



# Inquiry into coastal sea freight

**Report No. 59**  
**Transport, Housing and Local  
Government Committee**  
**December 2014**

# **Inquiry into coastal sea freight**

**Report No. 59**

**Transport, Housing and Local Government  
Committee**

**December 2014**

## **Transport, Housing and Local Government Committee**

<b>Chair</b>	Mr Howard Hobbs MP, Member for Warrego
<b>Deputy Chair</b>	Mrs Desley Scott MP, Member for Woodridge
<b>Members</b>	Mr John Grant MP, Member for Springwood Mr Darren Grimwade MP, Member for Morayfield Mr Carl Judge MP, Member for Yeerongpilly Mr Anthony Shorten MP, Member for Algester Mr Jason Woodforth MP, Member for Nudgee
<b>Committee Staff</b>	Ms Kate McGuckin, Research Director Ms Danielle Cooper, Principal Research Officer Ms Rachelle Stacey, Principal Research Officer Ms Lisa Van Der Kley, Executive Assistant Ms Julie Fidler, Executive Assistant
<b>Contact details</b>	Transport, Housing and Local Government Committee Parliament House George Street Brisbane Qld 4000
<b>Telephone</b>	+61 7 3406 7486
<b>Fax</b>	+61 7 3406 7070
<b>Email</b>	<a href="mailto:thlgc@parliament.qld.gov.au">thlgc@parliament.qld.gov.au</a>
<b>Web</b>	<a href="http://www.parliament.qld.gov.au/thlgc">www.parliament.qld.gov.au/thlgc</a>

### **Acknowledgements**

The Committee thanks those who briefed the Committee, made submissions, gave evidence and participated in its Inquiry. In particular the Committee acknowledges the assistance provided by the Department of Transport and Main Roads.

The Committee also thanks North Queensland Bulk Ports Corporation, Sea Swift Pty Ltd and the Department of State Development, Infrastructure and Planning for the use of the images on the cover of this report.

## Contents

<b>Abbreviations</b>	<b>v</b>
<b>Glossary</b>	<b>vi</b>
<b>Chair’s Foreword</b>	<b>vii</b>
<b>Recommendations</b>	<b>viii</b>
<b>1 Introduction</b>	<b>1</b>
1.1 Role of the Committee	1
1.2 Terms of reference	1
1.3 Conduct of the Inquiry	2
1.4 Broad strategic framework	3
<b>2 Coastal sea freight – the context</b>	<b>4</b>
2.1 Current modal share	4
2.1.1 <i>Australia</i>	4
2.1.2 <i>Queensland</i>	6
2.2 Benefits of a regular sea freight service to Queensland’s economy	7
<b>3 Additional benefits of a regular coastal sea freight service</b>	<b>10</b>
3.1 Positives for road/rail congestion, maintenance costs and road safety	10
3.1.1 <i>Infrastructure costs</i>	10
3.1.2 <i>Congestion</i>	11
3.1.3 <i>Improved safety</i>	12
3.2 Environmental sustainability	13
3.3 Resilience – natural disasters	15
3.4 Benefits for other sectors	17
3.4.1 <i>Tourism and cruise shipping</i>	17
3.4.2 <i>Defence support</i>	19
3.4.3 <i>Australian maritime skills base</i>	20
<b>4 Contestability of a coastal sea freight service</b>	<b>22</b>
4.1 Managing future freight demand	22
4.2 Impediments to a competitive sea freight service	25
4.3 Impact of a coastal sea freight service on other freight sectors	27
4.4 Commercial indicators for a viable sea freight service	29
4.4.1 <i>Sustainable freight volumes</i>	29
4.4.2 <i>Competitive and innovative service delivery</i>	36
4.4.3 <i>Competitive freight rates</i>	40
4.5 Government financial assistance for a coastal sea freight service	44
4.6 Government assistance for freight services to remote island communities	47

<b>5</b>	<b>Port operations and associated infrastructure</b>	<b>51</b>
5.1	Port preparedness	51
5.2	Port costs and services	56
<b>6</b>	<b>Regulatory Framework</b>	<b>60</b>
6.1	Background	60
6.2	Commonwealth legislation, regulations and policies	61
	6.2.1 <i>The Navigation Act 2012 (Cwth)</i>	61
	6.2.2 <i>The Shipping Registration Act 1981 (Cwth)</i>	61
	6.2.3 <i>The Fair Work Act 2009 (Cwth)</i>	64
	6.2.4 <i>Coastal Trading (Revitalising Australian Shipping) Act 2012 (Cwth)</i>	68
	6.2.5 <i>Commonwealth Government legislative review</i>	74
	6.2.6 <i>Customs Act 1901 (Cwth)</i>	77
	6.2.7 <i>Marine Safety (Domestic Commercial Vessel) National Law Act 2012 (Cwth)</i>	80
	6.2.8 <i>Commonwealth tax incentives</i>	81
6.3	State regulation – Intrastate shipping	83
	6.3.1 <i>Intrastate legs as part of an international voyage</i>	84
	6.3.2 <i>Exclusively intrastate voyages</i>	85
<b>7</b>	<b>Sea Freight Action Plan – Coastal Shipping</b>	<b>92</b>
7.1	Plan Phases	92
7.2	Phase 2 and onward	93
	7.2.1 <i>Sea Freight Action Plan - Action Summary</i>	94
	<b>Appendix A – List of Submissions</b>	<b>96</b>
	<b>Appendix B – Public departmental briefing and hearings</b>	<b>97</b>
	<b>Appendix C – Private meetings</b>	<b>99</b>
	<b>Statement of Reservation</b>	<b>100</b>

## Abbreviations

ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
AGSR	Australian General Shipping Register
AISR	Australian International Shipping Register
AMSA	Australian Maritime Safety Authority
ASA	Australia Shipowners Association
AQIS	Australian Quarantine and Inspection Service
BITRE	Bureau of Infrastructure, Transport and Regional Economics
CLIA	Cruise Lines International Association
CPI	Consumer Price Index
CSF	Coastal Sea Freight
CTA	<i>Coastal Trading (Revitalising Australian Shipping) Act 2012</i>
EEZ	Exclusive Economic Zone
FPSO	Floating production, storage and offloading
LPG	liquid petroleum gas
MCV	Maritime crew visa
MRC	Mackay Regional Council
MSQ	Maritime Safety Queensland
MTPA	million tons per annum
NDRRA	Commonwealth/State Natural Disaster Relief and Recovery Arrangements
NQBC	North Queensland Bulk Ports Corporation
OSOM	Over Size Over Mass
PC	Productivity Commission
PoB	Port of Brisbane
PoT	Port of Townsville
QTLC	Queensland Transport Logistics Council
RORO	Roll-on roll-off
RUF	Restricted Use Flag
SFAP	Sea Freight Action Plan
TEU	Twenty-Foot Equivalent Unit
TFES	Tasmanian Freight Equalisation Scheme
THLGC	Transport, Housing and Local Government Committee
TMR/the Department	Department of Transport and Main Roads
TOMSA	<i>Queensland Transport Operations (Maritime Safety) Act 1994</i>
TSRA	Torres Strait Regional Authority
TWFS	Tasmanian Wheat Freight Scheme
VTM	vessel traffic management
WA	Western Australia

## Glossary

Bulk freight	Single commodity movements in high volume or bulk configuration such as coal, minerals, bauxite, cement, grain and sugar which is predominantly moved by rail.
Deadweight tonnage	a measure of how much weight a ship is carrying or can safely carry. It is the sum of the weights of cargo, fuel, fresh water, ballast water, provisions, passengers, and crew.
Foreign Flagged ship	A ship registered in a country other than Australia
General freight	Wholesale and retail products, manufactured goods, food, beverages, personal items, plant and machinery parts, and building products moved individually and/or in containerised, palletised and/or parcel sized configurations, which is mainly moved by road transport.
Payload	The part of a vehicle's load, from which revenue is derived that is, passengers and cargo.
Restricted Use Flag	A form of temporary registration, issued through the consent of Maritime Safety Queensland which bestows restricted operating rights upon ships that would not otherwise be permitted to operate in Queensland waters.

## Chair's Foreword

On 22 May 2014, the Legislative Assembly agreed to a motion that the Transport, Housing and Local Government Committee inquire and report on the effect of coastal shipping policy on the development of an efficient and productive multi-modal freight network, taking into account issues such as regional development, supply chain security, road safety impacts and contestability between coastal shipping and other transport modes.

Australia's domestic freight has grown by 57% over the last decade and it is predicted that the freight task will grow by 80% between 2010 and 2030. The movement of freight in Queensland predominantly relies on road and rail, with sea freight only moving 2% of cargo. This predicted freight growth will put enormous pressure on Queensland's road and rail infrastructure with significant investment required from government and the private sector if high levels of congestion are to be avoided. The Committee investigated ways to improve the rail freight system in its previous Report No.45 "Rail Freight Use by the Agriculture and Livestock Industries".



The Committee has considered the terms of reference provided by the Legislative Assembly and come to the conclusion that a regular sea freight service along the Queensland coast would provide an environmentally sustainable alternative to road and rail freight with considerable benefits for the Queensland economy including: reducing road congestion; improving road safety by taking oversize cargo off the roads; reducing road maintenance costs; providing resilience to the transport supply chain in times of natural disaster; and providing flow on benefits to the drive tourism industry and defence sectors.

While a regular coastal shipping service could provide a cost-effective, efficient and productive complementary transport service, the establishment of such a service has been impeded by a restrictive regulatory framework and the subsidisation of road and rail freight by successive state and federal governments. This has meant sea freight has been unable to compete on a level playing field with road and rail.

The Committee has focussed on looking at practical strategies that aim to facilitate the development of a robust coastal shipping service along the Queensland coastline. It has done this through discussions with stakeholders and receiving expert advice from the shipping industry, ports and freight customers on the issues affecting the industry. The Committee recommends:

- amendments to the Commonwealth regulatory framework including the Coastal Shipping Act, the Fair Work legislation, and the Customs Act; and reviews of the registration conditions for the Australian International Shipping Register and of the Queensland "Restricted Use Flag" provisions in the *Transport Operations (Marine Safety) Act 1994*
- urgent priority be given to investigating the most effective ways to integrate a regular shipping service into Queensland's freight network by assessing the contestability of a sea freight service based on competitive freight rates, sustainable freight volumes and innovative service delivery
- work continue on the "Sea Freight Action Plan – Coastal Shipping" to ensure that policy enablers, such as port planning and collaborative supply chain planning, provide an environment that is conducive to the establishment of a competitive, coastal shipping service in this State.

On behalf of the Committee, I want to thank everybody who has contributed to this Inquiry, particularly those stakeholders who have shared their valuable time and expertise with us.

I wish to thank the members of the Committee for their detailed consideration of the issues covered by the Inquiry, the Committee's secretariat and the Queensland Parliamentary Library for their assistance throughout the Inquiry process.

I commend the Report to the House.

A handwritten signature in black ink, appearing to read "Howard Hobbs".

Mr Howard Hobbs MP

**Chair**

December 2014



## Recommendations

### **Recommendation 1** **21**

The Committee recommends that the Legislative Assembly note the considerable benefits a regular coastal sea freight service would provide to the Queensland economy, including providing an environmentally sustainable alternative to road and rail freight, reducing road congestion, improving road safety, reducing road maintenance costs, providing resilience to the transport supply chain in times of natural disaster and flow on benefits to the drive tourism and defence sectors.

### **Recommendation 2** **43**

The Committee recommends that the Minister for Transport and Main Roads give urgent priority to undertaking a detailed assessment of the best way to integrate a regular coastal shipping service into the transport supply chain and in doing so, assess the viability of a sea freight service based on freight rates, sustainable freight volumes and competitive service delivery in consultation with the shipping industry, Queensland ports and potential freight customers.

### **Recommendation 3** **46**

The Committee recommends against any direct, long-term or permanent sea freight subsidy being provided by the Queensland Government on the basis that a regular shipping service should only be established if it is deemed to be economically viable in the medium to long term.

### **Recommendation 4** **46**

The Committee recommends that, given the significant benefits a coastal shipping service would provide to the Queensland economy and community amenity, the Government should remain open to discussions with the shipping industry, regional ports and freight customers concerning forms of assistance (other than a direct subsidy) that may facilitate the establishment of a coastal shipping service.

### **Recommendation 5** **50**

The Committee recommends that the Queensland Government investigate ways in which to assist remote island communities in North Queensland with their high freight costs, including:

- investigating the possibility of upgrading the road and/or providing a rail link to Bamaga
- considering a State Government funded freight subsidy to remote island communities on the basis that the State subsidises rail freight to other remote/regional Queensland communities where a competitive freight service is not possible
- approaching the Federal Government to discuss the provision of financial assistance for a freight subsidy to remote island communities on the basis that the Commonwealth contributes significant funding to the Tasmanian freight subsidy scheme.

### **Recommendation 6** **56**

The Committee recommends that the Queensland Government work with relevant Queensland ports and potential commercial investors to facilitate the funding of any common use infrastructure required in order to establish a viable coastal sea freight service in Queensland.

### **Recommendation 7** **59**

The Committee recommends that the Queensland Government continue to work with Queensland ports to ensure that port services required for a coastal sea freight service are incorporated into their port master plans and in particular, to ensure that berthing and loading/unloading facilities are guaranteed at each port and that the cost of port services are kept to a minimum.

**Recommendation 8****63**

The Committee recommends that the Queensland Government advise the Australian Government that it supports the call for a review of the registration conditions for Australian International Shipping Register on the basis that amended registration conditions are likely to result in more vessels using the Register, increasing the Australian Maritime cluster which, in turn, would facilitate the development of a robust coastal shipping service along the Australian coastline.

**Recommendation 9****67**

The Committee recommends that the Queensland Government approach the Australian Government to request that the Fair Work Regulations 2009 be amended to expressly exempt international vessels undertaking temporary licence voyages from having to pay Australian wage rates on the basis that this will remove one of the barriers to the development of a robust coastal shipping service along Australian coastline.

**Recommendation 10****77**

The Committee recommends that the Queensland Government advise the Australian Government that it is supportive of its current review of the *Coastal Trading (Revitalising Australian Shipping) Act 2012* and the development of a legislative framework that facilitates the development of a robust coastal shipping service along the Australian coastline, and that the following amendments to the Act be considered as a priority:

- reduce red tape by removing the 5 voyage minimum to apply for a temporary licence and introducing an open temporary licence for a 12 month period with unlimited voyages
- streamline administration through express temporary licence/express variations and automatic licences in uncontested trades
- make general licences available to non-Australian flagged ships if Australian crewed
- remove all licensing requirements on foreign-flagged vessels that maintain a consistent intrastate service, for example, Townsville – Brisbane in Queensland
- provide exemptions to licensing requirements for foreign flagged ships stopping at coastal ports on the international route
- amend section 112 of the Act to include vessels which are exempted from the Act as well as Australian International Shipping Register vessels operating under a temporary licence
- provide for an automatic approval to 'opt in' for intrastate ships
- where licensing is required, simplify the system by eliminating the complex and impractical reporting requirements
- amend section 10 so that the Act does not apply to cruise ships and smaller expedition (tourism) style vessels less than 5,000 GRT.

**Recommendation 11****80**

The Committee recommends that the Queensland Government approach the Australian Government to request that the following amendments be considered in relation to the application of the *Customs Act 1901* in order to facilitate the development of a robust coastal shipping service along the Australian coastline, including:

- introducing a new Customs regulation to provide for circumstances whereby importation is not in the 'national interest'
- amending section 112 of the *Coastal Trading (Revitalising Australian Shipping) Act 2012* to include vessels exempted from the Act as well as Australian International Shipping Register vessels operating under a Temporary Licence
- introducing a timeframe during which vessels in Australia will not be imported (for example, 90 days)

- removing some key flow on effects from importation (such as immigration requirements) in some circumstances, such as dry docking.

**Recommendation 12****83**

The Committee recommends that the Minister for Transport and Main Roads investigate whether there are likely to be benefits to the Queensland economy if genuine coastal trading vessels, which are less than 500 gross tonnage, have access to Commonwealth shipping tax incentives and, if so, approach the Federal Government to discuss the possibility of an amendment to the relevant Income Tax Assessment Acts.

**Recommendation 13****91**

The Committee recommends that the Minister for Transport and Main Roads review any current inconsistencies in the treatment of coastal trading vessels between arrangements in Queensland and those that operate under Commonwealth legislation and any inconsistencies in the application of safety/environment/training standards of vessels under the Navigation Act and the Marine Safety National Law with a view to ensuring a consistent approach is applied.

**Recommendation 14****91**

The Committee recommends that the Minister for Transport and Main Roads assess the benefits and disadvantages of retaining the Restricted Use Flag regulatory provisions under the Transport Operations (Marine Safety) Regulation 2014 and report back to the Legislative Assembly within 12 months.

**Recommendation 15****91**

The Committee recommends that the Minister for Transport and Main Roads make it clear to the shipping industry that the Government does not intend to use the Restricted Use Flag provisions to impose a de facto economic regulatory system for intrastate shipping in Queensland.

**Recommendation 16****95**

The Committee recommends that the Queensland Government continue to work closely with sea, rail and road freight providers, the ports and prospective sea freight customers to ensure the policy enablers identified in the Sea Freight Action Plan, including collaborative supply chain planning, are put in place to provide an environment conducive to the establishment of a coastal shipping service.

## 1 Introduction

The recommendations in this Report are addressed to the Minister for Transport and Main Roads as the responsible minister.<sup>1</sup>

### 1.1 Role of the Committee

The Transport, Housing and Local Government Committee (the Committee) is a portfolio committee established by the *Parliament of Queensland Act 2001* and the Standing Rules and Orders of the Legislative Assembly on 18 May 2012.<sup>2</sup> The Committee consists of both government and non-government members and its primary areas of responsibility are:

- Transport and Main Roads
- Housing and Public Works
- Local Government, Community Recovery and Resilience.<sup>3</sup>

In relation to its areas of responsibility, the Committee:

- examines legislation, including subordinate legislation, to consider the policy to be enacted and the application of the fundamental legislative principles set out in part 4, section 24 of the *Legislative Standards Act 1992*
- considers the Appropriation Bills (acting as an estimates committee)
- assesses the public accounts and public works of each department in regard to the integrity, economy, efficiency and effectiveness of financial management
- has a responsibility to consider any other issue referred to it by the Assembly, whether or not the issue is within a portfolio area.<sup>4</sup>

The Committee may deal with these matters by considering them and reporting and making recommendations about them to the Assembly.<sup>5</sup>

### 1.2 Terms of reference

On 22 May 2014 the Legislative Assembly agreed to a motion that the Transport, Housing and Local Government Committee inquire into and report on the effect of coastal shipping policy on the development of an efficient and productive multi-modal freight network, taking into account issues such as regional development, supply chain security, road safety impacts and contestability between coastal shipping and other transport modes.

The terms of Reference provided to the Committee were:

- consider what benefits arise from a scheduled 'weekly' coastal shipping service, in terms of reducing road and rail congestion and managing future freight demand
- consider what impact coastal shipping would have on competition in the Queensland freight transport sector

---

<sup>1</sup> *Parliament of Queensland Act 2001*, section 107

<sup>2</sup> *Parliament of Queensland Act 2001*, section 88 and Standing Order 194

<sup>3</sup> The Standing Orders, Schedule 6 – Portfolio Committees as amended 11 February 2014

<sup>4</sup> *Parliament of Queensland Act 2001*, section 92(2)

<sup>5</sup> *Parliament of Queensland Act 2001*, section 92(3)

- *consider the implications of coastal shipping policy for defence support, disaster management, maritime safety, community amenity, environmental sustainability and tourism*
- *investigate cross-jurisdictional differences that exist between the states in regulating trading vessels on intrastate voyages that might impact on competition and increase costs within the coastal shipping industry*
- *review the policy and regulatory arrangements of the Coastal Trading (Revitalising Australian Shipping) Act 2012 including the impacts of the 3 tier licensing system on establishing an intrastate coastal shipping trade in Queensland waters*
- *investigate whether Queensland benefits from the uniform regulation of these vessels under existing Commonwealth legislation, and make recommendations where necessary for proposed amendments.*

The Committee was asked by the Legislative Assembly to provide a report by 1 December 2014.

### **1.3 Conduct of the Inquiry**

Subsequent to receiving the referral, the Committee resolved to call for public submissions. The closing date for submissions was 11 July 2014. The Committee received 11 submissions. A list of those who made submissions is provided at Appendix A. Copies of the submissions (with the exception of confidential submissions) have been published on the Committee's webpage at [THLGC - Queensland Parliament](#) and can be accessed through the links provided in Attachment A.

On 27 August 2014, the Committee held a public departmental briefing with officers from the Department of Transport and Main Roads (TMR or the Department) to receive information on various aspects of the referral. A list of witnesses who appeared at the briefing is provided at Appendix B.

The Committee held several public hearings to hear the views of stakeholders:

- Brisbane on 25 February 2014 (5 witnesses)
- Brisbane on 5 March 2014 (13 witnesses)
- Toowoomba on 7 April 2014 (3 witnesses)
- Toowoomba on 7 April 2014 (2 witnesses)

A list of witnesses who gave evidence at these public hearings is provided at Appendix B.

Transcripts from the public briefing and the public hearings, as well as responses to Questions on Notice have been published on the Committee website and are available at: [THLGC - Queensland Parliament](#).

The Committee held eight private meetings/briefings with stakeholders in Brisbane, Sydney and Melbourne. A list of the organisations that attended these meetings is provided at Appendix C.

The Committee also conducted five site visits as follows:

- Port of Brisbane on 22 July 2014
- Thursday Island port facilities on 19 August 2014
- Townsville Port on 21 August 2014
- Townsville Harbour's ReefVTS Centre on 21 August 2014
- Ports Authority NSW, Port Kembla on 15 September 2014

## 1.4 Broad strategic framework

The broader strategic framework within which the Committee has undertaken this Inquiry includes the following strategies and processes, some of which are completed and others still to be finalised.

### Queensland Government strategies and processes

- Governing for growth: economic strategy and action plan – released February 2014<sup>6</sup>
- Moving Freight: a strategy for more efficient freight movement – released Dec 2013<sup>7</sup>
- The Queensland Ports Strategy – released June 2014<sup>8</sup>
- Queensland’s agriculture strategy: a 2040 vision to double agricultural production - 2013<sup>9</sup>
- A Sea Freight Action Plan – finalised in July 2014<sup>10</sup>
- Government’s Queensland Drive Tourism Strategy 2013-2015<sup>11</sup>

### The National agenda

- Commonwealth Government review of coastal trading – submission closed 31 May 2014.<sup>12</sup>



**Transport, Housing and Local Government Committee** meeting with shipping industry in Sydney, 15 Sep 2014.

(From left), Mr Carl Judge MP (Member for Yeerongpilly), Mr Anthony Shorten MP (Member for Algerter), Mr Howard Hobbs MP - Chair (Member for Warrego), Mrs Desley Scott MP – Deputy Chair (Member for Woodridge), Mr John Grant MP (Member for Springwood), Mr Darren Grimwade MP (Member for Morayfield). Mr Jason Woodforth MP (Member for Nudgee) absent.

<sup>6</sup> <http://www.dsdip.qld.gov.au/governing-for-growth/economic-development/governing-for-growth.html>

<sup>7</sup> <http://www.tmr.qld.gov.au/movingfreight>

<sup>8</sup> <http://www.dsdip.qld.gov.au/infrastructure-and-planning/queensland-ports-strategy.html>

<sup>9</sup> <http://www.daff.qld.gov.au/business-trade/development/queenslands-agriculture-strategy>

<sup>10</sup> [TMR, Sea Freight Action Plan – Coastal Shipping, Jul 2014](http://www.tmr.qld.gov.au/sea-freight-action-plan-coastal-shipping)

<sup>11</sup> [https://www.dtesb.qld.gov.au/\\_data/assets/pdf\\_file/0015/31605/qld-drive-tourism-strategy.pdf](https://www.dtesb.qld.gov.au/_data/assets/pdf_file/0015/31605/qld-drive-tourism-strategy.pdf)

<sup>12</sup> [http://www.infrastructure.gov.au/maritime/business/coastal\\_trading/review/](http://www.infrastructure.gov.au/maritime/business/coastal_trading/review/)

## 2 Coastal sea freight – the context

The Committee has been asked by the Legislative Assembly of Queensland report on the effect of coastal shipping<sup>13</sup> policy on the development of an efficient and productive multi-modal freight network, taking into account issues such as regional development, supply chain security, road safety impacts and contestability between coastal shipping and other transport modes.<sup>14</sup>

### 2.1 Current modal share

#### 2.1.1 Australia

Coastal shipping currently moves essential cargo around Australia including coal, fertiliser, petroleum products, liquid petroleum gas (LPG), metallic ores and mineral sands, cement and steel.<sup>15</sup>

The Federal Department of Infrastructure and Regional Development provided the following data:

- Australian domestic freight has grown by 57% over the last decade; however the share carried by coastal shipping has dropped dramatically from 27% in the year 2000, to just below 17% in 2012.
- It is projected that Australia's freight task will grow by 80% between 2010 and 2030 and while national road and rail freight is projected to double, it is anticipated that coastal shipping will grow by only 15%.
- The number of major Australian registered ships with licences to move coastal freight fell from 30 in 2006-07 to 13 by 2012-13. While the number of ships has recently increased slightly to 18 in 2014, the deadweight tonnage (the weight a ship is carrying) has plummeted by 64% over the last two years.<sup>16</sup>

Coastal shipping is currently occurring within closed supply chains. The Port of Brisbane provided the following analysis of the freight being moved by sea:

*Australian coastal freight today can be viewed in four broad categories: containerised goods; liquid bulk; dry bulk; and break bulk. As illustrated in Table 2 below, the vast majority of Australian coastal shipping is in dry and liquid bulk. As refineries around Australia close, coastal shipping of bulk liquids will diminish as refined fuels will be imported directly to ports along our coast line.*

*The low value, high weight, long distances and handling requirements for bulk commodities combine to make this sector suited to coastal shipping.*<sup>17</sup>

---

<sup>13</sup> "Coastal shipping is a mode of transport for moving goods around the coast on intrastate vessels", TMR, Hansard transcript (Public Briefing - Brisbane), 27 Aug 2014:1

<sup>14</sup> Terms of reference at [www.parliament.qld.gov.au/thlgc/inquiries/current-inquiries/INQ-CSF](http://www.parliament.qld.gov.au/thlgc/inquiries/current-inquiries/INQ-CSF)

<sup>15</sup> Coastal shipping also covers the movement of passengers on domestic cruises and ferry services.

