Corporatization of Port Authorities in Queensland was an important step toward achieving a commercial focus for this vital business service function;

However, unrealistic valuation of assets has resulted generally in an increase, not a decrease, in charges under corporatization. Also, the current commercial focus is based on monopoly, not competitive, pricing;

The ultimate success in delivering internationally competitive service, performance and costs will depend heavily on how the relevant corporatization model is applied.

For example, Brisbane is the most expensive port in Australia for crude oil imports. Harbour dues equate to $1.12 per tonne for the capacity of the Brisbane oil refineries. Equivalent costs in other Australian ports are: Sydney NSW $0.86; Geelong Vic $0.48; Kwinana WA $0.46; and Stanvac SA $0.08.

Also, some ports are considerably under-utilized and this impacts on costs.

One port has shipping movements of approximately 75 movements per year, ie. an average of 1'/2 vessels per week. The cost of tugs for each shipping

movement varies according to vessel dead weight tonnage but the average is $60,000. This amount is directly impacted by the small number of shipping

movement

In this context, there are significant ports issues which need to be addressed.

Transparent Protocols

The protocols used to determine port asset values and target rates of return, are not transparent. Potential exists for arbitrary change by the administration of the day and for support to under-performing ports and new users by subsidies from profitable ports and established users.

Transparent protocols for the determination of asset values and target rates of return should be introduced, including:

q/q/q7 1 1

a process of user consultation and objective review in addition to Treasury estimations;

commercially based rates, not involving cross-subsidies;

recognition of Government sponsorship of new business entrants to a port, so that existing port users do not bear the initial cost of facility establishment for new users.

Asset Valuation

User charges will be overstated if the asset base on which target revenue is calculated is not appropriate.

Specific provision in asset valuation methodologies should ensure that:

user contributions are valued consistently with asset values from time to time, ie. full recognition is given to direct user contributions and indirect contributions through previous payments of harbour dues and charges;

assets which are not relevant to the provision of current port services, such as land banks for future requirements, are excluded:

assets which are old or under-performing, are valued relevant to their use, rather than based on historical VA/~1P

This situation includes new assets which are not in the interests of port users, particularly duplication of high cost facilities (such as bulk concentrates storage and ship-loading) when existing facilities were adequate and under-utilized;

channels and breakwaters which are long-term non-depreciating assets, are valued at zero, but their relevant on-going capital and maintenance costs are recovered from users;

assets which are providing a community service, rather than being an inherent part of commercial service provision, are excluded from asset values, to avoid subsidisation of community service obligations by commercial users.

International Benchmarking

QMIF Transportation Policy

Queensland Port Authorities tend to focus their competitive assessment on achieving benchmark standards within Australian ports. Consequently, there appears to be a large gap to world best practice port operations, which service many of the industries with which Queensland industry competes.

Port Authorities' commercial focus should be on attaining the best of intemationally internationally operations and costs that will promote sustainable port growth for the benefit of existing users and the establishment of new industries that can access the port infrastructure.

Port Pilotage

The cost of the Queensland port pliotage services seems excessive and does not appear to be based on genuine "cost of service" methods and lacks genuine competition.

Where practicable, competition should be introduced to the provision of port pilotage, as intended for towage. Users should have a say in who provides pilotage. Where ships undertake regular "milk-run" voyages, the need for a pilot at all should be reviewed.

Competition

Corporatization does not appear to have delivered effective competition in port services. The aim should be to make ports more cost-effective and competition should drive restructuring to deliver productivity gains. There is already scope for privatization, for example, in the container terminal business.

Although some parts of some ports have natural monopolies, such as channels and wharves, there are opportunities for competition in the provision of port services, such as cargo handling. Notwithstanding scales of tonnage cost benefits, where practicable, competitive tendering should be introduced for the provision of port services. Privatization should be pursued where viable.

Towage

A typical port in North Queensland has 2 tugs, each with 2 crews of 5 people, ie. 20 employees. It is considered that this is excessive. Labour negotiations are complex because each tug crew involves 3 different maritime unions:

Master Engineer Ratings

Australian Maritime Officers Union Australian Institute of Marine & Power Engineers Maritime Union of Australia.

