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**PRODUCTIVITY COMMISSION**

**INQUIRY INTO TASMANIAN SHIPPING AND FREIGHT**

**MS K. CHESTER, Presiding Commissioner**

**MR D. QUINLIVAN, Head of Office**

**TRANSCRIPT OF PROCEEDINGS**

**AT MELBOURNE ON MONDAY, 3 FEBRUARY 2014, AT 10.58 AM**

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**MS CHESTER:** Good morning. Welcome to the public hearings for the Productivity Commission inquiry into Tasmanian Shipping and Freight, including the current arrangements for supporting freight and passenger services between the mainland and Tasmania. My name is Karen Chester and I'm the presiding commissioner on this inquiry. I'm joined by my colleague Daryl Quinlivan, head of office for the Productivity Commission. At the outset I just wanted to say, and for the record, I wanted to thank the inquiry participants for both the timeliness and the overall quality of their initial submissions that they've presented to date, of which we've received over 60. I think we are all very conscious of the relative time frame for this inquiry and we very much appreciate those submissions being made available prior to Christmas.

The purpose of this round of hearings is to facilitate public scrutiny of the Commission's work and to get comment and feedback on our draft report which we released on 24 January. Following this hearing in Melbourne, hearings will also be held in Hobart, Launceston and Canberra. We will then be working towards completing a final report which we'll deliver to the government on 7 March, having considered all the evidence presented at the hearings and in submissions, as well as other informal discussions that we're having. We look forward to the provision of final and supplementary submissions from inquiry participants which are due by 7 February.

The final report will be available once released by the government which under the legislation may be up to 25 parliamentary sitting days after completion. I just wanted to say at the outset as well that we like to conduct the hearings in a reasonably informal manner but I do remind all participants that a full transcript is being taken and for this reason comments from the floor cannot be taken but at the end of today's proceedings I'll provide an opportunity for any persons wishing to do so to make a brief presentation.

I don't think we have any media in the room today, so I don't need to remind them, but if there are any media, they should make themselves known to commission staff and please also ensure that you have read through our facts sheet for media representatives attending public hearings which is available just outside.

Participants are not required to take an oath but they should be truthful in their remarks and participants are welcome to comment on the issues raised and the submissions made by other inquiry participants. The transcript taken from our public hearings will be made available to all participants and it will be available from the Commission's web site following the hearing. Public submissions are also available on our web site.

To comply with the requirements of Commonwealth occupational health and

safety legislation and good old commonsense, you are advised that in the unlikely event of an emergency today requiring the evacuation of this building, you should follow the green exit signs to the nearest stairwells. Lifts are not to be used and please follow the instructions of floor wardens at all times. If you believe you would not be able to walk down the stairs, it's important that you advise the wardens, who will make alternative arrangements for you and unless otherwise advised, the assembly point for the Commission in Melbourne is at Suncourt Plaza, 447 Collins Street between William and Queen Streets.

I would now like to welcome to the hearing our first participants, Teresa Lloyd and Angela Gillham from the Australian Shipowners Association, if they would like to just join us up at the table to the right here. Good morning. Could you please just state your name, title and organisation and if you could each do it individually for the record and for the recorder.

**MS LLOYD (ASA):** Teresa Lloyd, executive director, the Australian Shipowners Association.

**MS GILLHAM (ASA):** Angela Gillham, manager, industry operations and environment, the Australian Shipowners Association.

**MS CHESTER:** Thank you and thank you for your initial submission. I think at this point, I would just like to open up to see if you would like to make any opening statement.

**MS LLOYD (ASA):** Thank you. Very quickly, I am heading on maternity leave as this afternoon and Angela will be acting in my role. It's just a little bit more background about who we are.

**MS CHESTER:** Thank you.

**MS LLOYD (ASA):** Our initial comments really I will confine to the recommendation we are particularly interested in, which is the first recommendation, which is broadly supported. The government has already made indications they will be conducting a review into the entirety of the Coastal Shipping Act and we look forward to that review being undertaken as soon as possible.

**MS CHESTER:** Thank you very much. We might turn to that first recommendation and talk a little bit about some of the issues that you have raised in relation to that in your submission. We noted that there are a number of concerns that you raised regarding the changes to the Fair Work Act and the Coastal Trading Act and certainly in our draft report, we cite some evidence that we have received during the inquiry process on the implications for shipping costs. Have you received any further evidence that you could draw to our attention or share in this public hearing process on the costs of those changes to shipping across the Bass Strait and more broadly?

**MS LLOYD (ASA):** Sure. I think there are a couple of things first of all that we would like to make quite clear and that's that there were a number of regulatory reforms in the 2012 package concerning shipping. Coastal trading was one of them and the taxation measures and the registration requirements are completely literally exclusive to the coastal trading changes. There is commentary in the report about both the taxation measures and the registration requirements that imply or could give the sense that they were created only with coastal trading in mind and that is absolutely not the case, so it would be good if we could explore how to separate those two issues out and that the coastal trading measures are discussed on their merits and exclusive to those other issues.

With regard to the actual costs of the changes to the Coastal Trading Act and the Fair Work Regulations, which are again two distinct issues, they came up at different points in time and the Fair Work Regulations were implemented earlier than the Coastal Trading Act and they were a part of the old regime under the Navigation Act. They have resulted in increases in costs for ships that were undertaking then permit voyages, now temporary licence voyages, on multiple occasions. The degree of the magnitude of those costs, however, is something that is very difficult to put a figure on and we note within the report and some of the submissions that have been made that there's some estimations around what that might be. They may be correct in some circumstances but they are not correct in all circumstances and it very much depends on how long the ship is spending in coastal trade, what the make-up of the crew is, how much overtime they are working anyway. There's a whole range of factors that build on what cost actually is. Whether it's material or not, it would be very much determined on a ship by ship, voyage by voyage basis.

**MS CHESTER:** One of the important components that we thought with respect to the Fair Work Regulations and the CTA was the assumed productivity improvement, the compact with the maritime unions of Australia. It would be good to get some insight from you if you have seen any evidence of that to date since those legislative changes were made.

**MS LLOYD (ASA):** Of course, I have had nothing to do with the Fair Work Regs. The Fair Work Regs were implemented well in advance of the Coastal Trading Act, so the productivity compact was part of the arrangements that were to assist the Australian industry, reduce their operating costs. We have often said you don't make an Australian ship more competitive by making the foreign ship more expensive, which is effectively what the Fair Work Regs do. In order to make the Australian ship more competitive, there has been a compact that has been reached with the unions. It contains all of the elements that have been identified in arrears in terms of a review of crew numbers, a review of safe manning requirements, a review of work practices. They are to be implemented on enterprise by enterprise basis, on a ship by ship basis.

We do note there's a comment in the report that talks about an expectation that there would be - I can't remember the exact words - something like a substantial crew reduction. That was never going to happen. That was never something that was put to the industry as being required. The Australian industry already operates very, very low crew numbers, so any further crew reductions were going to be modest at best and they were certainly going to be very specific to ship by ship operations if and where that was actually even acceptable.

**MS CHESTER:** So what were your expectations in terms of the scope and the magnitude of the productivity improvements that were meant to be part of that compact?

**MS LLOYD (ASA):** I think in terms of - well, expectation is one thing and what's able to be delivered is another but I think the compact did address all of the issues that it was asked to deliver in terms of operating practices, the inclusion of riding gangs, for instance, the ability to - and for that to have some impact in terms of the maintenance bill that ships so often are being met with in a periodic basis and again, it will take time for those things to be delivered and for the benefits to be seen. The Australian industry has always been a very high cost industry from a labour point of view and there is nothing in the compact that allows - we can't just pull Australians off and put foreigners on, for instance. That's not something that's legislatively supported, so in terms of being able to make productivity gains, the compact addresses all the issues that it could possibly could and how it's being delivered is really up to an enterprise by enterprise level.

**MS CHESTER:** And is this compact recorded in a written document?

**MS LLOYD (ASA):** It is, yes. The Department of Infrastructure certainly has a copy. It's widely available.

**MS CHESTER:** But as you rightly point out, it's within the other current regulatory arrangements that are in place as impact coastal shipping in Australia today.

**MS LLOYD (ASA):** Yes.

**MS CHESTER:** And thus your organisation is looking towards the government announced review of those arrangements.

**MS LLOYD (ASA):** Well, we think so. The arrangements were put in place in mid-2012, as we all know. They were - they codified what was currently happening and what was previously happening under the old Navigation Act. There was a number of administrative changes, a large number of administrative changes, and there is absolutely no doubt that there's room for improvement in any new piece of legislation that's had, I guess, such a broad‑reaching effect, so our submission to this inquiry and certainly will be to the Department of Infrastructure's inquiry when they start it, will be where we see that there's room for improvement and where the act could overcome some of the regulatory burden issues that have been rightly identified.

**MS CHESTER:** So does the ASA have a view today in terms of the scope of that further review?

**MS LLOYD (ASA):** Inasmuch as it should address the Coastal Trading Act?

**MS CHESTER:** Yes.

**MS LLOYD (ASA):** Yes. Well, we don't think it needs to go any further than that. We don't think it needs to review the Tax or the Shipping Registration Acts. They are separate. They are there for separate reasons. The Coastal Trading Act I think should be open for full review. We might step back a moment, focus a little more just on the Bass Strait trade and shipping across there.

M**S CHESTER:** There has been discussion that some of the existing shipping lines covering the Bass Strait are looking at some new vessel acquisitions, which might affect competition. Do you have a view on what the extra capacity may mean for the competitiveness and the dynamics of shipping across the Bass Strait?

**MS LLOYD (ASA):** I'm not sure how it would affect competition inasmuch as there is three competitors there now, if we're talking purely about the containerised trade and the trailer trade as opposed to bulk, which are two very different issues. There's competition there now with three operators and, yes, all three are, as I understand it, reviewing their tonnage and their capacity. One assumes that with more efficient vessels and higher levels of capacity, that will potentially increase the level of competition, because they won't be maxed out, as it were, at any point in time, and therefore the shippers would have a variety of choice at all times. They wouldn't be required, just by circumstances, to use one or other, but at the moment having three operators, and that's where the Tasmanian, or the Bass Strait, rather, is quite unique; it is the only coastal trade in this country that has domestic competition, and it has it in droves in that there's three operators there.

**MS CHESTER:** Thank you. So what's your sense of the competitiveness of the shipping trade across the Bass Strait. We did in our report point to some evidence provided by the ACCC that they sort of described it as thin competition, given the volumes and the three incumbent players?

**MS LLOYD (ASA)**: I think I described it as a thin market as opposed to a thin competition, and trade volumes are always going to be the issue, I think. Tasmania is almost like a hinterland, it's like Mildura or Orange or any of those other inland areas within the mainland, and a product needs to get to the major ports in order to be shipped; so from that point of view, having three operators there able to move goods, I think there has probably been a level of everybody has got used to what has always been in terms of the ports that are being used and the carriers that are using the different ports but, certainly, to suggest that there is not a level of competition there because there's three operators just wouldn't seem to make sense. Three operators is a significant amount of competition, particularly in short sea shipping.

**MR QUINLIVAN**: Can I just - you said before that you thought the addition of new capacity on this market would lead to increased competition. Is that typically the experience in shipping services where, when there's excess capacity there is extra competition on prices. Is it a close relationship between excess capacity and a market and price competition?

**MS LLOYD (ASA)**: I would have thought it's got more to do with just those peak periods. At the moment there's a couple of very short peak periods that occur when the operators are operating at capacity, and during those peak periods if they are no longer at capacity, then presumably it's going to be easier for interests to get their cargo carried by any one of a number, as opposed to, "Sorry, I'm sold out," effectively, "this week". So it would follow that extra capacity would lead to perhaps more demand in terms of what shippers might have available to them.

**MR QUINLIVAN**: In peak periods, but if I understand what you're saying, there's already spare capacity at other times of the year or other times of the week, and therefore extra capacity is not going to make that much difference?

**MS LLOYD (ASA)**: I suspect more generally there's a whole business relationship, it's about quality, it's service, it's where you're moving from, where you're moving to, what a long-term arrangement might be, all those things would come into it over and above a straight capacity issue. If all three have capacity, then there's going to be a range of factors that will determine whether it's a competitive advantage or not and, presumably, price is one of them, and it may well come down.

**MS CHESTER**: In terms of the competitive dynamic across those three current incumbents, we make much commentary in the report around TT-Line being owned by the Tasmanian government. What are your views and thoughts on the implications that that may have for the competitive dynamic, but also the investment decisions of the other two privately owned shipping companies?

**MS LLOYD (ASA)**: We don't really have a view on that is the short answer. I think the other two commercial operators are there, they are running a business, they will make decisions with the current arrangements as they stand. They understand the market far better than I would. I'm not here to comment on their individual businesses. If they think that there's a business there, then they will run their business, so I'm not in a position to comment really.

**MS CHESTER**: Are you aware of any other examples globally where there's sort of government owned shipping lines competing against other commercial operators?