<sup>16</sup> Department of Infrastructure and Regional Development, Coastal Shipping Reform Factsheet, [http://www.infrastructure.gov.au/maritime/publications/pdf/Shipping\\_Reform\\_Fact\\_Sheet.pdf](http://www.infrastructure.gov.au/maritime/publications/pdf/Shipping_Reform_Fact_Sheet.pdf) <accessed 2 Oct 2014>

<sup>17</sup> Port of Brisbane, submission 2:5-6

**Share of Coastal Freight January 2014**

Cargo Type	Loaded (%)
Dry Bulk	64.9
Liquid Bulk	20.3
Containers	9.7
Break Bulk	5.1

Source: Bureau of Infrastructure, Transport and Regional Economics (BITRE)<sup>18</sup>

In 2011-12 Australian Trader ships moved 50.2 million tonnes of cargo consisting of dry bulk, liquid bulk, containers and other project and minerals based freights.<sup>19</sup> The 2011-12 Australian trading fleet comprised 104 vessels with an additional 2,521 “unlicensed” ships that moved 11.8 million tonnes of domestic freight under permits (including 79,741 Twenty-Foot Equivalent Units (TEU)).<sup>20</sup>

Caltex Australia pointed to the importance of coastal shipping for petroleum supply chains:

*The use and importance of coastal shipping in petroleum supply chains is due to the geographically-dispersed nature of fuel terminals located in Australia. Hence, the shipping of petroleum products around Australia is generally the most efficient and economic transport method for large quantities over long distances.*<sup>21</sup>

*.... Coastal shipping plays an important role in the distribution of Australia-refined products and, in future, coastal shipping may play a role in the efficient distribution of imports, particularly to the remote locations in the country.*<sup>22</sup>

The Port of Brisbane submitted that the market for containerised and break bulk transport is dominated by the road and rail modes due to a lack of competitive neutrality and the current low efficiency of the coastal shipping service.<sup>23</sup>

*As a mode, road transport carries the majority of commodities produced and consumed within Australia. More than 95% of Australia’s road freight is carried by heavy vehicles. On the major north-south and east-west freight corridors, road transport continues to dominate despite extensive distances where coastal shipping parameters should compete on transit, cost and overall efficiency.*<sup>24</sup>

Most stakeholders have shared the view that the current regulatory regime has dramatically reduced the viability of the Australian coastal shipping industry. Evidence provided includes:

*In 2010 Brisbane to Fremantle there were seven shipping lines providing regular efficient and competitive services from Brisbane to Fremantle. Immediately prior to the introduction of the revised coastal shipping regulations in 2012, five of the seven shipping lines withdrew their services from this route. The effect was a 62% drop in volume shipped coastally from Brisbane to Fremantle. Some of this trade moved to road and rail but the majority, i.e. timber, iron, steel and building products, are now imported from international markets directly to Fremantle.*

<sup>18</sup> Bureau of Infrastructure, Transport and Regional Economics (BITRE) as referenced by Port of Brisbane, submission 2:5-6

<sup>19</sup> BITRE, Australian Sea Freight 2011-12 Statistical Report, as referenced in the Sea Freight Action Plan, Jul 2014:12

<sup>20</sup> Sea Freight Action Plan, Jul 2014:12

<sup>21</sup> Caltex Australia, submission 6:3

<sup>22</sup> Caltex Australia, submission 6:5

<sup>23</sup> Port of Brisbane, submission 2:6

<sup>24</sup> Port of Brisbane, submission 2:5



*Both the cost and administrative burden of current regulations has resulted in international carriers exiting the coastal trade. This is particularly relevant to the movement of freight between major population areas (containerized, general and break-bulk cargoes).*

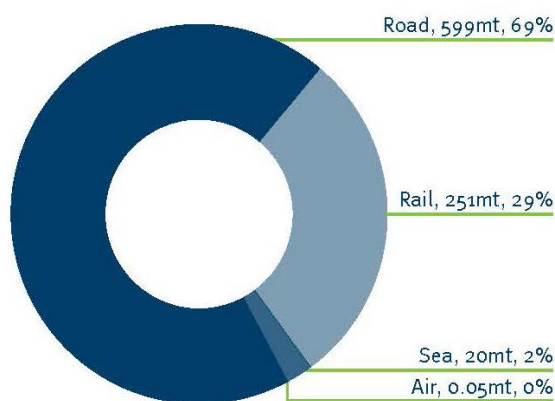
*Uncertainty created by current regulation has also seen international carriers withdraw. These carriers have not been able to establish reliable ongoing services or develop client relationships to enable a competitive coastal shipping market to be established. Since regulations changed, the additional administrative complexity of the special arrangements under a range of Australian laws – related to workplace pay and conditions, immigration and taxation, customs duty and excise, and the complication of global imbalances of containers – combined with relatively high terminal charges and poor productivity has seen lines prefer to be absent from the market.*

*It is suggested that higher costs through the administrative requirements of the regulation have distorted the coastal shipping market and the corresponding market rates. By way of example, a 20'GP from Shanghai to Melbourne is currently charged at \$A 548 or less than 50% than the move between Brisbane and Melbourne, on what could be the same vessel.<sup>25</sup>*

### 2.1.2 Queensland

In Queensland, the dominant transport supply chains extend from Brisbane to Cairns with supply chains crossing the state to service the mining basins, agricultural and livestock production, other states and territories and Over Size Over Mass (OSOM) cargo movements.<sup>26</sup>

As can be seen from the diagram below, the movement of freight in Queensland relies predominantly on road and rail, with sea freight only moving 2% of cargo.<sup>27</sup>



Coastal shipping has been operational in Queensland for many years but is limited to carrying project cargoes, bulk commodities, motor vehicles, remote location general freight inputs and specific TEU inputs for construction activities.

All Queensland ports are currently involved in various forms of coastal shipping, depending on the ports handling equipment and infrastructure.<sup>28</sup> The State's regional ports have traditionally been associated with bulk commodity exports such as coal, minerals, grain and sugar.<sup>29</sup> Coastal shipping handles the movement of bulk products such as bauxite from Weipa to Gladstone and fertiliser

<sup>25</sup> Port of Brisbane, submission 2:7

<sup>26</sup> TMR, Sea Freight Action Plan, Jul 2014:7

<sup>27</sup> Source: TMR, Moving Freight, Dec 2013:16

<sup>28</sup> Sea Freight Action Plan, Jul 2014:12

<sup>29</sup> TMR, Background Briefing, Jun 2014:4

supplies from Queensland were transported to many ports including Newcastle, Geelong and Adelaide to support Australian farmers.<sup>30</sup> The movement of bauxite between Weipa and Gladstone represented 27.3% of Australia's total coastal shipping trade in 2012.<sup>31</sup> In 2010-11 Queensland's coastal shipping task was only 4.2 million tonnes, excluding coal and bauxite related tonnages.<sup>32</sup>

The Port of Townsville provided the following example to the Committee:

*The movement of domestic bulk cargo already occurs at POTL. Over 500,000 tonnes of cement is imported annually, in addition to fertiliser and petroleum products. These markets have their own dedicated ships and access to specific facilities. Coastal shipping routes already exist, for example Swire (every 3 week service) and Mariana (NT/Qld/Asia) run a limited service. No infrastructure impediments exist for the Port, nor are there barriers in relation to rail or road for current or potential growth. Market driven investment will occur as required.*

*Non-bulk domestic coastal trade however has declined dramatically through the Port of Townsville. The frequency of transit times and pricing of shipping services do not attract regular coastal business. The carriage of domestic cargo is often at the mercy of the much established and planned international schedules and volumes.*<sup>33</sup>

As the Sea Freight Action Plan points out:

*What is not happening is a dedicated intrastate coastal service with fixed day arrival and departure, to service a broad base of intrastate cargo, with a focus on trans-shipment of export/import TEU through our major international Port of Brisbane.*<sup>34</sup>

## 2.2 Benefits of a regular sea freight service to Queensland's economy

During the course of this Inquiry the Committee has examined the potential benefits of a regular sea freight service to the Queensland economy and in particular, to regional economies. Whilst many of these specific benefits are discussed throughout the report, the following section sets the context in terms of broad benefits to the economy.

The Sea Freight Action Plan identifies a number of potential benefits that a coastal shipping service could provide to the different sectors of the Queensland economy including attracting a broad range of value adding services to associated regional ports such as stevedoring, trucking, rail, warehousing, container packing, customs and quarantine services:

*This presents an opportunity for regional ports to attract new investment from a broader range for potential customers, creating a port community that works collaboratively and adds considerable supply chain value to regional Queensland.*<sup>35</sup>

Further, on the potential benefits for regional economies, Mackay Regional Council pointed out that facilitating import and export of alternative commodities at the Port of Mackay would see:

---

<sup>30</sup> Department of Infrastructure and Regional Development, Coastal Shipping Reform Factsheet, [http://www.infrastructure.gov.au/maritime/publications/pdf/Shipping\\_Reform\\_Fact\\_Sheet.pdf](http://www.infrastructure.gov.au/maritime/publications/pdf/Shipping_Reform_Fact_Sheet.pdf) <accessed 2 October 2014>

<sup>31</sup> BITRE, as quoted in TMR, Sea Freight Action Plan, July 2014:5

<sup>32</sup> BITRE, Australian Sea Freight 2011-12 Statistical Report, as referenced in the Sea Freight Action Plan, Jul 2014:12

<sup>33</sup> Port of Townsville, submission 9:6

<sup>34</sup> TMR, Sea Freight Action Plan, Jul 2014:35

<sup>35</sup> TMR, Sea Freight Action Plan, Jul 2014:5

*.. reduced outlay costs for producers, increased development and employment opportunities at the Port of Mackay and potential for increased investment and growth in the industrial and agricultural sectors in Mackay (i.e. suppliers locating businesses in Mackay).*<sup>36</sup>

The Australian Shipowners Association (ASA) advised that a strong local shipping industry would provide for reliability and price stability in freight services:

*A greater degree of Australian control in the provision of shipping services will improve Australia's economy via growth in national shipping activity and the maritime economic cluster – an inevitable flow on effect resulting from a stronger local shipping industry. It will also ensure that Australia retains the required expertise within its workforce to provide reliable and efficient services.*<sup>37</sup>

The Port of Brisbane (PoB) concluded that a coastal sea freight service would benefit the Queensland economy in the following ways:

*... provide freight owners with a real choice in mode of freight transport and allow flexibility in their supply chain. It will force improvement in regional port infrastructure and drive efficiency through competitiveness and the development of intermodal facilities. It will also give cargo owners the ability to split their freight task between the three modes, which will give them certainty during natural disasters by ensuring continued access to the market.*<sup>38</sup>

The Port of Townsville (PoT) also pointed to the benefits of a coastal shipping service for Queensland:

*Shipping is an integral part of the supply chain and can provide a safer, more environmentally friendly and a more economical mode of transport for the movement of long haul freight. This would lead to overall efficiency gains in the movement of freight, maximising the efficiency of existing networks. Increasing the freight load on coastal shipping is a viable and safe option, which will contribute significantly to reduced congestion on roads and allow for future freight growth. Coastal shipping also enables the movement of cargo in bulk and cargo that is too large to be carried by other modes of transport.*<sup>39</sup>

The Department of Transport and Main Roads advised that a regular coastal sea freight service is likely to provide specific benefits for Queensland's agriculture, resources, construction and tourism sectors which are the sectors identified in the Queensland government's policy to develop a four pillar economy. These benefits are summarised below:

- A regular sea freight service is likely to facilitate the agricultural sector in developing containerised export options through regional ports, which will provide new trade opportunities through supply chain innovation.<sup>40</sup>
- A regular coastal shipping service will provide the resources sector with a cost effective alternative to trucking Over Size Over Mass mining equipment from South East Queensland along major roads.<sup>41</sup>

---

<sup>36</sup> Mackay Regional Council, submission 4:2

<sup>37</sup> ASA, submission 5:9

<sup>38</sup> Port of Brisbane, submission 2:3

<sup>39</sup> Port of Townsville, submission 9:5

<sup>40</sup> TMR, Sea Freight Action Plan, July 2014:4

<sup>41</sup> Ibid

*Coastal shipping currently handles the movement of bulk products such as Bauxite from Weipa to Gladstone, but presents potentially wider freight network in terms of providing an alternative to trucking large pieces of mining equipment on the Bruce Highway under pilot or police escort.*

*Managing the impacts of new and existing mining projects on key road corridors presents an opportunity to consider the benefits of re-directing Over Size Over Mass (OSOM) cargo movements from road to ship, where there is benefit to safety, supply chain security, and freight network efficiency.<sup>42</sup>*

- A sea freight service is also likely to provide the construction industry with access to regional ports for large-scale project cargo in a cost effective and timely manner.<sup>43</sup>
- Another positive impact of a coastal sea freight service would be to manage the impacts of freight movements on drive tourism by ‘matching the right load to the right mode’.<sup>44</sup>

### **Committee comment**

The Committee has noted that sea freight currently only moves 2% of Queensland’s cargo and that this is mainly limited to carrying bulk commodities such as coal, bauxite, fertiliser and petroleum - with the market for containerised and break bulk transport continuing to be dominated by the road and rail modes. This situation reflects the overall modal share of coastal sea freight across Australia and is not unique to Queensland.

The Committee is concerned that, given Australia is an island nation with huge potential for moving freight by sea, coastal shipping, which is an environmentally sustainable mode of transport with minimal infrastructure requirements, has been impeded by a lack of competitive neutrality. The specific impediments to moving freight via sea along the Australian coastline, and possible solutions, are discussed in detail in the remaining sections of the Committee’s report.

It has become clear to the Committee, through the course of this Inquiry, that a commercially operated, regular, coastal shipping service could provide significant benefits to the Queensland economy and provide a significant enhancement to regional supply chains which will come under increasing pressure with the massive growth projected for freight movements. The specific benefits of such a service, including reducing road congestion and relieving pressure on the rail system, are examined in the next section of the Report.

---

<sup>42</sup> TMR, Background Briefing, June 2014:5

<sup>43</sup> TMR, Sea Freight Action Plan, July 2014:4

<sup>44</sup> Ibid

### 3 Additional benefits of a regular coastal sea freight service

The Terms of Reference for the Committee's consideration in relation to this Inquiry included:

- consideration of what benefits arise from a scheduled 'weekly' coastal shipping service in terms of reducing road and rail congestion
- consideration of the implications of coastal shipping policy for defence support, disaster management, maritime safety, community amenity, environmental sustainability and tourism.

This section of the report discusses some of the potential benefits and implications of a regular coastal sea freight service for the Queensland economy and broader community amenity but does not cover the specific impact a sea freight service might have on the freight sector. The Committee's examination of the ways in which a regular coastal sea freight service could assist in managing freight demand, the viability and contestability of such a service, and the potential impact on other freight sectors is discussed in the next section of this Report.

#### 3.1 Positives for road/rail congestion, maintenance costs and road safety

Stakeholders unanimously agreed that one of the major benefits of a coastal sea freight service is that it would provide an alternative to congested road transport and also to rail freight services, which are at capacity, along the coastal route.

##### 3.1.1 Infrastructure costs

The Port of Brisbane pointed to the enormous investment that will be required to provide enough road and rail infrastructure to cope with the estimated growth in demand:

*Managing the expected growth in domestic freight Queensland's road and rail infrastructure will require enormous investment over the coming decade. Beyond this short period, an even greater investment by the public and private sector will be required to ensure our road and rail lines do not experience levels of congestion which significantly impact economic activity.*

*..... In stark contrast, delivering coastal shipping infrastructure requires relatively minor investment in channels, navigational structures, vessel management and intermodal connections. It is estimated to cost approximately \$3.3 billion to build hundreds of kilometres of highway roads, or \$6 billion to build hundreds of kilometres of single track freight rail, but will cost next to nothing to deliver the entire length of sea lane infrastructure used by coastal shipping.<sup>45</sup>*

Mackay Regional Council agreed that the wider community would benefit from a coastal sea freight service through reduction in repair and maintenance work on roads.<sup>46</sup> The North Queensland Bulk Ports Corporation (NQBP) advised that:

*Having a viable coastal shipping industry and associated improvements in regional and port infrastructure will potentially contribute to a reduction in capital expenditure and maintenance on regional road networks.<sup>47</sup>*

---

<sup>45</sup> Port of Brisbane, submission 2:3

<sup>46</sup> Mackay Regional Council, submission 4:2

<sup>47</sup> NQBP, Hansard transcript (Public Hearing - Brisbane), 24 Aug 2014:12

### 3.1.2 Congestion

The Port of Brisbane referred to the future costs of congestion in Brisbane and Queensland, which are expected to increase at a greater rate than any other capital city and state in Australia:

*As congestion increases on local, state and national roads, coastal shipping will need to play a more substantive role in transporting freight.<sup>48</sup>*

*.....This has never been more evident than during the recent resources boom in Queensland where the transport of oversized and over-mass cargo frequently clogged the State's roads. The lack of a viable commercial coastal shipping industry will continue to result in increasing congestion on our state and nation's roads and highways.<sup>49</sup>*

The Port of Townsville provided a comparative example of different transport modes:

*One fully laden ship loaded with freight at the Port of Townsville and moving along the coast of Queensland would have the effect of:*

- *removing 596 B-Double trucks of 34-tonne capacity off the Bruce highway*
- *transporting the same quantity of freight as 810, 25-tonne capacity semi-trailers*
- *10 inter-modal freight trains (assuming approximately 2,000 tonne capacity).<sup>50</sup>*

Over Size Over Mass mining equipment is a particular challenge on Queensland's road network in relation to both traffic flow and safety. A coastal sea freight service would provide an excellent alternative for the movement of Over Size Over Mass cargo. The North Queensland Bulk Ports Corporation pointed out that the removal of long haul, Over Size Over Mass movements would potentially reduce congestion.<sup>51</sup>

The Department of Transport and Main Roads advised that the recent inquests into the deaths of *Kenneth Roland Owens & Daniel Arthur Stiller* by the Coroner came to the following conclusion:

*In view of the inherent danger of such transportation (wide load and escorted road freight movements) it is important that road transport is not used to move these items if other forms of transport are available. Mere cost savings or convenience should not justify increased dangers to other road users. For example, shipping such loads to the ports of Gladstone or Mackay could very significantly reduce the number of wide loads on a very busy part of the Queensland road network and limit damage caused to the roads by overweight vehicles.<sup>52</sup>*

The possibility of a roll-on, roll-off service, (RORO) which is a vessel that has a ramp at the back via which you can drive mining equipment on and off, would provide a practical alternative to the Over Size Over Mass loads going by road.<sup>53</sup>

---

<sup>48</sup> Port of Brisbane, submission 2:4

<sup>49</sup> Port of Brisbane, submission 2:8

<sup>50</sup> Port of Townsville, submission 9:4

<sup>51</sup> NQBP, Hansard transcript (Public Hearing - Brisbane), 24 Aug 2014:12

<sup>52</sup> Coroner's Report as referenced by TMR, Background Briefing, Jun 2014:7

<sup>53</sup> TMR, Hansard transcript (Public Briefing), 27 Aug 2014:3

### 3.1.3 Improved safety

The Australian Shipowners Association pointed out that while annual counts of fatal crashes involving articulated trucks have trended down at 3.5% per year, and for heavy rigid involvement is a slightly weaker decline of 2.2% per year, fatalities involving heavy vehicles (not including buses) remain at 180 persons in 2013, 48 in Queensland.<sup>54</sup> The Association submitted:

*There is little doubt that this level of road trauma could be reduced if more long-haul freight was taken off the road and moved by sea. Furthermore, the infrastructure cost in terms of maintaining roads suitable for heavy haulage could be reduced if more of the task moved to sea freight.*

*It is also important to consider the consequences of existing sea transport being moved to land transport options. Of recent times, one shipping service in another part of the country moved to rail transport and in Western Australia, the very recent removal of the State Government subsidy saw the ship dedicated to servicing the northern ports removed from service. The cargo previously by this ship is now presumably being moved by road.... One small ship is the equivalent of 800 B-Double trucks on the road.*

*A true comparison between transport modes is only possible when the entire 'cost' of shipping vs. other modes, including infrastructure and social costs, is considered. This is necessary in order that the most efficient form of transport is utilised for any given freight requirement.<sup>55</sup>*

Mackay Regional Council argued the removal of some Over Size Over Mass freight from roads and the utilisation of shipping would reduce road congestion and offer safety improvements on roads in the wider region such as the Peak Downs Highway, Bruce Highway and Gregory Highway.<sup>56</sup>

*The Central Police Region (i.e. Mackay, Rockhampton, Gladstone, Emerald, Barcaldine, etc.) is the only region in Queensland which has recorded an increase in road fatalities (18.4% increase in Central Police Region compared to the State's -16.1%).<sup>57</sup> Nearly a quarter (24.1% of the State's heavy freight vehicles fatal crashes in 2011 occurred in the Central Police Region.<sup>58</sup>*

Photo of Over Size, Over Mass freight, Elton Range



Image from "Moving Freight" December 2013, supplied courtesy of Department of Transport and Main Roads

<sup>54</sup> BITRE, Road deaths, 2014 as referenced in ASA, submission 5:9

<sup>55</sup> ASA, submission 5:8-9

<sup>56</sup> Mackay Regional Council, submission 4:2

<sup>57</sup> TMR, Fatal Road Traffic Crashes in Queensland 2011, as quoted in submission 4:2

<sup>58</sup> TMR, Moving Freight, 2013 as quoted in submission 4:2

### 3.2 Environmental sustainability

One of the other major attractions of a sea freight service is its environmental sustainability. The Department of Transport and Main Roads advised the Committee that sea freight has minimal environmental impacts and from a greenhouse perspective shipping is way ahead “*Just taking that many B-doubles off the highway must improve diesel emissions.*”<sup>59</sup>

The Australian Shipowners Association undertook a detailed review of sea transport efficiency and atmospheric emission in 2005. Some of the key findings included:

- shipping supports 28.15% of the domestic freight task but contributes to just 2% of total emissions from the transport sector
- for every small product tanker (~50,000DWT) operating around the coast, over 800 B Double trucks would be needed on the road to move the same amount of cargo
- new build engines are estimated to be able to achieve up to 30% greater efficiency than existing technology.<sup>60</sup>

The Australian Shipowners Association submitted:

*Clear government policy in relation to shipping and a serious commitment to emission reductions in the transport sector is essential in order to encourage modal shift and foster the significant private investment required to achieve further emission reduction in the Australian shipping industry.*<sup>61</sup>

The Port of Townsville agreed, advising that coastal shipping is more environmentally friendly compared to both road and rail<sup>62</sup> and that the transport sector is one of the industries key to the nation’s improved environmental performance:

*Currently accounting for around 15% of Australia’s total greenhouse emissions and the second highest rate of growth of emissions over the 15 years to 2005, the transport industry is going to be facing increased pressure. 36% of domestic transport emissions are freight related, therefore 6% of Australia’s total greenhouse emissions are caused by freight transport. To remain below the established threshold for dangerous temperature increases, carbon dioxide equivalents need to be reduced by approximately 20% of current levels in 2040 and by more than 40% of current levels by 2050 (Climate Change and Australian Coastal Shipping, A Macintosh, 2007).*

*Coastal shipping is the most environmentally efficient mode of freight transport, followed by rail, pipeline and then road. For every tonne-kilometre of freight transported, sea consumes only 0.2mega-joules of energy, as compared to rail’s 0.4 and road’s 1.4. Further to this, any air pollution caused by sea transport is less likely to affect populated areas than land-based modes of transport.*

---

<sup>59</sup> TMR, Hansard transcript (Public Briefing), 27 Aug 2014:9

<sup>60</sup> ASA, Sea Transport Efficiency and Greenhouse Gas Emissions, 2004:2 & 4

<sup>61</sup> ASA, submission 5:8

<sup>62</sup> Port of Townsville, submission 9:3



*An important factor to note is that this superior greenhouse performance is achieved with an aging and outdated fleet. A rejuvenated industry, with increased investment would increase greenhouse performance even further. Studies estimate new build engines can achieve up to 30% greater efficiency than existing technology, while existing ships can apply new technology to achieve up to 20% efficiency gains. Incentives for newer 'greener' vessels could assist to entice investment into the coastal shipping fleet.*

*An increased proportion of transport by sea presents the only viable option to meet the challenge of the growing freight task in this nation, whilst meeting environmental objectives.<sup>63</sup>*

The Committee also examined the possibility that a coastal shipping service would impact on the Great Barrier Reef. The Department of Transport and Main Roads advised the Committee that when ships travel from Brisbane to Townsville they are inside the reef and that the ship will travel through a mixture of international and Queensland coastal waters:

*Sometimes it is Queensland coastal waters. Sometimes it is Commonwealth waters. It is a seamless transition. In terms of our safety framework we work hand in glove with the Commonwealth. There are no gaps in our safety systems for the ships or our navigation systems for the ships. It would not increase the risk in the reef at all...*

*There would be enough port pilots (for a coastal shipping service). Those ships, unless they venture north of Cairns, in round figures, would not require reef pilots.<sup>64</sup>*

This advice was confirmed by the Committee during its visit to the Great Barrier Reef and Torres Strait Vessel Traffic Service (REEFVTS Centre) in Townsville on 21 August 2014 (see photo below).



---

<sup>63</sup> Port of Townsville, submission 9:9-10

<sup>64</sup> TMR, Hansard transcript (Public Briefing), 27 Aug 2014:8

### 3.3 Resilience – natural disasters

The Committee examined the ways in which a coastal sea freight service could improve supply chain resilience. A number of stakeholders pointed to the fact that the availability of coastal shipping, in the immediate aftermath of natural disasters, has the potential to support emergency services in keeping supply chains open to affected regions as part of a co-ordinated disaster relief effort.

