THE MARITIME UNIONS SUBMISSION TO REVIEW OF NATIONAL COMPETITION POLICY REFORMS.

By the Maritime Union of Australia and the Australian Institute of Marine and Power Engineers

National development takes place when additional goods and services are produced. Value is added and GDP increased by production which better meets the needs of consumers both overseas and in Australia.

By its nature, value is added in particular places. It is customary to under-rate the contribution which an efficient geographic pattern of production can make to the meeting of consumers' needs and likewise to under-rate the contribution of the transport industries to the creation and maintenance of locations for profitable production. Ideally, investors in the production of goods and services should be able to make their location decisions based on secure projections of the availability and cost of reliable transport services; and transport investments should be neutral between modes. There should be an emphasis on investments which support locations with high potential for profitable production. Ideally, Australia would develop its regions so that each region specialises to its competitive advantage, and the regions are connected by transport systems which fully exploit the competitive advantages of each mode.

As part of overall national development policy, the MUA strongly endorses the principle of neutrality between modes. It believes that coastal shipping has much to offer, and supports patterns of regional development which take advantage of the low cost and good safety record of sea transport. A modally-neutral transport policy will utilise these advantages of shipping, just as it will utilise the advantages of the other modes. The MUA regrets the omission of shipping from AusLink and from the responsibilities of the National Transport Commission, and believes that there is room for much better integration of transport and regional development policy.

Coastal shipping is a competitive industry. New entrants to the market face no major barriers, since capital costs can be minimised by chartering existing vessels. As the Draft Report on National Competition Policy notes, port finances have been reformed, though the intermodal connectivity on which much coastal shipping depends is still far from ideal.

The MUA, however, challenges the Commission's statement that 'the majority of coastal shipping is still carried by Australian-registered vessels at freight rates which are very high by international standards. Such high rates inevitably deter some otherwise efficient use of coastal shipping.' The implication is that the Commission believes that additional use of overseas-registered vessels would benefit Australia. We note that this remark is not the product of detailed investigation. It pre-judges the issue, and for this reason should not be included in the report.

One group of reasons why the remark should be deleted is that the difference in freight rates is easily overestimated.

- Rates quoted by non-Australian vessels vary according to the state of the international shipping industry. Rates should be calculated as those on which shippers can rely in the long term.
- Some of the difference in rates is due to Australian taxes which are not paid by overseas competitors. Calculation of national benefit should be adjusted for differences in tax revenue.
- Environmental costs inflicted on Australian coastal waters by overseas-registered vessels, particularly those flying flags of convenience, increase their costs to the Australian community while allowing overseas-registered vessels to quote cheaper freight rates. The environmental and safety record of Australian-registered vessels is considerably better due to stringent registration requirements, which add to the costs reflected in freight rates.
- Australian vessels are obliged to meet Australian occupational health and safety requirements comply with workers compensation and superannuation standards and meet PAYE taxation levels. (these disparities were listed in the IRAS report 2003)
- As with all proposals for increased import competition, the argument is only valid to the extent that costs are compared using an exchange rate which is sustainable long-term. Freight rate comparisons using an over-valued exchange rate will over-state long-term domestic costs and discourage investment in Australian shipping. It is our contention that the AUD is approximately 30% over-valued in relation to the trade-weighted index. The evidence for this lies in the balance of payments deficit, including the fact that the overseas lending which is financing the deficit is not being applied to investment in productive business, but rather to the accumulation of consumer debt.

Second, we question the competitive neutrality of introducing import competition in the shipping sector but not in air, road and rail transport. Unlike most goods and services, where import competition involves production overseas with the resulting good or service being transported to Australia, import competition in shipping (and potentially in air transport) involves bringing the complete productive plant to Australia, including labour. The MUA is puzzled why this should be the Commission’s implied preference for shipping, but is not even mentioned as a possibility in air transport, despite the fact that aircraft and their crews are even more mobile internationally than ships. Similarly, import competition is not mentioned for land transport, presumably because visa and equipment registration requirements prevent it. Our view is that these restrictions should also apply to shipping.

Not only are such restrictions required for competitive neutrality vis a vis air and land transport; they also have considerable national security benefits. These include the following.

- Minimisation of the involvement of rogue ships and crews in Australian trade, with attendant risks of smuggling, immigration breaches and terrorism.
- Maintenance of a reserve of both vessels and crews for naval purposes.

Needless to say these arguments have increased in importance over the past few years. It is accepted that, in addition to its long-standing attraction for drug smugglers, Australia is now a terrorist target. Again, views have been revised as to the stability of governments to Australia's near north and in the Pacific, which raises the probability that the merchant navy will be called upon to assist with military transport as was the case in the East Timor conflict in 1999/2000. We note that, in response to the changed international climate, the USA is strengthening its cabotage requirements, and suggest that the Australian government should follow suit. At the very least, a cost-benefit analysis of increased imports of coastal shipping services should include debits for increased risks, including the risk that allied shipping will not be available when required for naval use.

Finally, like the Commission, we note that increasing use is being made of single-voyage and continuous voyage permits to increase import competition in Australian coastal shipping. We agree with Sharp and Morris that inconsistencies and a lack of transparency in this process is deterring investment in the industry, and further reducing its competitiveness. We believe that this practice is exceedingly short-sighted.

In view of the importance of a steady national transport policy for the efficiency of location decisions, we strongly support a review of long-distance freight transport to establish modal neutrality and underpin investment. This is essential to establish an efficient geographic pattern of national development. By contrast, a narrow review of Part VI of the Navigation Act, or even a review of coastal shipping, would not be broad enough to cover the very important dynamics of modal competition and transport investment, and their subtle relationships with regional development. A broad approach is required to generate a rational approach to long-distance domestic freight transport, of which coastal shipping is an essential part.