**MS LLOYD (ASA)**: No. There's not to say there's not, I'm just not aware.

**MS CHESTER**: Thank you. One of the issues that we have been working through is there has been a material change over the last sort of five to seven years in the economics of shipping globally with the size of ships and the volumes required for commercially sustainable routes to be maintained. One of the issues with respect to Tasmania with the exit of the regular international container shipping service back in 2011 was what are the factors that contributed to that, but then what are the factors that are existent today? The report and based on submissions that we received look at several issues there in terms of the volumes and the volatility of volumes, and I'm talking about containerised freight here, and the geography of the ports and the fact that it's a fragmented freight task across the two or three northern ports. Are you able to provide some views and insights in terms of what might be required to have a commercially sustainable international shipping service return to Tasmania?

**MS LLOYD (ASA)**: I think, very briefly, generally speaking there is just not going to be enough freight there to warrant it. As the report points out, and as you have just said, the trend is for bigger ships, hubbing at major ports and being fed by feeder services, that's a global trend, and there's absolutely no doubt about it. Capital city ports are likely to be bypassed, much less smaller regional ports. That is the global trend and it's only going to continue. It's hard to imagine the circumstances in which the Tasmanian freight task would warrant, if you like, an international ship calling on a regular basis. I think the best - it's not a good scenario at all, but a possible scenario would be if international ships did begin calling again on an ad hoc basis.

Over periods of time, there has been a lot of criticism levelled at some of the international container lines committing to take coastal cargo. They are making their profit through their international cargo, that's why they are here. They pick up coastal cargo when it suits, and there has been a lot of criticism levelled in the past that cargo has been left on the wharf at the last moment because the ship was no longer able to take it; and so the Australian freight interest then has been left trying to move a parcel of cargo that was supposed to have been picked up and wasn't. I think one of the real risks that Tasmania would run, if it was so reliant on such a service, is exactly that happening, thinking the ship was going to come and then, for whatever reason, the schedule, not actually adhering to it.

Furthermore, if we ended up without the dedicated vessels that are there week in, week out, it's very possible that over time we may end up with, yes, an international ship calling when it sort of felt like it. The idea that we would get competition within the international market, that multiple internationals would call at Tasmania on a regular enough basis, for that to provide competition is something that I think is very, very - I'm sceptical that would actually happen. If we didn't have the domestic ships doing that task, would we in fact end up with three or four internationals competing, because we probably wouldn't. They would come at different times, they would come on different schedules, so they wouldn't be competing with each other, and then all competition might be lost.

I think that's a very real scenario if the Australian ships were actually either forced out of the market, because some of their market was taken away, or if there's a reliance on the foreign ships to do that work.

**MS CHESTER**: You raised the point about dedicated service. We did receive some evidence in many of the submissions from the shippers based in Tasmania that they view the shipping service as high quality but high cost, and I think that there was even a high percentage that actually said that they would be happier to have a lower frequency, lower cost service. What do you see some of the obstacles for the market providing that service to those customers?

**MS LLOYD (ASA)**: It's like any market really, isn't it? I would prefer many things in my life to be cheaper, but I understand that there has to actually be a certainty there, and for that business to operate there's a need for continuity in income and all those things for that business, so it's a bit hard to say. I mean, we can all lament the high cost of anything Australian. It's as simple as that. Most businesses could operate cheaper if they were operated from a foreign place. Shipping is no different, so in terms of providing a less frequent service, the companies still have to cover their capital. They still have to have a workforce. They still have to meet all their costs and perhaps provide a less frequent - I'm not sure what less high quality actually means. I don't think any of us would be suggesting we want a less high quality service.

**MS CHESTER:** No. I think the reference was to, I guess, the timing and the frequency, and with that might come a lower cost, and I guess it comes back to the issue of whether or not the current shipping lines are offering, you know, a different shaped service to different customers to meet their needs

**MS LLOYD (ASA):** Really it's down to the business models of the companies and their customers, and I'm not sure that there's a structural issue there. That's absolutely something for companies that are providing services and their customers to sort out amongst themselves. It doesn't seem to be a function of structure of the industry that's driven that, except that ultimately those businesses have a base cost and they need to cover them.

**MS CHESTER:** Okay. We might just return again in a little bit to the coastal shipping issue and the mooted review. From your organisation's perspective, what are some of the competitive forces that you think a review of the regulatory arrangements as they currently are in place and with the CTA - what are some of the examples that you would give of some of the competitive forces that you think might help lower the cost structures for your members today?

**MS LLOYD (ASA):** I'm not sure it's about competitive forces, and I'm not sure it's about lowering cost. I think what it's about doing is reviewing the regulatory burden that has been imposed by the Coastal Trading Act, and there's certainly some areas for improvement there, in our submission, with regard to the five voyages and expediting applications, those kinds of arrangements. With that in place we are quite sure a lot of the red tape burden, as it's been tagged, would disappear overnight if we got rid of the five voyages.

There are fundamental issues with a cabotage arrangement. It existed under the Navigation Act. It exists under the Coastal Trading Act. The tensions are absolutely no different than what they were before, and I think that's the key point we would like to make about the Coastal Trading Act. The competitive tension is absolutely identical. In many regards the Coastal Trading Act has made it more liberal for foreign ships to have access to the coast. The tolerances around what they need to do have been widened. There used to be a three-day window. It's now a five-day window. There used to be a 10 per cent cargo tolerance; it's 20 per cent.

The Coastal Trading Act has made it more liberal, if anything, for foreign ships to access the coastal trade than what it was under the previous Navigation Act. Other parts of the process have codified what used to happen. There are now time frames that are actually written down whereas before they weren't, and it would be up to the department how long certain processes would take and what information might be required.

There's an appeals process built in now, and the tension always in the coastal trading regime, be it under the old Navigation Act or under the new Coastal Trading Act, has been when it comes down to a commercial term. There is an Australian ship available. The cargo interest would prefer not to use it. They would prefer to use a market ship, and there is always going to be a cost differential between the two because the Australian ship needs to wear Australian costs. How that is then resolved and determined has always been an issue. It's been an issue for the last 15 years and it's still an issue today. The issue is no different, and it's not really being handled any differently. It was handled by the department making decisions in the past.

The best example was the case with Stolt Australia v CSR. The decision went in favour of the cargo interest, and the Australian ship left the coast and has never returned. The situation is no different now. We have another situation where a determination has been made, the parties are both aggrieved and it's in court. That is the competitive tension that exists now. It existed in the past and it's unchanged under the new act. So how we go about resolving that is something that we would really like to talk about when the department opens the Coastal Trading Act up for review, and that's something that we think is important to have addressed.

**MR QUINLIVAN:** Can I just clarify something? It's clear that you are saying there can be simplified administrative processes; that's the regulatory burden you are talking about, but you also said that the 2012 arrangements codified previous practices. Are you saying as well that those practices should be changed or are you just saying the administration of these arrangements could be simplified?

**MS LLOYD (ASA):** I think I'm saying that the administration of them can be simplified and that in some cases they could be changed and they could be changed for the overall benefit. No-one is benefiting at the moment from perhaps a layer of bureaucracy that's unnecessary.

**MS CHESTER:** You touched on before the issue of the tax changes that were embodied as well. Are you able to talk us through any evidence that you've got based on your members in terms of the impact that those tax changes have had, say, on any investment decisions that they are looking to make?

**MS LLOYD (ASA):** It has had impact in terms of investment decisions. I will start by saying the report makes commentary about what the taxation measures were going to cost the economy based on figures that were put out by Treasury, at the same time as reviewing, say, what the regulatory impact statement said. In terms of what the productivity gain was going to be I think it would be quite beneficial for a review to be done now on both sides of that ledger. Is what the Tax Office said it was going to cost the economy actually what it's costing, as well as productivity gains that we are getting, actually what we're getting.

We felt at the time that those figures were over-estimated and we believe now that they are. If our industry was paying 50 million in tax a year, we would actually have an industry and, frankly, we don't. So those figures are hard to understand, where they've come from. The way the tax arrangements ended up as part of the package means that they are not as attractive as we had hoped they might be, and as a result very few owners and operators are actually able to use them or are interested in using them. Where they have had impact is in, for a couple of cases, certainly their investment activity. It had made the banks much more interested in talking to companies about their finances and investment decisions that they're making, because it provides a certain platform for those handful of operators and owners that can take advantage of them to actually do so in an investment arrangement.

The biggest flaw in the tax arrangements is that the profits cannot be distributed to the shareholders and anyone who knows anything about business, it's about getting a profit to your shareholder. They can be distributed but then the full tax rate applies, so it's a tax deferral that the industry has been given, not a tax exemption. Certainly that tax deferral is very helpful for a new investment in that what it means is that for the period of time where the ship has been depreciated anyway, where's it a book value issue, it actually has huge benefits to the company and certainly in terms of attracting finance, which is obviously quite difficult at the moment with the world-wide market; the local financiers have been very interested as a result of those reforms.

**MS CHESTER:** You mentioned the accelerated appreciation has helped in accessing finance. Do you have any evidence or any examples that you can give us of where it has resulted in a bring forward of capital investment?

**MS LLOYD (ASA):** No, only that there's a couple that are in train, but as far as I'm aware, no-one has signed a contract for a new ship yet.

**MS CHESTER:** Okay.

**MR QUINLIVAN:** Just going back to the discussion earlier about the probability of international services and direct to Tasmania, one of our proposals is to have an arrangements that applies to all traffic across Bass Strait irrespective of the final destination. So one question that arises is this: is that a plausible assumption for policy advisers to make, whether all traffic effectively is going to transit via the port of Melbourne?

**MS LLOYD (ASA):** Sorry, I don't follow the ‑ ‑ ‑

**MR QUINLIVAN:** We raised the possibility, because it had been proposed by quite a few people, that exports via the port of Melbourne should become eligible for the scheme; currently they are not. So the question arises, treating all traffic across Bass Strait to the port of Melbourne, irrespective of where it goes, whether that is a reliable basis for a policy because, of course, if it were likely that there was an alternative route to export markets, then the case for that would be weakened.

**MS LLOYD (ASA):** It seems to make perfect sense to me inasmuch as if the whole intent was an equalisation scheme, the same as if the government could build a road, they might have built a road and therefore that freight, be it for export market eventually or domestic market, would be travelling on, if you like, a public-built road, then an export cargo that's put on a ship should be treated the same as a domestic cargo that's put on a ship to get to the port in order to get to its market; so that would seem to make perfect sense that there shouldn't be any distinction between the two.

**MR QUINLIVAN**: The practical question I suppose I'm asking is whether that would undermine the viability of an export, direct export service, if indeed one existed.

**MS LLOYD (ASA)**: It's hypothetical, isn't it? It's hard to see how it would undermine it to the point where it would stop it being a viable proposition if it was viable in its own right anyway. If someone was going to do it, I daresay they would do it. There's always going to be an additional cost of a trans‑shipment at another port, so whether or not the equalisation scheme would completely wipe out those extra costs I guess is a question, but given that the report itself says it's unlikely that anyone is going to enter that market, I would have thought that it's perhaps not to anyone's detriment.

**MR QUINLIVAN**: We were in part relying on advice from yourselves and others who have said that to us. We weren't really making an independent judgment there, just judging the balance of evidence that we have received.

**MS LLOYD (ASA)**: I think the key thing there is we have never had anyone tell us that they would re-enter the marked. In fact we have had international operators say they wouldn't; they just can't envisage the circumstances in which they would, and one would; assume that, given such an inquiry, if there was someone out there interested they would have come forward and said they were interested. That's all I can say really.

**MS CHESTER**: Apart from volumes, what are the other reasons have they cited in terms of not wishing to re‑enter international shipping services to Tasmania?

**MS LLOYD (ASA)**: Only that issue that we talked about right at the beginning about that overall structure, and that's the idea of hubbing larger ships, fewer port calls at major ports and then shuttle ships doing the rest, so it's that whole structural change and issues that has been raised with us.

**MR QUINLIVAN**: So that would have implications both for the role of the port of Melbourne and the Bass Strait services, but potentially also the structure of the ports in Tasmania as well in the longer term?

**MS LLOYD (ASA)**: It would, if we ever thought that the ports in Tasmania would ever form a major enough port. I mean, you could say that if all the cargo was going through a single port, then it might make it more attractive, and it might, but I guess what I'm hearing is it wouldn't matter, that single port still would not be big enough to make that attractive.

**MS CHESTER**: Do you have a view on what the minimum volumes might be to make a single port?

**MS LLOYD (ASA)**: No, I don't, but I'm sure some of the line operators do. They have not told me what that would be.

**MS CHESTER**: Thank you. Thank you very much for your participation today and for answering our questions and sharing some further views. Is there anything else that you would like to say?

**MS LLOYD (ASA)**: There are actually a number of what we would consider to be areas of misunderstandings in the report, particularly in appendix C, and the way the Coastal Trading Act has come about and some of the implications, and certainly some of the technicalities around that.

**MS CHESTER**: Would you be happy to provide that to us in a supplementary or a follow-up submission?

**MS LLOYD (ASA)**: Yes, we are happy to provide that to you outside of session, if that's how you would like that to be provided.