The Department of Transport and Main Roads advised:

*Extreme weather events each year demonstrate the need for alternate options that improve overall network resilience. Road and rail closures in Far North Queensland during the 2010/11 summer cost the state economy millions of dollars in higher transport costs, lost production, and shortages of food and building materials.<sup>65</sup>*

The Port of Brisbane pointed to the fact that in Queensland, communities are increasingly facing the effects of natural disasters:

*...which leave our land-based modes of transport in disarray. As seen following the flood events of 2011, 2013 and 2014, Queensland's northern and Western communities and industries can be isolated for extended periods. A cost effective and competitive coastal shipping market will enable these communities to reconnect swiftly, facilitate reconstruction, and enable economic activity to resume far more quickly.<sup>66</sup>*

The Australian Shipowners Association advised the Committee that shipping is uniquely placed to offer a service delivery model for remote and stranded communities in times of disaster relief, cyclones and flooding and can access places where road transport cannot during extreme environmental events which have a huge material impact on local communities and economies.<sup>67</sup>

Mackay Regional Council agreed, noting that the use of coastal shipping to regional ports such as Mackay, would improve supply chain security for food and building materials and increase defence security and support, especially during disaster events:

*In 2008 and 2010, Mackay experienced severe flood events... with the region cut from road based access, causing 'every day' commodities to be in short supply. The use of the Port of Mackay could have brought supplies through intrastate shipping movements, and enabled defence and state emergency services to be transported via sea to assist with protecting, supporting and cleaning up localities after such events (i.e. flood, cyclone).<sup>68</sup>*

Caltex Australia pointed out that using shipping to distribute product between ports is a major means of managing local disruption, such as supply disruptions during natural disasters.<sup>69</sup>

---

<sup>65</sup> TMR, Background Briefing, Jun 2014:7

<sup>66</sup> Port of Brisbane, submission 2:4-5

<sup>67</sup> ASA, submission 5:10

<sup>68</sup> Mackay Regional Council, submission 4:3

<sup>69</sup> Caltex Australia, submission 6:6

The Port of Townsville agreed and pointed out that northern Australia is particularly vulnerable:

*Northern Australia is an ideal example of where coastal shipping has a critical social and economic role to play given extreme weather events such as tropical cyclones and monsoonal flooding when road and rail systems are adversely impacted. Coastal shipping can ensure greater resilience in the supply chain following these natural disasters and significant rain events when highways are frequently cut.*<sup>70</sup>

The following assessment of the potential benefits of a regular sea freight service to supply chain resilience was provided by the Department of Transport and Main Roads:

*Each year we are subjected to cyclones in the north. I cannot recall when we have had a season where we have not had a cyclone come through in the north. With that typically comes the floods and when the floods come the road system and the rail system are usually cut and they are cut for a period of days. Sometimes it is only 24 hours; sometimes it can be four or five days; sometimes it is 10 days. Coastal shipping provides an additional mode. It is another string to the bow in terms of having an alternative system in which we could ensure that goods are delivered through to our regional communities in the far north.*<sup>71</sup>

The North Queensland Bulk Ports Corporation added that coastal shipping would also give importers and exporters greater certainty and immunity against natural disasters through continuity of access.<sup>72</sup>

Sea Swift pointed to the fact that the services required by defence and for disaster management are intermittent in many cases and “to have assets that are highly costed placed in those areas just in case does not pay.”<sup>73</sup>

*There is, I believe, an opportunity within government to be able to tap into people who are providing services in those areas by way of ensuring that they are available when they can be and utilised when they can be as well. By way of example, when the road is cut between Townsville and Cairns we have on many occasions provided a link service between Townsville and Cairns for essential services in order to not so much keep Cairns moving, because there are generally decent warehouses here, but more so to keep the remote communities north of here going.*<sup>74</sup>

In its submission, Shipping Australia Limited recognised the serious adverse impact on road and rail movements in far north Queensland during extreme weather conditions and the positive influence that a coastal sea service could have in mitigating such events and advised that it is commencing a project to investigate the use of cargo vessels to facilitate movement of cargo in disaster scenarios.<sup>75</sup>

---

<sup>70</sup> Port of Townsville, submission 9:3

<sup>71</sup> TMR, Hansard transcript (Public Briefing), 27 Aug 2014:3

<sup>72</sup> NQBP, Hansard transcript (Public Hearing - Brisbane), 27 Aug 2014:12

<sup>73</sup> Sea Swift, Hansard transcript (Public Hearing – Cairns), 21 Aug 2014:3

<sup>74</sup> Ibid

<sup>75</sup> SAL, submission 8:2

### 3.4 Benefits for other sectors

#### 3.4.1 Tourism and cruise shipping

In relation to the benefits of a coastal shipping service for Queensland's tourism industry, the Department of Transport and Main Roads advised that it will facilitate the impacts of freight movements on drive tourism by 'matching the right load to the right mode':<sup>76</sup>

*It is acknowledged that drive tourism makes an important contribution to the Queensland economy by way of motorhome and caravan holiday travel. The introduction of coastal sea freight could assist with modal shift from road to ship for non-time sensitive freight potentially reducing interaction between freight and passenger vehicles. The tourism industry has stated that it could increase its economic value to the state. If the Coastal Trading (Revitalising Australian Shipping) Act 2013 was amended to exclude smaller foreign owned 'expedition' style vessels under 5000 dwt.<sup>77</sup>*

The Department also alluded to the benefits for grey nomad tourists who travel on coastal roads:

*... you think about the times when you are sitting behind a truck and you have been asked to pull over to the side of the road to wait for a large vehicle coming through. It just adds to the whole experience, you could say, for the tourists if we are able to significantly reduce the volume of those Over Size and Over Mass vehicles on the highway.<sup>78</sup>*

Mackay Regional Council submitted:

*Deregulation of shipping policy would enable sea ports to support tourism in Queensland, strengthening opportunities for one of the four pillars of the State's economy. Increased intrastate sea transport and port access will present a unique tourism market with the potential for boutique cruise ships utilising the Port of Mackay as a 'stop-over'.*

*This would directly increase 'overnight visitors' and spending within the region and support the Government's Queensland Drive Tourism Strategy 2013-2015.*

The Torres Strait Regional Authority (TSRA) pointed to opportunities in tourism for the Torres Strait regions:

*Cultural Tourism is also a largely undeveloped industry in the region. The potential for economic development of this industry is largely due to the cost of tourist transport to the region. An improved shipping service could provide an alternative to expensive air travel, reduce the high cost of living making it more affordable to the region's residents and attract more visitors to the region.<sup>79</sup>*

While cruise ships do not generally carry coastal sea freight, they are potentially impacted by the Commonwealth legislation and also have issues with port berthing capacity. The Cruise Lines International Association (CLIA) advised that the cruise industry has experienced significant growth over the past decade and is now the fastest growing segment of Australia's tourism industry:

*The industry has experienced average annual growth of over 20% over the past 10 years (2002-2012) and it is estimated that more than 800,000 Australians will cruise in 2013...*

---

<sup>76</sup> TMR, Sea Freight Action Plan, Jul 2014:4

<sup>77</sup> TMR, Background Briefing, Jun 2014:5-6

<sup>78</sup> TMR, Hansard transcript (Public Briefing), 27 Aug 2014:3

<sup>79</sup> TSRA, submission 13:1

*All the major cruise line operators have recently announced the deployment of additional ships in the Australian market in the coming 2-3 years and by 2016 it is estimated that 18 cruise ships will be based out of Australia... It is anticipated that over 1M Australians will be cruising by 2016.*<sup>80</sup>

The Association also advised that the ports of Queensland benefitted from 228 cruise calls, 241 cruise ship visit days and 417,734 passenger visits. The spending by cruise lines generated \$271 million in direct cruise tourism expenditures in Queensland with the largest impacts in the business services and wholesale and retail trade sectors.<sup>81</sup>

The Australian Shipowners Association also pointed to the breadth of benefits the cruise line industry brings to the Queensland economy:

*Either directly, through the interface with cruise ship operators, or indirectly with regard to passenger expenditure in port, the impact of cruise shipping on local economies is dramatic, stimulating local economic activity throughout the supply chain and assisting local industries to grow and expand.*

*The volume of high quality Australian agricultural products sought by cruise ship operators to maintain on board provisions for thousands of passengers is significant and forms of important source of income for many Australian businesses.*

*Furthermore, the demand for landside tourism and transport services stimulated by cruise ship port calls provides a great deal of economic opportunity, not only for Australian iconic port cities, but importantly, many regional areas.*<sup>82</sup>

The cruise ship industry has raised a concern about the nature of its ministerial exemption from the *Coastal Trading (Revitalising Australian Shipping) Act 2012* (Coastal Trading Act) which impacts on its ability to undertake long-term deployment planning and which impacts on smaller 'expedition' type cruise vessels.

The Department of Transport and Main Roads also advised the Committee that:

*The tourism industry has stated that it could increase its economic value to the state, if the Coastal Trading (Revitalising Australian Shipping) Act 2012 was amended to exclude smaller foreign owned 'expedition' style vessels under 5000 dwt.*<sup>83</sup>

The issue of smaller expedition vessels and cruise ships being exempted from the Coastal Trading Act is discussed in a later section of this report which examines shipping's regulatory framework.

In relation to possible benefits a coastal sea freight service could provide to the cruise industry, the main impact would be that any port improvements brought about to facilitate a coastal shipping service may also improve berthing options, etc. for smaller 'expedition' type cruise vessels and therefore assist this growing sector of the Queensland economy.

---

<sup>80</sup> CLIA, submission 7:1-2

<sup>81</sup> CLIA, submission 7:2-3

<sup>82</sup> ASA, submission 5:11

<sup>83</sup> TMR, Background Briefing, Jun 2014:5-6

### 3.4.2 Defence support

The Australian Shipowners Association pointed out that an Australian presence and capacity “on the water” increases border protection via merchant navy linkages with defence and customs:

*This relates to the ability of the Australian Government to requisition assets when required; access to commercial logistical shipping expertise and the national security benefits of having Australian presence on the high seas and particularly around the coast. The benefits to defence, as articulated by the Department of Defence<sup>84</sup> include potential for greater cooperation in skills sharing and career opportunities.<sup>85</sup>*

The Department of Defence, pointed to the mutual reliance between Defence and commercial shipping in a submission to a 2008 House of Representatives Inquiry into Coastal Shipping Policy and Regulations:

*There is a degree of mutual reliance between the Defence and commercial arms of shipping in Australia that transcends sectoral interests. In one sense, commercial shipping may at times rely heavily on the protection afforded by a highly capable, flexible and well trained Navy protecting vital trading links to and from Australia. Conversely, the Navy will always rely at some stage on the ability to access safe and well protected harbours, either to mount and/or support ongoing operations, or to undertake necessary repairs, maintenance, logistic re-supply and crew relief.<sup>86</sup>*

In its submission to the Commonwealth Government, the Department of Defence also pointed out that the Navy depends on home-port facilities and the ability to charter commercial vessels to perform operational tasks to provide support to its operations and there is a divergence between Defence’s in-port vessel support requirements and those of commercial shipping and port operators. Defence requirements are limited by a number of factors:

- Vessel availability - there is very little spare capacity in the Australian maritime industry and formal agreement with other nations would need to be obtained to requisition foreign-owned property regardless of the contingency or level of need.

*The interaction of a number of different pieces of legislation caused a competitive disadvantage to Australian operators whose ships operated permanently on coastal trades compared to the less onerous regulatory environment applicable to foreign vessels who had licences. There has been a steady decline in Australian-flagged vessels in the coastal trade.<sup>87</sup>*

- Port access – with the corporatisation and privatisation of Australian ports over the last decade, the ports are expected to operate in the interests of their shareholders and various stakeholders which can impact on the Navy’s need for home port facilities (necessary for deeper repair and maintenance of fleet assets), berth space or as strategically vital locations from which forward deployed ships would embark forces and mount operations.

---

<sup>84</sup> Department of Defence, Commonwealth Government Inquiry into Coastal Shipping, 2008, submission 50

<sup>85</sup> ASA, submission 5:9

<sup>86</sup> Department of Defence, Submission 50 to the House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government’s Inquiry into Coastal Shipping Policy and Regulations, October 2008:1-2

<sup>87</sup> Ibid:5

- Skilled maritime workforce - there is a gap between the demands of the Australian maritime sector (both military and civilian) and the available skilled workforce required with specialist marine, technical, commercial and management skills to sustain viable business capability.<sup>88</sup>

Common use infrastructure, such as slipways and ramps, constructed to facilitate the establishment of a coastal shipping service may provide a broader benefit to industry and defence. For example, the Mackay Regional Council advised the Committee that it has a long term vision for Mackay to have a world-class port facility which would include new facilities to meet the needs for defence.<sup>89</sup>

The Port of Townsville advised that by maximising:

*..shared use of flexible and appropriately designed infrastructure, the overall costs of coastal shipping services and other industries become viable where standalone operations may not be commercially justifiable. An example is Townsville's recent \$85 million Berth 10 project which caters to the requirements of Defence, Cruise and Commercial shipping on a shared use basis with berthage rules that support the operations of each sector.<sup>90</sup>*

### 3.4.3 Australian maritime skills base

As outlined above, the Department of Defence noted that there has been a reduction in the number of skilled maritime workers. The Australian Shipowners Association also raised a concern that the reducing number of Australian ships has led to a reduction in a skilled maritime workforce. The Association made a strong submission on the need for a strong, local shipping industry to ensure professionals with seafaring skills will be available to provide critical 'shore side' roles such as:

- marine pilotage for safe vessel transit through the Great Barrier Reef and the Torres Strait
- port state control officers to conduct robust safety inspections of visiting foreign vessels
- Harbour Masters to manage the safety and day-to-day operation of the State's ports and to work on board the tugs providing essential harbour towage services.<sup>91</sup>

The Association pointed out that these skills are:

*Critical for Queensland, a state with an extensive, environmentally sensitive, iconic coast line and enormous reserves of natural resources (which will require shipping for import and export for decades to come)...<sup>92</sup>*

Sea Swift advised that coastal shipping service providers, such as their company, play an important role in training maritime workers:

*We have a lot of people on our vessels who are under training in some form most of the time. In a formalised way we have 24 cadets whom we have operating within the business who are undergoing some form of officer training, be that an engineering officer or a deck officer. That is very formalised in conjunction with a lot of the RTOs that provide those sorts of services, the local maritime college and the onboard training that the guys and girls get...*

---

<sup>88</sup> Ibid

<sup>89</sup> Mackay Regional Council, Hansard transcript (Public Hearing - Brisbane), 27 Aug 2014:11

<sup>90</sup> Port of Townsville, submission 9:9

<sup>91</sup> ASA, submission 5:7

<sup>92</sup> Ibid

*As well as that, we have a range of deck training that occurs for guys at lower entry level. They would be getting any range of ticketing from forklift to cranes, to handling fuel equipment, to DG training et cetera. Across the organisation at any point in time, I would say there are the 24 cadets plus probably another 30 or 40. We are a big training organisation for the industry, a breeding ground for the industry if you like.<sup>93</sup>*

### **Committee comment**

The Committee has examined the benefits of a regular, coastal sea freight service for the Queensland economy and community amenity and has reached the conclusion that it would provide an environmentally sustainable service to complement road and rail transport.

A coastal shipping service would take pressure off the road network by limiting congestion (with one fully laden vessel reportedly removing 596 B-Double trucks of 34-tonne capacity off the Bruce Highway), reduce the cost of building and maintaining road and rail infrastructure, reduce transport industry emissions, and increase safety on the coastal highways.

The Committee has been advised by the Port of Brisbane that the estimated cost to build hundreds of kilometres of highway roads is approximately \$3.3 billion, or \$6 billion to build hundreds of kilometres of single track freight rail, but it will cost next to nothing to deliver the entire length of sea lane infrastructure used by coastal shipping.

In particular, the Committee is excited by the prospect that a regular coastal shipping service could:

- re-direct Over Size Over Mass cargo movements from road to ship with significant benefits for safety by removing dangerous loads from the road network
- improve supply chain security by offering an alternative in the aftermath of natural disasters
- improve freight network efficiency through competitive tension with road and rail freight
- have flow on benefits for other industries such as drive tourism
- as well as providing the Navy with improved port facilities and the ability to charter additional Australian vessels with trained maritime crew to provide operational support defence.

The Committee is satisfied with the advice from the Department of Transport and Main Roads that a coastal shipping service would not have a negative impact on the Great Barrier Reef. This advice was confirmed by the Committee during its visit to the Great Barrier Reef and Torres Strait Vessel Traffic Service (REEFVTS Centre) in Townsville.

The Committee's examination of the ways in which a regular coastal sea freight service could assist in managing freight demand, the viability of such a service and the potential impact on other freight sectors is discussed in the next section of this Report.

### **Recommendation 1**

The Committee recommends that the Legislative Assembly note the considerable benefits a regular coastal sea freight service would provide to the Queensland economy, including providing an environmentally sustainable alternative to road and rail freight, reducing road congestion, improving road safety, reducing road maintenance costs, providing resilience to the transport supply chain in times of natural disaster and flow on benefits to the drive tourism and defence sectors.

---

<sup>93</sup> Sea Swift, Hansard transcript (Public Hearing – Cairns), 21 Aug 2014:6



## 4 Contestability of a coastal sea freight service

The Terms of Reference provided to the Committee included:

- *consideration of the ways in which a regular coastal sea freight service could assist in managing freight demand*
- *consideration of what impact coastal shipping would have on competition in the Queensland freight sector.*

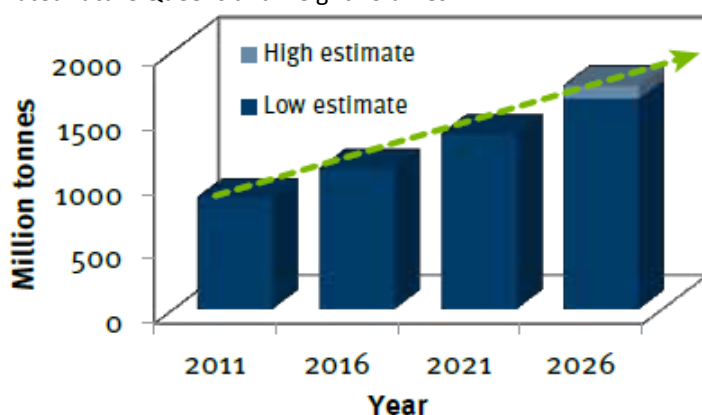
In this section of the Report the Committee examines the contestability of a sea freight service in managing future freight demand, including a discussion on the key impediments and requirements for establishing a sea freight service.

### 4.1 Managing future freight demand

The Queensland Department of Transport and Main Roads contends that the ability to efficiently and reliably move goods through supply chains, particularly to and from international markets, substantially determines the nation's productivity and performance and that between 2010 and 2030 notionally:

- truck traffic is predicted to increase by at least 50%
- rail freight demand is expected to jump 90%, providing infrastructure is built
- the number of containers crossing the nation's wharves will increase by 150%.<sup>94</sup>

Estimated future Queensland freight volumes<sup>95</sup>



Source: Peko Transport and Traffic 2013 and TMR aggregation

The Port of Brisbane advised the Committee the estimates for freight growth outlined above will present Queensland with considerable challenges in order to cope with moving the anticipated massive increase in cargo:

*The way our modes are set up at the moment, basically every incremental tonne of freight needs to be moved by road.... Whilst road and rail will continue to play a significant role in*

<sup>94</sup> TMR, Discussion Paper on the development of Coastal (Liner) Shipping, Apr 2014:4 (as referenced by Port of Brisbane, submission 2:4)

<sup>95</sup> Provided by the Port of Townsville, submission 9:8

*moving the domestic freight, coastal shipping as a mode has reduced... through a combination of regulation, competitive disadvantage and reputation.*<sup>96</sup>

*..... The level of growth – if solely accommodated by growth in road and rail freight – will lead to significant infrastructure constraints. The cost of the congestion on State and Federal economies will be substantial. The investment required in road and rail infrastructure would increase pressure on State and Federal fiscal positions, development costs are likely to escalate, and externalities such as social and environmental impacts will be significant. Coastal shipping is a cost-effective, efficient and productive alternative.*<sup>97</sup>

Shipping Australia Limited agreed, noting in its submission that the current (and forecast) pressures on Queensland road and rail cargo systems demand the examination of the best alternatives including sea carriage.<sup>98</sup>

The Port of Brisbane pointed out that the greatest freight challenge will be in moving the non-bulk, container and general freight sectors and that while road and rail modes have continued to play significant and growing roles in moving Australia's domestic freight:

*Australia has the distances and infrastructure to develop and maintain a competitive and vibrant coastal cargo sector. With major centres – particularly on the east coast – more than 900 kilometres apart, improving port infrastructure within or adjacent to major population centres and developing intermodal operations, there is no natural competitive reason for coastal shipping to play such a minor role in our domestic freight task.*<sup>99</sup>

A weekly intrastate coastal shipping service linking key regional ports is being discussed by government and industry as an opportunity to improve supply chain performance in a range of key industries such as agriculture, resources and construction. The Department of Transport and Main Roads advised:

*Queensland's ports are well positioned to capitalise on the introduction of a weekly intrastate coastal shipping service based on recent stakeholder meetings between agricultural exporters, mining industry representatives and TMR.*

*A coastal shipping service(s) could support future freight growth within Queensland and make a greater use of existing capacity and infrastructure at regional ports, as part of a co-ordinated supply chain approach.*<sup>100</sup>

The State Government's *Moving Freight Strategy* and *Queensland Ports Strategy* both acknowledge the importance of supply chain coordination and its impacts on economic growth in Queensland. Both documents identify coastal shipping as an important part of a multi-modal freight network that balances the competing supply chain demands of all stakeholders and supports commercially driven innovation. The Department of Transport and Main Roads advised:

*...the Moving Freight strategy identified coastal shipping as a key action in that funding was provided to look at a sea freight action plan which would allow the department to determine whether a coastal shipping service was actually going to be a viable service...*

*The Sea Freight Action Plan looked at what the infrastructure requirements would be if a coastal shipping service was to be established. It also looked at the potential commodities*

<sup>96</sup> Port of Brisbane, Hansard transcript (Public Hearing - Brisbane), 27 Aug 2014:10

<sup>97</sup> Port of Brisbane, submission 2:10

<sup>98</sup> SAL, submission 8:2

<sup>99</sup> Port of Brisbane, submission 2:5

<sup>100</sup> TMR, Background Briefing, Jun 2014:4

that could be carried on those vessels. Typically... you have a large freight task.. which is servicing regional communities with consumer goods – things like beverages and retail goods, groceries and such. They are typically travelling at present on the train or on the road system and ... the department has to be satisfied ... (that) there would be a potential opportunity for a coastal shipping service to carry those sorts of goods and if we were to carry those sorts of goods on a vessel then what would be the benefit be for the broader community?<sup>101</sup>

**Map of major Queensland commodities moved in bulk**

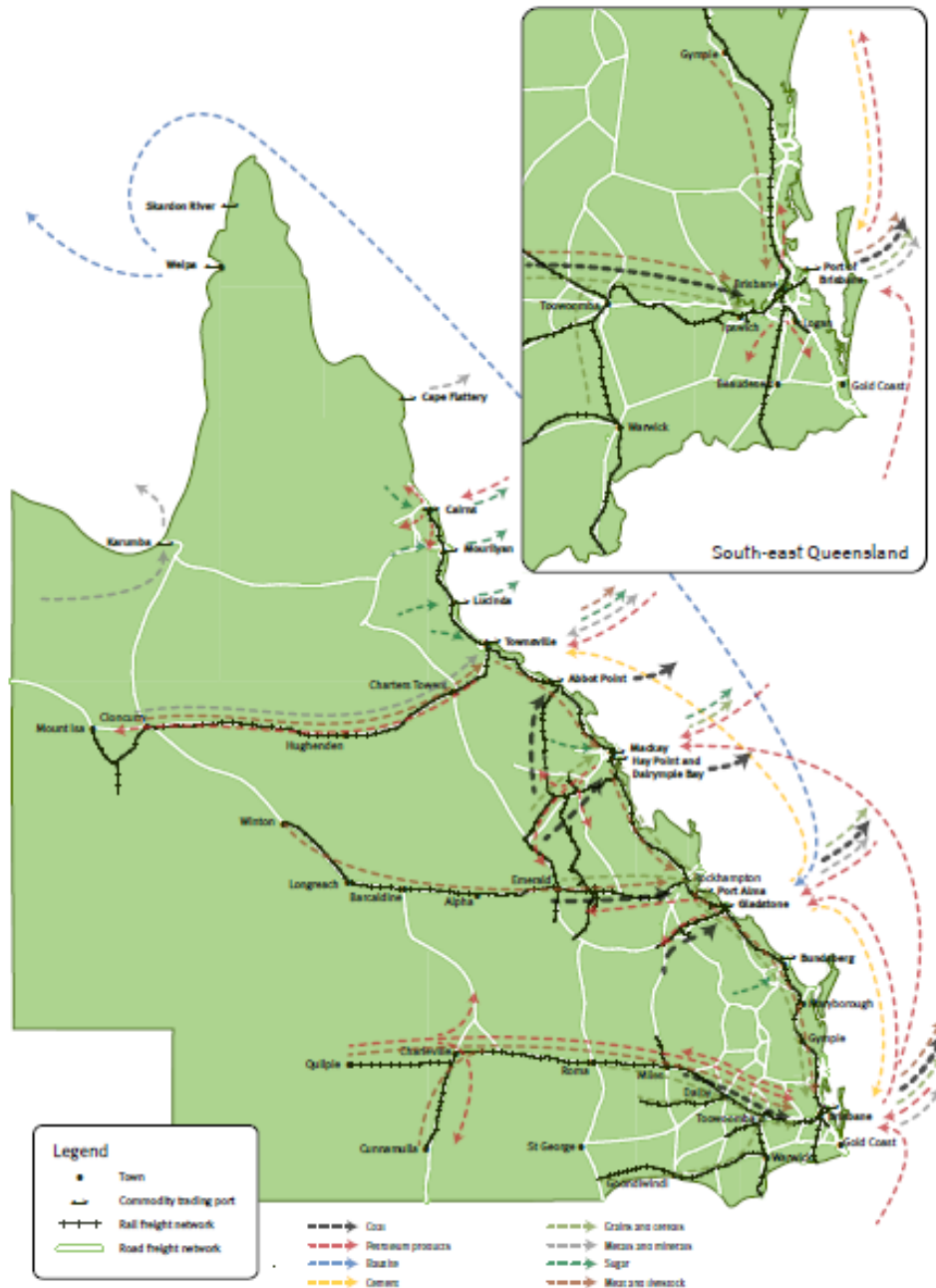


Image from “Moving Freight” Dec 2013, supplied courtesy of the Department of Transport and Main Roads

<sup>101</sup> TMR, Hansard transcript (Public Briefing), 27 Aug 2014:2

## 4.2 Impediments to a competitive sea freight service

The Committee undertakes a detailed examination of the contestability of coastal sea freight in the next section of the Report. This section provides an overview of the contestability of a regular sea freight service, including the factors that have impeded the establishment of such a service to date.

Stakeholders took diverse positions on whether a coastal sea freight service could be competitive with other transport sectors. For example:

- Caltex pointed out that the current lack of a regular coastal shipping service may be an indication that coastal shipping of certain goods is not competitive or economic compared to rail.<sup>102</sup>

- The Port of Townsville argued that a coastal sea freight service would be competitive:

*It is competitive because of high and increasing fuel costs by road, reduces maintenance and costs of highway upgrades, reduces maintenance of costs of rail upgrades.*<sup>103</sup>

- The Queensland Transport Logistics Council (QTLC) pointed out that coastal shipping displays some of the attributes of the rail system, including constrained servicing points, high volume cargo requirements leading to terminal size, investment and costs and trade-off in service frequency and the need to recover all costs but still concluded that on the north-south corridor in Queensland coastal shipping may be contestable.<sup>104</sup>

- The Australian Shipowners Association submitted that while numerous studies have identified the clear advantages to be gained from increasing the role of coastal shipping in meeting the national freight task:

*Should a coastal shipping service establish the degree of modal shift that is likely is difficult to quantify given the inherent advantages / disadvantages of the various modes. Previous analysis has indicated that the scope for modal shift is very low; however the specifics of the requirements for Queensland as outlined in the Briefing Paper indicate that the scope for modal shift and competition between modes may be greater than previously identified.*

*Coastal shipping certainly has many advantages in supporting future freight growth within Queensland. How that is structured and who provides such a service would determine the ultimate benefits that might be realised.*<sup>105</sup>

Stakeholders also provided specific factors that have held back the development of a coastal sea freight service. These included:

- the legislative framework
- regional port readiness, portside and labour costs
- vessel operating costs
- double handling and operational inefficiencies
- limited competitive tension within the mode

---

<sup>102</sup> Caltex Australia, submission 6:4

<sup>103</sup> Port of Townsville, submission 9:1

<sup>104</sup> QTLC, Strengthening Queensland's supply chains 2013-2015:41

<sup>105</sup> ASA, submission 5:6

- lack of integrated modal logistics (by-in by other modes, truck in particular)
- no access to global cost efficiencies via scale as available to international ship operators.<sup>106</sup>

The Brisbane and Townsville ports attributed road and rail freight subsidies as being a contributory factor:

*There have been a number of attempts to establish coastal services for containerised products and break bulk products on the Queensland coast without success. This is due to a number of factors, predominately the continued subsidisation of road and rail by successive State and Federal Governments. As a result, shipping has not been able to compete on an equal playing field.*<sup>107</sup>

And

*This has been particularly evident during the resources boom where the transport of oversized and over-mass cargo has frequently clogged the State's roads. The lack of a viable coastal shipping industry will continue to result in increasing congestion on roads and highways and higher costs for regional businesses and communities.*<sup>108</sup>

The Queensland Transport and Logistics Council noted:

*The potential for coastal shipping is constrained by the number of ports and their locations that can service bulk freight, mining inputs or possibly container trade required by certain supply chains. Coastal shipping has potential for providing supply chain resilience. While not as susceptible to the outages and incidents of the landside modes, it does introduce extra handling and facility costs.*<sup>109</sup>

The Council went on to point to some of the practical issues impacting on getting a coastal shipping service up and running:

*Coastal shipping has potential to take significant volumes of freight and OSOM freight off landside corridors. Introducing a new mode into supply chain movements can require terminal investment and ongoing port charges. Shipping is a commercial undertaking and if it was contestable with the landside modes for some types and volumes of freight cargo, there may already have been an entrant to Queensland's coastal shipping market. However, there are barriers to entry, including potential customers waiting until a coastal shipping service has been provided and existing contracts fulfilled before considering a commitment.*<sup>110</sup>

The Port of Townsville pointed to the need for decision-makers to commit to a long-term service so that it can compete:

*Container volumes are the key to a viable service. The decision makers in the supply chains need to commit to a long-term service if there is any chance for a sustainable, competitive service. Container volumes will create the need to have efficient connections at each end of the shipping leg to reduce landside costs. The best chance of success is to consolidate cargos through a hub and spoke method using all modes of transport. A regular, consistent service for containers, bulk and oversize cargo between Brisbane (Southern QLD hub) and*

---

<sup>106</sup> see TMR, Background Briefing, Jun 2014:4 and Port of Brisbane, submission 2:7

<sup>107</sup> Port of Brisbane, submission 2:8 and Port of Townsville, submission 9:5

<sup>108</sup> Port of Townsville, submission 9:5

<sup>109</sup> QTLC, Strengthening Queensland's supply chains 2013-2015:91

<sup>110</sup> QTLC, Strengthening Queensland's supply chains 2013-2015:98

*Townsville (North QLD hub), for example, would provide a coastal services that is most likely able to compete with road and/or rail.*<sup>111</sup>

Of the three primary requirements identified as critical to a viable coastal shipping product – cost, transit and frequency, the Port of Brisbane commented:

*Transit times and service frequency are elements largely within the control of shipping lines and ship operators. The cost and administrative impact of regulation is not.*<sup>112</sup>

The Department of Transport and Main Roads advised the Committee that the viability of a coastal service is being assessed by the Department in the context of the current and projected road congestion, the infrastructure costs of the rail system and the billions of dollars spent on road repairs and maintenance.<sup>113</sup>

### **4.3 Impact of a coastal sea freight service on other freight sectors**

The Committee has been asked to consider what impact a regular coastal shipping service would have on competition in the Queensland freight sector.