Maritime award conditions prevail, despite the fact that these employees are not normally required to be away from home overnight unless engaged on night-time towage duties. Employees have the equivalent of 24 weeks leave

per year, including weekends and public holidays. In effect, their actual work time is just over 50% of total time.

Towage is generally a monopoly service at most Queensland ports and towage charges are levied according to vessel dead weight tonnage. These charges are often negotiated direct between the Port Authority and the tug operator.

Where practicable, port users should be able to negotiate towage rates that are optimum for their requirements direct with the service provider. In the large ports, competition for towage operations should be introduced.

Some ports are considerably under-utilized. The combination of the high capital charge with current maritime award conditions results in towage charges that are very high, thus impacting the viability of industrial users.

Coastal shipping reforms need to be extended urgently, so as to amend award conditions for the towage industry and reduce the crewing costs significantly.

Stevedoring

Hourly rates for stevedores are excessive. The average annual salary for most stevedores is $80,000, with the top grade of stevedore earning just under $125,000 per annum.

Idle time in Townsville averages around 17%, ie. one day in six of paid time. (The figure for Cairns is 30%.)

Sunday work (8 hours) is paid at 22.7 hours as follows:

7 hours - normal time 1 hour- overtime 25 mins- inconvenience 15 mins - washing

paid at 24/2 times 17.5 rhs paid at 3'/2 times 3.5 rhs paid at 24/2 times) paid at 2~/2 times) 1.7 rhs

Aggregate 22.7 hrs

Manning requirements for equipment are excessive:

crane 1 up / 1 down ie. 2 drivers per crane loaders 3 drivers for 2 loaders excavators 3 drivers for 1 excavator (including 1 look-out when working in ship's hold).

There is very little flexibility for ordering of labour to cope with shipping changes; rosters for Saturday, Sunday and, if a public holiday, Monday (to 8:00 am Tuesday) must be declared on Friday afternoon. It is often difficult to forecast requirements so far ahead - arrival times, cargo loading rosters etc.

Consequently, a crane driver working on Sunday would receive 22.7 hours pay for 8 hours of actual work. In addition, this employee would have been rostered for the Sunday work on the Friday afternoon. If the ship were delayed and were not available for work on Sunday, the employee is still paid for 22.7 hours, even though there may be no work done at all. This situation has arisen on several occasions during the past three years.

Stevedores will not work in the rain and there are excessive numbers of people on each of the gangs. In addition, labour shortages are encountered which reflect on "idle time" payments, ie. the guarantee that is required to be paid for a period even if work is not available.

The exclusivity of the arrangements restricts the flexibility of the organisation. No employees apart from those in a union can be utilized. There is no opportunity to change conditions locally unless the national union is involved.

Stevedoring practices and costs are out of line with international best practice standards due to the following impediments:

Hourly rates for waterfront labour are excessive;

- Waterfront award conditions are not flexible;

Manpower productivity and capital utilisation levels are poor, particularly at container ports;

Exclusivity of national union coverage.

Industrial relations reforms are needed to remove the monopoly power that exists in the waterfront labour market, thus allowing local stevedoring firms to negotiate meaningful agreements with their workforces. These agreements should include performance incentives that are commercially driven and no strike clauses in order to increase reliability of service.

Ports Conclusions

Queensland Ports must become more efficient through administrate and regulatory reform:

9/9/97

QMIF

Transportation Pol

Corporatization has failed, due to over-valuation and monopoly pricing;

Transparent protocols for the determination of asset values and target rates of retum are needed;

Port Authorities must actively seek to meet international benchmarks;

Competition and selective privatization are needed wherever practicable, including port pilotage, port services, towage operations and the labour market;

Waterfront and shipping labour reforms are needed to address reliability of service and crewing costs.

The drive for reform has become stalled because port operators can pass through charges to users. Private directors on port boards would cause management to improve performance. In New Zealand, the ports were privatised to carry through change.

For further information:

Mr J F Babon Chairman Queensland Manufacturing Industry Forum c/- Incitec Ltd PO Box 140 Morningside Qld 4170 Tel: 07 3867 9303 Fax: 07 3867 9316

9/9/97