**MS CHESTER**: I think that would be very helpful.

**MR QUINLIVAN**: Sure.

**MS CHESTER**: We would appreciate that.

**MS LLOYD (ASA)**: Okay. I think the only other comment we would make is that the Department of Infrastructure has made a submission to the inquiry and it has been picked up in here, where it talks about - and this is coastal trading generally, not Tasmania specific. They're saying that they cannot identify that the new Coastal Trading Act is actually responsible for many of the things it is being blamed for - my words, not theirs, but effectively what they're saying. I think one thing we would stress is that that is a very well‑founded opinion in our opinion. They understood very clearly what was going on before the Coastal Trading Act was put in place. They have kept close tabs on what is happening since.

There is a lot of criticism. Whether or not all the criticism is justified with regard to the Coastal Trading Act or not I think is very important to be able to sift the reality from the perception. It's not to say there's not issues out there, but the issues were already out there; they're not new and they're not because of the Coastal Trading Act. As far as the report goes, where those sorts of things are mentioned, we would like to see weight given to the Department of Infrastructure's view that that's not in fact the case. That's our overriding read of that issue.

**MS CHESTER**: Thank you very much.

**MS LLOYD (ASA)**: Thank you.

**MS CHESTER**: I would like to now call up our next participants and that would be the Institute of Public Affairs, Aaron Lane.

**MR LANE (IPA)**: Good morning, commissioners.

**MS CHESTER**: Good morning. Thank you very much for attending today.

**MR LANE (IPA)**: My pleasure.

**MS CHESTER**: And for the notes that your organisation provided to us last week. I understand there may be another submission you have to share with us?

**MR LANE (IPA)**: I have prepared a written submission. I'm happy to pass it forward.

**MS CHESTER**: First, if I could just get you for the recording to state your name and the organisation you're representing.

**MR LANE (IPA)**: Certainly. Aaron Lane on behalf of the Institute of Public Affairs.

**MS CHESTER**: Thank you. Would you like to make an opening statement?

**MR LANE (IPA)**: Certainly. I'll start by outlining just very briefly our organisation. The Institute of Public Affairs is an independent non‑profit public policy think tank, dedicated to preserving and strengthening the foundations of economic and political freedom in Australia. Since 1943 the Institute of Public Affairs has been at the forefront of political and policy debate. The IPA is funded by individual members and subscriptions as well as philanthropic and corporate donors. My background is an Australian legal practitioner and I hold degrees in law and economics and a master of arts.

We have had the benefit of reviewing the draft report of the Commission. The background and the IPA's interest in particular in this report is in the coastal shipping and I will confine remarks today just in terms of that coastal shipping. The IPA released a report in December entitled Coastal Shipping Reform, Industry Saviour or Regulatory Nightmare? The draft report makes a number of findings and draft recommendations in relation to coastal shipping. We feel that the report may be useful for the Commission. We accept that this is an opportunity to provide comment in relation to the draft report and not to sort of reagitate proceedings. We will provide that report to the Commission if they find it useful and, as I said, we will confine remarks today just in relation to the draft report.

The IPA's report examines coastal shipping reforms that took place in 2012 and obviously, as the Commission is aware, those reforms came on top of the Fair Work Act that imposed essentially Australian industrial relations law on foreign registered and foreign crewed vessels operating amongst that coastal trade. Among other things, the IPA report recommended that the coastal shipping laws be repealed. Now, we say that it is open to the Commission to adopt that position, based on the evidence that it has received and adopts, and we thing that it's open to the Commission to recommend that coastal shipping laws be liberalised without the need for a further review.

We think that it is open to the Commission on that basis, I understand the Commission might have a view that this is an inquiry into Tasmanian shipping alone, and in response to that we would say that, as the Commission has identified in the draft report. Tasmania are particularly affected by the coastal trading regime and regulation as operating in Australia. It quotes figures of 9.3 per cent of the coastal trade and we think that, because Tasmania is most affected by this regulation, that another review will not show up any other cases that the Tasmanian inquiry has not, and so our fundamental position today to the Commission would be in terms of the draft recommendation number 1 and that is that the IPA thinks that that could be strengthened to liberalising coastal shipping laws. I think it's interesting that there has been a number of submissions that have looked at coastal trading and, as the previous expert has outlined, often there is a comparison between the 2012 changes, so prior to 2012, and a post-2012 analysis with the view that - and I think I would be right in saying that the Commission's view is that it has very much worsened since 2012 and that those changes were not justified. There was sort of no economic basis for those changes to take place.

I agree with the previous expert in the sense that coastal shipping laws have existed for well over a century and simply winding back the 2012 changes we say would not go far enough. We think that there is no basis for any coastal shipping laws because they are inherently anti-competitive and there are no real justifications for maintaining these laws except to protect a tiny domestic industry, and indeed what we saw in 2012 was the revitalising coastal shipping laws, a package to revitalise the Australian coastal shipping industry.

The fundamental problem we say with the 2012 changes is that it ignored the fact that the role of coastal shipping regulation is to create cost efficiencies, to be a productive and efficient bulk transport carrier for producers of bulk goods. It does not exist to be an industry in and of itself, and so the aim of coastal shipping law should not be to protect a small market. It should be to drive cost efficiencies in the broader bulk transport industry and to drive cost efficiencies for producers of bulk goods.

We urge the Commission to have that in the background in that freight, while an important industry, is a service industry to producers and it should be the wider production, whether it be in Tasmania or Australia broadly, that should be the focus for any reform.

In response to the draft report, as I say, the report rightly makes a comparison between the pre 2012 and the post 2012 situation and there is no doubt that it has decreased competitiveness, it has increased regulations, it has increased the price of bulk transport. I think that has been a fair summary of the evidence that has been received by the Commission and we put the point again that all coastal shipping laws are anti-competitive. All coastal shipping laws will drive up the price of bulk transport compared to the situation as if they weren't there.

The second point that we would put in response to the draft is that we note the finding - and this is on page 123 of the draft report - that new coastal shipping regulations reduce the commercial attraction for international vessels to engage in the coastal trade. The regulations also increase the cost of providing domestic coastal services and reduce the level of competition in Australia's coastal trading network.

We identified a similar thing in the IPA's report, pages 31 and 32. We say that the weakening of competition in the coastal shipping industry is really out of step with the broader regulatory framework, in particular the competition law policy. It has been criticised by Gary Banks, former head of the Productivity Commission. It has been criticised by Rod Sims, chairman of the ACCC.

There is no doubt that - and again it goes back to the point that it's not enough simply to wind back or tinker around the edges with changes, and I think - I don't want to put words in the ASA's mouth but it seems to me that some participants to this inquiry would like to see a tinkering around of the edges and removing, say, the number of voyages under a permit or what have you. We say that will still not deliver cheap, efficient transport for Tasmania. We say that the best results that we can deliver in terms of confining it to coastal shipping - the best result would be simply to remove any cabotage laws in Australia with respect to coastal shipping.

In terms of the economic justification for the 2012 changes, we note the comments of the Commission at page 126 where it says, "The justification for the 2012 changes is now questionable." We think the Commission is probably being a little bit diplomatic in that assessment. In terms of the labour relations compact between the shipping unions, we also deal with this in the IPA's report. The Commission is free to have a look at that. We outline the entire document and there are no specific quantifiable commitments that lead to any sort of productivity improvement at all in that document. We say there was never going to be any sort of real commitment in that arrangement and we would urge the Commission to be stronger in their assessment of the lack of justification for the 2012 reforms.

In terms of the information request number 5 about the specific benefits in repealing the shipping laws, we haven't conducted our own economic modelling but we say it's quite clear, we think, that coastal shipping laws, if they were to be repealed, will increase the amount of vessels that are engaged in the shipping trade and the amount of tonnage on those routes. It will lead to cheaper coastal shipping services and increase the competitiveness of Tasmanian goods and exports. Again we say that is the focus, increasing the exports and the production of Tasmanian goods. The focus should not be on shipping in and of itself.

In terms of draft recommendation 1, in light of the Commission's findings in the draft report we say that it's open to the Commission to call for a repeal of these laws without the need for a further review. A further review would just delay the process. We think these laws are unnecessary and there is ample economic evidence in the Commission's draft report to justify that position.

Again we say that we understand the Commission has only examined the shipping laws with respect to Tasmania, but the Commission has identified that Tasmania is particularly vulnerable to negative consequences of these laws. We say that Tasmania is a reliable case study on which to advance repealing the laws and we say that draft recommend number 1 should be amended to read, "The Australian government should liberalise the coastal shipping market by repealing coastal shipping laws as soon as possible."

**MS CHESTER:** Thank you very much for those opening remarks and your overview and some feedback on our draft report. We do appreciate your interest in these important policy matters. Before we turn to the recommendations and the scope of the Commission's current inquiry, it would be really helpful if you could talk us through any of the evidence or analysis that was underpinning your December paper that was prepared by the IPA.

**MR LANE (IPA):** Certainly.

**MS CHESTER:** In particular focusing on sort of examples of evidence separate to what we have identified in our draft report about the impacts of the current coastal shipping arrangements on Australian shippers.

**MR LANE (IPA):** Yes, certainly. I don't think it would be helpful for me now to take you through the entire report and certainly there is a large overlap, I think, between the draft report and our report in terms of the studies that are looked at, in terms of the economic evidence in terms of the RIS, the DEA analysis and things like that, so I would be happy to take you through the report but I think there would be a bit of an overlap and I don't want to ‑ ‑ ‑

**MS CHESTER:** No, and we're happy to take the report as part of your submission to our inquiry.

**MR LANE (IPA):** Sure.

**MS CHESTER:** I guess what I was asking was, was there any other evidence about the impact that the coastal shipping arrangements may be having, particularly on Tasmanian shippers and business that emerged during the process of your preparing your paper that you could share with us.

**MR LANE (IPA):** Sure. Look, I'll say that the IPA's report was very broad and looked at Australia generally and so there was nothing in the report that focuses particularly on Tasmania, but I guess what we say is that I think the economic evidence is certainly more extensive in the Commission's draft report and we say that that evidence is a reliable case study to push in the conclusions of the IPA's report.

**MS CHESTER:** Okay. In terms of your suggestion and feedback with regards to our recommendation 1, I think we're very cognisant that we've been given a terms of reference by the Government that's very much focused on Tasmanian freight and shipping and of course in doing that we've done some initial analysis and review as the impact of coastal shipping arrangements have on that trade.

It's a very complex area and just looking at the changes that were made to the 2009-2012 legislation which, featured in our appendix C, highlights how complex the issues are and good policy and the whole Productivity Commission process is to have a terms of reference that ask us to look at an issue, we then go out and get submissions, we have public hearings, we talk to key stakeholders, we receive evidence and then we form a view. I think it's fair to say that while we've been able to touch on coastal shipping as it impacts on Tasmania as a good case study, using your words, we wouldn't profess that the inquiry that we've conducted to date would be good public policy in terms of the Government wanting to pursue a more holistic review of all of those arrangements.

We're also very mindful that the Government, Deputy Prime Minister Warren Truss, has foreshadowed such a review and we think based on the evidence that we've received and the submissions that we've taken that that points to the need for that review to be expedited. It would be good to get your views on the scope of that foreshadowed review if you've got some thoughts there that you would like to share with us.

**MR LANE (IPA):** Look, we will be happy to put that submission in if that review is forthcoming. Again, I understand that the Commission might feel constrained by the terms of reference. I sympathise with that view, but what I would say is I think they are broad enough to give recommendations of this nature and I say that if the current draft recommendation calls for, you know, an entire review, that that recommendation is based on the fact that there is ample evidence to suggest that they are bad, to paraphrase; and to say that it's almost going to be a foregone conclusion, I think, about the assessment of the coastal shipping laws, I don't think there's any doubt in my mind or in reading the findings in the draft report that the coastal shipping laws are having a negative impact on freight not just in Tasmania but elsewhere, so what it will be is about stakeholders pushing their views about what tinkering around the edges sort of should occur.

So I take the Commission's point and I'm happy to put a further submission in to a wider-ranging inquiry and there will be, I think, substantial overlap and sort of a reagitation of issues that I've already sort of conducted in this review and that's why I say that the IPA's view is that it's probably not necessary to go over a view when these views have already seemed to have come up amongst this proceeding.

What I will say in terms of the complex nature of the regulation and there is no doubt that the legislation is very complex, there are a number of laws, there are a number of regulations, there are a number of sort of tax law provisions; indeed, the 2012 changes I think added about 250 pages of additional regulation to coastal shipping. It's actually a very simple issue, though. I think other submitters to this inquiry have criticised the IPA's report that was released in December and accused it of being overly simplistic.

It is very simple, coastal shipping is very simple: cargo is loaded at one port and dropped off at another port, for a fee. It is as simple as that and I accept that the current regulations are very, very complicated and tinkering around the edges will see distorted economic effects, further unintended consequences as we've seen with the 2012; but if all of the regulations actually are stripped back and don't exist and you've got a shipowner who has a ship that complies with all the safety requirements and you have a licensed crew that are licensed to operate a vessel, then it would be a very simple regime if they were to be free to pick up cargo at one port and drop it off at another without the need for a licence or a permit.