The Department of Transport and Main Roads advised that even though the freight system is growing at a rate consistent with Consumer Price Index growth, coastal shipping, if it was established, would obviously take away some of the traffic from the road and rail system.<sup>114</sup>

However, given the projected increase in freight movements in Queensland discussed above, and the fact that it is only competitive over long distances and cannot compete with the door-to-door service provided by road, it is highly unlikely that a regular coastal sea freight service will have a significant impact on the profitability of road and rail freight providers.

Rather, as the Department of Transport and Main Roads has concluded, coastal shipping is more likely to provide a new dimension to logistics in Queensland, providing regional business and industry with greater flexibility and promoting modal competition.<sup>115</sup>

The Port of Townsville agreed with this conclusion and added:

*For Australia's transport industry to operate at its optimal level, coastal shipping must be considered an integral component of a holistic national logistics framework; all transport modes are required and should complement each other to form a consolidated transport network. There is no reason why coastal trade cannot occupy a larger proportion of the growing domestic transport industry.*

*With major cities more than 900km apart (studies propose this is the distance where coastal shipping can compete with land based modes) Australia has the distances to facilitate a competitive coastal cargo sector. In addition, delivering coastal shipping infrastructure requires relatively minor investment compared to what will be required to manage the expected growth in domestic freight on Australia's road and rail networks.*<sup>116</sup>

<sup>111</sup> Port of Townsville, submission 9:5

<sup>112</sup> Port of Brisbane, submission 2:6

<sup>113</sup> TMR, Hansard transcript (Public Briefing), 27 Aug 2014:2-3

<sup>114</sup> TMR, Hansard transcript (Public Briefing), 27 Aug 2014:3

<sup>115</sup> TMR, Sea Freight Action Plan, Jul 2014:4-5

<sup>116</sup> Port of Townsville, submission 9:5-6

The Department of Transport and Main Roads also pointed out that one of the benefits of a third mode of transport is increased competition that may put pressure on prices:

*The prices should theoretically be more competitive – they should come down - and that would benefit consumers and such.*<sup>117</sup>

The most likely impact of a regular sea freight service will therefore likely be an improvement in supply chain productivity.

The Port of Townsville argued that:

*Coastal shipping could be instrumental to the development of an efficient and productive multi- modal freight network. Domestic sea cargo transport could be the critical component to boost regional development in Queensland and maintain supply chain security. A remarkable opportunity lies in this neglected and deteriorating sector of the nation's domestic freight movement.*

*Government objectives must focus on recognising and encouraging the benefits of coastal shipping as a viable and attractive part of Australian transport infrastructure, complementing road and rail as the preferred method of long haul transport. Coastal shipping is safe, environmentally efficient with the lowest tonnes/km carbon emissions of all modes by far, cost competitive with other transport modes and international shipping, and requires the lowest level of national infrastructure development and ongoing maintenance.*<sup>118</sup>

Shipping Australia Limited also argued that job generation has to be considered:

*It should not be a question of losses in the road/rail sector but more by connecting with local industry to enhance/develop products or manufactured goods for interstate or overseas destinations.*<sup>119</sup>

The Department of Transport and Main Roads has identified that a regular coastal shipping service may also provide resource sector suppliers with improved productivity and lower freight costs as an alternative to the current 'road only' delivery model for mining equipment imported through the Port of Brisbane.<sup>120</sup>

*It should be noted that the movement of these cargo types on roads is restricted during the Christmas holiday period, potentially adding an additional layer of wharf storage costs and impacting on supply chain productivity.*<sup>121</sup>

The option to move containerised imports and exports via sea freight along the Queensland coast has the potential to induce competitive tension to road and rail freight modes, providing opportunities for supply chain innovation that could give freight customers a broader range of options to encourage innovation through the use of available combinations of road, rail and sea freight.

---

<sup>117</sup> TMR, Hansard transcript (Public Briefing), 27 Aug 2014:3

<sup>118</sup> Port of Townsville, submission 9:1

<sup>119</sup> SAL, submission 8:2

<sup>120</sup> TMR, Background Briefing, Jun 2014:7

<sup>121</sup> TMR, Background Briefing, Jun 2014:7

The Department has been involved in commercial discussions with regional agricultural producers who believe that a containerised export option may assist in expanding their business with a coastal shipping option offering improved supply chain model providing additional flexibility to expand their Queensland operations.<sup>122</sup>

#### **Committee comment**

The Committee has noted the enormous growth projected for the freight task over the next 20 years and is concerned that this level of growth, if solely accommodated by road and rail freight, will lead to significant infrastructure constraints, and that the cost of congestion and requisite infrastructure upgrades will have a substantial impact on the State and Federal fiscal position.

A regular, coastal sea freight service could provide a cost effective, efficient and productive supplementary service with significant benefits to the State's economy. However, the Committee is cognisant that the establishment of a coastal shipping service has been impeded by a number of significant factors, which have resulted in it being unable to compete on a level playing field with the other transport sectors. These include the current regulatory framework and subsidisation of road and rail freight by successive State and Federal governments which are both examined in detail in later sections of this Report.

After considering the evidence provided to the Inquiry the Committee has concluded that while the establishment of a coastal sea freight service is likely to attract some specific types of freight away from road (for example, Over Size Over Mass), it is highly unlikely that it will affect the profits of the road or rail freight sectors. This assessment is based on the evidence that the road and rail sectors are unlikely to be able to cope with the enormous projected growth in freight movements over the next two decades; the coastal sea service will only be competitive on distances over 900 kilometres; and will not be able to provide the constant door-to-door service required by many freight customers.

The Committee makes a preliminary assessment of the viability and contestability of a coastal sea freight service in the following section of the report.

#### **4.4 Commercial indicators for a viable sea freight service**

While a regular coastal shipping service is likely to complement road and rail services by offering improved supply chain productivity and security through the provision of alternative coastal transport, it will not be able to attract freight off road and rail unless it can compete on price, attract viable freight volumes and provide a competitive and innovative service. In this section of the Report the Committee examines these factors, along with other issues it believes are likely to impact on the viability of a regular sea freight service in Queensland.

##### **4.4.1 Sustainable freight volumes**

The commercial viability of a sea freight service will depend on identification of a long term reliable base load of freight which could sustain such a service. Any sea freight provider considering establishing a coastal sea freight service will need to undertake an assessment of the types of freight suitable to be transported by sea and the sustainable freight volumes that would warrant a modal shift. The Department of Transport and Main Roads has undertaken an initial assessment and stakeholders have also provided advice to the Committee.

---

<sup>122</sup> TMR, Background Briefing, Jun 2014:7



The Port of Townsville advised that coastal shipping is well suited to non-time sensitive and non-urgent cyclical replenishments and that “*coastal shipping must secure these contestable freights to underpin the service*”.<sup>123</sup>

The Port of Townsville and the Department of Transport and Main Roads both also pointed out that regular, stable and reliable freight volumes would be required to underpin a sustainable service, with efficient scheduled berthing and load/unload rates for cargoes providing the required service levels for prompt turnarounds.<sup>124</sup> The Port of Townsville advised that coastal shipping is suited to high volumes over long distance unlike road or rail, which are suited to small/medium volumes over short/medium distances.<sup>125</sup>

*The challenge of coastal shipping is to gain sufficient volume of non-time critical cargo to create a viable shipping service.*<sup>126</sup>

And

*Port of Townsville believes there are major commodity groups that are contestable for coastal shipping. Domestic freight derived from warehouse and distribution operations for major wholesaler and retail chains make up the largest proportion as well as others (furniture, tyres, white good retailers). Townsville is perfectly positioned as the major transport hub to the greater Queensland region north of Rockhampton given its location to service these catchment areas and the existing substantial investments in port, land and transport corridors.*

*Other contestable freight could include metal manufacturers, steel and alloy producers, building materials, Australian Defence Force, seasonal produce, refrigerated foodstuffs, frozen meat and recycling industries.*

*There is currently an estimated 200,000 TEUs travelling on rail/road annually between Townsville and Brisbane that could potentially be transported by coastal shipping. For example, there are an estimated 10 trains per week servicing one of the major grocery retailers between Rockhampton and Cairns from Brisbane equating to around 1200 TEU per week. Another example is the 60,000 tonnes of fertilizer which travels from Townsville to Brisbane per annum.*

*POTL believes there is sufficient suitable freight volume to make coastal shipping attractive.*<sup>127</sup>

The Sea Freight Action Plan identifies the freight types, which may be contestable for a sea freight service as:

- mining inputs for proposed coal developments in the Galilee and Bowen Basins
- Over Size Over Mass cargo
- general freight movements north and south
- freight for the Northern Territory and Northern Australia
- out turn freight from coastal ports.<sup>128</sup>

---

<sup>123</sup> Port of Townsville, submission 9:7

<sup>124</sup> TMR, Sea Freight Action Plan, Jul 2014:10 and Port of Townsville, submission 9:7-8

<sup>125</sup> Port of Townsville, submission 9:8

<sup>126</sup> Port of Townsville, submission 9:3

<sup>127</sup> Port of Townsville, submission 9:8

**Mining and construction inputs**

The Sea Freight Action Plan advises that the Bowen Basin expansion is forecast to create an additional 210 million tonnes per annum (MTPA) of coal, while the Galilee Basin growth will create 280 MTPA of coal and that this proposed expansion in coal capacity will create a quantum increase of mine inputs during both the construction and operational phases.<sup>129</sup>

The Department of Transport and Main Roads provided the following commentary on the potential to freight mining and construction inputs:

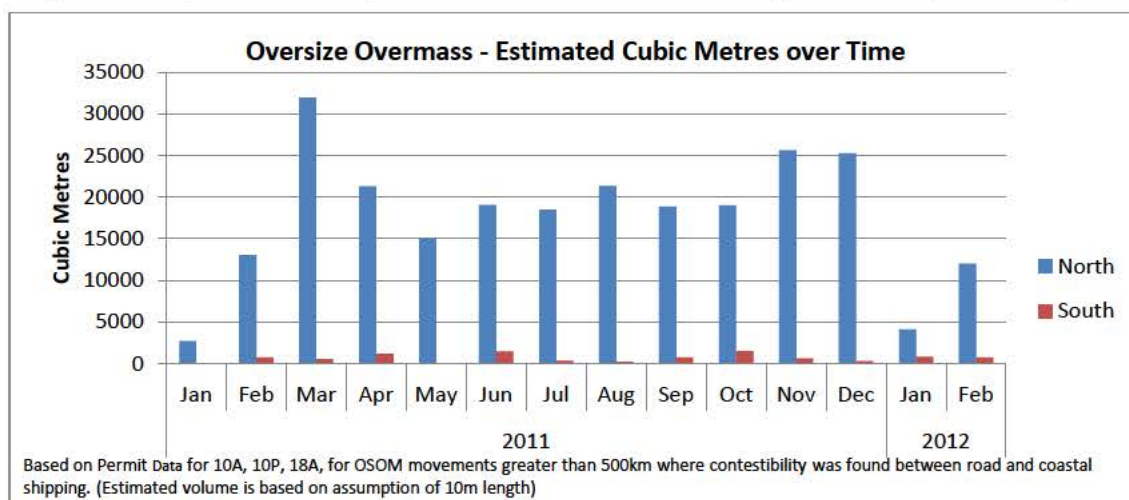
*The movement of large-scale project modules and associated equipment provides an opportunity to make greater use of regional ports to support construction projects, including ramp-up phases of new mining projects.*

*During stakeholder consultation conducted with the projects logistics industry during the development of the Sea Freight Action Plan it was identified that specialist heavy lift international shipping lines could discharge project cargo at the Port of Brisbane and utilise the services of an intrastate coastal shipping service to move project cargo to suitably located regional ports to maintain the tight timeframes that these specialist vessels operated within as part of their schedule of global port calls.<sup>130</sup>*

**Over Size Over Mass cargo**

At the moment almost all of Queensland’s general freight and Over Size Over Mass cargo is transported by road and rail as there is no regular sea freight service.<sup>131</sup> The Department of Transport and Main Roads advised that a regular coastal shipping service calling at regional ports, including Mackay and Townsville, has the capacity to provide a connection to international shipping services via the Port of Brisbane.<sup>132</sup>

The Department of Transport and Main Roads has identified the volume of Over Size Over Mass cargo moved by road that may be contestable with a coastal shipping service (see below).



Source: TMR, Background Briefing, June 2014:8

<sup>128</sup> TMR, Sea Freight Action Plan, Jul 2014:7  
<sup>129</sup> TMR, Sea Freight Action Plan, Jul 2014:14  
<sup>130</sup> TMR, Background Briefing, Jun 2014:5  
<sup>131</sup> TMR, Hansard transcript (Public Briefing - Brisbane), 27 Aug 2014:2  
<sup>132</sup> TMR, Background Briefing, Jun 2014:7

This analysis identified mine inputs as the largest contributor to Over Size Over Mass movements, especially into and out of Central Queensland. Mine Mobile Assets and construction equipment represent greater than 60% of all Over Size Over Mass movements and 70% by volume. Analysis of Over Size Over Mass by origin identified that the Rockhampton, Mackay and Gladstone areas, along with Heathwood and Brisbane account for 55% of all Over Size Over Mass origin movements and that destinations are heavily skewed to a small number of regions including Central Queensland, North Queensland and the Darling Downs which account for 75% of all movements and 76% of all volume. A significant portion of Over Size Over Mass relates to coal mine inputs that are imported through the Port of Brisbane and moved under pilot/police escort to Central Queensland.<sup>133</sup>

The Port of Townsville advised the Committee that the Port is:

*...critical to the Northern Queensland supply chain as it serves as a distribution hub for northern, western, central and southern regional cities and shires. Commodities imported through the Port, whether from international or domestic markets, will be distributed to Cairns, the Tablelands, Innisfail, Ingham, Charters Towers, Mt Isa, Cloncurry, Tennant Creek (NT), Ayr, Proserpine and Mackay within 24 hours by road or rail. In addition, the Port of Townsville plays an integral part in the supply chain for the central Queensland resources sector in relation to project cargo, large mining equipment and construction materials. Coastal shipping provides an alternative for domestic suppliers to congested road transport for these over-sized loads.*<sup>134</sup>

#### Out turns from coastal ports - containerisation

In order for a freight system to be cost-effective and work efficiently there needs to be a balance of freight flows in both directions. The Sea Freight Action Plan concludes that:

*Whilst inbound opportunities for contestable freight exist for coastal shipping, the identification of southbound/export cargo from regional ports is the greatest challenge.*<sup>135</sup>

Shipping Australia Limited submitted:

*For a freight system to work efficiently and effectively there needs to be a balance of flows in both directions. The challenge for a coastal shipping service is to identify how this balance can be achieved. The identification of outbound sea freight opportunities from regional ports can include locally produced goods being shipped to another port for relocation domestically, or being shipped to another port for relocation internationally.*<sup>136</sup>

The Queensland Transport and Logistics Council also pointed to the fact that it will be critical for a Queensland sea freight service to attract two-way intrastate cargo.<sup>137</sup>

The Sea Freight Action Plan identified that outbound freight from each port location would comprise:

- empty TEU to be relocated
- locally produced goods shipped to another port for local or international distribution
- consolidated freight being shipped in containers to another port for domestic or international destinations.<sup>138</sup>

<sup>133</sup> TMR, Sea Freight Action Plan, Jul 2014:15

<sup>134</sup> Port of Townsville, Submission 9:2

<sup>135</sup> TMR, Sea Freight Action Plan, Jul 2014:16

<sup>136</sup> SAL, submission 8:2-3

<sup>137</sup> QTLC, Strengthening Queensland's supply chains 2013-2015:99

*It may be possible for each of the commodity types to undergo a change of form and/or transport mode and be presented in TEU's for on-forwarding on coastal shipping. The potential for change of form would be subject of detailed analysis, by supply chain by region and would involve industry engagement, to identify:*

- *if an opportunity exists*
- *advantages in costs downs/new markets*
- *technology and infrastructure required to support a transformed supply chain*
- *impediments to the reform*
- *risks and mitigation*
- *actions required supporting the opportunity.*

*For example, there is a global trend towards the containerisation of bulk commodities such as sugar and specialised grains, this should be investigated.<sup>139</sup>*

The Department of Transport and Main Roads found that a scheduled coastal shipping service may provide the agricultural sector with an option to containerise exports of sugar, grain, cotton, fruit, vegetables and beef through regional ports and transhipped at the Port of Brisbane for on-carriage to international and/or domestic markets.<sup>140</sup>

Variability in seasonal demand for different commodities is being taken into account by the Department in its assessment of the opportunities for coastal shipping, in particular in relation to certain agricultural commodities. Discussions have taken place with some of the proponents, in particular through central Queensland, who have expressed an interest in taking advantage of a coastal shipping service if one becomes available.<sup>141</sup> The Department of Transport and Main Roads provided the following analysis:

*Changes in the way that grain and sugar is sold in global markets provides an opportunity for increasing the use of containerised sea freight services to transport product from regional ports via transhipment at the Port of Brisbane (PoB) to global markets.*

*Discussions with global grain marketing companies and grain producers in the Central Queensland region have revealed a commercial appetite for access to export sea freight containers that might facilitate the development of an intrastate coastal shipping service.*

*TMR has been working with commercial shipping interests who are currently undertaking a business case evaluation of potential deployment of a coastal vessel on the Queensland coast to facilitate containerised freight movements from the ports of Townsville and Mackay, with transhipment at the Port of Brisbane onto international shipping services.<sup>142</sup>*

<sup>138</sup> TMR, Sea Freight Action Plan, Jul 2014:16

<sup>139</sup> TMR, Sea Freight Action Plan, Jul 2014:17

<sup>140</sup> TMR, Sea Freight Action Plan, Jul 2014:5

<sup>141</sup> TMR, Hansard transcript (Public Briefing), 27 Aug 2014:3

<sup>142</sup> TMR, Background Briefing, Jun 2014:5

The Port of Brisbane confirmed that container volumes are the key to a viable sea freight service:

*Currently, the modal share throughout this state represents road movements of over 68 per cent of the general cargo and general freight tonnage, 30 per cent by rail. That is dominated by container movements to North Queensland. Only two per cent moves by sea. Container volumes are a key to a viable service. It is the result of some in-depth studies that we have done about how that would work.*<sup>143</sup>

The Port of Townsville agreed, pointing out that:

*Port of Townsville has recently made significant investments and is pursuing future strategies to facilitate the expansion of containerised import and export trade. Currently large numbers of containers are transported over a thousand kilometres by road and/or rail from Townsville to Brisbane and return, placing increased pressures on the congested South East Queensland network. Coastal shipping would assist with the flow of containers as part of an intrastate or east coast service.*<sup>144</sup>

The North Queensland Bulk Ports Corporation also discussed the contestability of sea freight in the containerised bulk export market:

*From North Queensland Bulk Ports' perspective, the competition for freight, both road and rail, is extreme in that the opportunity exists to use coastal shipping to free up capacity on less urgent, time-sensitive goods that can have a dwell time in port at both ends before they potentially go overseas. There are bulk shipments currently going out. Sugar particularly is one. There is potential in the future for bulk export out of Mackay to overseas and domestic destinations that goes out in a vessel converted to containerization for greater efficiency and increased production as well. The coastal shipping service is pivotal to the success of growth in that particular area.*<sup>145</sup>

The Mackay Regional Council also advised the Committee that containerisation is the key for the Mackay Port:

*In particular was the opportunity for containerisation, which was the focus. This was due to the flow-on benefits to agriculture. Currently the only bulk item that shipped out of Mackay is sugar. Containerisation would allow the processing of those raw materials and, thus, value-adding to the product.*<sup>146</sup>

AgForce noted that sea freight could provide an opportunity in relation to containerised grain exports from Central Queensland:

*There is an extremely rapidly growing demand for containerized grain, particularly into a lot of end-users in South-East Asia. A lot of these businesses are very small consumers of grain, relatively speaking. They are not huge millers. They are what we would almost call backyard operations. They will take 20, 40, 60, 80, 100 tonnes of grain a week, or a month even sometimes. They like getting grain in containers, because it provides them with that portable storage to hold it until they consume it all.*

*There has been a rapidly increasing demand for containerised grain, but it has mainly occurred only out of southern Queensland because access to containers and the Port of Brisbane. There is a growing and increasing awareness that, for growers in Central*

---

<sup>143</sup> Port of Brisbane, Hansard transcript (Public Hearing - Brisbane), 27 Aug 2014:10-11

<sup>144</sup> Port of Townsville, submission 9:2

<sup>145</sup> North Queensland Bulk Ports Corporation, Hansard transcript (Public Hearing - Brisbane), 27 Aug 2014:12

<sup>146</sup> Mackay Regional Council, Hansard transcript (Public Hearing - Brisbane), 27 Aug 2014:11

*Queensland they would like to be able to access those same sorts of markets. .... We would like to see a much more ready supply of empty food-grade containers that could be filled and exported through Townsville or Mackay, preferably.*<sup>147</sup>

### General Freight

The Sea Freight Action Plan identified potential general freight movements moving north from Brisbane as being either:

- imported goods being transhipped through Brisbane for on forwarding north, by road or rail
- locally stored goods (imported and domestic from southern locations) being consolidated then shipped north
- locally produced goods being shipped north.<sup>148</sup>

While access to general freight data is not readily available due to it being commercial-in-confidence, the Department of Transport and Main Roads attempted to secure information from various sources, including the rail network regulator and a figure of 150,000 TEU per annum was identified as the number of containers moving north in the rail network. This figure was used as the basis for contestable freight estimate for TEU movements to all ports north of Mackay. Road freight tonnage was not considered, given the time sensitive nature of express freight carried on Line-Haul services from South East Queensland.<sup>149</sup>

In relation to the prospect of moving general freight, the North Queensland Bulk Ports Corporation advised:

*I think the community itself will demand it. Consolidation and consumption of consumables in the regional communities is an important thing. The immunity against natural disaster is an important thing. Having lived in a regional centre for a long period after a cyclone, I know you can go to the supermarket and you just cannot buy fresh food and vegetables, you cannot get meat, you cannot get toilet paper or a bottle of water. This is a critical issue for coastal freight supporting communities. It is the community itself that will drive demand for coastal shipping. The associated businesses will support that. It will open up opportunities that are yet to be identified that will utilise this service.*<sup>150</sup>

AgForce sees an opportunity to transport fertiliser by sea freight.

*I am well aware at the moment that a lot of bulk fertiliser is moved by B-double as far north as almost Cairns. There would have to be an opportunity for large volumes of fertiliser to be moved by coastal ships from time to time if it was more efficient and cost-effective to do so.*<sup>151</sup>

The Sea Freight Action Plan has identified what cargo might suit different supply chains:

- Over Size Over Mass and project cargo to Gladstone, Mackay and Townsville ex Brisbane
- domestic TEU cargoes for Mackay and Townsville ex Brisbane and return TEU for export
- import TEU cargoes for Townsville and Brisbane for regional distribution

<sup>147</sup> AgForce, Hansard transcript (Public Hearing - Brisbane), 27 Aug 2014:21

<sup>148</sup> TMR, Sea Freight Action Plan, Jul 2014:15

<sup>149</sup> TMR, Sea Freight Action Plan, Jul 2014:15-16

<sup>150</sup> North Queensland Bulk Ports Corporation, Hansard transcript (Public Hearing - Brisbane), 27 Aug 2014:12

<sup>151</sup> AgForce, Hansard transcript (Public Hearing - Brisbane), 27 Aug 2014:20

- Cairns freight transhipped at Brisbane and Townsville and then on forwarded to remote regional communities.<sup>152</sup>

The Port of Brisbane detailed the interstate routes where coastal shipping should be operational (excluding Tasmania) and provided a table on the volume outlook for each of the sectors.<sup>153</sup>

#### 4.4.2 *Competitive and innovative service delivery*

For sea freight to attract freight customers it will have to provide a regular, frequent and reliable service. This will be particularly important in terms of competing with the door-to-door service provided by road freight. This will require, amongst other things, guaranteed scheduled berth availability at relevant ports, quick vessel turnaround times, and timely access via regional road/rail networks to port facilities.

The Department of Transport and Main Roads advised:

*The door-to-door service is hard to compete with... you need a business case to start with. You need there to be demand for coastal shipping. You cannot create demand, although you can go out there and stir the pot.... In the general merchandise, you are fighting against established, very polished rail and road operators. It has to be a niche market you can develop or get into to start that service.*<sup>154</sup>

In relation to the supply of feed for graziers, AgForce agreed that it is hard to compete with road transport's door-to-door service:

*I think there are a lot of road users who would like to see a lot less of that heavy volume of bulk (grain) on the road, both from a safety and a wear and tear point of view. ... They (graziers) would always draw local grain when they could because the cost would be lower. It is the cost of multiple handling – loading the ship, unloading the ship, putting it back on a truck, carting it to the end user – that will always keep that cost significant. But we must do all that we can to drive down those costs to maintain an efficient industry.*<sup>155</sup>

*While subsidies in the rail sector have had less of an impact on coastal shipping, Government policy changes at the time created competitive neutrality between road and rail modes; it is this competitive neutrality that has come at the expense of the coastal shipping sector.*<sup>156</sup>

The Port of Brisbane advised that a coastal sea freight service should incorporate a hub-and-spoke method of delivery:

*Our recommendation would be a hub-and-spoke method as opposed to what we call the milk run. The milk run would be to call in to every port from Brisbane to Cairns. In order to keep costs at a minimum, we would recommend hub-and-spoke with service centres such as Townsville and/or Mackay to become the hubs for cargo to move from South-East Queensland to North Queensland.*<sup>157</sup>

---

<sup>152</sup> TMR, Sea Freight Action Plan, Jul 2014:21

<sup>153</sup> Port of Brisbane, submission 2:9

<sup>154</sup> TMR, Hansard transcript (Public Briefing - Brisbane), 27 Aug 2014:7

<sup>155</sup> AgForce, Hansard transcript (Public Hearing - Brisbane), 27 Aug 2014:20

<sup>156</sup> Port of Brisbane, submission 2:6

<sup>157</sup> Port of Brisbane, Hansard transcript (Public Hearing - Brisbane), 27 Aug 2014:10-11

The Department of Transport and Main Roads advised that efficient modal networks are equally important to available port services to the efficient operation of a coastal sea service.

*... if you cannot get the freight from port inland or from inland to the ports, for example, in the case of some of those agricultural commodities where you have light gauge rail going to the port, then it is not going to work. We need to make sure that the whole system works, not just part of the system. The coastal shipping exercise is about understanding which part of the system is substandard and understanding what investment requirements are needed to lift that infrastructure up to a certain standard that will allow and facilitate both imports into those regional areas and exports out of those regional areas.*<sup>158</sup>

The Port of Townsville pointed out that one of the benefits of a sea freight service will be flexibility:

*Shippers can respond to growing freight demands by increasing the size of their vessels accordingly, or to service a route with multiple vessels depending on the demand.*<sup>159</sup>

### Possible sea freight routes

The Port of Brisbane submitted that international studies propose the distance where coastal shipping competes with land-based modes is approximately 900 kilometres and that in Australia, this leads to defined markets where coastal shipping should be operating, particularly in the containerised and break-bulk sectors.<sup>160</sup>

The Port of Townsville made an assessment of the competitive routes for coastal shipping:

*Port of Townsville supports the case for coastal shipping in Queensland/Northern Australia between eastern seaboard ports and Townsville, and Townsville to Darwin as the Corporation believes shipping can be competitive over these long distances.*

*Revitalising the movement of freight via sea in the domestic transport network is now a focal point in terms of trade growth and efficiency gains at Port of Townsville. Through research, corroborated by industry's body of evidence, the Port can quantify the economic, environmental and social benefits of actively pursuing domestic sea cargo transportation. Discussions have taken place with a number of shipping lines to progress plans for a coastal shipping service.*<sup>161</sup>

The "Sea Freight Action Plan" identifies a number of weekly/twice weekly service rotations that could be offered and provides details about how these could link with existing international shipping services:

- Brisbane, Mackay, Townsville, Brisbane
- Brisbane, Gladstone, Mackay, Brisbane
- Brisbane, Townsville, Cairns to domestic and international locations.