It would be an incredibly simple system and it's only complex because of the regulation. If the regulation is stripped away, it is no longer a complex arrangement at all.

**MS CHESTER:** Thank you for those comments. I think we're also very mindful that good public policy process ‑ ‑ ‑

**MR LANE (IPA):** Sure.

**MS CHESTER:** ‑ ‑ ‑ and changes to regulations and arrangements that have been in place for a long period of time do raise issues, transitional issues for current incumbents ‑ ‑ ‑

**MR LANE (IPA):** Sure.

**MS CHESTER:** ‑ ‑ ‑ and investment decisions that have been made that have relied on those arrangements, so I think the Government's foreshadowed review does provide an opportunity ‑ ‑ ‑

**MR LANE (IPA):** Certainly.

**MS CHESTER:** ‑ ‑ ‑ and so it would be good in the context of our inquiry if the IPA does have views on the scope of that foreshadowed review that we would be very interested in hearing those.

**MR LANE (IPA):** Certainly. I'm more than happy to amend our submission to the Commission in response and put that in. I think the deadline is sort of a week away or something like that, so we'd be more than happy to put in a submission about the scope.

**MS CHESTER:** Thank you very much.

**MR LANE (IPA):** No problem.

**MS CHESTER:** Is there anything else that you wanted to comment on this morning?

**MR LANE (IPA):** There was just one issue or, sorry, there are two things in terms of international or one in terms of international carriers, one in terms of international shipping. The first is that there's a view that the current regime has been liberalised as opposed to 2012, that the IPA would just like to put it perhaps on the record that we would resist that view in the sense that what the 2012 changes do is in terms of the general licence category you set up a transitional period of five years where operators essentially at the end of that period are going to be forced into either a temporary permit or be forced onto the Australian register. So it does not allow an international carrier to continue under a general licence provision to operate sort of forever, if you like.

The second comment just in relation to international shipping is the point about triangular trades. Particularly with the Fair Work changes which are applying in sort of Australian industrial relations law on foreign carriers that are employing foreign crews, it really restricts the ability of international ships, foreign ships, to engage in the triangular trades in terms of cargo coming from an international port, coming into an Australian port and then they've got a port, another port that they need to go to to pick up cargo to then send it away.

So what these cabotage laws do, restricts that triangular trade and it would make sense if these international carriers would be able to pick up coastal shipping cargo to make their international voyages more profitable and it would then feed into the profitability of those international exports themselves in terms of lowering those shipping costs. But other than that, I appreciate the opportunity to come and put a submission and we will amend that, amend the submission to encompass those, the general review.

**MS CHESTER:** Thank you very much.

**MR LANE (IPA):** My pleasure. Thank you.

**MS CHESTER:** We will adjourn now for a lunchtime break and then we'll resume our hearings this afternoon just after 1 o'clock, around 1.15. Thanks very much.

(Luncheon adjournment)

**MS CHESTER:** Welcome back to those who were here this morning. We will resume our proceedings now after a lunch break. I would like to thank our next participant, the party from Mondelez, for joining us this afternoon, and thank you very much for your initial submission of which we have been able to draw on a lot of the detail in our draft report. Just for the record, could you please state your name, title and organisation.

**MR WARTY (MI):** My full name is Satyajit Warty. I am the international freight and exports manager for Mondelez International, and I look after all the logistics for Claremont as part of my role.

**MS CHESTER:** Thank you very much. Would you like to make any opening comments before we get into some other questions?

**MR WARTY (MI):**  We prepared a submission for the Commission in December and, as you are aware, we put a confidential basis on that purely to protect the interests of our supplies. A lot of the information we give was for the benefit of the Commission so they could make an informed decision on whatever actions are recommended or come out of this commission. We would like to respect that primarily because our suppliers do an excellent job for us and, as you are aware and as we mentioned in our submission, we use all the shipping services across the Bass Strait.

**MS CHESTER:** Thank you very much. We are very mindful that, while it's always the Commission's preference, we have very open and transparent submissions from our participants. We are also very mindful at times that there is commercially sensitive information, and when we receive it in that way we do respect that. We do try to ensure, though, that that information is limited as much as possible to what is absolutely commercially sensitive, so we do appreciate that. You did provide a very detailed public submission as well, which is available on our web site. It might be best if we first just talk through - your submission referred to various cost disadvantages of operating in Tasmania versus the mainland, and there's a large number that you reference as being the component parts of that cost disadvantage. Are you able to give us a sense of the respective order of magnitude of those component parts?

**MR WARTY (MI):** I guess we are in a good position to compare for the simple reason we have a factory here in Melbourne, and we have factories in Ringwood and we have factories in Burnie and Claremont, so the products which come to Ringwood are almost the same products that go to the site in Claremont, and when we do a direct comparison of costs, the differences are substantial, which is in the submission. Leave the percentage out, if you don't mind now, but the cost differential is sufficient to make any organisation sit up and take notice as to why one would be operating down in Hobart when you look at the high cost of operating there.

**MS CHESTER:** I appreciate that you can't give us actual percentages of the cost differential, but there are a number of factors that you identified, some of them being freight tasks, some of them being shipping costs. If you could just give us a sense of order of magnitude in terms of what is the greatest cost disadvantage, what is the second greatest cost disadvantage so we can get an idea of what is relatively important and what may not be.

**MR WARTY (MI):** They have to be looked at together; when you look at the freight task, the shipping cost it's all intertwined. The Bass Strait forms a major hindrance in this freight task, if you would like to look at it that way. I would question why the rates on the Bass Strait are as high as they are, for a start. Let's look at a direct comparison between Melbourne and Sydney and compare that with Hobart. The distances are similar. Melbourne to Hobart is about 850 kilometres; Melbourne to Sydney is about 900 kilometres; yet the cost of moving a product on a per pallet basis to Claremont is almost twice as expensive as it is from Melbourne to Sydney. So why should that differential exist? That should give you an idea of why the costs are so high.

In other terms the shipping services we have heard of today are high quality. Quality is a subjective term. Our operation is such that we require a daily service out of there. We do not have any dispatch storage capability, so whatever is produced has to leave on the same day. Our production is planned to meet the market requirements, so all the production that leaves the site goes to our distribution centres or is directly exported. 15 per cent of the product that is made in Claremont is exported directly. When I say directly, it does come to Melbourne; there's no other choice. We hand it over to the shipping line in Hobart. The cost of exporting that product from Claremont to New Zealand, for example, and Melbourne to New Zealand, is almost double. So Claremont has that disadvantage where its location is costing us twice as much to move a product.

**MS CHESTER:** Thanks for that. That's an important point of clarification that we did want to follow up with you onwith respect to the direct exporting reference in your submission, so that is a direct export but through trans shipment, through the Port of Melbourne.

**MR WARTY (MI):** Yes.

**MS CHESTER:** Of the cost disadvantage that you are referring to then, how much of that would be accounted for by the voyage costs across the Bass Strait?

**MR WARTY (MI):** Almost all of it is the cost of moving the product - the extra cost is created by moving the product from Hobart to Melbourne and the Bass Strait cost contributes about 70 per cent of it, so maybe 80 per cent of it.

**MS CHESTER:** So in terms of the other cost disadvantages of operating in Tasmania, is there anything else particular to the mainland of the Tasmanian island that is causing a cost differential between your Australian mainland operations and your Tasmanian operations?

**MR WARTY (MI):** Yes. The basic fact that imports are not considered in the TFES. The three main ingredients that go into our production: chocolate, cocoa, milk and sugar. Sugar is locally sourced on the mainland; that is eligible for TFES. Milk is locally sourced in Tasmania so we don't have an issue there. Cocoa is imported but cocoa is the primary ingredient that goes down there, and we move almost 17,000 tons of cocoa per year at a very high cost, so the cocoa which goes to Ringwood is at a much cheaper freight cost compared to the cocoa which goes to - and it's the same cocoa.

**MS CHESTER:** Okay. From Mondelez's perspective, what do you see to be the policy objective of the TFES scheme today?

**MR WARTY (MI):** I don't look at it as a cost reduction. I look at it as a genuine freight equalisation for the simple reason that it is equalising the differential between Ringwood and Claremont. We have two sites. One is at Ringwood and one is at Claremont. They make different types of chocolates but the ingredients going into both are the same, and TFES makes a substantial difference to the cost of operating in Tasmania. Cadbury operations down there employ close to 700 people; that's directly between Burnie and Claremont, and Burnie's factory's existence depends directly on Claremont's existence because 90 per cent of the milk that's processed in the Burnie plant goes to the Claremont factory.

We have about 700 direct employees if you include the contractors, suppliers and (indistinct) and logistics providers. We probably support about 2000 to 2500 employees down there. I think Claremont has a special role to play in the Tasmanian economy. More importantly, the cost of operating there is critical to the plant for the simple reason that the people who make decisions on these are not sometimes based in Australia. They base their decisions on numbers, so it is important that scheme like the TFES equalises the locations.

**MR QUINLIVAN:** When you say that you mean equalise the locations within Australia, not with international competitors?

**MR WARTY (MI):** No, I'm just comparing Claremont to Ringwood.

**MR QUINLIVAN:** Yes.

**MS CHESTER:** Thank you for that. When you referred before to the shipping costs being about 70 to 80 per cent of the cost disadvantage, what's the other 20 to 30 per cent? What explains that?

**MR WARTY (MI):** The fuel costs in Tasmania are higher by about 10 per cent if compared to - so if the fuel cost in Victoria is $1.50 or $1.60 a litre, in Tasmania it's about 15 to 20 cents more, so that affects the cost of road transport. All our cocoa is transported on the road from Burnie or Devonport down to Claremont, or the chocolates back from Claremont up to Burnie or Devonport, so that extra 10 per cent or 15 per cent is reflected in the cost and then you have the shipping. Why should a container which is shipped 12 hours overnight cost you more than it does to send it 12 days from here to Malaysia? That's a simple question.

**MS CHESTER:** Thank you for that. You mentioned before the Bass Strait shipping rates you see are high relative to what you have seen elsewhere. In your initial submission you talked about Mondelez using all three of the Bass Strait shipping lines. Are you able to sort of provide us with some commentary around what you see as the level of competition between the three incumbents at the moment and how that sort of presents itself in the freight rates that are offered?

**MR WARTY (MI):** We are a big company from Tasmanian standards. Our volumes are reasonable and they're equally divided between SeaRoad and Toll. Toll may be a little more than SeaRoad, 60:40 I would think, but the products which go on the TT-Line vessels are managed by SeaRoad for us. There's a particular reason why we have (indistinct) TT-Line because TT-Line shuts off later, 6 pm every day, and that gives us a whole day to receive product.

Quite often we have product being supplied to SeaRoad Logistics very late in the day which needs to be at the factory next morning. Devonport to Hobart is quicker than Burnie, plus the TT-Line vessel arrives early in the morning, so quite often we can have a product at the factory by 10 am if we ship it with TT‑Line. If it went on a SeaRoad vessel or a Toll vessel, it wouldn't get to Hobart until 3.00 or 4.00 in the afternoon, so we have lost most of the day. So the use of TT‑Line is dictated by production times, so we make sure that there's one truck on the TT‑Line vessel everyday. The rest of the product goes either on SeaRoad vessels or Toll vessels.

**MS CHESTER:** Thank you for that. Are you able to sort of comment on the point that you made before, and elaborate on it, in terms of the cost and the freight rates that are offered across Bass Strait relative to the other experiences that Mondelez would have as an international company?

**MR WARTY (MI):** From our perspective the freight rates are - there's not much differential between the three companies because whether it's TT-Line or SeaRoad or Toll, on a per pallet basis the costs are very similar for us. I cannot comment on the rates which other parties have. Our relationship with all these three companies dates back many years so we do value them as suppliers and I suppose they value us as their customers, so we have a reasonable partnership which makes sure that we have good rates with them, but all the same those rates are still much, much higher than if that factory was at a similar location on the mainland.

**MS CHESTER:** In terms of the shipping rates, we heard some earlier evidence in the public hearings this morning that it's sort of like one rate is offered any time, it's just a daily rate from the shipping lines. Are there different freight rates that you're offered by the shipping lines?

**MR WARTY (MI):** No. We generally have three-year contracts with all our suppliers and the rates are reviewed annually, so our rates are fixed on an annual basis but the contracts go for three years purely to manage the administration of contracts and going into tenders, et cetera. That takes time and effort, so we do everything on a two or three-year basis.

**MS CHESTER:** Thank you. In terms of the existing arrangements that are in place with the shipping lines, do you get a sense that there is any sort of at the margin price competition between, say, SeaRoad and Toll for your business?

**MR WARTY (MI):** Only at tender time when we do run the tender and give - even then we have noticed there's not much difference between the rates quoted by either. They're close tenders. I don't see any reason how Toll would know what SeaRoad are quoting or how SeaRoad would know what Toll are quoting, but the rates aren't that different between them - from the other providers as well. It has not just been SeaRoad and Toll. We have always included two or three other suppliers. We do believe in giving other suppliers a chance to quote for the business, but SeaRoad and Toll have been the primary carriers for a long time.

**MS CHESTER:** There has been discussion amongst the existing shipping lines about adding additional capacity with the potential purchase of new vessels. Do you have a view on what impact that may have in terms of the dynamics and competition across the Bass Strait or the rates that may be offered to companies like Mondelez?

**MR WARTY (MI):** I think it will put pressure on the rates because the current capacity at peak time is the only time when they struggle to fill - they leave cargo behind. It's only maybe one or two times a year. The majority of the time I think the ships have space on them. The other thing to consider also is from our perspective, our arrangements with all our suppliers is long term, so we have almost the same amount of containers every day. That's 15 or 16 containers northbound every day and the same amount southbound every day, so Toll and SeaRoad both know exactly how much space to allocate for us, so we haven't experienced the short shipment problems but I'm sure the smaller irregular shippers would be exposed to something like that.

How much impact the big ships would have, I have no idea. I haven't given that too much of a thought. It is for the shipping lines to determine what their costs are going to be and how they manage it. I do believe at the moment the capacity is sufficient. One of the problems we have is there's almost 100,000 containers being moved empty across the Bass Strait, so that adds to the cost. We have a unique arrangement in this country where we have this CHEP pallet - or the Australian sized pallet. Whether it's Loscam or CHEP, it doesn't matter - 1165 by 1165, which forces the shipping lines to have special equipment.

On the international market you can buy a brand new general container for four or five thousand dollars. The Australian sized containers are special, made specially for the Australian market and generally made in Australia, and they cost a lot more. That's an example where a small thing like a pallet forces us to have specialised trailers, specialised containers. We have a trillion dollar economy around a $20 pallet. That is the result why international containers move down empty or move back empty and there is an imbalance between refrigerated containers, general containers, so when you're moving 100,000 containers empty there is a cost to that and no matter what anyone may say that the shipping lines absorb that cost, they can absorb that cost because that is compensated elsewhere. It does contribute to the high cost.

**MS CHESTER:** Thank you. We are very cognisant in the report of sort of the mismatch in northbound and southbound traffic.

**MR WARTY (MI):** Yes.

**MS CHESTER:** It also compounds itself with the empty containers. You're probably familiar with the work of the freight logistics coordination team and their report and they looked at this issue as well and felt that there may be some scope through better data and greater coordination amongst shippers to reduce the empty boxes. Do you have a view on that and what measures could be taken to improve the current empty loads?

**MR WARTY (MI):**  As long as we use the spillage it's going to be a difficult position to reconcile. I was part of the FLCT and I chaired the supply team group so I'm fully aware of all the recommendations that the team made and, yes, there can be certain coordination, but how soon it can be put into place and how well it can be coordinated is an important point to consider because logistics is all about timing and not all shippers ship at the same time.

**MS CHESTER:** Thank you for that. We focused a lot in our discussion to date on the shipping side of the equation. In terms of the on‑land freight task and the handling of Mondelez' freight, are there any areas of concern that you have about costs and efficiency?

**MR WARTY (MI):** Not on the on‑land site. I think the service we get from our providers is as good as it could possibly be. I did read your recommendations on asset privatisation and search in Tasmanian. It's a difficult market to be in in the first place for any logistics company. The second item to consider there is it's a very small economy. Any private investment into that sort of an economy would be difficult to achieve because the rate of return may not exist. The third thing to consider is the experience of Pacific National and TasRail. When Pacific National was running the rail services in Tasmania there were derailments almost every fortnight. We lost a lot of product on the rail. It cost us quite a lot ever since TasRail has taken over. It took about a year for them to get it back on track, I think. TasRail has performed quite well compared to what Pacific National was doing.

When you look at the performances I'd be very careful about how private enterprise is considered in running those kind of assets. Tasports is a good example. Yes, they have their legacy contracts they have inherited, but because Tasports was created after the individual port authorities have already signed up these service providers, I think Tasports have a much more difficult task based on the nature of Tasmanian port structure. If you look at any single port in Tasmania I don't believe any one of them has the capacity individually to manage everything for Tasmania. Burnie couldn't do it. Devonport on its own can't do it. Bell Bay, the less I say the better. All three together they're doing it just right, but one port may not work.

**MS CHESTER:** Thank you for that. That is an interesting point that you raise given we did receive, in our submissions, and also very conscious of the work of the freight logistics coordination team that there was felt to be some scope for port rationalisation in Tasmania. You do not see that being the case across the three northern ports?

**MR WARTY (MI):** I think that the comment on the port rationalisation was not understood correctly. Port rationalisation did not target just one port and what they were trying to say was the ports were supposed to be designed for future - to meet the particular requirements of the trade and I think somewhere in the reports that little bit got missed out, because if you look at Burnie on its own there was a lot of talk of Burnie becoming the container port or Bell Bay becoming a bulk port. That makes sense. Then you've got the Devonport services of TT‑Line and SeaRoad Logistics.

I think when you look at all the three ports I don't think Tasmania can put all of that cargo or volume into one port without some major investment and the Tasmanian economy can't afford that kind of investment. That was one of the findings of our team.

**MS CHESTER:** Thank you for that. On that issue of port rationalisation, I think part of the reason it has come up so much in the submissions and the discussions to date has been looking at what might be required to commercially justify the return of a regular international container shipping service to Tasmania. Are you able to share your views on what you feel might be required both in terms of volumes and port facilities?

**MR WARTY (MI):** If you look at it for only volumes that are going in to the state now, I would find it difficult for any shipping line to say, "We can come there." If you look at the hidden volumes that are going in to the state, let's face it if you're going to call them Woolworths or any of the shops there is practically nothing that's not imported nowadays. Almost 75, 80 per cent of the items coming into the state - into any state are imported. All the retail items that go into Tasmania are going from the mainland, so Woolworths, Coles, IGA, all of them bring it here and then ship it down there, but if someone could sit down with them and find out what the real volume is that could go directly to Tasmania, some shipping line would be interested.

For that to happen one of the important points to remember is all the businesses that exist in Tasmania have, over the years, evolved their supply chains to meet the requirements of the infrastructure. What exists today has evolved over years and any major change would cost a lot of money, not just to the state but also to the businesses who are down there. Would Coles and Woolworths want to change their supply chain? Would IGA want to change their supply chain or Bunnings for that matter? That's a question to be asked. How much effort are they going to put into changing their supply chains if an international shipper is going to go there directly? That would be a cost-benefit analysis. How much do they have to spend and how much are they going to save?

**MS CHESTER:** It might be a good time now to turn to some of the draft recommendations that we made in our draft report and to get some feedback and comment from yourself on those. Just initially I would like to say that you would know from our draft report that we had two streams to our recommendations and our thoughts around the TFES scheme, the first being several draft recommendations that we made and I will come to those in a moment. The second being some more substantive changes to the design of the scheme where we sought information from participants and impacted parties.

Maybe if we first go to the issue of the parameter review and the contemporary parameters and an update there. Would you like, first of all, to just give us some initial thoughts and feedback on our recommendations as they relate to the TFES and then we can come to them individually?

**MR WARTY (MI):** Yes. I read through all of it. I didn't read the entire report. I read the overview and I read the recommendations and I found some interesting points in there and some concerning points. It was an interesting comment this morning that the cabotage should be removed completely. I'm all for it if the market supports it. This problem we might have is if you - you've mentioned that here about cost regulations in your recommendation - if cabotage is removed I would see someone like Toll or SeaRoad finding it difficult to survive and including TT‑Line as part of being governmental. That means it's open slather. Anybody can come in. Anyone can leave any time. The shipping lines might try their hand, cut the rates down to negligible levels. They last maybe two months or three months and they're gone. Where does that leave companies like Cadbury down there where their sole dependence is on the shipping services and reliability of those services?

Cabotage had a reason and I believe some of that reason still exists. I don't agree withcabotage but that's a personal opinion, but when you look at the purpose it is serving now, Tasmania has certainty. That certainty gives us production certainty. So I would rather have that certainty in terms of our supply chain than not know who is going to be carrying our products down there in six months' time. So whenever you look at coastal regulations, yes, there may need to be changes, modifications or whatever necessary but removal of cabotage is a worry.

**MS CHESTER:** Yes, and I think you would have hopefully picked up from our commentary this morning that we do see it is a very complex issue.

**MR WARTY (MI):** It is.

**MS CHESTER:** And the government has foreshadowed a more holistic and large review of all of the regulatory arrangements there, and that is something that we at the Commission welcome. I think given some of the evidence that we've had from submissions and our own understanding of the regulations and how they impact, the cost of shipping to Tasmania and around the mainland of Australia, we welcome that review and we think that given some of the findings in relation to Tasmania it does need to be expedited and happen as quickly as possible but we are very conscious that it is complex and there are always transitional issues when the government is looking at fundamental policy changes.

**MR WARTY (MI):** Then from a TFES perspective in your information section, removal of (indistinct) TFES, that's a big worry.

**MS CHESTER:** It would be good to talk through what the impact of some of these changes would be on your company, and maybe if I just explain what our thinking was there, we are very conscious that the government has announced their commitment to the continuation of the TFES, and our scope, our job, is really to try to work out how it can be better designed to address some of the anomalies and disincentives that it creates.

**MR WARTY (MI):** Yes.

**MS CHESTER:** From a lot of the submissions and evidence that we received there seemed to be an overwhelming demand to broaden eligibility of eligible commodities being shipped to the Port of Melbourne, regardless of where they go after they arrive in the Port of Melbourne, and that was an idea that we thought was worth pursuing, but we are also mindful that there is a total cost to the program, and we wanted to make sure that whatever redesign we came up with was aiming to do that in a sort of cost neutral way. So that is why we raised the issue of the southbound perhaps being a trade-off for broadening the eligibility of the northbound commodities being transhipped through Melbourne, so that was just to explain our thinking behind that.

**MR WARTY (MI):** Having analysed your recommendations and the information request, our TEFS compensation would reduce by about 65 per cent. That means that factory would not be sustainable.

**MS CHESTER:** Which of the recommendations do you attach to the 65 per cent, just to clarify?

**MR WARTY (MI):** The flat rate. I wouldn't agree with the flat rate approach, and the southbound component being removed.

**MS CHESTER:** What were you sort of assuming for the flat rate because the report doesn't nominate an actual flat rate at this point?

**MR WARTY (MI):** When this review was done the last time and I was involved in that too through the BITRE then, a certain flat rate was recommended. It was substantially lower than the compensation we get. The compensation limit is $855 a container, and I can assure you that we don't claim that. Our levels are much lower, so we don't claim the full amount of TEFS as it is but if we went on a flat rate basis and even if you did recommend the flat rate it would be the BITRE formula from a couple of years ago, or something similar, and that would reduce our compensation even further, so combining the BITRE report's compensation levels, coupled with the removal of southbound, it would remove about 65 per cent of the compensation that we get.

**MS CHESTER:** What about the offsetting benefit of broadening the eligibility for the northbound?

**MR WARTY (MI):** Because our northbound product is eligible. Only 15 per cent is exported. I'm taking all that into account. We would be worse off by 65 per cent, and I think that would make the operations down there unsustainable.

**MS CHESTER:** And when you have gone through these quantifications that you've done in terms of the impact on the Cadbury business, have you been able to work through it by assuming, say, a flat rate and southbound still staying in place?

**MR WARTY (MI):** Yes. That would reduce our compensation by about 15 to 18 per cent.

**MS CHESTER:** Including the benefit of getting eligibility on ‑ ‑ ‑

**MR WARTY (MI):** On exports, yes, but if you were to expand southbound to include cocoa, for example, then it would be nullified.

**MS CHESTER:** Different story.

**MR WARTY (MI):** Different story.

**MS CHESTER:** Okay. I guess one of the challenges that we face here in the design of the scheme is that the way it's currently structured, by trying to come up with some notional cost disadvantage that can be then applied, first it is quite administratively complex, and secondly, the way the calculation occurs today doesn't create an incentive for the recipient not go for the lowest cost of service.

**MR WARTY (MI):** Yes.

**MS CHESTER:** So what would your views be: in the absence of a flat rate, how can we ensure that perverse incentive is removed?

**MR WARTY (MI):** I haven't given that a thought for the simple reason that we have a complex operation as it is and all our systems are currently set up for the way TFES is currently set up. If that were to change it would be a major cost to us anyway to change our systems for a start because we are on EDI with Centrelink, but that's a minor point. I have not given your question a thought, to be honest, because we are open to any audit any time, and we have never misused the scheme. We have never rorted anything, never claims on such a few years ago, and the audits never proved anything. The claims are on other parties, not us, but I'm sure there is going to be a loophole that someone is going to use. Our procedures are production methods and our logistics are all set up in a way which is very apparently clear to anyone who wants to audit.