The Sea Freight Action Plan also includes a map which shows the sailing and rotation options for a coastal shipping service in Queensland (see map on the next page).

---

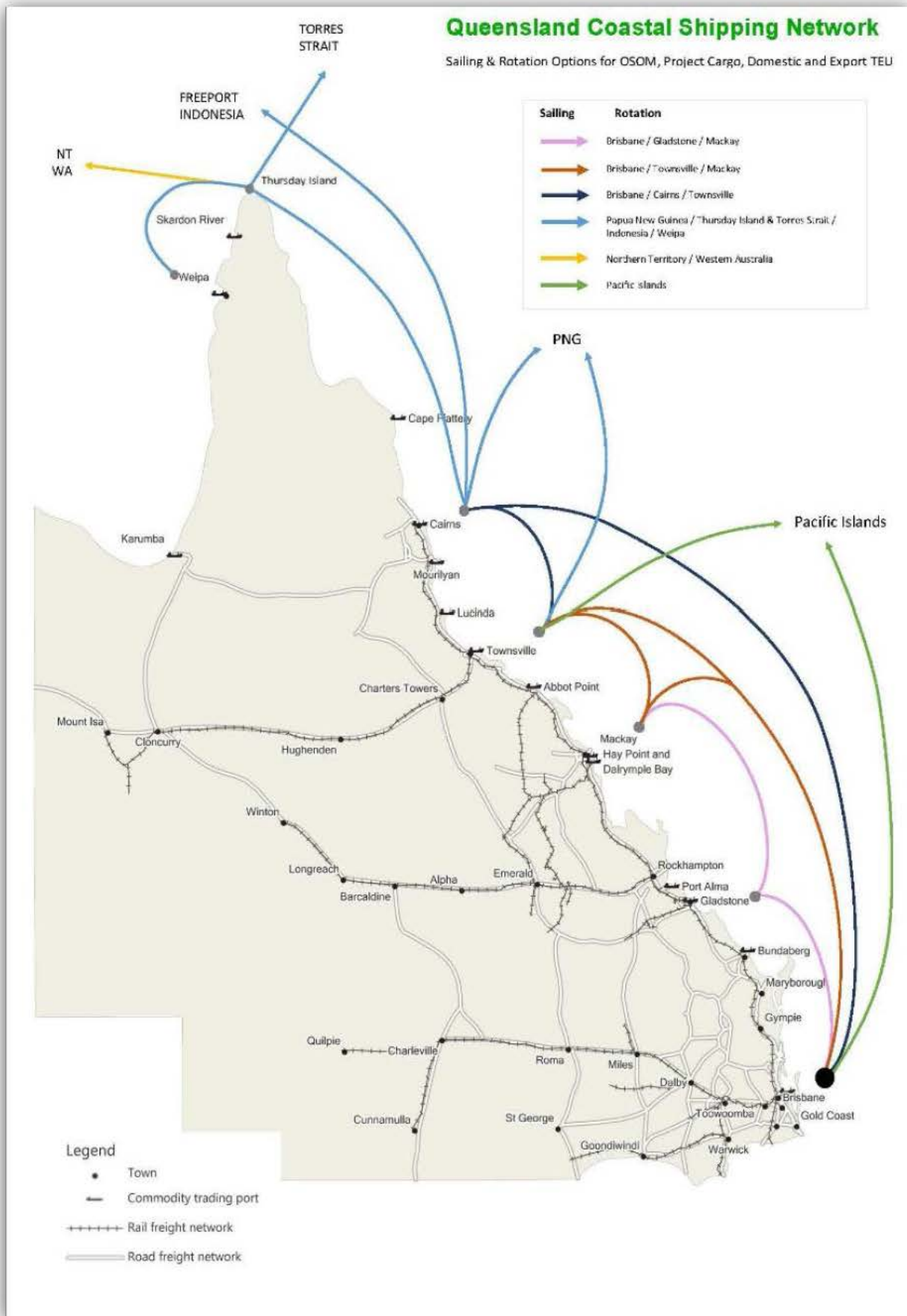
<sup>158</sup> TMR, Hansard transcript (Public Briefing -Brisbane), 27 Aug 2014:5

<sup>159</sup> Port of Townsville, submission 9:5

<sup>160</sup> Port of Brisbane, submission 2:8

<sup>161</sup> Port of Townsville, submission 9:6





Source: TMR, Sea Action Freight Plan – Coastal Shipping, Jul 2014: 24

### Types of vessels required

The Department of Transport and Main Roads advised the Committee that they have been talking to the commercial shipping lines that have provided advice regarding what types of vessels could service a coastal shipping operation and what vessels would be suited to the current port infrastructure:

*For example... one of the companies has a self-gearred ship which means it has its own cranes and it can lift containers off and on. It is a slower operation than what a more sophisticated operation like the Port of Brisbane might be able to offer...*

*That level of sophistication is not necessarily required to run a coastal shipping service, but it is advantageous in terms of turning a ship around. The faster you can unload a vessel, the faster you can get it through the port. Whilst it is in port it is not making money for the shipping operator...*

*What I am saying is that, at present, the investment that is required is dependent really on the volume that is established in terms of opportunity. If you had a particular location that could do, for arguments sake, 10,000 containers a year in terms of exports out – and it appears that there may be sufficient volume in Central Queensland for that, especially through opportunities for grain exports and sugar exports – then that might warrant an investment opportunity and looking at what sort of capital equipment is required to facilitate that. That might change the type of vessel that they put in there. They might not need a self-gearred ship. They might go to a different type of vessel because the port would provide that sort of gear as part of its service.<sup>162</sup>*

The Sea Freight Action Plan examines the range of vessels that could be used on a coastal shipping service and specifically nominates three vessel types:

- self-gearred ships that can call at all ports, require limited stevedoring, and could carry Over Size Over Mass and TEU – slower to load and unload but suitable for ports with no portside lifting equipment
- landing craft are ideal for RORO (barge ramp is required) and can also carry TEU and Over Size Over Mass
- container ships require portside support, including cranes but can load/unload 35-50 TEU per hour with high productivity portside equipment.<sup>163</sup>



Self-gearred ship (Source: Sea Swift Pty Ltd)

<sup>162</sup> TMR, Hansard transcript (Public Briefing - Brisbane), 27 Aug 2014:9

<sup>163</sup> TMR, Sea Freight Action Plan, Jul 2014:19

#### 4.4.3 Competitive freight rates

The Department of Transport and Main Roads advised the Committee that any sea freight service would need to be affordable to compete with road and rail:

*If it is affordable then it will naturally attract a fair bit of support. That will make the road and rail companies more competitive in their service offering. So everyone will be a winner, perhaps except for the rail companies and the road companies. It is resilient. If you consider that Queensland is subjected to cyclones and dramatic seasonal events and the impacts of floods et cetera, it is an alternative mode of transport that can basically be an all-weather solution.*<sup>164</sup>

AgForce Queensland advised:

*Any alternative, such as a coastal sea freight network, aiming to remove pressures from the road and rail network, must be commercially viable and deliver real cost savings to primary producers within the supply chain.*<sup>165</sup>

The Port of Townsville pointed out that high, and increasing fuel costs by road should make coastal sea freight competitive<sup>166</sup> and also pointed out that competitive pricing will be critical given the slightly extended transit times of sea freight and suggested that it might be beneficial to include a pricing model that incorporates carbon credits; rewarding measurable movement of cargo from land based transport to coastal shipping; and incentivises coastal shipping start-up companies that significantly reduce surface congestion and air pollution.<sup>167</sup>

#### Regulatory environment

One of the key factors affecting the price of a coastal sea service is the current regulatory framework which, according to the majority of stakeholders, has introduced unnecessary red tape and increased costs in the Australian coastal shipping sector.

The North Queensland Bulk Ports Corporation argued that the removal of a restrictive regulatory environment would allow sea freight to compete with other transport modes:

*Implementation of structural change will provide cargo owners with modal choice and allow greater level of flexibility in determining appropriate supply chain outcomes. It will facilitate increased investment in regional and port infrastructure and contribute to increased competition between freight modes and potentially the development of intermodal facilities to better serve the respective communities.*<sup>168</sup>

The Port of Brisbane agrees:

*Regulation of the coastal shipping trade has resulted in uncompetitive vessel operating costs on all but the most highly suited cargo legs in the bulk sectors.*<sup>169</sup>

---

<sup>164</sup> TMR, Hansard transcript (Public Briefing - Brisbane), 27 Aug 2014:5

<sup>165</sup> AgForce Queensland, submission 10:3

<sup>166</sup> Port of Townsville, submission 9:3

<sup>167</sup> Port of Townsville, submission 9:9

<sup>168</sup> North Queensland Bulk Ports Corporation, Hansard transcript (Public Hearing - Brisbane), 27 Aug 2014:11-12

<sup>169</sup> Port of Brisbane, submission 2:6

The Sea Freight Action Plan noted the concerns of shippers with regard to high stevedoring costs, along with vessel crewing costs under the *Fair Work Act 2009*, and vessel registration and permit requirements under the Coastal Trading Act combining to make coastal shipping less attractive to the market.<sup>170</sup>

AgForce Queensland referred the Committee to a 2010 report by Bendall and Books<sup>171</sup> which concluded that under the current circumstances within the coastal shipping environment, coastal shipping cannot compete with other forms of containerised freight transport where the road distance is less than one day's driving (for next day delivery guarantees):

*The report goes on to say in its conclusion that there are few corridors on which coastal shipping might compete effectively against rail or road operations. AgForce has received feedback that the cost of shipping empty containers around the coast is approximately double what it could be under the current industrial relations regulations. Further, due to the compliance costs associated with current coastal shipping arrangements, including but not limited to the cost of licence requirements, and wage costs for foreign vessels operating in the Australian coastal trade, there has been a distinct decline in companies servicing coastal shipping in Australia, including an absence of foreign flagged vessels and a complete lack of competition in the industry.*<sup>172</sup>

The Committee has undertaken an in-depth analysis of the legislative framework in the final section of this Report.

#### Road and rail subsidies

Another key factor identified by stakeholders as affecting the contestability of a sea freight service is government subsidies provided to the competing transport modes:

*In addition, regulation of other competing transport modes – particularly the trucking industry – has played a significant role in reducing the coastal shipping cost advantage even where distance should favour the mode. The externalities of trucking have not been paid for by the industry, where the engineering impacts of one heavy vehicle can be the equivalent to 5000 cars. As a result of subsidisation of the heavy vehicle industry, particularly long haul markets, a coastal cargo mode cannot compete, even when distances present a competitive advantage.*

*While subsidies in the rail sector have had less of an impact on coastal shipping, Government policy changes at the time created competitive neutrality between road and rail modes; it is this competitive neutrality that has come at the expense of the coastal shipping sector.*<sup>173</sup>

The Port of Brisbane suggested the following solution:

*To reverse this impact, the coastal shipping market must be low cost. Short-term, it is not possible to restructure the modal competitive landscape by targeting the road or rail sectors with increased charges to reduce the cross subsidisation by non-commercial vehicles or through tax breaks (although this should be addressed long-term).*

<sup>170</sup> TMR, Sea Freight Action Plan, Jul 2014:29

<sup>171</sup> Institute of Transport and Logistics Studies Working Paper ITLS-WP-10-12, "Short sea shipping: Lessons for or from Australia?" [http://sydney.edu.au/business/\\_data/assets/pdf\\_file/0014/70502/itls-wp-10-12.pdf](http://sydney.edu.au/business/_data/assets/pdf_file/0014/70502/itls-wp-10-12.pdf) (as referenced by AgForce, submission 10:3)

<sup>172</sup> AgForce, submission 10:3-4

<sup>173</sup> Port of Brisbane, submission 2:7

*The solution is to allow the coastal shipping mode to compete on price by enabling it to access international cost structures for coastal operations, noting that labour and fuel are the two major cost components to a ship operator.*<sup>174</sup>

Sea Swift provided the Committee with advice on the costs associated with operating a sea freight service in Queensland waters:

*The cost basket for coastal shippers essentially is around fuel, labour and the cost of maintaining those vessels. The cost of maintaining the vessels is really dictated by the class the vessel is in—that determines the maintenance regime that is applied to that vessel—or the regulatory regime in which that vessel is operating, which again can have an impact on the maintenance cost. Obviously, that dictates the schedule and some of the work that needs to be done. The impact on that is again labour rates for the mixed trades that are required to do that work and the consumable cost of replacing items in those vessels. That is the maintenance cost. Outside of that, though, in our particular model there are depot costs associated with the assembly of all the cargo and consolidation of the cargo and then distribution at the other end. There is a whole range of costs associated with that around labour, equipment, costs—so forklifts, trucks and the like—operating in fairly aggressive environments whereas most on-road ones do not have those costs. We are operating a lot of that gear in fairly salty environments, in extreme marine environments. So we have a more regular regime of maintenance of that type of equipment than a regular road freight operator would have. There is a real cost basket around that, but they are the predominant ones.*<sup>175</sup>

The Committee undertakes an analysis of sea freight subsidies in the next section of this Report.

#### **Committee comment**

While the Committee has concluded that a regular coastal shipping service would complement road and rail services by offering improved supply chain productivity and security, it is concerned that sea freight will not be contestable with the road and rail sectors unless it can compete on price, attract viable freight volumes and provide a competitive and innovative service.

The Committee has therefore examined the expert evidence provided to it through the course of this Inquiry to make a preliminary assessment of the viability, and therefore contestability, of a sea freight service in Queensland. In undertaking this assessment the Committee has looked at freight availability, pricing and service provision.

Regular, stable and reliable freight volumes would be required to underpin a sustainable service and the Committee believes sufficient sources of non-time sensitive and non-urgent freight have been identified by stakeholders and by the Department of Transport and Main Roads. These include Over Size Over Mass cargo, mining and construction inputs, general freight and containerised agricultural products such as grain and sugar. Containerised freight has the additional benefit of enabling exports to be shipped to the Port of Brisbane for export.

A sustainable service will also require competitive and innovative service delivery with fast vessel turn-around times. The Committee has noted that coastal shipping is only likely to compete with land-based modes for trips of over 900 kilometres and that this will lead to a defined service that travels directly to northern ports and back to Brisbane rather than stopping at multiple ports along the way - a “milk run” type service. The Committee also noted that it will be difficult for a shipping

<sup>174</sup> Port of Brisbane, submission 2:7

<sup>175</sup> Sea Swift, Hansard transcript (Public Hearing – Cairns), 21 Aug 2014:5

service to compete with the door-to-door service provided by rail freight. The coastal shipping service will need to integrate with other freight modes through hub and spoke delivery models. The Committee made two recommendations on the need for the establishment of inland ports and hubs in its 2014 “Inquiry into rail freight use by the agriculture and livestock industries” and would like to reiterate these recommendations in relation to this inquiry (see below).

While competitive pricing is essential for sea freight to compete with land-based transport, sea freight costs are currently impacted by a legislative framework that imposes significant additional costs on the industry and by direct and indirect subsidies provided by the State and Federal Government to rail and road freight. These issues are considered by the Committee in more detail later in this Report.

The Committee fully supports the work currently being undertaken by the Department of Transport and Main Roads, in conjunction with other Queensland Government departments and industry, to develop a Sea Freight Action Plan in order to facilitate the establishment of a commercial sea freight service.

The Committee’s preliminary assessment of the viability of a coastal sea freight service shows that it has the potential to play an important role in Queensland by providing an alternative mode of transport to move Over Size Over Mass cargo, containerised agricultural products and general freight, however, the Committee believes that further work needs to be undertaken on the contestability of a sea freight service. The Committee is therefore recommending that urgent priority be given to undertaking a detailed assessment of the viability of a commercial coastal sea freight service and that this be based on an assessment of sustainable freight volumes, competitive service delivery and competitive freight rates. The assessment should also investigate the best way to integrate a regular coastal shipping service into the transport and freight network.

#### **Recommendation 2**

The Committee recommends that the Minister for Transport and Main Roads give urgent priority to undertaking a detailed assessment of the best way to integrate a regular coastal shipping service into the transport supply chain and in doing so, assess the viability of a sea freight service based on freight rates, sustainable freight volumes and competitive service delivery in consultation with the shipping industry, Queensland ports and potential freight customers.

#### **Recommendations made in THLGC Report No. 45 – Inquiry into rail freight use by the agriculture and livestock industries**<sup>176</sup>

##### **Recommendation 30 – Planning strategically-located, inter-connected hubs**

The Committee recommends that the proposed Freight Authority work urgently with industry stakeholders (across commodities) and relevant local governments along the key agricultural freight routes to:

- identify optimal locations and linkages for a series of warehousing and intermodal terminal or inland port solutions
- engage and co-ordinate with interested stakeholders to identify and remove barriers to progressing these projects.

##### **Recommendation 31 – containerisation facilities**

The Committee recommends that the proposed Freight Authority engage with industry to identify optimal locations for co-locating containerisation facilities with planned intermodal terminals, inland ports and warehousing hubs.

<sup>176</sup> THLGC, Report No. 45, Inquiry into rail freight use by the agriculture and livestock industries, 2014:95

#### 4.5 Government financial assistance for a coastal sea freight service

The Committee examined the issue of sea freight contestability in a market where rail freight receives a direct subsidy from the Queensland Government and road freight receives indirect subsidies from both the Queensland and Commonwealth governments through road construction and maintenance funding. These direct and indirect subsidies of alternate freight transport modes are likely to put a sea freight service at a competitive disadvantage.

The Committee therefore investigated whether a start-up subsidy would be of assistance to enable the establishment of a coastal sea freight service in Queensland and whether the Government should provide a permanent subsidy to enable an alternate mode of freight transport to road and rail. The Committee examined a number of past and existing sea freight subsidies to inform this investigation.

##### **Case Study 1 - Tasmanian Freight Equalisation subsidy**

The Tasmanian Freight Equalisation Scheme, introduced by the Federal Government in 1976, provides a subsidy to compensate the sea freight cost disadvantage incurred by shippers of non-bulk goods freighted between Tasmania and mainland Australia as they cannot transport goods by land.<sup>177</sup>

The Scheme is demand driven, and while an annual budget is set for the total assistance available for claimants, in practice there is no upper limit to the total annual payments that could be made to claimants. In 2010-11, 1,544 businesses and individuals lodged a total of 11,233 claims for assistance, resulting in the payment of a total of \$100 million under the scheme. The combined forward estimate for the Scheme over the four years to 2013-14 is \$485.6 million.<sup>178</sup> The Australian Government has outlaid more than \$2 billion since the inception of the schemes, and a further \$2 billion cost is estimated over the next 15 years.<sup>179</sup>

There have been numerous concerns raised about the Scheme. Some have criticised the scheme, for example in 2012, the former Chief Executive of Infrastructure Australia, labelled the scheme "*reactive, disjointed, fragmented and costly*" and possibly open to fraud.<sup>180</sup> Others have called for the scheme to be extended, for example:

- In February 2013, Mr Andrew Wilkie MP claimed that the amount of money available under the scheme was inadequate and the scope too narrow.<sup>181</sup>
- On 4 March 2014, the Managing Director of Webster Limited (a diversified food and agribusiness) wrote that the scheme was inequitable and indicated the Scheme should be extended to include export as well as domestic freight.<sup>182</sup>

On 29 November 2013, the Federal Government formally requested that the Productivity Commission undertake a public inquiry into the current arrangement for supporting freight and passenger services between the mainland and Tasmania. The Productivity Commission report was published on 24 June 2014. The inquiry found that "*there is no sound underlying economic rationale for the scheme*"<sup>183</sup> and that it is "*not the best way to advance Tasmania's economic development*".<sup>184</sup> The Commission also

<sup>177</sup> Ministerial Directions for the Operation of the Tasmanian Freight Equalisation Scheme; [http://www.infrastructure.gov.au/transport/programs/maritime/tasmanian/files/TFES\\_MDs\\_FINAL\\_31\\_Oct\\_2013.pdf](http://www.infrastructure.gov.au/transport/programs/maritime/tasmanian/files/TFES_MDs_FINAL_31_Oct_2013.pdf); <accessed 22 Oct 2014>

<sup>178</sup> ANAO Audit Report No.13 2011-12 Tasmanian Freight Equalisation Scheme:16-17

<sup>179</sup> <http://www.pc.gov.au/projects/inquiry/tasmanian-shipping/report>; accessed 21 Oct 2014; published Jun 2014

<sup>180</sup> <http://www.fullyloaded.com.au/news/industry/1205/deegan-casts-doubt-on-worth-of-tasmanian-freight-equalisation-scheme/>; <accessed 24 Oct 2014>

<sup>181</sup> [http://www.andrewwilkie.org/content/index.php/awmp/speeches\\_extended/tasmanian\\_freight\\_equalisation\\_scheme](http://www.andrewwilkie.org/content/index.php/awmp/speeches_extended/tasmanian_freight_equalisation_scheme); <accessed 22 Oct 2014>

<sup>182</sup> <http://web.archive.org/web/20130304082356/http://www.theadvocate.com.au/story/1340114/editorial-bass-strait-needs-to-be-treated-like-a-highway/?cs=86>; <accessed 24 Oct 2014>

<sup>183</sup> Tasmanian Shipping and Freight Productivity Commission Inquiry Report No. 69, 7 Mar 2014:1

<sup>184</sup> <http://www.pc.gov.au/projects/inquiry/tasmanian-shipping/report> <accessed 22 Oct 2014>

found that eligibility for the TFES is arbitrary, the direct recipients are concentrated (with 50 per cent of the total amount claimed going to 10 recipients) and that there are unintended consequences, including perversely increasing the costs of goods for Tasmanian consumers.<sup>185</sup>

On 25 June 2014, the Deputy Prime Minister Warren Truss stated that *“The Prime Minister has also given his personal assurance to retain the TFES and the Bass Strait Passenger Vehicle Equalisation Scheme”* and that *“we will honour our election commitment to keep them.”*<sup>186</sup>

### Case Study 2 - West Australian State Shipping Service

Until recently, the West Australian Government also subsidised sea freight to the north west of the State. The West Australian State Steamships Service was established as a government owned shipping service in May 1912.<sup>187</sup> It traded under 2005, when the state government sold its last vessel, and the coastal shipping service was replaced with privately owned vessels receiving government subsidies.

Between February 2006 and 2009,<sup>188</sup> Seacorp was subsidised by the WA government to deliver services to the North-West via a long-term State Government contract to provide coastal shipping services which linked North-West ports with Fremantle and Darwin. The shipping services ran on regular 17-day cycles, sailing between Fremantle, Dampier, Port Hedland, Broome, Wyndham and Darwin.<sup>189</sup> In October 2009, Seacorp confirmed its intention to withdraw from the coastal trade, ending four years, “three of them profitable”<sup>190</sup> on the WA coastal trade. By December 2009, the WA government had agreed with major Norwegian shipping company, Jepsens, to underwrite the shipping services to the State’s north-west until March 2015 at \$8 million a year with an option for a three-year extension. However, by August 2013, the WA government stated that Jepsens was seeking extra funding and, when Jepsens was unable to secure the additional funding, it made the ‘commercial decision’ to cease the service because of ongoing losses.<sup>191,192,193</sup>

The annual reports for the WA Department for Planning and Infrastructure and the Department of Transport show the shipping service subsidy rose from \$3.367 million in 2005 to \$9.497 million in 2013.

In 2007, Ms MacTiernan said Auslink’s strategy for the transport corridor between Perth and Darwin did not consider the importance of shipping in keeping freight costs down, reducing damage to roads and making roads safer.<sup>194</sup> In a submission to the 2007-08 Federal inquiry into coastal shipping policy and regulation, Ms Melissa Parke MP agreed, quoting both the Sea Freight Council of Western Australia and the Fremantle Chamber of Commerce in acknowledging the significant environmental and community benefits that would result from shifting road freight to sea freight. North-west communities and resource industries in particular stand to benefit because shipping offers an efficient alternative to road transport for heavy loads and an alternative link during road closures in the wet season.<sup>195</sup> In 2008,

<sup>185</sup> Tasmanian Shipping and Freight Productivity Commission Inquiry Report No. 69, 7 Mar 2014

<sup>186</sup> <http://web.archive.org/web/20140701155006/http://www.fullyloaded.com.au/news/industry/1406/abbott-to-drive-tasmanian-freight-agenda-truss/>, <accessed 22 Oct 2014>

<sup>187</sup> [http://aeon.sro.wa.gov.au/Investigator/Details/Agency\\_Detail.asp?Entity=Global&Search=state%20shipping%20service&Op=All&Page=1&Id=770&SearchPage=Global](http://aeon.sro.wa.gov.au/Investigator/Details/Agency_Detail.asp?Entity=Global&Search=state%20shipping%20service&Op=All&Page=1&Id=770&SearchPage=Global), <accessed 22 Oct 2014>

<sup>188</sup> Seacorp. Submission 2, House Standing Committee on infrastructure, Transport, Regional Development and Local Government, Inquiry into Coastal shipping policy and regulation 2008

<sup>189</sup> Ms Melissa Parke MP, submission 37, Inquiry into Coastal Shipping Policy and Regulation, House Standing Committee on Infrastructure, Transport, Regional Development and Local Government, April 2008:4

<sup>190</sup> <http://www.lloydslistdcn.com.au/archive/2009/october/20/seacorp-to-shrug-off-coastal-shipping-burden>, <accessed 20 Nov 2014>

<sup>191</sup> <http://www.amou.com.au/media/11102/north-west%20shipping%20service%20contractor%20announced.pdf>, <accessed 24 Oct 2014>

<sup>192</sup> <https://au.news.yahoo.com/thewest/a/18577351/shipping-firm-axes-service-after-dispute/>, <accessed 24 Oct 2014>

<sup>193</sup> <http://jepsens.com.au/2013/09/wa-govt-service-closed/> <accessed 24 Oct 2014>

<sup>194</sup> <http://www.perthnow.com.au/business/shipping-snub-for-wa/story-e6frg2qc-111113723541>, <accessed 24 Oct 2014>

<sup>195</sup> Melissa Parke MP, Submission No. 37, 2008 House Standing Committee on Infrastructure, Transport, Regional Development and Local Government, Inquiry into Coastal shipping policy and regulation



Seacorp argued that the absence of a rail network north of Perth makes an intrastate coastal shipping service critical from both a commercial and continuity of supply perspective. The coastal shipping arrangements ensure that rail rates remain competitive and provide commercial competition to the burgeoning road freight service providers.<sup>196</sup>

It is not clear why the WA government ceased funding the coastal shipping service in 2013 rather than re-tender the service upon the withdrawal of Jebbens.

#### **Committee comment**

The Committee is cognisant of the fact that rail freight and road freight receive direct and indirect subsidies from the Queensland and Federal governments and that this is likely to put a sea freight service at a competitive disadvantage. The Committee has considered whether there is a need for the Queensland Government to provide a subsidy to either kick start the establishment of a coastal sea freight service or provide a more permanent, long-term subsidy to ensure such a service is competitive with road and rail freight.

The Committee considered the appropriateness of various subsidies to a range of points in the supply chain – from subsidising the primary producers through to offsetting freight costs paid by end users of the freighted goods. However, based on the lessons learned from the two case studies on the Tasmanian and West Australian sea freight subsidies, and on the Productivity Commissions advice that subsidies have unintended consequences and are not the best way to improve economic development, the Committee has concluded that the provision of a permanent subsidy for a sea freight service in Queensland is not the best form of government assistance.

However, the Committee believes the Government should be open to discussions with the shipping industry, regional ports and freight customers regarding ways in which the government might be able to provide assistance to facilitate the establishment of a regular coastal sea freight service.

The Committee suggests, that if financial assistance is to be provided, it should be preceded by an assessment of any infrastructure barriers to a coastal shipping service, for example the need for loading facilities at regional ports which could be made available as common use infrastructure.

Port infrastructure requirements are discussed in the next section of this report.

#### **Recommendation 3**

The Committee recommends against any direct, long-term or permanent sea freight subsidy being provided by the Queensland Government on the basis that a regular shipping service should only be established if it is deemed to be economically viable in the medium to long term.

#### **Recommendation 4**

The Committee recommends that, given the significant benefits a coastal shipping service would provide to the Queensland economy and community amenity, the Government should remain open to discussions with the shipping industry, regional ports and freight customers concerning forms of assistance (other than a direct subsidy) that may facilitate the establishment of a coastal shipping service.

<sup>196</sup> Seacorp. Submission No. 2, 2008 House Standing Committee on Infrastructure, Transport, Regional Development and Local Government, Inquiry into Coastal shipping policy and regulation:1

#### 4.6 Government assistance for freight services to remote island communities

The Queensland Government currently provides a rail freight subsidy on the North West, Central West and South West rail freight lines to ensure that freight services are provided to these communities at a reasonable cost. The Committee considered the issues related to this subsidy and the indirect subsidies provided to road transport in its Report No 45 on rail freight tabled in Parliament in June 2014.<sup>197</sup>

The Committee visited Thursday Island to speak with the Torres Strait Island community as part of the Inquiry process (see photo below).



Sea Swift, a shipping company that has provided coastal shipping services throughout Northern Australia for over 25 years, advised the Committee:

*The entire region is, without exception, totally dependent on marine transport to deliver almost all of the requirements of daily life, accordingly this must be considered in the broader context of true Coastal Shipping Reform.*<sup>198</sup>

The community representatives on Thursday Island provided evidence that the goods freighted to the Island cost double those on the mainland and requested the Queensland Government consider providing a subsidy. For example, a three litre container of milk costs \$9 on Thursday Island<sup>199</sup> and petrol costs around \$2.50 per litre<sup>200</sup> and up to \$3.60 per litre at Ugar and Stephens Island where it is bought in in drums and decanted.<sup>201</sup> The Torres Strait Regional Council sought assistance from the Queensland Government:

*I only hope that the Committee, in its report to Parliament, captures our issues around access and issues around the high cost of living in terms of ensuring that we can improve the health and well-being of our people and how that would actually work.*

*.... I think for this region we should look at something that can complement what we already have in place, which is a railway line up to Bamaga and all-weather road to Bamaga... That*

<sup>197</sup> THLGC Report No.45, Inquiry into rail freight use by the agriculture and livestock industries, 2014:66-78

<sup>198</sup> Sea Swift, submission 12:3

<sup>199</sup> [Submissions – Parliament of Australia](#), <accessed 20 November 2014>

<sup>200</sup> <http://blackwiki.wordpress.com/2012/12/04/mainland-fuel-drops-but-tsi-stays-sky-high/> <accessed 16 Nov 2014>

<sup>201</sup> Torres Strait Regional Council, Hansard transcript (Public Hearing – Thursday Island), 20 Aug 2014:5

*would provide local government and the retail arm with the ability to get better prices from their suppliers and down the supply chain inclusive of freight so that those savings can be passed onto consumers.*<sup>202</sup>

The Torres Shire Council echoed these concerns and added that the islands' economies and attempts to become more self-sufficient are stifled by legislation focussed on the area being critical for Australian security and the view that sees the Torres Strait as a buffer zone:

*My experience over the last 20 years is that the different laws and legislation within the Torres Strait prohibits any growth, any real economic growth. I think the perspective of government for this region has always been on security, looking at Torres Strait as a buffer zone, rather than looking at Torres Strait to actually fan the flame any economic initiative to have sustainability within the region. We are working with health and community organisation to create market gardening. Market gardening is limited because you cannot move produce from one island to another island because of quarantine legislation. The incentive to even build a productive cottage industry dies before it starts. It is limited that you can only sell either within your own island.*<sup>203</sup>

The Torres Strait Island Regional Council also requested that the Government consider a freight equalisation scheme:

*For years we have been requesting a freight equalisation scheme similar to Tasmania's. We made representations directly to the state and federal governments, and we were told back then it was a mistake. We only learned a little later in the piece that a similar scheme was extended to freight shipped to King Island which, the 2011 ABS statistics show, had a population of approximately 1,650 people. The Freight Subsidy Scheme provided for freight shipped between King Island and Flinders Island. Flinders Island had a population of approximately 750 people, according to the 2011 ABS data. If you look at the 2011 ABS data for our region in comparison, we are looking at 7,500 people, so there is a lot of strengths highlighting and supporting the reasons why we should have a freight equalisation scheme.*

*....I want the Committee to note that apart from the Tasmanian Freight Equalisation Scheme in place, Palm Island has subsidised freight and passenger transport. Looking at how close we are to Cairns, it is a no-brainer in terms of why we keep calling out for that assistance.*<sup>204</sup>

It should be noted that the Palm Island freight subsidy referred to by the Torres Strait Island Regional Council refers to relief and recovery assistance under the Commonwealth/State Natural Disaster Relief and Recovery Arrangements (NDRRA) which has been provided to 16 shires affected by Tropical Cyclone Ita (including Palm Island) earlier this year. Freight subsidies of up to \$5,000 per disaster event are available (for a period of 12 months after the disaster event) for eligible primary producers located within a disaster-declared area under these arrangements. Primary producers are defined as people who spend the majority of their labour on, and derive the majority of their income from, a primary production enterprise.<sup>205</sup>

Sea Swift advised that it has worked closely with various island communities to meet their freight requirements and in fact provides the only freight link to many of the remote island communities in Northern Australia.

---

<sup>202</sup> Torres Strait Island Regional Council, Hansard transcript (Public Hearing – Thursday Island), 20 Aug 2014:3,5

<sup>203</sup> Torres Shire Council, Hansard transcript (Public Hearing – Thursday Island), 20 Aug 2014:6-7

<sup>204</sup> Torres Strait Island Regional Council, Hansard transcript (Public Hearing - Thursday Island), 20 Aug 2014:5&9

<sup>205</sup> <https://www.business.qld.gov.au/business/running/disaster-resilience-and-recovery/natural-disaster-assistance>;  
<https://www.daff.qld.gov.au/plants/relief-assistance-freight-subsidies>

*Sea Swift's diverse fleet and specialised vessels allows the company to carry and deliver not only essential every day foodstuffs but also a huge range of general and refrigerated cargo, fuel for remote power stations, vehicles, transportable housing and construction material, essential mining consumables and heavy earthmoving equipment....*

*However, there are a number of issues which constrain the provision of freight services to the Torres Strait region on a regular basis. These include but are not limited to, climatic conditions, high travel and rental costs for labour and crewing, a varying quality of infrastructure in many destinations – in particular ramps and access channels – and a lack of commercial enterprises worthy of providing any volumetric back freight options.<sup>206</sup>*

In its submission, Sea Swift highlighted some of the factors that contribute to high freight charges to the islands:

*Climatic issues aside, the inability to use larger vessels to offset rising commercial overheads, and the relatively high cost of shipping from southern ports over 1000km away also have an impact. Port charges add further to the cost base with levy's being applied in Port Kennedy (Horn Island and Thursday Island) 5 times higher than those applied in Cairns, this consequently has a further negative impact on the cost of goods for all Torres Strait residents.<sup>207</sup>*

In response to a Committee member's question about whether Sea Swift would support a freight subsidy to the remote communities in the North, Sea Swift responded:

*That is a difficult one. I guess. I know there are areas that do offer freight subsidies. One that springs to mind is Tasmania and that is really a freight equalisation scheme for producers in Tassie to make sure that they can compete on even terms with the mainland, as I understand it. In terms of freight subsidies to the north, I have been asked this question before in another inquiry and my response then, and it still stands, is I would be loath to pass on a freight subsidy to a freight provider because there could potentially be gouging then. What I would prefer, if there was going to be any consideration around a freight subsidy, was to pass that on to the end user so that they can essentially then still have the choice which way they choose to go. I know that is probably a little bit left of field and a lot of different thinking to what most people in the industry would say, but that is my personal view.<sup>208</sup>*

Further, in relation to the West Australian freight subsidy, Sea Swift advised:

*It certainly wasn't successful in Western Australia.... It just didn't sustain that service. Ultimately any successful coastal shipping needs to focus on the customers themselves. They want freight as quickly as possible, as regularly as possible and at the lowest cost possible. That is what you are up against ultimately as a coastal shipping company generally. I think major ports need to become ultimately more efficient. Intermodal type structures around road and rail into those ports need to be very, very efficient. Fred mentioned demarcation around loading and unloading your own vessel potentially to have that full control and ultimately listening to the customer. Road has that over all modes of transport: door-to-door, regular services, potentially at the lowest possible cost.<sup>209</sup>*

---

<sup>206</sup> Sea Swift, Hansard transcript (Public Hearing – Cairns), 21 Aug 2014:2

<sup>207</sup> Sea Swift, submission 12:3

<sup>208</sup> Sea Swift, Hansard transcript (Public Hearing – Cairns), 21 Aug 2014:7

<sup>209</sup> Ibid

**Committee comment**

Remote island communities in the North of Queensland are totally reliant on sea freight and the Committee is concerned that they are paying almost double for household goods due to the high cost of freighting items to their communities, for example, a three litre bottle of milk costs \$9 on Thursday Island and petrol costs between \$2.50 and \$4.50 per litre. These high costs have a significant impact on the Torres Strait islands' economies and also impact on the health and well-being of the community.

The Committee has noted the request from the Torres Strait Island Regional Council for a railway line or an all-weather, sealed road to Bamaga to reduce the cost of freight to the islands and is recommending that the Transport Minister consider all avenues for reducing freight costs to the islands.

The Committee also notes the request from the Council for a freight equalisation scheme similar to the Tasmanian scheme. Through its rail freight inquiry, the Committee is aware that general, industrial and livestock freight are subsidised by the State Government through two Transport Service Contracts in areas (North West, Central West and South West) where a freight service is not economical on a purely commercial basis. The Committee considers that the Torres Strait communities could be considered to meet these same criteria and therefore deserve similar assistance to the Western Queensland communities benefitting from these subsidies.

The Committee has formed the view that, given the health and well-being cost to the Torres Strait community caused by high freight costs, a subsidy deserves further investigation and recommends that the Minister for Transport and Main Roads investigate options for providing a mechanism to reduce the freight cost for the Torres Strait communities.

**Recommendation 5**

The Committee recommends that the Queensland Government investigate ways in which to assist remote island communities in North Queensland with their high freight costs, including:

- investigating the possibility of upgrading the road and/or providing a rail link to Bamaga
- considering a State Government funded freight subsidy to remote island communities on the basis that the State subsidises rail freight to other remote/regional Queensland communities where a competitive freight service is not possible
- approaching the Federal Government to discuss the provision of financial assistance for a freight subsidy to remote island communities on the basis that the Commonwealth contributes significant funding to the Tasmanian freight subsidy scheme.

## 5 Port operations and associated infrastructure

In this section of the report the Committee considers the ability of existing port infrastructure to cater for an increase in coastal shipping in Queensland and the charges that might be applied by the ports.

The Port of Townsville submitted:

*Ports must respond with appropriate and highly effective interface such as consistent berthing availability, efficient unloading equipment, reliable stevedoring capacity and adequate laydown facilities. Optimal freight forwarding conditions are critical if coastal shipping is to compete with other modes of transport. It would defeat the purpose if sea freight were to remain at anchor for long periods or not be unloaded promptly.*<sup>210</sup>

The Queensland Government's Queensland Ports Strategy, released on 5 June 2014, outlines 18 actions for the planning, development and management of Queensland's port network.<sup>211</sup> Coastal shipping is identified in the Strategy's 'Port and supply chain performance' section, noting that "*the Queensland Government will develop a Sea Freight Action Plan and complete a Parliamentary Inquiry into coastal shipping*".<sup>212</sup>

The Department of Transport and Main Roads' Sea Freight Action Plan is to examine existing port infrastructure and capabilities at nominated ports and considered options for coastal shipping.

### 5.1 Port preparedness

As part of the first phase of the Sea Freight Action Plan, the Department of Transport and Main Roads has looked at the infrastructure requirements for a coastal shipping service. Consultation was undertaken with the Port of Townsville, Gladstone Ports Corporation, Ports North and North Queensland Bulk Ports Corporation to identify possible infrastructure shortfalls at those ports, including intermodal connections. For example, the Department advised that "*some of the ports are challenged by the road system at the moment or the rail system.*"<sup>213</sup>

The Department provided advice to the Committee about the different set ups in regional ports compared to a main city port:

*... the regional ports are quite a different port set up to what, say, a main city port like Brisbane or Sydney or Melbourne might be. Brisbane city and Melbourne are typically large containerised ports.*<sup>214</sup>

*..... many of the ports are set up mainly for a non-containerised service, because they had been designed around the resource industry. It might be that they need to do some investment in things like hard stands to allow the containers to be put on. It might be that they need some investment in port forklifts to lift containers and carry them to and from their staging area through to the key site.*<sup>215</sup>

<sup>210</sup> Port of Townsville, submission 9:5

<sup>211</sup> DSDIP, Queensland Ports Strategy, May 2014:vi-vii

<sup>212</sup> TMR, Background Briefing, Jun 2014:10

<sup>213</sup> TMR, Hansard transcript (Public Briefing - Brisbane), 27 Aug 2014:4

<sup>214</sup> TMR, Hansard transcript (Public Briefing - Brisbane), 27 Aug 2014:2

<sup>215</sup> TMR, Hansard transcript (Public Briefing - Brisbane), 27 Aug 2014:5

However, the Department also advised that this investment would not be required for ships that are self-geared as they have their own equipment and they can do self-lifting of those containers from the vessel on to the quay site.<sup>216</sup>

The Sea Freight Action Plan's audit of infrastructure found that in relation to current port readiness:

*All ports are capable of handling the vessels being considered by shippers in terms of lengths and keel depths, and all ports have rails and road connectivity, excluding Cairns which only has road access.*<sup>217</sup>

The Plan also concluded that only minimal infrastructure expenditure is required to support a sustainable and viable coastal shipping service.<sup>218</sup> The Department reiterated this at the public briefing:

*It is certainly sustainable, because we think that much of the infrastructure that is currently in place is not broken. It is yet to be determined, but it might be that minimal investment is required to bring that infrastructure up to a standard that would support a coastal shipping service.*<sup>219</sup>

The Port of Brisbane shares this view, submitting that:

*... delivering coastal shipping infrastructure requires relatively minor investment in channels, navigational structures, vessel management and intermodal connections.*<sup>220</sup>

In terms of having the appropriate infrastructure and access in place now, the Sea Freight Action Plan found that Brisbane and Townsville are best positioned to facilitate a coastal shipping service.<sup>221</sup>

As one of Australia's fastest growing container ports, and Queensland's largest multi-cargo port, the Port of Brisbane submitted that it would be able to play a significant role in facilitating the growth of coastal trade:

*The Port of Brisbane is a unique and significant piece of Australian infrastructure, handling more than \$50 billion annually, and growing. It is a large-scale multi-cargo import-export facility providing for bulk, general cargo and container trade. The Port of Brisbane is Australia's third largest container port, providing more than 95% of Queensland's container and motor vehicle imports. Further, it is a unique capital city port that provides for bulk commodity exports from the agricultural regions and coal basins of southern Queensland and northern New South Wales. As such, the Port of Brisbane is a vital link between Australia and its overseas markets, facilitating both the export and import trades so crucial to Australia's economic prosperity in the modern age.*<sup>222</sup>

The Port of Townsville advised that it has undergone internal and external assessment of its coastal shipping capabilities. To-date, the Port has invested over \$500 million in port and transport infrastructure as part of its future strategies to facilitate the expansion of containerised import and export trade.<sup>223</sup> The Port of Townsville advises that it is able to handle coastal vessels at the port with

---

<sup>216</sup> TMR, Hansard transcript (Public Briefing - Brisbane), 27 Aug 2014:2

<sup>217</sup> TMR, Sea Freight Action Plan, Jul 2014:35

<sup>218</sup> TMR, Sea Freight Action Plan, Jul 2014:5&35

<sup>219</sup> TMR, Hansard transcript (Public Briefing - Brisbane), 27 Aug 2014:5

<sup>220</sup> Port of Brisbane, submission 2:3

<sup>221</sup> TMR, Sea Freight Action Plan, Jul 2014:25

<sup>222</sup> Port of Brisbane, submission 2:3

<sup>223</sup> Port of Townsville, submission 9:2, 8

new efficient unloading equipment (two new heavy duty mobile harbour cranes) to be commissioned over the next two months:

*Ports must respond with appropriate and highly effective interface such as consistent berthing availability, efficient unloading equipment, reliable stevedoring capacity and adequate laydown facilities. Optimal freight forwarding conditions are critical if coastal shipping is to compete with other modes of transport. It would defeat the purpose if sea freight were to remain at anchor for long periods or not be unloaded promptly.*<sup>224</sup>

The Sea Freight Action Plan outlines the port readiness of the Port of Brisbane and the Port of Townsville:

*Brisbane has full access to rail for TEU, bulk and liquid commodities, road access for B-Double trucks and designated A-Double corridors by permit that connect the port to regional areas. Townsville is equipped with mid-range productivity TEU handling equipment and improving infrastructure. Access for road is available up to Type 2 road trains quay side for live cattle, whilst rail is limited to bulk and liquid. Type 1 and 2 road trains have access to port gates.*<sup>225</sup>

In relation to the current port readiness of Gladstone, Mackay and Cairns, the Plan reported:

*Gladstone and Mackay are not equipped with high productivity TEU handling equipment, but do have a proven history of unloading project cargoes from self-gearred vessels. Gladstone has one mobile container crane for mid-level productivity TEU handling. Mackay has no in-situ TEU handling equipment. Both ports have rail and B Double access with rail infrastructure only able to handle light axle weight wagons due to its 15.75 tonne axle weight limitations.*

*Cairns is seen as a 'mixed use' coastal shipping port as it has a wide profile of cargoes handled.*

*Numerous communities for PNG, Thursday Island, Western Queensland Gulf, Northern Territory and West Papua are all currently being serviced from Cairns. Cairns has B Double access but no rail.*<sup>226</sup>

Investing in handling equipment that would best suit the coastal sea freight service was raised by submitters and witnesses during the Inquiry. The Department of Transport and Main Roads advised that a coastal shipping service could be provided through a roll-on, roll-off service, which is a vessel with a built-in ramp to allow the cargo to be efficiently rolled on and off the vessel when in port.<sup>227</sup> The Department advised that it was not aware of any roll-on, roll-off vessels currently operating in Queensland.<sup>228</sup>

---

<sup>224</sup> Port of Townsville, submission 9:5

<sup>225</sup> TMR, Sea Freight Action Plan, Jul 2014:25

<sup>226</sup> Ibid

<sup>227</sup> TMR, Hansard transcript (Public Briefing), 27 Aug 2014:3

<sup>228</sup> TMR, Hansard transcript (Public Briefing), 27 Aug 2014:8



The underlying determinant for the level of investment in ports infrastructure is dependent on the demand:

*... the investment that is required is dependent really on the volume that is established in terms of opportunity. If you had a particular location that could do, for argument sake, 10,000 containers a year in terms of exports out.... then that might warrant an investment opportunity and looking at what sort of capital equipment is required to facilitate that. That might change the type of vessel that they put in there. They might not need a self-gearred ship. They might go to a different type of vessel because the port would provide that sort of gear as part of its service.*<sup>229</sup>

An assessment of key port infrastructure (harbour depths, berth capacity, lifting capacity, available hardstand and road and rail linkages) was undertaken as part of the Sea Freight Action Plan study and is set out below.

#### Summary port infrastructure assessment

Element	Brisbane	Gladstone	Mackay	Townsville	Cairns
Harbour Depths	14.0m to 15.0m, swing basin 14.0m	11.3m, swing basin 11.5m	9.44m at berth 1 – one ship movement per tide	11.7m, Depths vary from 12.9m at Berth 2 to 9.5m at Berth 10	9.5m
Port Berths	29 operating wharves with 4 container handling, up to 300m quay length	15 wharves, 4 assigned to grain, other bulk and container traffics. Up to 217m quay length	3 wharves, berth 1 handles OSOM and containers, Up to 165m quay length	8 berths – 4 to handle coastal shipping needs – and 2 other berths to be decommissioned, Up to 320m quay length	9 berths in use – berths 7 and 8 handling general cargo, Up to 250m quay length
Port Infrastructure capacities	Portainers, lifting equipment, transportation, jigs and plant available, RO/RO operation available, Reefer power.	Lifting equipment, transportation, jigs and plant is available, RO/RO operation available, 420 model Liebherr mobile cargo crane, Reefer power.	Operators need to hire in mobile cranes to lift OSOM or containers to service non geared ships.	55t portainer on hook 20 TEU/hr, 50t mobile crane, 45t reach stacker, Barge ramp for RO/RO, Bunkering available, 520 model Liebherr mobile cargo crane, Reefer power.	Fixed wharf crane with a capacity of 25.4t at Wharf 6. Mobile handling equipment available from stevedores or hire, Reefer power.
Hardstand	700 ha is available both at Fishermen's Islands and Port West	80 ha available Port Central up to 250,000 to 300,000 TEU annual capacity, along with Fisherman's Landing	6 ha contiguous land is available within the port a further 100ha is available	Storage of 19,000 TEU's across five locations (reconfigured 250,000 TEU per year)	43ha available and can accommodate 550 TEU
Road access	B double (25m) & High productivity vehicles by permit	B double (25m)	B double (25m) only with single access to port via Vines Creek Bridge which is load and speed restricted	Type 1 road trains permitted to berths 4 and 10, while Type 2 access to berth 3 is permitted for live cattle export	B double (25m)
Rail Access	20 tonne axle load (tal), Brisbane Multimodal Terminal, Minerals, Grains and TEU	15.75 tal loops and sidings Minerals, Grains, Sugar	15.75 tal loops Minerals, Grains, Sugar	20 tal loops and sidings Minerals, Grains, Sugar	15.75 tal connection to NCL required, 3.5km to Portsmouth
Community	Continuous 24 hours per day 7 days a week operation.	Continuous 24 hours per day 7 days a week operation.	Adjacent marina and urban development	Continuous 24 hours per day 7 days a week operation.	Activities associated with cargo handling occur away from CBD

Source: TMR, Sea Freight Action Plan, July 2014:29

<sup>229</sup> TMR, Hansard transcript (Public Briefing), 27 Aug 2014:9

The Department of Transport and Main Roads also advised that it is looking at what sort of investment is required for establishing a coastal shipping service:

*...does the state need to, for argument's sake, invest money in the GOC-the government owned ports- to facilitate a coastal shipping service?<sup>230</sup>*

The Sea Freight Action Plan found that while all ports are capable of facilitating a coastal shipping service now, Mackay would require an investment in mid-range productivity container handling equipment, and that all ports, except Brisbane, lack purpose designed intermodal facility infrastructure.<sup>231</sup> The Plan identified, as one of its recommended future actions for phase 5, the need to develop common user infrastructure with support from commercial investors.<sup>232</sup>

The Caltex Australia submission requested that in relation to the designing, planning and managing of port infrastructure, consideration is given to ensuring that there is equal importance applied to the efficient and economic export of commodities and goods as well as the provide port infrastructure to facilitate the efficient and economic import of goods and products.

*This is important because often the focus on port infrastructure has been weighted towards the efficient and economic export of commodities and goods. However, it is equally important to provide port infrastructure to facilitate the efficient and economic import of goods and products. This is particularly true for goods (i.e. inputs) which underpin industry and are inputs for businesses, such as petroleum products for mining, transport and agriculture industries, as well as other goods, such as fertiliser for the agricultural industry. Efficient and competitive access to "imported" product is just as important as that which is "exported".*

*In designing, planning and managing port infrastructure, consideration should be given to appropriate loading and unloading facilities, storage and associated infrastructure (e.g. pipelines in the case of petroleum products), and access to the port by efficient road and rail infrastructure which is integrated into the broader road and rail network.*

*The provision of access to ports and associated infrastructure (and its maintenance) is critical to industries reliant on shipping, emphasising the need to minimise delays and port congestion, and avoid additional operating costs (e.g. demurrage).<sup>233</sup>*

In relation to the Government's proposal to lease some of Queensland's ports, the Department of Transport and Main Roads advised:

*Recent budget announcements regarding the potential sale of the Port of Townsville and the Port of Gladstone will have no impact on the potential introduction of a coastal shipping service, given the positive benefits that increased port throughput would provide. This is evidenced by the proactive approach to coastal shipping displayed by the Port of Brisbane (Q Port Holdings), who have undertaken their own commercial analysis of the benefits of coastal shipping to their organisation.<sup>234</sup>*

---

<sup>230</sup> TMR, Hansard transcript (Public Briefing), 27 Aug 2014:3

<sup>231</sup> TMR, Sea Freight Action Plan, Jul 2014:25

<sup>232</sup> TMR, Sea Freight Action Plan, Jul 2014:6

<sup>233</sup> Caltex Australia, submission 6:11

<sup>234</sup> TMR, Background Briefing, Jun 2014:10

**Committee comment**

The Committee notes the advice received from the Department of Transport and Main Roads, stakeholders, in particular Queensland ports, about port preparedness to support the commercial development of a dedicated intrastate coastal shipping service. The Committee notes that the level of infrastructure investment that is likely to be required to establish a coastal sea freight service is not significant. The Committee supports the proposed strategies and actions identified in the Sea Freight Action Plan to determine what impacts coastal shipping may have on relevant ports from an infrastructure investment perspective and the planned work with the Department of State Development, Infrastructure and Planning to advise relevant port master plans.

The Committee supports the Sea Freight Action Plan's recommended action to develop common use port infrastructure with support from commercial investors and believes this will be critical to sustain a viable coastal sea freight service in Queensland into the future. The Committee therefore makes the following recommendation in support of the future development of common use infrastructure for relevant ports in Queensland.

**Recommendation 6**

The Committee recommends that the Queensland Government work with relevant Queensland ports and potential commercial investors to facilitate the funding of any common use infrastructure required in order to establish a viable coastal sea freight service in Queensland.

**5.2 Port costs and services**

As identified in an earlier part of this Report, cost will be a critical factor in terms of the contestability of coastal sea freight with road and rail freight.