I did read in your report about somebody moving product to the mainland to maximise the scheme. I think that is not fair because if people are doing that they should be punished because it's honest companies who suffer due to someone else rorting the system, and I don't agree with that. In terms of how the compensation could be simplified, I agree with that; there should be a detailed review and a method arranged where claimants can go directly to Centrelink and get the full rewards that they should. There are too many steps in the middle, if I can put it that way, which complicate the issue. I am a firm believer in removing anything that does not add value, and I think the BITRE or the Productivity Commission should be looking at those steps. We don't need anything in the middle that doesn't add value.

**MR QUINLIVAN:** And there you are talking about the complexity to the claims because of the complexity of the rules that have to be met.

**MR WARTY (MI):** Correct.

**MR QUINLIVAN:** That's what you are talking about.

**MR WARTY (MI):** This can be simplified. We don't need such a complicated formula. Get rid of those scaling factors. We don't need that. Just simplify everything on a wharf to wharf basis and that will take care of half your problems.

**MS CHESTER:** Your concern about the flat rate: is it about the level of the flat rate or is it about just having a flat rate?

**MR WARTY (MI):** Both; the level of the flat rate, the BITRE recommended was considerably lower than the $855 that somebody can maximise to now. As I said before, I don't think there's any shipment that gets $855. We are way below that. But the other problem that is created is there are many products which have variability in weight. There's certain products which are very light, certain products which are very heavy. Our packaging weighs 200 kilos a pallet. Cocoa is one tonne a pallet and there are some products, glucose is 1.4 tonnes a pallet.

So when you look at that variability in weights and then you go on a flat rate basis, most of our calculations are done on a per tonne basis. So when you look at something getting compensated at $20 a tonne and then something else getting compensated at $60 a tonne, it creates difficulty in the calculations. Flat rate model may work but we need to look at it. It has to be reviewed correctly.

**MS CHESTER:** I think as part of that recommendation, certainly in the body of the report, we do talk about a process that we think would need to be gone through to come up with an appropriate flat rate, to make sure that we get the level right and we don't create any other disincentives in the process of doing so, particularly when you're looking at some of the bulk freight that's been moved into containers as opposed to being handled through bulk handling.

**MR WARTY (MI):** Yes, and I think that's not fair so I - removal of the TWFS is understandable and I don't think if bulk - someone's using a general container for bulk, maybe it's not eligible then. Maybe you should look at the eligibility of the products.

**MS CHESTER:** One of our draft recommendations was - and it's one of the initial ones in sort of the triage, for want of a better description - of the recommendations related to the TFES is around moving to the parameter review and adopting the parameter reviews by the bureau. If the Government were to move in that direction we do raise the issue of some transition period would be required or some transitional adjustment. Do you have any views on what would be an appropriate transitional period, given there hasn't been that adjustment over a long period of time.

**MR WARTY (MI):** It's a difficult question to answer but I think most businesses will need two years. Any changes would require two years because systems, as I said, would need to be modified and that modification would have to be aligned with whatever internal developments that are happening in our own business. So I'd say two years, at least.

**MS CHESTER:** Thank you for that. You did go into a lot of detail in your submission which we very much appreciated in terms of the methodology that the bureau has adopted in coming up with their parameters and how that may be different from how you view the freight cost disadvantage from the perspective of Cadbury. It would be good to get your feedback on - one of the recommendations that we had was opening up and making a little more transparent the parameter review process. Did you have some thoughts on that?

**MR WARTY (MI):** The parameter review process should be open and transparent, no problems there, and I have no problems with the publishing of how much compensation is received by who. I'd be concerned with the breakdowns because breakdowns would then diverge confidential information to - that we have with our suppliers. So at a high level, if you were to say Cadbury's got X million dollars or (indistinct) got X million dollars for the year, I don't see any problems with that because that is, I think, public information anyway, but if you were to say north bound so much, south bound so much or this commodity so much, then we'd have a problem.

**MS CHESTER:** What is your concern in terms of what commercially sensitive information would be revealed with the breakdown?

**MR WARTY (MI):** Any smart person can calculate the cost of products, cost of freight, cost of operation and that's confidential information as far as I'm concerned.

**MS CHESTER:** Thank you, that's helpful. You mentioned before wharf to wharf. One of the other parts of our recommendations is having genuine evidence of what the wharf to wharf costs are. What would be the implications for Mondelez of implementing that recommendation?

**MR WARTY (MI):** We are working on that already. We work on a wharf to wharf basis. As I mentioned to you, we are on an annual contracted rate which fluctuates with the fuel surcharge for the month, which we have Toll and SeaRoad, and TT‑Line. So we get wharf to wharf letters for the month. The only variation is the fuel surcharge. Base rates are the same and that's the letter that goes to SeaRoad Logistics with our claim, and the invoices go along with that to Centrelink, and Centrelink know what our rates are. Centrelink have that letter to confirm and they are always capable of ringing up Toll and SeaRoad to confirm those if they need to, but I think the current system works well and we work on a wharf to wharf basis at the moment with Centrelink, and they get the covering letter with each claim.

**MS CHESTER:** Thank you for that.

**MR QUINLIVAN:** So you've got a consistent service, need and supply, and a contract underpinning that?

**MR WARTY (MI):** Yes.

**MR QUINLIVAN:** So that includes the wharf to wharf billing arrangement, so you're probably the extreme end of the case where it's easy for a wharf to wharf price but that's perhaps less the case for others who don't have that reliable arrangement?

**MR WARTY (MI):** Yes, and that is understandable. Having come from the logistics industry myself, I'm not sure if the logistics provider like to divulge too many secrets to my customer and our arrangements are contractually done so we know what we are - it's reasonably open with both Centrelink and our service providers, but for many of the smaller supplier shippers who are irregular, yes, that could be a concern. That could be a problem.

**MS CHESTER:** One of the other issues that we did seek information on was the appropriateness of the current intermodal allowance and it's an issue that's touched on in your submission as well. Are you able to provide a view and some supporting evidence on what you would see as a more appropriate intermodal allowance if we stay with the current parameter structure?

**MR WARTY (MI):** No, if I recall correctly I think we want - we said the differential was about 125 per cent between the levels accounted for and what they should be. Most of the calculations in the TFES are outdated. Last major calculations were done in 1998. We're in 2013. The average salary in Australian in 1998 was about 30,000. Today it's about 60,000. All the costs have more than doubled so I think that should be reflected in the compensations, and intermodal is perfect.

**MS CHESTER:** No, so I appreciate the point on intermodal. One of the points that we touch on in our report is that because the parameters are meant to be coming up with the notional cost disadvantage between transporting the freight, shipping across the Bass Strait versus the 420-kilometre interstate land via road. The cost of road has actually increased relative to shipping over that period of time, which has meant that the parameters haven't been adopted as they would have resulted in a reduction in the amount of the subsidy.

**MR WARTY (MI):** Yes, but on the road if that 420 kilometres is in the middle of a 900 kilometre stretch, you are not handling the product. There is no interface. It gets on the truck at one end, gets off the truck at the other. Here it gets on the truck at one end, gets off the truck, gets loaded on a ship, gets off the ship, gets loaded on the truck. So you've got the double handling in the middle that adds ‑ ‑ ‑

**MS CHESTER:** Yes, which is partly what the intermodal allowance is meant to be addressing.

**MR WARTY (MI):** Yes, correct.

**MS CHESTER:** So if the intermodal allowance addresses that issue, then the parameter review over time has shown that relatively the freight cost disadvantage has reduced over time between Bass Strait shipping and roads, based on the parameter review.

**MR WARTY (MI):** That would, again, depend on how that calculation is done if you base it on a one container to one container basis or if you equate a standard practice, be double with three containers on it, three TEUs versus one TEU, and if you - in my submission I have got a clear calculation on that as well, and if you go by that the compensation is substantially higher then.

**MS CHESTER:** Which I think ‑ ‑ ‑

**MR WARTY (MI):** Which I think is 30 per cent more.

**MS CHESTER:** Yes, and I think this all highlights how complex and intrinsically difficult it is to come up with a notional freight cost advantage that's relevant to all the producers that are currently benefiting from the scheme.

**MR WARTY (MI):** Yes, and as I said before, it's not something that I can answer. It has to be reviewed correctly. The formula has to be changed. I studied mathematics in uni but I can't figure this one out. We need to look at the realistic situation that exists now and, yes, if the compensation is lower, fine, if it's higher, fine, but it has to be done correctly. We can't be working in 2014 based on something designed in 1974. Everything has changed.

**MS CHESTER:** Thank you for your comments and your appearance today. Is there anything else you would like to add or anything that we haven't covered that you would like to comment on?

**MR WARTY (MI):** There was a comment in your report about new entrants and barriers to entry et cetera. Well, we saw what happened with Agility there. They tried to enter the market. It's not an easy market to get into. In your recommendations and in the overview there was a comment about new entrants. Shipping is not an easy industry to enter into. It's a high capital cost industry and when SeaRoad or Toll or even TT-Line go in for new ships, they're looking at two, three hundred million dollars each. When you have that kind of a cost on a population base of 500,000 in Tasmania, it's a very difficult situation to be in.

I think realistically those type of factors have to be taken into account when you look at the recommendations in the report and I would strongly suggest not to tamper with the southbound and include some import products, even if it's commodity based, because it would make a big difference to a plant like Cadburys and it might help some other manufacturers down there.

**MS CHESTER:** Thank you for that. It would be very helpful if you're able to give us some more detailed information on the relative impacts of the different recommendations on your business.

**MR WARTY (MI):** Yes, I will do that.

**MS CHESTER:** Thank you very much for coming this afternoon.

**MR WARTY (MI):** Thank you.

**MS CHESTER:** Can I ask our next participant to join us, which would be Mr Rod Pickette from the Maritime Union of Australia. Firstly, thank you very much for attending this afternoon and for your organisation's submission and the very detailed follow-up submission that we received last Friday that we're still working through. Just for the record if you could please state your name, title and the organisation you're representing.

**MR PICKETTE (MUA):** Yes, Rod Pickette, policy adviser, Maritime Union of Australia.

**MS CHESTER:** Thank you. Are there any opening comments that you would like to make before we go into some questions?

**MR PICKETTE (MUA):** I would, Commissioner, if that's possible. Generally speaking, this is a critically important review and it has come at a time when the new shipping reform - by the way, my submission will principally focus around coastal shipping issues. It's a critically important time in terms of the timing of this review in the context of the new shipping reforms which came into effect on 1 July 2012, so they're relatively new, and also the new government has announced possible further review, so what the Productivity Commission ultimately recommends here is critically important - not only what it recommends but what it proposes, what underpins those key recommendations, so I suppose my opening comments are focused around those issues.

I guess the main concern we have is that the conclusion that the Commission has reached around recommendation 1 is quite a radical change for the regulatory framework for Australian coastal shipping and we think it's based on some questionable evidence and no cost benefit analysis, which I think is very disappointing. So whilst the recommendation itself might appear somewhat benign in that it's proposing a review and it says that should be done in a quick timeframe and with the aim of achieving efficiency in coastal shipping services - you know, that's not a problem in itself.

In fact we have no difficulties with a further review, subject to the terms of reference of course, but the review could be a very useful exercise to address some of the unintended consequences of the legislative framework that was introduced in 2012 and also to clarify some ambiguities and flaws in the legislation. That's the package, not just the Coastal Trading Act itself - the tax package as well. I should say that the various pieces of legislation were introduced as a package. They were meant to interact with each other to deliver a particular outcome.

It's the detail in the draft report that concerns us, not so much the recommendation itself. The detail is not at all benign because the way we read it, the Productivity Commission is effectively advocating the wholesale deregulation of Australian coastal shipping, effectively a repeal of the Coastal Trading Act and nothing in its place; not a return to a version of the previous legislation that existed before July 2012 or another regulatory framework that would deliver the sorts of efficiencies and benefits and competitive environment that the Commission seems to be proposing.

There are no caveats or no qualifications in what the draft report is proposing. It's the wholesale deregulation of Australian coastal shipping. What in effect that does is it would lead to the replacement of a market that provides, under the current regulatory framework, a mix of long-term contracts - I mean, we heard the previous evidence talk about their company has three‑year contracts and I know you said that might be at the extreme end because they're a regular trade, but nevertheless the legislation does provide for a framework that allows companies to enter into long-term commercial freight rate contracts with their shipping provider and also it's supplemented through the temporary licensing system of spot market contract to meet those peaks and troughs or to meet the needs of smaller cargo parcels or irregular trading.

We think that the current legislation has a very good balance and provides a competitive environment between Australian commercial and business interests in a freight market that provides alternatives or options for those shippers that don't have maybe the regularity of shipping or the need to meet seasonal peaks and troughs.

Under the Commission's proposal that mix would not be available. The market would be entirely reliant - and I think again the previous evidence suggested that, that whilst he may have a philosophical view about cabotage as a principle, the fact is that it has provided stability in the marketplace, but a spot market doesn't do that. We are concerned that what the Commission is proposing is in fact a rigidity in reliance entirely on a spot market.

It's highly unlikely that international shipping would provide the same options and regularity of service. I mean, there's more to competition than simply the freight price. Regularity and reliability of service, quality of service, ship type and so on, these are all important features of a competitive market that I think has been overlooked by the Commission in its proposition for the complete deregulation of Australian coastal shipping.