Caltex Australia submitted that while any movement of freight to a coastal shipping service would contribute to a reduction of road and rail freight congestion, *"it is also important to consider the ability of existing port infrastructure to cater for an increase in coastal shipping in Queensland and the charges that might be applied by the ports"*.<sup>235</sup>

The Port of Townsville explained:

*We need an effective multimodal freight system that is efficient, competitive, reliable and safe to make sure that Queensland's economy can be productive and, importantly, that North Queensland can receive and export its goods in a cost-effective manner. We believe that coastal shipping has an important role to play in reducing the overall cost for the region.*

*The additional cost to do some of the basics in the north, because of the distance of road and rail transport, is one that is important to every resident living in the region and businesses doing business in the region.*<sup>236</sup>

---

<sup>235</sup> Caltex Australia, submission 6:4

<sup>236</sup> Port of Townsville, Hansard transcript (Public Hearing -Townsville), 21 August 2014:2

AgForce advised of their concerns regarding port costs passed on to producers:

*... supply chain costs amount to between 30 per cent and 40 per cent of the cost of production for our members, with port costs accounting for approximately one-third of these costs. It is worth noting that, as we have done in our submission, producers generally do not engage directly with the ports and yet these costs are directly passed back down the supply chain to us. An efficient coastal shipping service would aid competition in the area of regional transport, helping to contain the ever-increasing cost of transport for our members.*<sup>237</sup>

This point was reinforced in the AgForce submission:

*... transporting grain to port in Queensland is the most expensive in Australia at \$73 per tonne and port costs are estimated to be roughly 30 per cent of the total supply chain costs, growing at a rate faster than other supply chain costs.*<sup>238</sup>

And further in relation to Queensland's costs as compared to other states:

*A recent report released by the Australian Export Grains Innovation Centre in Western Australia.... identified these costs and compared them on a state-by-state basis. It was quite clear in that report that Queensland, post farm gate, is the most expensive state in Australia to export grain. We have seen those costs really blow out in recent years and we must do a lot better to contain these costs.....*

*There have been significant increases in rail costs, but there have certainly been costs right through the supply chain. Even the receipt and the costs of loading grain on ships have been increasing considerably.*

*...It is the cost of the multiple handling—loading the ship, unloading the ship, putting it on a truck, carting it to the end user—that will always keep that cost significant. But we must do all that we can to drive down those costs to maintain an efficient industry.*<sup>239</sup>

Sea Swift also raised a concern with increasing port costs with the Committee:

*The other thing that impacts on charges are the port charges I mentioned before. That is increasingly so in a lot of remote communities as a result of funding cuts to a lot of those communities through state and federal government agencies. Councils have been asked to stand on their own two feet where they can. A lot of the remote destinations we service have had assets transferred out of state government departments—for example, the department of transport for barge ramps and the like—into councils to monitor and levy charges for access to. In some of those regions they are also levying charges that were never there before.*

*If you are a trucking operator you pay a registration charge to operate and access a road. For a shipping operator we pay a lot of registration fees and charges which we would argue is to access a ramp or maintain a ramp. We are seeing added charges on top of that which need to be passed on to consumers. So there is a direct impact there.*<sup>240</sup>

---

<sup>237</sup> AgForce, Hansard transcript (Public Hearing - Brisbane), 27 August 2014:19

<sup>238</sup> AgForce, submission 10:3

<sup>239</sup> AgForce, Hansard transcript (Public Hearing - Brisbane) 27 Aug 2014:20

<sup>240</sup> Sea Swift, Hansard transcript (Public Hearing - Cairns), 21 Aug 2014:3

In response to a question from the Committee regarding the make-up of port costs, and whether they vary from island to island and from port to port, Sea Swift responded:

*Each port would have its own schedule of charges. For us in particular we have Cairns charges, both berthage for the vessel as well as harbour dues for the cargo. It is generally two types of charges imposed on the vessels that operate from ports. In the Torres Strait Islands those charges are obviously quite high, upwards of \$23 per tonne on the cargo itself. The volume in those ports is quite low, hence the port obviously requiring a higher fee to have a return on their investment, their infrastructure, maintenance and so forth. To the outer islands, that is a new fee that has been imposed by the council. I think that has been a transfer of Department of Transport and Main Roads to the councils to start maintaining and take ownership of those facilities. To give you a comparison, I think it is \$15 per tonne or cubic metre for each piece of cargo that enters or is exported from those ports. Weipa is another example. It is different again. That is more of a bulk port for bauxite export. That particular port has minimal, if any, cargo. There are our top-of-cargo type charges and there is a small berthage fee for our vessels. It varies from port to port. There is not quite the consistency.<sup>241</sup>*

The Department of Transport and Main Roads provided the following advice on stevedoring costs:

*... my understanding is that stevedoring rates in Australia are consistent, regardless of whether it is an international box or a domestic box. For arguments sake, if they charge \$200 for moving a sea freight container from the keystone through to a ship, it would not matter whether it was a coastal ship or an international ship. Those are real costs and someone has to pay them. Sometimes the shipping lines will compensate for it, if they have a particular interest for some reason.<sup>242</sup>*

In addition to competitive port costs, port services such as berth availability and reliable schedules at each port must meet the needs of shippers and the ports.

The Port of Townsville submitted that ports must respond by ensuring they have an appropriate and highly effective interface such as consistent berthing availability, efficient unloading equipment, reliable stevedoring capacity, and adequate laydown facilities.<sup>243</sup>

The Sea Freight Action Plan identifies that there is a need to gain consensus between shippers and ports of the factors which will establish a sustainable coastal shipping services, such as:

- berth availability
- vessel turnaround times
- reliable schedules at each Port
- port governance requirements specifying the number of tugs and line boats for each individual sailing.<sup>244</sup>

---

<sup>241</sup> Sea Swift, Hansard transcript (Public Hearing - Cairns), 21 Aug 2014:5

<sup>242</sup> TMR, Hansard transcript (Public Briefing - Brisbane), 27 Aug 2014:6

<sup>243</sup> Port of Townsville, submission 9:5

<sup>244</sup> TMR, Sea Freight Action Plan, Jul 2014:33

**Committee comment**

The Committee notes the advice received from the Department of Transport and Main Roads and stakeholders about port services and costs and how they may impact on the establishment of an economically viable intrastate coastal shipping service. In particular, the Committee notes that a coastal sea freight service will require guaranteed berthing availability and windows for loading and unloading to ensure fast vessel turnaround times.

The Committee notes that port fees and stevedoring costs are a potential impediment to the establishment of a sea freight service and while it is aware that these costs are relatively standard across the nation, the Committee is convinced that these costs will need to be kept at a minimum to enable a coastal sea freight service to operate in competition with road and rail freight.

The Committee supports the proposed strategies and actions identified in the Sea Freight Action Plan to work with the relevant ports on their port master plans and recommends that relevant government agencies work with the ports to ensure that berthing and loading/unloading facilities are guaranteed at each port and that the cost of port services are kept to a minimum to facilitate the establishment of a viable coastal sea freight service in Queensland.

**Recommendation 7**

The Committee recommends that the Queensland Government continue to work with Queensland ports to ensure that port services required for a coastal sea freight service are incorporated into their port master plans and in particular, to ensure that berthing and loading/unloading facilities are guaranteed at each port and that the cost of port services are kept to a minimum.

## 6 Regulatory Framework

This section of the report examines the final three Terms of Reference for this Inquiry:

- *Investigate cross-jurisdictional differences that exist between the states in regulating trading vessels on intrastate voyages that might impact on competition and increase costs within the coastal shipping industry.*
- *Review the policy and regulatory arrangements of the Coastal Trading (Revitalising Australian Shipping) Act 2012 including the impacts of the 3 tier licensing system on establishing an intrastate coastal shipping trade in Queensland waters.*
- *Investigate whether Queensland benefits from the uniform regulation of these vessels under existing Commonwealth legislation, and make recommendations where necessary for proposed amendments.*

### 6.1 Background

The shipping industry is very competitive and is a highly globalised industry. A number of countries with maritime industries have sought to support their national industry through a variety of measures and policies. For example, there is a widespread policy of reserving the carriage of domestic cargo to local carriers. Countries which have adopted this ‘cabotage’ policy include the United States, Japan, the United Kingdom and the European Union.<sup>245</sup>

Australia’s coastal trading has been more open to foreign shipping as Australia has had a ‘flexible’ ‘cabotage’ regime in place for over 100 years. The Australian Shipowners Association submitted that the differences between the old and new ‘cabotage’ provisions are frequently overstated.<sup>246</sup>

Prior to 1982, Australian ships were registered as British ships and Australian legislation did not specify that Australian ships had to be used for the carriage of domestic cargo. In the early 2000s, a licensing system was put in place which enabled a ship of any nationality to obtain a licence to engage in the coastal trade, provided the crew was paid Australian rates of pay. At the discretion of the Minister, an unlicensed ship could, in certain circumstances, be issued with a permit to carry coastal cargo.<sup>247</sup>

Prior to July 2013, Commonwealth legislation, the *Navigation Act 1912* applied to:

- Commercial ships which moved internationally
- Trading (not fishing) ships which moved interstate
- Trading (not shipping) ships which ‘opted-in’.

All other domestic commercial vessels were regulated by the State or Territory in which they were operating at any given time resulting in different marine safety regimes and eight marine safety regulators. This meant great variations existed for participants in the freight shipping industry. For example, each jurisdiction operated a different crew certification system, different minimum crewing requirements, different standards for vessel design and survey requirements.<sup>248</sup>

<sup>245</sup> Independent Review of Australian Shipping: A Blueprint for Australian Shipping, 2003:13

<sup>246</sup> ASA, submission 5:12

<sup>247</sup> Independent Review of Australian Shipping: A Blueprint for Australian Shipping, 2003:13

<sup>248</sup> Australian Maritime Safety Authority, A National System for Domestic Commercial Vessel Safety: Challenges, Achievements and Opportunities, Jul 2013:6, 10-11

## 6.2 Commonwealth legislation, regulations and policies

There are many different legislative instruments that create the regulatory framework within which coastal trading vessels in Australia must operate. These have long been complex and have more recently been further complicated by multiple Commonwealth agencies changing their policies through consequential amendments.<sup>249</sup>

The *Coastal Trading (Revitalising Australian Shipping) Act 2012* (Coastal Trading Act) and the *Navigation Act 2012* (Navigation Act) came into effect on 1 July 2013 following a number of reviews undertaken by industry and successive governments which aimed to improve efficiencies and competitiveness in coastal trading, while at the same time, ensuring the sustainability of the Australian shipping industry.

The Navigation Act and the *Marine Safety (Domestic Commercial Vessel) National Law Act 2012* (Marine Safety National Law) were introduced as part of a national reform agenda which transferred responsibility for the regulation of all commercial shipping to the Australian Government including, design, construction, survey, operations, manning and crew qualifications.

Both the Navigation Act and the Coastal Trading Act provide a nominal preference for an 'Australian' ship if and when one is available and suitable. This was based on an acknowledgement by legislators that Australia's domestic trade will always need to be serviced by a combination of Australian and foreign vessels.<sup>250</sup>

### 6.2.1 The Navigation Act 2012 (Cwth)

The *Navigation Act 1912* was replaced by a modernised version in keeping with the new National system. It regulates vessels to which the international conventions apply, including Australian vessels which sail beyond Australia's Exclusive Economic Zone (EEZ), plus vessels under foreign flags which operate within the EEZ. Together with the new Marine Safety National Law all Australian commercial vessels and all commercial foreign flagged vessels are regulated.<sup>251</sup>

While no significant concerns about the Navigation Act were raised with the Committee by stakeholders, issues relating to inconsistency and unintended consequences caused by the inter-relationships of various pieces of Commonwealth and State legislation are discussed later in this section.

### 6.2.2 The Shipping Registration Act 1981 (Cwth)<sup>252</sup>

The purpose of shipping registration in Australia is to grant ships Australian nationality. It also allows for Australian ships to fly the Australian National Flag or the Australian Red Ensign in accordance with Australia's obligations under article 91 of the United Nations Convention on the Law of the Sea 1982, to which Australia is a party.

When a ship is registered in Australia it receives legally recognisable Australian nationality, giving it advantages at home and abroad. The ship will be accorded Australian protection on the high seas and in foreign ports.

---

<sup>249</sup> ASA, submission 5:14

<sup>250</sup> ASA, submission 5:12

<sup>251</sup> AMSA, A National System for Domestic Commercial Vessel Safety: Challenges, Achievements and Opportunities Jul 2013:6&45 <accessed 12 Jun 14 >

<sup>252</sup> Information in this section is taken from <http://www.amsa.gov.au/vessels/shipping-registration/> unless otherwise referenced.



All Australian owned or operated commercial and demise chartered ships, 24 metres and over in tonnage length and capable of navigating the high seas must be registered. All other craft, including Government ships, fishing and pleasure craft need not be registered, but may be if the owner/operator desires.

The *Shipping Registration Amendment (Australian International Shipping Register) Act 2012* (Shipping Registration Act) established an Australian International Shipping Register under the *Shipping Registration Act 1981*.

There are now two Australian Shipping Registers:

- The Australian General Register

This register is the main register for Australian Shipping Registration. It is primarily used for pleasure craft that are travelling to overseas ports, domestic vessels and Australian vessels with international certification that are required to be registered. This register is open to any individual or company who wishes to register their title to an Australian owned ship.

- The Australian International Shipping Register (AISR)

The Australian International Shipping Register commenced on 1 July 2012 and is used for vessels predominantly engaged in international trade. Ships on the Register cannot operate under a general licence but can do so under a temporary licence where they wish to undertake coastal movements to their international operations.

This Register is open to International trading ships that meet specific criteria. The purpose of the Register is to provide a register that is a competitive alternative to other international registers and which is available to Australian companies that own or operate ships. Ships on the Register also have access to various tax incentives such as the income tax exemption.<sup>253</sup>

Once a ship has been registered, the owner/registered agent must comply with the requirements in both the [Shipping Registration Act 1981](#) and the [Shipping Registration Regulations 1981](#).

Caltex Australia made a submission to the Commonwealth Government noting that based on the objectives of the coastal trading regime, the current regime does not sufficiently promote the AISR.

*The financial incentives provided for ship owners or operators to put their vessels on the AISR are far outweighed by the costs of complying with the regulatory regime (including the Shipping Registration Act, Navigation Act and Fair Work Act). This has been demonstrated by there being no vessel placed on the AISR to date.*

*Operationally, Caltex believes there also no advantage of using a vessel which is registered on the AISR compared to using a foreign-flagged vessel to undertake coastal trading. In particular, vessels registered on the AISR are still required to apply for TLs for the purposes of carrying out coastal trade.*<sup>254</sup>

---

<sup>253</sup> <http://www.amsa.gov.au/vessels/shipping-registration/australian-international-shipping-register/> <accessed 10 Oct 2010>

<sup>254</sup> Caltex Australia, submission 33 on the Options Paper: Approaches to regulating coastal shipping in Australia' 30 May 2014:15

The Cruise Lines International Association sought a review of the Australian International Shipping Register:

*The industry would welcome a review of the Australian International Shipping Register (AISR) on the basis that if the employment requirements, Fair Work Act etc. were removed from the registration conditions, cruise ship operators and owners would consider the AISR as an attractive alternative to their current registrations. This in turn would increase Australia's jurisdiction over these vessels and contribute significantly to an Australian maritime cluster. The industry recognises that such vessels would be subject to the same OHS and environmental standards as the Australian General Register but would otherwise be recognised and treated as a foreign vessel, regulated by international standards and global maritime practices.*<sup>255</sup>

The AgForce submission supported a recommendation made by the National Farmers Federation to the 2014 Commonwealth Government review of coastal shipping legislation to:

- *Repeal collective bargaining provisions in the Shipping Registration Amendment (Australian International Shipping Register) Act 2012 (Cwth) (AISR Act).*<sup>256</sup>

The Deputy Prime Minister and Minister for Infrastructure and Regional Development, the Hon Warren Truss MP announced in a recent address to Shipping Australia that he is considering options to reform the Australian International Shipping Register and expand its scope to potentially include coastal shipping services.<sup>257</sup>

#### **Committee comment**

The Committee has noted the concerns raised by Caltex Australia and the Cruise Lines International Association in relation to the registration conditions for Australian International Shipping Register and the advice from Caltex that this has resulted in no vessels being placed on the Register thus far.

The Committee supports the call by the Cruise Lines International Association for a review of the Register on the basis that if the registration requirements were amended, shipping companies are likely to consider the Register as an attractive alternative to their current registrations which would increase Australia's jurisdiction over these vessels and contribute significantly to an Australian maritime cluster.

The Committee notes that the Deputy Prime Minister and Minister for Infrastructure and Regional Development, the Hon. Warren Truss MP recently announced that he is considering options to reform the Australian International Shipping Register and expand its scope to potentially include coastal shipping services.

#### **Recommendation 8**

The Committee recommends that the Queensland Government advise the Australian Government that it supports the call for a review of the registration conditions for Australian International Shipping Register on the basis that amended registration conditions are likely to result in more vessels using the Register, increasing the Australian Maritime cluster which, in turn, would facilitate the development of a robust coastal shipping service along the Australian coastline.

<sup>255</sup> CLIA, submission 7:4

<sup>256</sup> AgForce Queensland, submission 10:2

<sup>257</sup> Deputy Prime Minister and Minister for Infrastructure and Regional Development, the Hon Warren Truss MP, Address to Shipping Australia – Reinvigorating Coastal Shipping in Australia, 18 Sep 2014

### 6.2.3 *The Fair Work Act 2009 (Cwth)*<sup>258</sup>

Prior to 2010, foreign flagged vessels operating under a permit to engage in coastal trading were exempted from the then existing workplace laws.

From 1 January 2010, the *Fair Work Act 2009* (Fair Work Act) was expanded to apply not only to Australian flagged vessels but also to certain foreign flagged ships operating in the domestic coastal trade. This means that the vessel's crew are entitled to Australian rates of pay. This amendment was made through an amendment to the *Fair Work Regulations 2009* which applied certain parts of the Fair Work Act to single voyage permit (3 or more within 12 months) and continuing voyage permit vessels issued under part VI of the Navigation Act (now repealed). A consequential amendment was made to continue the application of the Fair Work Act when the Coastal Trading Act was introduced – the obligation now being for vessels operating under temporary licences who have engaged in 3 or more voyages under a temporary licence (within 12 months).<sup>259</sup>

Thus, at present, the Fair Work Act applies to crews on both Australian and foreign-flagged vessels conducting coastal trading if they are operating under a general, transitional general, or emergency licence; or the vessel is operating under a temporary licence and has made at least two other voyages in the previous 12 months. The provisions of the Fair Work Act that are most relevant include the ten National Employment Standards and the Australian Minimum Wage. The *Seagoing Industry Award 2010* also applies to the maritime industry and provides further minimum conditions of employment such as wage rates, hours and allowances. Part B of the Modern Award applies to vessels under a temporary licence.

The Australian Shipowners Association pointed out that the Fair Work Act provisions do not automatically apply to intrastate voyages as the provisions are only enlivened through the operation of a vessel under a temporary licence and also that the Fair Work Act does not apply to ships registered on the AISR while undertaking international voyages:

*A foreign ship employing foreign crew through a foreign employer will ordinarily not be covered by the Fair Work Act. In particular, a foreign ship employing a foreign crew would only be subject to the Act if it was undertaking voyages pursuant to a "permit" (prior to July 2012) or a temporary licence post 1 July 2012 when the Coastal Trading Act came into force.*<sup>260</sup>

Shipping Australia Limited pointed out that the Fair Work provisions are perversely having a negative effect on Australian jobs:

*Since the introduction of the CTA there has been a significant decline in the movement of coastal cargoes due to a combination of additional bureaucratic overheads in obtaining a temporary licence and additional costs making such carriage uneconomic. A significant component of these costs is related to the application of the Fair Work Act (FWA) which calls for the payment of Seagoing Industry Award Part B wages to the crews of foreign ships when carrying coastal cargoes. SAL is aware of circumstances where customers, that*

---

<sup>258</sup> The background information in this section (unless otherwise referenced) is taken from the Department of Infrastructure and Regional Development, *Options Paper: approaches to regulating coastal shipping in Australia*, 2014, [http://www.infrastructure.gov.au/maritime/business/coastal\\_trading/review/files/Options\\_Paper\\_Approaches\\_to\\_regulating\\_coastal\\_shipping\\_in\\_Australia.pdf](http://www.infrastructure.gov.au/maritime/business/coastal_trading/review/files/Options_Paper_Approaches_to_regulating_coastal_shipping_in_Australia.pdf) <accessed 10 October 2014>

<sup>259</sup> ASA, submission 5:13

<sup>260</sup> Ibid

*previously moved product from the eastern states to Western Australia, are now sourcing from South East Asia. More Australian jobs lost!*<sup>261</sup>

The submission from Shipping Australia Limited argued that the integration of international shipping with Australian owned coastal services would enhance the beneficial expansion of coastal services:

*The inclusion of foreign ships has the potential to supplement any scheduled or add hoc coastal services especially for oversize/over mass (OSOM) cargoes. Extra tonnage provided by foreign ships would complement positioning moves for containers etc. The potential to containerise local products then arises, e.g. Sugar/grain from Mackay?*<sup>262</sup>

Shipping Australia Limited also advised that its members consider the application of the Fair Work Act to coastal shipping since 2010 “has been the single most damaging factor to participation and competition in coastal trade” due to:

- Administrative burden for compliance (recording of working hours and calculation of FWA payments)
- Difficulty in ensuring Part B payments reach intended personnel
- Risk of prosecution and substantial court costs requiring maintenance of an audit trail and proof of payment records
- Inequitable and unacceptable costs on variable cargoes – any domestic cargo must cover all the additional Fair Work Act costs – making domestic cargo very expensive.<sup>263</sup>

The Cruise Lines International Association also raised a concern with the application of the Fair Work Act:

*Foreign-flagged cruise vessels operate with predominantly international crew and are already subject to international conventions and standards as laid down by the IMO and ILO. The application of domestic employment legislation would significantly impact the operating and compliance costs of foreign-flagged vessels and thereby compromise Australia’s global competitiveness. CLIA is seeking confirmation that the Fair Work Act would not apply to foreign-flagged vessels registered on the AISR.*<sup>264</sup>

The Port of Brisbane advised the Committee that there have been a number of carriers who have tried but failed to start a coastal shipping service, simply because of the cost burden imposed by the Federal Fair Work legislation:

*At the end of the day, the solution is to allow the coastal shipping mode to compete on price. The only way that can be achieved is through reduction in the most significant cost, which is the labour cost.*<sup>265</sup>

Based on this conclusion the Port recommended that foreign-flagged vessels employing foreign crews be exempted from the operation of Australian industrial relations laws.<sup>266</sup>

The Australian Shipowners Association agreed, recommending that the Fair Work Act be amended so that Australian pay rates are not imposed on Temporary Licence voyages.

---

<sup>261</sup> SAL, submission 8:1

<sup>262</sup> SAL, submission 8:2

<sup>263</sup> SAL, Response to Government Options Paper: Approaches to regulating coastal shipping in Australia, Apr 2014:10

<sup>264</sup> CLIA, submission 7:4

<sup>265</sup> Port of Brisbane, Hansard transcript (Public Hearing - Brisbane), 27 Aug 2014:10

<sup>266</sup> Port of Brisbane, submission 2:3

Caltex raised the following concerns about the application of the Fair Work Act:

*This has resulted in significant additional wage costs, due to basic wage comparisons only being considered – not the total remuneration (wage and allowances) paid to seafarers. This is an important point because allowances can sometimes equate to more than half the total remuneration paid to a seafarer.*

*Caltex understands that this requirement was introduced to create a “level playing field” with respect to wages between Australian-flagged vessels and foreign-flagged vessels. However, Caltex believes that the perceived benefits of this requirement are far outweighed by the detriments to the public it causes. For example, for many sectors there are no Australian- flagged vessels available to charter (such as crude oil or petroleum product vessels) for local coastal voyages, therefore the perceived benefits cannot be achieved anyway.*

*Also, this requirement not only fails to increase the competitiveness of the Australian shipping industry, but actually has the undesired effect of increasing the overall costs of transporting goods across Australia.<sup>267</sup>*

Caltex has recommended to the federal government that changes be made to the application of the Fair Work Act to coastal voyages undertaken by foreign-flagged vessels, particularly where no equivalent Australian-flagged vessels exist.<sup>268</sup>

Further, Caltex submitted that there appears to be confusion within the industry in relation to the application of the Fair Work Act and Part B of the Seagoing Industry Award. In particular:

- *It is not clear whether the Fair Work Act and Part B of the seagoing Industry Award only apply in respect of the laden voyage, or whether the application extends to the ballast / preparation voyage as well. This position should be clarified in the legislation if the requirement to comply with the Fair Work Act is retained.*
- *There also appears to be differing interpretation within industry as to whether or not allowances paid to the foreign crew on board (i.e. in addition to their basic wages) can be taken into consideration in determining compliance with the minimum wage requirements set out in Part B of the Seagoing Industry Award.*

*If the Fair Work Act requirement is to remain, then at least the employer of the foreign crew on board the relevant vessel should be allowed to take into account the total remuneration.... paid to each crew member for the purposes of meeting the minimum wage requirements...*

*We understand it is common in the global shipping industry for a vessel’s crew to be paid a minimum basic wage but with significant allowances built on top. We have seen cases where the basic wage component represents 20% of the total remuneration payments to foreign crews. This percentage does vary considerably depending on the origin of the foreign crew; however it highlights the necessity of including the total remuneration for comparison which would go some way towards alleviating the anomaly described above.<sup>269</sup>*

---

<sup>267</sup> Caltex Australia, submission 6:9-10

<sup>268</sup> Caltex Australia, submission 6:10

<sup>269</sup> Caltex Australia, submission 33 on the Options Paper: Approaches to regulating coastal shipping in Australia’ 30 May 2014:16-17

The AgForce submission supported a recommendation made by the National Farmers Federation to the 2014 Commonwealth Government review of coastal shipping legislation to:

- repeal regulations in the *Fair Work Regulations 2009* (Cwth) that extend the Fair Work Act to ships engaged in the Australian coastal trade and to majority Australian-crewed ships
- make new regulations to expressly exclude ships engaged in the coasting trade from coverage of the Fair Work Act.<sup>270</sup>

The Department of Transport and Main Roads advised the Committee that while it has received advice that the Fair Work Act does apply to intrastate shipping this has never been tested in a court.

*Our advice is that the Fair Work Act applies to intrastate shipping. There is a view in the industry that it may not apply. It is one of those issues we may not know until it goes to court, but it is outside our expertise in the transport portfolio.*<sup>271</sup>

#### Committee comment

The Committee has noted that prior to 2010, foreign flagged vessels operating under a permit to engage in coastal trading were exempted from the workplace laws and that this situation was reversed by a 2010 amendment to the *Fair Work Regulations 2009* (and a consequential amendment following introduction of the Coastal Trading Act) which obliges vessels operating in the domestic coastal trade under temporary licences (who have engaged in 2 or more voyages within 12 months) to pay Australian wage rates.

The Committee has considered the issues raised by stakeholders about the impact of the Fair Work regulatory amendment on the provision of coastal shipping and notes that the current requirements are administratively onerous and impose substantial additional cost and yet, by all accounts, have not increased the competitiveness of the Australian shipping industry. The Committee is very concerned by advice received from the Port of Brisbane that there have been a number of carriers who have tried but failed to start a coastal shipping service, simply because of the cost burden imposed by the Fair Work legislation.

While the Committee is aware that international vessels on a temporary licence (foreign-flagged or on the Australian International Shipping Register) are not likely to provide a regular coastal shipping service to Queensland regional ports, it is none-the-less supportive of any regulatory reform that would enable these vessels to make an interstate or intrastate voyage when the circumstances suit. The advice from Shipping Australia Limited that the integration of international shipping with Australian owned coastal services would enhance the expansion of these services has been noted by the Committee with particular interest.

The Committee is therefore recommending that the 2010 amendment to the Fair Work Regulations 2009 be reversed so that international vessels undertaking temporary licence voyages are exempted from having to pay their crew Australian wage rates.

#### Recommendation 9

The Committee recommends that the Queensland Government approach the Australian Government to request that the Fair Work Regulations 2009 be amended to expressly exempt international vessels undertaking temporary licence voyages from having to pay Australian wage rates on the basis that this will remove one of the barriers to the development of a robust coastal shipping service along Australian coastline.

<sup>270</sup> AgForce Queensland, submission 10:2

<sup>271</sup> Department of Transport and Main Roads, Hansard transcript (Public briefing), 27 Aug 2014:6

## 6.2.4 Coastal Trading (Revitalising Australian Shipping) Act 2012 (Cwth)

### Policy intent

The Coastal Trading Act deliberately set conditions which actively discourage the use of foreign owned/operated ships in lifting intra or interstate cargoes in an attempt to revitalise the Australian shipping industry.