The Commission, because it hasn't undertaken a cost benefit analysis, or it's not evident in the draft report, it hasn't taken into consideration the non‑economic consequences of the proposed solution or the consequences for sea freight shipping

in other sectors of it, in other markets or in other regions of Australia. You know, there are some certain characteristics to Bass Strait shipping that are not applicable in other parts of the Australian coastal shipping industry, but they haven't been taken into consideration.

On the question of ship substitution there seems to be an assumption behind the Commission's proposition that any ship will do the job, a ship is a ship, but that's not the case. If you look at a breakdown, for example, of the bulk commodity trade, that requires ship specialisation. You know, bulk liquids is different to dry bulk, which is different to, you know, containerised freight which is different to roll on/roll off which is different to those ship operators that take advantage of self‑discharging vessels, for example, to minimise their stevedoring costs. Those types of ships, you know, so a ship is not a ship.

I think the Commission hasn't taken it into consideration that ship substitution issue. It's as if any ship will do the job and international ship owners or operators, the fact that there are many of them and they do enter the Australian market as part of an international voyage, that those ships would be applicable to the trades in Tasmania. We don't believe that to be the case. The other thing the Commission hasn't taken account of in its proposition is the impact on the retention of the maritime skills base. I mean the Australian shipping industry, although it has been in decline for some time and the previous government's policy objectives were to arrest that decline, nevertheless the bluewater shipping provides about 40 per cent of the berthing, the berth spaces for seafarer training.

Seafarer training is regulated under provisions of international treaties which are given effect through the Navigation Act and the various marine orders under the Navigation Act that require - and this is wherever you go in the world, this is not an Australian phenomena - a combination of college or tertiary training plus sea‑time and they are specified in marine orders under the Navigation Act derived from international conventions. If those Australian ships are not available in the marketplace where does the Commission believe that the maritime skills required by an island nation, a shipping nation, would come from to service, you know, the full range of occupations and their utilisation in many facets of shipping, not just on board, but in the areas of pilotage and towage, freight forwarding, the regulatory arrangement, the regulatory agencies, the safety agencies, all those agencies require maritime skills.

The base for those maritime skills is replenished by the availability of berths for sea‑time on Australian ships. Deservingly I think the PC's solution can only be achieved by the complete replacement of Australian employment with foreign employment. That's effectively at the core of what the Commission is proposing and, again, it's not just on the employment side but the replacement of Australian business participation and business investment in the shipping component of the sea freight trade. I mean I think it's one thing for the - it's quite legitimate for the Commission to focus on efficiencies but if in industries which are subsidised or can't compete in a global marketplace and, you know, from time to time that will lead to import substitution and off‑shoring of some business activity.

We think it's quite another thing to propose an efficiency solution that is based entirely on foreign labour substitution in the Australian labour market and that, effectively, underpins that's what a deregulatory model would - that's the only way it could operate to achieve the efficiencies or the cost reduction that the Commission seems to be proposing are necessary. To us that is quite a serious and radical solution that, in our view, is not justified by the facts. The Australian shipping industry received no corporate welfare. It's not a subsidised industry and unlike some of the competitors, the other modes, we would argue, for example, that road freight it subsidised because there isn't yet in Australia a full cost recovery system for payment of road infrastructure. Shipping is not in that position.

Shipping pays its way entirely in terms of its infrastructure. Its capital costs, its infrastructure requirements are fully paid for by the industry itself. There's no corporate welfare. The Commission seems to have relied on some fairly unsubstantiated, in some cases incorrect evidence. We've dealt with that in our submission and when we finalise our submission for presentation later in the week we'll finalise our views around that, but just to take as a couple of examples, the ACCC, it's only provided assertion, no evidence on its proposition that there's reduced international interest in shipping lines using temporary licence as such that shippers are unable to obtain a ship to move their cargo.

There is no evidence whatsoever of that outcome. That's purely an assertion based on no evidence. Bell Bay Aluminium claims that its freight costs have increased following introduction of the Coastal Trading Act. Again, if you look at the data from the Department of Infrastructure and Regional Development's web site, its publication of the coastal trading data, it shows that Bell Bay Aluminium its use of temporary licences has been in such a wide range of ships that the Fair Work Act hasn't applied, so not only is it wrong on the fact that its evidence can't be correct in terms of the impact on costs since the legislation came into effect, because, in fact, the legislation itself had no cost increase.

The Fair Work changes in 2010-11 may have had some cost impact but not since 1 July 2012. The only way there could be an increase in costs since July 2012 would be if cargo that a shipper wished to move on a temporary licence was successfully contested by a ship on the Australian general register which held a general licence. If you look at the evidence, the coastal trading data, that hasn't been the case in relation to Bell Bay Aluminium, so we would question its evidence. Similarly, Business Council of Australia put similar evidence; Simplot, similar evidence. In fact, if you look at the Simplot evidence it makes a very good - although it's in different parts of the report, but if you bring them together it says that it's had a cost increase - its claim is that there's been a cost increase based on the impact of the Coastal Trading Act of around 150,000 I think it said. I don't know, I presume that's over the period since 1 July until it put its submission in, but it also said that the impact of the Victorian Government or Port Corporation, I'm not sure, I can't recall the exact name of that levy, but the levy to pay for the port dredging charges, has added $350,000 to its costs.

That contrast is quite instructive, in our view, as to where you might look for efficiencies in the supply chain. We think, you know, there's been some - some of the evidence is questionable and look at the data that underpins the Coastal Trading Act, the data that's publicly available, when you analyse that it results in a different outcome than those that have been claimed by some of the submitters. There's also some inaccuracies in the report in relation to the impact of the legislation itself. For example, I think the Commission may have confused the requirement under the changes to the Shipping Registration Act in relation to the formation of the Australian International Shipping register, it may have confused the requirement whereby two of the crew must be Australian nationals with the Coastal Trading Act, because the report says that the Coastal Trading Act has introduced new manning requirements. Now, that's not the case. There is absolutely no requirement for a temporary licence holder to crew their vessels with Australian labour. So there are some inaccuracies in the Commission's understanding of the legislation.

There's a couple of things in relation to the questions that were asked for stakeholders to respond to. There's a couple of issues we do want to make; first of all, I've referred to the fact - to the possibility that there wouldn't be the availability and therefore the competition in the marketplace if the Coastal Trading Act was repealed and there was no regulatory framework at all, which is what the Commission seem to be proposing. But I think there's two issues that have been overlooked by the Commission in its analysis. First of all, the visa requirements of foreign seafarers. Repeal of the Coastal Trading Act would presumably end the section 112 protection of that by eliminating the availability of the maritime crew visa. So ‑ ‑ ‑

**MS CHESTER:** It might be a helpful junction if I just interject there for a moment because I think it's fair to say that our draft report makes one recommendation, with respect to the coastal shipping arrangements, and just for the record let me just read that out. "The Australian government should proceed with the foreshadowed review of the coastal shipping regulation as soon as possible," and I think we're agreed that's fine, "And the objective of the review should be to achieve the most efficient coastal shipping services feasible for Australia." So mindful of the issues that you've mentioned about the individual needs of different shippers and different locations in Australia.

So we have not recommended any solution or any policy changes in relation to coastal shipping in our draft report. That's the only draft recommendation that we have in relation to coastal shipping, so I take it from your earlier comments that you're comfortable with that draft recommendation?

**MR PICKETTE (MUA):** Well, as I said ‑ ‑ ‑

**MS CHESTER:** We'll come back to some of the detail that she was ‑ ‑ ‑

**MR PICKETTE (MUA):** At the outset, the recommendation itself prima facie, no problem, but ‑ ‑ ‑

**MS CHESTER:** Thank you, that's very helpful.

**MR PICKETTE (MUA):** You know, the detail of the report suggests a solution and so I just wanted to finish by saying that in relation to visas, section 112 allows - ensures that customers don't determine vessels under a temporary licence to be imported, therefore the maritime crew visa can continue in force. If a ship was declared by customs to be imported, which presumably would be the case if there were international ships regularly trading the Tasmania to mainland trade, in the absence of an Australian registered vessel - sorry, general licence vessels on the Australian general register.

Those foreign seafarers would presumably require a visa that gave them work rights and we would simply make the point that, for example, if that were to be a 457 visa equivalent, market rates would apply, and I suppose it would be quite instructive to have a look at the differential between market rates and part B of the award which currently applies to - for the third and subsequent voyages under a temporary licence. I think some people would be quite shocked as to what the differential would be and so if the magic bullet solution of deregulating the Australian Coastal Shipping Industry is actually analysed in detail, there could be some issues that have perhaps been overlooked.

The second issue that's been overlooked, I think, is effectively the decision of the High Court in 2003 which found that the industrial regulator, the Fair Work Commission as it currently is, does have jurisdiction to regulate the terms and conditions of employment of foreign seafarers in the Australian interstate trade, in the interstate trade. So again, that being the case I think those who have assumed that deregulation means that international rates of pay would apply to the domestic Tasmania to mainland trade, you know, may be disappointed.

So I just make those two - and the final point I wanted to make was that the Commission, I think, has misunderstood the labour relations compact. First of all, the sort of crewing reduction figures that were in the Commission's draft report aren't accurate. In fact, the crewing levels on bluewater Australian Coastal Trading ships are below the 18 to 20 identified in the report. In fact, they're more like 17 down to 16 in some cases. The compact is working. There are currently negotiations between the MUA and, for example, Rio Tinto, in relation to the (indistinct) trade, and that's all about a restructuring of the crewing arrangements to introduce efficiencies.

There are industrial enterprise bargaining negotiations occurring around the working arrangements, teamwork, labour utilisation that are designed to deliver better productivity and there is quite a lot of work going on in the skills area, the Transport and Logistics Industry Skills Council is commencing a review. In fact, the first stage of that review is commencing in Melbourne next Monday. A review of all the occupations and qualifications, and licensing arrangements that are relevant to the full range of Australian vessels, including those that service the trading vessels like the towage sector, and so on. That's under way.

Those issues were all raised in the compact and are being addressed in a systematic way in the negotiations between the parties, which is what the compact - that's the fundamental basis of the compact between enterprises and the industry, and the social partners. So I think it's unfortunate the Commission denigrated the labour relations compact, so much to the extent that you used it to suggest that the regulatory impact statement which, on two of its four options, did in fact show a net benefit to the Australian community from the coastal trading legislation legislative package, used the fact that - or sorry, used the assertion that the labour relations compact wasn't working to seek to undermine the regulatory impact statement, and suggest that there was therefore - it was illegitimate, in effect.

In summary then, I mean I think we would like to see the Commission review the solution, the deregulatory solution that it's proposed. We think that there is a role for Australian coastal shipping. It can be done efficiently, it does add to market competition and there are many other aspects to the question of competition other than simply the freight rate cost of today. Long-term freight contracts can deliver efficiencies to individual operators or individual shippers. So we hope that there is a review in the final report of the Commission.

**MS CHESTER:** Thank you very much for those opening comments. Just with respect to our recommendation, why I thought it was helpful to raise that with you a little bit earlier on when you were speaking, our draft report doesn't contain a solution to coastal shipping. Our report recommends that the foreshadowed review be expedited and happen as quickly as possible, and just to clarify, we didn't call for a short review. We think it's quite a substantive issue that needs to be looked at, as do you, very carefully, and a cost-benefit analysis would inform that review.

But we are saying, given the impact shipping and coastal shipping in particular have on Tasmania, that we want that review to happen as quickly as possible, and that's really what's relevant to this draft report. We do very much appreciate the feedback that you've given us, particularly in your supplementary submission. We want to ensure that the factual content of our report is correct. Much of our report, when it relates to coastal shipping, was very much focussed on the two recent changes because they were the changes that had occurred to coastal shipping since the Commission's last review of the TFES scheme and we thought that it was important to see if there'd been any impact and to seek evidence from impacted parties on whether those policy changes - so in that vein we would like to talk a little bit more about the compact because it was an important component to the policy changes in the 2009 legislation and the 2012 legislation, and it was an important part of the benefits of those policy changes that were identified as part of the regulatory impact statement. Would you be able to just take us through what the compact undertakes to do in terms of identifying efficiency improvements from the maritime unions?

**MR PICKETTE (MUA):** There are a number of aspects to it. It is premised on the need for continuous improvement in, if you like, labour utilisation. Crewing levels are at world's best practice in Australia. The modern Australian bluewater vessel, take the Rio Tinto bauxite vessels which are probably one to five years old, post‑Panamax vessels are operating at world's best practice in crewing levels. You won't find any international vessel that visits Australia - it will have nothing like the crewing levels, the reduced crewing levels, of Australian coastal trading vessels.

So people who think that you can bring the total crew down any further - and you have go to remember that crewing levels are determined by IMO standards, International Maritime Organisation standards, as I say, that derive from the treaties, the IMO treaties that Australia that is signed up to and given effect through the Navigation Act and marine orders or regulations made under that act. What the regulator effectively sets is the minimum safe crewing levels for all vessels, whether they are an Australian regulator or any registry. Any foreign overseas shipping registry or regulator will set minimum safe manning levels for their vessels.

In many cases Australian operational crewing levels are at exactly the same as the minimum safe manning levels. That's how low we've got the crewing in Australia. So people who think that there's room to cut out three or four more crew on a vessel to achieve efficiencies, and there's feather bedding or, you know, assertions to that effect, are simply wrong and fail to understand the regulatory framework.

So crewing levels are at world's best practice. In terms of operational efficiency we accept that there's continuous improvement available and that can operate through better teamwork, better dispute resolution. These are the issues that are addressed in the compact. Each one of those is addressed and it leaves it to the parties to negotiate outcomes in relation to their fleet, the vessels in their fleet, in their enterprise negotiations.

In terms of opportunities to reduce downtime on vessels, particularly through dry docking, which is a very expensive exercise for Australian vessels. Essentially they have to go to an Asian dry docking facility for repairs and renovations, and can be out of action for several months at a time. That's an expensive exercise, so the opportunity for fabric maintenance, as it's called, not operational maintenance but fabric maintenance, you know, the painting, the maintenance that can be done without a dry docking, the opportunity potentially for that maintenance to be done while the ship is operating to span out the cycles of dry docking so they occur at greater frequency - sorry, at longer intervals between dry docking to save on costs; that's opportunity is available.

Around safety and, for example, workers compensation the government, as you know, reviewed the workers compensation legislation, in fact the safety and workers compensation legislation under the Sea Care Scheme in 2011-12. Those recommendations weren't finalised in time for the previous government to introduce changes into the parliament, but the principal industrial parties have agreed to a vast range of recommendations and we await the decision of the current government to implement those, but there are definitely efficiencies and cost savings to be had in terms of the workers compensation return to work aspects of the workers compensation arrangements in Australian shipping, so again that's a matter for government, but in principle those changes were agreed between the parties in the compact, so they are the sorts of opportunities that exist for the parties to work on a fleet by fleet, operator by operator basis to achieve the most effective outcomes for their particular shipping operation.

**MS CHESTER:** When you were developing the compact and working that through with the government back then, was there an order or magnitude that you were able to sort of give as an idea of what might be some of these efficiency improvements that would help inform the benefits of the compact as part of the whole policy package?

**MR PICKETTE (MUA):** They weren't quantified in an industry sense because it depended on what each operator was able to negotiate but the regulatory impacts statement made some assumptions based on the analysis of what was intended in the compact which ultimately transpired. They didn't have the benefit of the compact at that stage. It wasn't finalised but the order of magnitude that was proposed in the regulatory impact statement I think - I don't think there's any doubt that the industrial parties were comfortable with the assumptions that were applied in the regulatory impact statement, regulation impact statement.

**MS CHESTER:** Thank you for that. So the MUA is comfortable with the benefits that are identified and you think they are deliverable under the compact?

**MR PICKETTE (MUA):** Definitely deliverable, yes.

**MS CHESTER:** What is the order of magnitude of those benefits that were identified?

**MR PICKETTE (MUA):** I can't recall without having it front of me.

**MS CHESTER:** Just ballpark figure?

**MR PICKETTE (MUA):** Don't recall.

**MS CHESTER:** We can check that data. Thank you anyway. To date are you able to provide us with any evidence or examples of where there have been those tangible efficiency improvements and put a quantum around what those benefits are?

**MR PICKETTE (MUA):** We certainly outlined one or two, I think, in our supplementary submission, a draft of which you have seen.  We can certainly flesh that out and we would be happy to put a quantification around those, at least in relation to the negotiations that are currently under way. We don't know what might be negotiated in the future. In a sense it's up to the operators themselves, the ship owners and operators, to introduce their propositions through the bargaining arrangements. That's always available to the ship owners and operators and we're more than happy to enter into negotiations around those sorts of matters that are identified in the compact.

**MS CHESTER:** Thank you. That's very helpful.

**MR QUINLIVAN:** Can I just ask a question on the staffing levels. It's not central to our inquiry as Karen was saying, but if I understood you correctly, you were saying that Australia already had world's best practice staffing levels for bluewater services, and they probably preceded the development of the compact and the 2012 change - I think that's what you are implying, and that no further reductions were possible because of IMO regulations. Is that a correct summary of what you ‑ ‑ ‑

**MR PICKETTE (MUA):** I'm not quite saying that. I said many of the Australian ships are already operating at world's best practice, but that doesn't mean to say that there can't be some structural changes within occupations to deliver operational efficiencies; in other words, for example, the particular complement - whilst the total crewing might not be able to be reduced any further, the actual functions and duties of the crew can in fact be adjusted; for example, there's currently a proposition around to deal with - in the cook caterer function. There are some opportunities in that area subject to putting the right training arrangements in place. The ships in questions - we are currently working with the regulators to see what would be acceptable from a minimum safe crewing point of view, but subject to the regulator approving the proposal that's currently under negotiation it would lead to a change in the structure of the crewing. So it's in other words the total skill set that's available to the operator or the master and the operator of that vessel to get greater efficiency, operating efficiency out of the vessel.

So what I'm saying, the total, the crewing numbers, there's virtually no room for any further reductions in the Australian bluewater shipping industry. Certainly on any ship that's what you'd call at all within its current operating life, there is room for changes in the total complement of skills and therefore the operating efficiency of the vessels. They're not always easy to quantify because it again depends on the operator's utilisation of that labour, you know, which is an operator, managerial issue effectively.

**MS CHESTER:** Thank you for your offer to provide some more information in your final submission. It would be very helpful for us to get a better understanding of the compact and what you see it delivering, I guess how you got comfort around the benefits that were assumed as part of the regulatory impact statement and then some of the examples that you've touched on and if you're able to give an indicative order of magnitude of the benefits that can flow through from those operational efficiencies that you've mentioned.

One of the other component parts of the policy package, and you do touch on it in your initial submission to our inquiry, was the taxation changes. Are you able to give us any evidence or examples of how those taxation changes have benefited shipping in terms of around investment decisions and bringing forward of capital investment into ships?

**MR PICKETTE (MUA):** Well, I'm not actually. That's information that you'd have to get from the Department of Infrastructure and Regional Development, because no data is published on that. I've sought to obtain it and I haven't been able to obtain it unfortunately. It would be very valuable if that was on the public record and I see no reason why it shouldn't be but if you look at the fact that there is no ship has currently registered on the Australian International Shipping Register, that might be one indication that perhaps the tax changes weren't as attractive as they might have appeared initially in the test of time.

That's only one measure. The fact that some of the Tasmanian coastal operators, interstate trading operators have indicated they're prepared to invest in new tonnage, I expect it would be replacement I would have thought rather than additional tonnage but replacement tonnage which might have the effect of increasing capacity, that's another indicator that perhaps they have done their sums and that the tax changes, particularly if they're Australian operators, you know, without foreign investment or foreign equity in those companies, they may have found that there is in fact benefit from the tax changes. But the available public evidence seems to indicate that those tax changes haven't worked as they were originally intended.

**MR QUINLIVAN:** What was the scenario people had in mind that they thought might unfold from those tax changes, new investment in Australian shipping? Exactly what was ‑ ‑ ‑

**MR PICKETTE (MUA):** Yeah, it was essentially two changes. One was that there would be fleet renewal in the Australian coastal trading sector, and bearing in mind the current age of the vessels and we've seen even since the changes were made last year, at least two or three, I haven't got the exact numbers with me today but we're aware of at least two or three vessels that have since been decommissioned off the Australian coastal trading, sorry, on the general register, they've currently been replaced by international vessels.

So one was replacement tonnage and the second was that it would stimulate investment, foreign investors to register on the international register to take advantage of essentially our size of our export commodity market. That's where we thought there would be investment and the purpose of that, and that's why I said at the outset the shipping reform legislation was introduced as a package. It was felt that the introduction of an international register would in fact be part of the underpinning of a coastal trading fleet, because essentially the building up of a maritime cluster in Australia around renewed investment would have spin-offs to both the domestic fleet and a potential Australian international fleet.

We haven't seen that eventuate at this stage. It may be too early in the cycle since the legislation commenced, I don't know, but there's not a lot of evidence, subject to what the department might be able to make available, in terms of the take‑up of the tax benefits. But I think it would be useful if the Commission could obtain that from the department and perhaps include that in their report.

**MS CHESTER:** Thank you very much for your time this afternoon and for attending. Is there anything else that you wanted to comment on before we ‑ ‑ ‑

**MR PICKETTE (MUA):** I think that's it, thank you.

**MS CHESTER:** Okay. Thank you again and thank you for your initial submission and your follow-up submission and your undertaking to get back to us with a little bit more information as you finalise that submission.

**MR PICKETTE (MUA):** Certainly will. Thank you very much for the opportunity to participate today.

**MS CHESTER:** Thank you. Ladies and gentlemen, that concludes today's scheduled proceedings but for the record I open it up, if there's anybody else that wanted to appear today before the Commission.

**MR BRACKEN (MUA):** Kevin Bracken, Victorian branch secretary of the Maritime Union of Australia, maybe a quick ‑ ‑ ‑

**MS CHESTER:** Did you want to appear and provide additional evidence?

**MR BRACKEN (MUA):** If I could.

**MS CHESTER:** By all means. Sorry, just for the record if we could get your name, title and organisation you're representing.

**MR BRACKEN (MUA):** Kevin Bracken. I'm the Victorian branch secretary for the Maritime Union of Australia.

**MS CHESTER:** Thank you.

**MR BRACKEN (MUA):** Just a little bit of information, as Rod said about the crewing levels. I mean, we had two Australian ships, there was the ANL ship fleet when it was sold off was divided off into two halves. The container section was sold to CMA CGM. The bulk section, which was the River Yarra and the River Torrens, was sold to CSL, Canadian Steamship Line. They recrewed them with Ukrainian crew, they had 35 Ukrainian crew on there and the Australians had 17 or 18 crew. So just to actually put a bit more meaning into what Rod said, we have got probably the lowest crewing levels, you know, in the world.

Just what I wanted to add, too, about the particular ships built for purpose, I think up till 1996 we still had, I think, 11 BHP ships, purpose-built ships that carried steel around the coast and with the deregulation what's happened is a lot of the steel's carried on AAL vessels which aren't purpose built for steel. Ideally you would ship steel, if it's going to be lifted out by a crane, by straight hulls. The AAL ships are built, they have tween decks and they have a lot of things to catch on.

I believe it had three or four Australians killed working the - definitely three Australian ships on the AAL ships, just carrying, taking the steel out; and that's just the purpose - it's just an aside of why we've had so many deaths in the stevedoring industry here. But those ships used to be purpose built, you know, built in Australia for the Australian trade. Now it's all been deregulated so all the steel comes from overseas but the ships aren't ideally suited. It may take a lot longer to discharge those ships and what they were years ago, too. So they're just factors you need to take in.

The other factor was that the submission before - that was a replacement vessel for one of, definitely one of the - the Searoad Mersey needs replacing and they're looking to replace that but it's not two or three hundred million dollars, you know, we're looking at probably a hundred million dollars cost and one of the tax advantages that brings (indistinct) over the depreciation; so over that, that means you can get it back over a period of five years instead of 25 years. So it makes it a lot more attractive for people that invest in the Australian shipping industry.

Just to re-emphasise what Rod said, we're an island nation; we're the fourth‑largest shipping destination for shipping in the world yet, if this goes out and there's no cabotage at all, we virtually won't have any Australian presence in the industry at all. Every time we've had our own shipping fleet brought up it's been through the war, because we've been at war with the world; the Commonwealth Shipping Line was built, was developed through the First World War because we were getting charged exorbitant freight rates from the shippers to come out here while the war was on and the same thing, you know, the Australian National Line was built up for the same reason too.

So there is a vital need for us as a sovereign nation - and just going back to when the container section was sold off, I think within six months to ship, freight a container to Singapore had gone up by 30 per cent after the last of the ANL ships was sold; because the freight rates, the international freight rates are set by shipping conferences. Now, when the ANL used to sit on those conferences they actually kept the freights at a certain level. We have no presence at all and it's one of the things that is exempt from the Trade Practices Act is shipping cartels setting freight rates for Australia. So it's a vital industry for Australia and I would hate to see the demise, the loss of it because they're skills that Australians need to do.

**MS CHESTER:** Thank you very much for providing that additional context and those comments and we do appreciate that it is a complex issue and we think that it does lend itself to a more holistic review that we would not contemplate undertaking as part of this inquiry in a four-month time frame when we're trying to focus on Tasmanian shipping and freight. But we do realise that it's interlinked and so thank you very much for your comments and joining us at the presentation table this afternoon.

**MR BRACKEN (MUA):** Thank you.

**MS CHESTER:** Thank you. Is there anybody else that wanted to appear this afternoon? Okay, thank you very much for attending today. I adjourn these proceedings and the Commission will resume tomorrow morning in sunny Hobart. Thank you all.

AT 2.52 PM THE INQUIRY WAS ADJOURNED UNTIL TUESDAY, 4 FEBRUARY 2014