This approach, which aims to provide some protection to Australian shippers, is strongly supported by the Australian Shipowners Association which has argued that:

*A policy that promotes shipping but does not support local/Australian content therein, such as ownership, management, crewing etc., will realise far fewer benefits than a policy that supports a level of Australian involvement in the provision of the actual ship.*

*A strong, local industry ensures Australia is better able to control domestic and international freight services and ensure service reliability as well as price stability to domestic markets. It provides to the nation the benefits that flow from a diverse maritime economic cluster and will ensure a pipeline for the necessary skills that allow an island nation to prosper.<sup>272</sup>*

The Port of Brisbane on the other hand, pointed to some of the adverse consequences of taking this approach:

*The focus of regulation on Australian coastal trade has been on creating an Australian fleet and shipping industry; not on delivering an alternative transport mode or competitive transport (shipping) market. Regulation both State and Federal over a significant period has distorted the domestic freight market.*

*The combination of these regulation changes have broad negative effects for the Australian economy and for Australian businesses and consumers.....*

*These changes were aimed at encouraging the use of vessels that employ solely Australian resident crews. In doing so, the changes have the effect of significantly reducing the flexibility in the coastal shipping trade, and squeezing foreign-flagged ships out of the market along with limiting the flexibility of local supply chains.*

*By perpetuating the focus on an Australian fleet, both the cost and administrative elements of the coastal shipping market have escalated to make it non-competitive in two of the most significant markets – containerised and break-bulk freight. Combine these elements with a historically inefficient waterfront, and the decline in the share of the freight task for coastal shipping was inevitable.<sup>273</sup>*

Shipping Australia Limited strongly argues against the current legislation's policy intent and points to the broader impact on Australian jobs:

*Since the introduction of the Coastal Trading Act, indications from monitoring the number of east-west container movements (Melbourne to Fremantle) are that coastal container movements have shown further decline, while the road and rail volumes have shown steady growth.*

*The Government must decide what it wishes to achieve from coastal shipping regulation and recognise the true cost and implications of achieving that outcome. A key question is why should legislation protect an uncompetitive Australian maritime industry of a few*

---

<sup>272</sup> ASA, submission 5:7

<sup>273</sup> Port of Brisbane, submission 2:6

*thousand workers at the expense of many thousands of other Australians in the primary production and manufacturing industries?*<sup>274</sup>

It has become clear during the course of this Inquiry that regardless of what policy position is taken in regards to ‘revitalising’ Australian shipping, the introduction of the Coastal Trading Act has had significant, and often, unintended negative consequences for commercial coastal shipping in Australia.

### Regulatory changes

It is important to note that the Coastal Trading Act does not apply to vessels that are solely undertaking international legs or exclusively intrastate legs – it only applies to intrastate shipping if the vessel also travels interstate to unload some of its cargo.<sup>275</sup>

The 2012 Coastal Trading Act changed the regulation of domestic shipping in the following ways:

- ‘permits’ replaced by ‘temporary licences’
- applied licences to *voyages* instead of vessels
- required applicants to apply for a minimum of 5 voyages at a time
- applied a 12 month time limit on temporary licences
- increased tolerance limits
- increased reporting requirements on temporary licence holders
- clarified administrative requirements around application requirements and variations
- clarified and made more flexible the terms included in the previous Navigation Act relating to ‘available’ and ‘suitable’.<sup>276</sup>

### Licencing system

The Coastal Trading Act implemented a three tier licensing system to replace the old system of licences and permits to authorise vessels to carry passengers or cargo between Australian ports.

The three licence types are:

- **General licence** – issued for up to 5 years and are available to Australian General Shipping Register vessels providing unrestricted access to engage in coastal trading in Australian waters for five years
- **Temporary licence** – available to foreign flagged vessels or Australian International Shipping Register vessels for a period of 12 months and provides restricted access to the coastal trade if the applicant meets certain criteria (nominating at least 5 coastal voyages over the 12 month period, negotiating with general license holders about whether they are available to undertake the voyage, etc. ).
- **Emergency licence** – available to all vessels (Australian General Shipping Register, Australian International Shipping Register and foreign-flagged) and provides access to engage in coastal trading in Australian waters in identified emergency situations – granted for up to 30 days.

<sup>274</sup> SAL, Response to Government Options Paper: Approaches to regulating coastal shipping in Australia, April 2014:6

<sup>275</sup> Coastal Trading Act, Part 2 section 7 “Meaning of *coastal trading*”

<sup>276</sup> ASA, submission 5:12



### Stakeholder concerns with the Coastal Trading Act

The majority of submitters and witnesses to this Inquiry agreed that there is a critical need to reform the current legislative framework in order to allow a coastal sea freight service to operate effectively in Queensland.

Shipping Australia Limited concluded that for the development of a successful and functioning national coastal sea service, significant changes must be made to the Coastal Trading Act<sup>277</sup> and referred the Committee to its submission to the Federal Government review, which pointed out the adverse impacts of the legislation.

*Though the Coastal Trading Act entered force on 01 July 2012, almost 2 years ago, there is little evidence that the policy aspirations of this legislation have been met, or are likely to be met, through its effect. In fact the converse is the case. The Australian blue water shipping industry has continued to contract and SAL is aware that a number of international shipping companies have also withdrawn from offering coastal shipping services due to increased costs and administrative burden of compliance with the current regulations. The result is reduced competition, less efficiency and increased cost in coastal cargo movement.<sup>278</sup>*

The Port of Townsville provided the following analysis of the Coastal Trading Act:

*Although designed to provide protection to the Australian based maritime industry, the current regime has increased the cost to shippers and their customers and at the same time failed in its aim of revitalising Australian shipping. The Australian industry has continued to contract and a number of international companies have also withdrawn from offering coastal shipping services due to increased costs and administrative burden of compliance with the current regulations. The result is reduced competition, less efficiency and increased cost in coastal cargo movement.*

*The increased regulatory burdens placed on foreign-flagged ships include:-*

- *must undertake at least 5 voyages in 12 months, and the loading dates, origin and destination, cargo types and volumes to be specified at the start of that period;*
- *can only carry cargo if there are no Australian-flagged ships (or foreign-flagged ships transitioning to Australian flags) that can do so;*
- *if carrying foreign crews, must pay Australian award wages, which are far in excess of International Transport Workers' Federation rates.<sup>279</sup>*

The Port of Brisbane argued that legislative reform is necessary as:

*This will provide freight owners with a real choice in mode of freight transport and allow flexibility in their supply chain. It will force improvement in regional port infrastructure and drive efficiency through competitiveness and the development of intermodal facilities. It will also give cargo owners the ability to split their freight task between the three modes, which will give them certainty during natural disasters by ensuring continued access to the market.*

---

<sup>277</sup> SAL, submission 8:3

<sup>278</sup> SAL, Response to Government Options Paper: Approaches to regulating coastal shipping in Australia, April 2014:5

<sup>279</sup> Port of Townsville, submission 9:10

*A commercially viable coastal shipping industry and improvement in regional port infrastructure will take pressure off the national road network through limiting congestion, decreasing the capital spend on road infrastructure, and limiting the amount of money needed for road maintenance.*<sup>280</sup>

Incitec Pivot Limited raised a concern, which was echoed by many stakeholders:

*There is an underlying assumption in existing legislation that the business conducted by a charterer is predictable and accordingly, that vessel movements can be planned well in advance. IPL operates in a competitive environment and one which has inherent demand variability. Factors contributing to this variability include farmers buying habits and storage and infrastructure constraints...*

*Given the variability in demand, volume and dates for fertiliser consignments, declaring all shipments in advance is completely impractical given the nature of IPL's business.*

*IPL believes that cumbersome legislation across federal and state governments reduces flexibility and competition and is an unnecessary red tape burden on businesses undertaking coastal shipping in Australia.*<sup>281</sup>

Caltex submitted:

*...maintaining efficient, competitive, flexible supply chains is crucial due to the variable and sometimes unpredictable nature of petroleum supply and demand. Flexibility is particularly important for reliability of supply in Australia, given its many remote locations for fuel demand and spread-out populations centres.*

*To create efficient, competitive and flexible shipping operations in Australia, all levels of government should co-operate to minimise the regulatory burden on Australian industry and establish an integrated and consistent approach to coastal shipping across jurisdictions.*<sup>282</sup>

The Cruise ship industry has advised the Committee that cruise ships over 5,000 GRT have been granted a temporary Ministerial exemption from the *Coastal Trading (Revitalising Australian Shipping) Act 2012* which has recently been extended to 2017. However, the Cruise Lines International Association would prefer the certainty of a permanent exclusion as a temporary exemption impacts on the industry's capacity to undertake long-term deployment planning.<sup>283</sup>

The Cruise Lines International Association also raised a concern that:

*The rather arbitrary nature of the vessel threshold size (>5,000 GRT) has also excluded a number of foreign-flagged expedition vessels carrying high-income passengers from operating from/to Australian destinations with Queensland potentially being a major beneficiary of any relaxation of this threshold.*<sup>284</sup>

---

<sup>280</sup> Port of Brisbane, submission 2:10

<sup>281</sup> IPL, submission 11:1

<sup>282</sup> Caltex Australia, submission 6:3

<sup>283</sup> CLIA, submission 7:4

<sup>284</sup> Ibid

The Department of Transport and Main Roads agrees that amendment of this threshold would have benefits:

*The tourism industry has stated that it could increase its economic value to the state, if the Coastal Trading (Revitalising Australian Shipping) Act 2012 was amended to exclude smaller foreign owned 'expedition' style vessels under 5000 dwt.<sup>285</sup>*

Caltex recommended that economic regulation of coastal shipping movements in Australia should be minimised or preferably eliminated in order to maintain efficient, competitive and flexible fuel supply chains.<sup>286</sup> Caltex submitted that the Coastal Trading Act considerably added to the administration burden of coastal shipping regulation in Australia and recommended amendments to the Act to minimise its impact. Caltex noted that the Federal Government is reviewing the Coastal Trading Act and advised the Committee that:

*If the federal government determines that economic regulation of coastal shipping (via the CTA) should remain in some form, Caltex believes the federal government should move towards a simplified licensing regime and also take measures to minimise duplication of regulation and avoid cost imposts, legislative uncertainty and unintended consequences.<sup>287</sup>*

The North Queensland Bulk Ports Corporation concluded that:

*To be effective, coastal shipping requires acknowledgement that it must be subject to market driven forces and open regulation that allows for exempt foreign flagged vessels employing foreign crews. This could require the removal of the regulatory system of licences and permits, removing the reporting frameworks on vessel operators and consideration of legislative changes dealing with importation and immigration. This should not be done at the expense of statutory frameworks covering border protection, biosecurity, safety, security or competition.<sup>288</sup>*

The Port of Brisbane has recommended that the Queensland Government implement policy that is reflective of the need for less cost in the supply chains and that would support a deregulated environment.

#### Summary of stakeholders' recommended amendments on the Coastal Trading Act

A list of stakeholder recommendations for amendments to the Coastal Trading Act is provided below. It should be noted that the amendments listed, in some cases present alternative ways of dealing with issues and are therefore not necessarily consistent with each other or mutually exclusive. Amendments proposed in relation to the Coastal Trading Act included:

- repeal the Act to avoid further restricted access to coastal trade<sup>289</sup>
- remove the regulatory system for licences and permits<sup>290</sup>

---

<sup>285</sup> TMR, Background Briefing, June 2014:5-6

<sup>286</sup> Caltex Australia, submission 6:6

<sup>287</sup> Ibid

<sup>288</sup> North Queensland Bulk Ports Corporation, Hansard Transcript (Public Hearing), 27 Aug 2014:11-12

<sup>289</sup> AgForce Queensland, submission 10:2

<sup>290</sup> Port of Brisbane, submission 2:3

- reduce the administrative burden due to temporary licence regime by:
  - removal of the requirement to apply for a Temporary Licence in blocks of 5<sup>291</sup>
  - introducing an open temporary licence for a 12 month period with authority to conduct an unlimited number of coastal voyages during that period with details to be reported and placed on the public register<sup>292</sup>
  - allowing for shipments to be arranged and amended on short notice without the requirement of lengthy and cumbersome administration processes, for example by an express system for temporary licence applications and express variations<sup>293</sup>
  - automatic granting of a licence in uncontested trades<sup>294</sup>
  - automatic approval of the Act's section 12 'opt in' for intrastate voyages<sup>295</sup>
  - provide exemptions to licensing requirements for foreign-flagged ships stopping at coastal ports on their international routes<sup>296</sup>
  - remove all licensing requirements on foreign-flagged vessels that maintain a consistent intrastate service, for example, Townsville – Brisbane in Queensland<sup>297</sup>
  - make general licences available to non-Australian flagged ships if Australian crewed<sup>298</sup>
  - where licensing is required, simplify the system by eliminating the complex and impractical reporting requirements<sup>299</sup>
  - amendment of the cargo tolerance provisions to allow a simple volume reporting only in uncontested trades and cargo volumes variance up to the capacity of the ship<sup>300</sup>
  - allow flexibility in terms of volumes that are not only able to be loaded but similarly discharged at various ports in order to meet late changes in demand<sup>301</sup>
  - ensure international ship owners are not exposed to unnecessary risk when undertaking voyages to Australia such as the potential to be challenged on a domestic leg<sup>302</sup>
  - allow for shipping programs to be managed 365 days per year ensuring there are no delays or risks to availability around public holidays and weekends.<sup>303</sup>

---

<sup>291</sup> SAL, Response to Government Options Paper: Approaches to regulating coastal shipping in Australia, April 2014:10

<sup>292</sup> Caltex, submission 6:3&7

<sup>293</sup> ASA, submission 5:16 and IPL, submission 11:2

<sup>294</sup> ASA, submission 5:16 and SAL, Response to Government Options Paper: Approaches to regulating coastal shipping in Australia, April 2014:10

<sup>295</sup> SAL, Response to Government Options Paper: Approaches to regulating coastal shipping in Australia, April 2014:10

<sup>296</sup> Port of Townsville, submission 9:11

<sup>297</sup> Ibid

<sup>298</sup> ASA, submission 5:16

<sup>299</sup> Port of Brisbane, submission 2:3 and Port of Townsville, submission 9:11

<sup>300</sup> SAL, Response to Government Options Paper: Approaches to regulating coastal shipping in Australia, April 2014:10

<sup>301</sup> IPL, submission 11:2

<sup>302</sup> Ibid

<sup>303</sup> Ibid

- remove the inconsistency between the Coastal Trading Act and the *Customs Act 1901* for vessels carrying crude oil and condensate from and to Australian ports by, for example, extending the applicability of the Coastal Trading Act to include intrastate and cargo movements to facilities not currently designated as ports, such as floating production, storage and offloading facilities<sup>304</sup>
- amend the Act to exclude smaller foreign owned ‘expedition’ style vessels under 5000 dwt<sup>305</sup>
- include maritime skill development incentives into the regulations to ensure the training and development of Australian staff aboard any vessel, whether Australian or foreign-flagged.<sup>306</sup>

### 6.2.5 Commonwealth Government legislative review

An outline of the Commonwealth review of the federal coastal shipping legislation is provided below.

#### Commonwealth Government legislative review

There have been significant concerns voiced in the shipping and associated landside industries regarding the unintended consequences of the 2012 legislation, especially in relation to the competitiveness of Australian vessels.

Recently the Australian Competition and Consumer Commission (ACCC) and the Productivity Commission have both called for review of the coastal shipping arrangements in terms of competition policy.<sup>307</sup> The ACCCs submission to the Tasmanian Inquiry recommended that coastal shipping arrangements should be reviewed to see whether the objective of preserving domestic shipping can only be achieved by restricting competition, and if so, whether the costs outweigh the benefits.<sup>308</sup>

The Federal Government is currently reviewing the Commonwealth legislation and released an Options Paper on approaches to regulating coastal shipping in Australia in April 2014. 85 submissions were received in response.

On 8 April 2014, the Deputy Prime Minister and Minister for Infrastructure and Regional Development, the Hon. Warren Truss MP, announced the release of an options paper on approaches to regulating coastal shipping in Australia. Submissions were sought from interested parties about approaches to the regulation of coastal trading. 85 submissions were received by the closing date of 31 May 2014.

There were three options presented in the Options paper (none of which is a preferred option) to address current tensions in the regulation of market access or ships wanting to engage in coastal trading.

**Option 1: Remove all regulation of access to coastal trading** – this would be achieved by repealing the Coastal Trading Act and other associated legislation passed at the same time. This would mean that all Australian and foreign flagged ships engaged in coastal trading must continue to comply fully with all applicable legislation (e.g. relating to navigation, safety, employment, workplace health and safety, tax, and the environment).

**Option 2: Remove all regulation of access to coastal trading and enact legislation to deal with the effects of other Australian laws** – this would repeal the Coastal Trading Act and introduce new legislative reforms to help open the access to coastal trade by all vessels. Such legislation would be in areas such as workplace relations and immigration.

<sup>304</sup> SAL, Response to Government Options Paper: Approaches to regulating coastal shipping in Australia, April 2014:10 and see also Caltex Australia, submission 6:3. This is discussed in the next section of this report.

<sup>305</sup> CLIA, submission 7:4

<sup>306</sup> Port of Townsville, submission 9:11

<sup>307</sup> Australia Productivity Commission, Tasmanian shipping and freight: draft report Jan 2014:127, <accessed 13 Jun 2014>

<sup>308</sup> Ibid

**Option 3: Continue to regulate coastal trade but reduce industry burden and cost** – this would see keeping the Coastal Trading Act in place but amending it to remove provisions regarded by industry as unreasonably limiting or inflexible. The Paper suggested a number of matters to consider for amendment including changing the 5 voyage minimum for application for temporary licence and changing the tolerance provisions which establish acceptable tolerance limits for temporary licence voyages (20% of cargo volume and plus or minus 5 days for loading) to accommodate unexpected occurrences, such as weather delays, which affect meeting tolerances for loading.

The Options Paper also included a section on the other aspects of coastal trading reforms. These matters included the effectiveness of the Australian International Shipping Register; Cruise shipping, and the Fair Work Act.

The submissions received in response to the Options Paper highlighted the problems experienced by producers, manufacturers and other users of coastal shipping with the current system. The Department of Infrastructure and Regional Development reported the main issues raised as follows:

- The five voyage minimum requirement before a temporary licence can be granted hinders the ability to move one-off cargoes by coastal shipping. For example, a piece of heavy machinery was unable to be shipped as a single voyage and, therefore, a Temporary Licence could not be granted. The machinery was moved by road, which required a police escort due to the over-size load and removal of overhead power lines. This was more complicated and costly than a voyage by ship.
- Certain products, like LPG, are moved exclusively by foreign ships operating under temporary licences. Even though there are no Australian ships capable of carrying the products, the shippers must still obtain licences for the movement of goods. This is a costly and time consuming process that delivers no value to the Australian economy.
- Tolerance limits make the current system inflexible for coastal shipping users. The tolerance limit for the amount of cargo carried means last minute changes to cargo cannot be made, or if a change has to be made, the ship is delayed while waiting for the change to be approved.
- Ships carrying petroleum products from offshore petroleum production facilities are not able to apply for a temporary licence, making it difficult to bring those petroleum products directly to mainland Australia.<sup>309</sup>

On 18 September 2014, Deputy Prime Minister and Minister for Infrastructure and Regional Development, the Hon. Warren Truss MP, announced that the Australian Government is carefully considering these issues and is committed to developing an internationally competitive coastal shipping framework that enables the industry to operate effectively, efficiently and in the national interest. The Deputy Prime Minister summed up the Federal Government's approach:

*"This system does not support the needs of business, and changes to remove these unnecessary and nonsensical barriers to the modern, flexible demands of business are needed now. ... these imposts on the industry, and the nation, have galvanised the Government's focus on fixing shipping. To this end the Government is considering the best way to implement a significantly more flexible permit system to stimulate the use of coastal shipping in Australia. We are also considering options to reform the Australian International Shipping Register and expand its scope to potentially include coastal shipping services. I am cognisant of the interaction between customs importation requirements and the Coastal Trading Act and I am working with my Ministerial colleagues to also resolve this issue. There are also special circumstances related to the cruise industry which need to be taken into account."<sup>310</sup>*

<sup>309</sup> Department of Infrastructure and Regional Development, Coastal Shipping Reform Factsheet, [http://www.infrastructure.gov.au/maritime/publications/pdf/Shipping\\_Reform\\_Fact\\_Sheet.pdf](http://www.infrastructure.gov.au/maritime/publications/pdf/Shipping_Reform_Fact_Sheet.pdf) <accessed 2 Oct 2014>

<sup>310</sup> Deputy Prime Minister and Minister for Infrastructure and Regional Development, the Hon Warren Truss MP, Address to Shipping Australia – Reinvigorating Coastal Shipping in Australia, 18 Sep 2014

**Committee comment**

Throughout the course of this Inquiry it has become clear to the Committee that while there are a number of non-legislative factors influencing the significant decline in Australia's coastal shipping industry evidenced by a 64% drop in dead weight tonnage over the last two years, stakeholders have all identified the introduction of the Coastal Trading Act as being a major factor in this decline as it is too restrictive and lacks consistency.

The Committee is extremely concerned that the current regulatory framework is unwieldy, imposes a high administrative burden and unnecessary cost penalties and does not support supply chain flexibility and, therefore, is a significant barrier to the establishment of a regular coastal sea freight service in Queensland. While the Committee recognises that any company contemplating introducing a regular coastal sea freight service will make the final decision based on a commercial decision, it is also aware that the regulatory environment is likely to impact on the efficiency and cost-effectiveness of the service.

The Committee supports the view that the key policy objective for the regulation of coastal trade should aim to both support the most cost effective shipping options and revitalise the Australian maritime industry. As the Port of Townsville pointed out - removing all regulations and licensing will see the further weakening of the Australian shipping industry while no amendments or moderation of the existing regulations will see an increasingly non-competitive and degenerating coastal shipping regime.

The Committee believes that a mix of Australian-flagged and licensed and foreign-licensed permit vessels is critical for creating competition and providing for flexibility in the transport supply chain. It is therefore critical that the regulatory provisions that are stifling the coastal shipping sector should be removed and/or amended.

The current legislative requirements in relation to applying for, and being granted, a temporary licence are of particular concern to the Committee. Having to predict five voyages a year to get a licence for up to 12 months is inflexible, and often impractical, and the application and reporting requirements are onerous.

The Committee is cognisant of the many substantial issues raised by stakeholders on the practical implications of the changes brought about by the introduction of the Coastal Trading Act and is seriously concerned that unless this legislation is amended the coastal shipping industry will not be able to operate effectively or efficiently on the Queensland coastline.

While the Committee understands that legislative reform will not necessarily lead to unlocking latent capacity in the international shipping sector to benefit intrastate coastal shipping, we are of the view that providing the right legislative environment may provide an opening for international vessels to assist with the domestic freight task if the right circumstances were present.

The Federal Review of the Coastal Shipping legislative framework may well lead to critical amendments to the legislative framework and the Committee was encouraged by the recent announcement by the Deputy Prime Minister and Minister for Infrastructure and Regional Development, the Hon. Warren Truss MP, that the Australian Government is carefully considering these issues and is committed to developing an internationally competitive coastal shipping framework that enables the industry to operate effectively, efficiently and in the national interest.

The Committee is recommending that the Queensland Government indicate to the Australian Government that it is supportive of its current review of the Coastal Trading Act and the development of a legislative framework that facilitates the development of a robust coastal shipping service along the Australian coastline.

**Recommendation 10**

The Committee recommends that the Queensland Government advise the Australian Government that it is supportive of its current review of the *Coastal Trading (Revitalising Australian Shipping) Act 2012* and the development of a legislative framework that facilitates the development of a robust coastal shipping service along the Australian coastline, and that the following amendments to the Act be considered as a priority:

- reduce red tape by removing the 5 voyage minimum to apply for a temporary licence and introducing an open temporary licence for a 12 month period with unlimited voyages
- streamline administration through express temporary licence/express variations and automatic licences in uncontested trades
- make general licences available to non-Australian flagged ships if Australian crewed
- remove all licensing requirements on foreign-flagged vessels that maintain a consistent intrastate service, for example, Townsville – Brisbane in Queensland
- provide exemptions to licensing requirements for foreign flagged ships stopping at coastal ports on the international route
- amend section 112 of the Act to include vessels which are exempted from the Act as well as Australian International Shipping Register vessels operating under a temporary licence
- provide for an automatic approval to ‘opt in’ for intrastate ships
- where licensing is required, simplify the system by eliminating the complex and impractical reporting requirements
- amend section 10 so that the Act does not apply to cruise ships and smaller expedition (tourism) style vessels less than 5,000 GRT.

**6.2.6 Customs Act 1901 (Cwth)**

A number of stakeholders have drawn the Committee’s attention to an inconsistency between the Coastal Trading Act and the *Customs Act 1901* (Customs Act) which may result in the importation of vessels. Customs and Border Protection’s potential impact on foreign vessels trading intrastate relates to decisions by Customs officials to “import” vessels pursuant to the Customs Act.

The Australian Shipping Association advised that prior to the introduction of the Coastal Trading Act, Customs was not importing vessels that were operating around the coast carrying domestic cargo in either intrastate, interstate or intra-territory operations and that the general understanding within industry circles was that a vessel could operate on the Australian coast for 90 days before it would be imported.<sup>311</sup>

Under the Customs Act, Customs has the discretion to deem cargoes and vessels as being imported, even if the cargo is indigenous to Australia and being shipped for use in Australia.

*Since the introduction of the Coastal Trading Act there has been a noticeable shift by Customs. After a period of considerable uncertainty, Customs determined that they would not import vessels that are operating pursuant to a temporary licence.*<sup>312</sup>

<sup>311</sup> ASA, submission 5:14

<sup>312</sup> Ibid



Therefore, owners and operators of vessels that are not operating pursuant to a temporary licence (because they are not obliged to) have been directed by Customs to import vessels. An example provided by Caltex illustrates this issue; vessels carrying crude oil loaded at floating production, storage and offloading (FPSO) facilities in Australia and delivering it to Australian refineries are excluded from the Coastal Trading Act and so a Temporary Licence is not issued. Because a temporary licence is not issued, there is potential for an unintended consequence whereby Customs may 'import' the vessel if it remains on the Australian coast for more than 30 days.<sup>313</sup> This inconsistency in legislation has resulted in negative consequences for the Australian economy. The importation of a vessel can result in significant additional costs, including the payment of Customs duty and GST on the value of the vessel and anything on board, immigration requirements under the *Migration Act 1994* (Migration Act) as the international Maritime Crew Visa will no longer be valid on these foreign-flagged vessels, which may result in the replacement of foreign crew with Australian crew.

*The uncertainty has led to locally-produced crude oil being exported rather than sold domestically, reducing the availability of crude oil sources for local refineries, resulting in less choice of crude oils and potentially increasing their costs.*<sup>314</sup>

The Australian Shipowners Association advised the Committee that it has approached relevant Federal Ministers seeking clarification on the application of the Customs Act:

*ASA has written to relevant Ministers including the former Prime Minister seeking clarification on behalf of industry on the rationale of what appeared to be a significant shift in the application of the importation provisions of the Customs Act 1901 by Customs. Unfortunately, we have been unable to gain from Customs a clear understanding of this apparent policy shift.*<sup>315</sup>

Caltex also raised a concern that vessels operating registered on the Australian International Shipping Register and operating under a Temporary Licence may be subject to importation:

*... a foreign-flagged vessel transporting goods under a TL is not imported (under the Customs Act), but if a vessel registered on the AISR is operating under a TL, it is still subject to importation once it enters Australia... importation would create significant operational and financial issues for companies because of customs duty and GST consequences.*<sup>316</sup>

Caltex proposed that vessels on the Australian International Shipping Register operating under a Temporary Licence should also be exempt from section 112 of the Coastal Trading Act which specifies the categories of vessel that are not imported into Australia for the purposes of the Customs Act.<sup>317</sup>

The Cruise Lines International Association also noted the changed approach to the application of the Customs Act and the impact this has had on the use of Australian dry docks:

*The relatively recent interpretation by Customs that, under the Customs Act 1901, a ship entering a dry dock facility in Australia will be treated as being imported, has resulted in a significant number of cruise ship dry docks being relocated to international alternatives such as Singapore. While the direct consequences of importation are manageable, the indirect*

---

<sup>313</sup> Caltex Australia, submission 6:9

<sup>314</sup> Ibid

<sup>315</sup> ASA, submission 5:14

<sup>316</sup> Caltex Australia, submission 33 on the Commonwealth Government Options Paper: Approaches to regulating coastal shipping in Australia' 30 May 2014:15

<sup>317</sup> Ibid

*impacts have been significant, in particular the automatic expiry of maritime crew visas. This has resulted in higher costs and increased administrative requirements which in turn have led to the industry relocating dry docks to Singapore. Given that each dry dock involves expenditure in excess of \$15million, the loss to the Australian economy (and employment) is potentially significant and we have already seen the closure of the Forjacs drydock facility in Brisbane.*<sup>318</sup>

The Australian Shipowners Association submitted that the consequences of importing a vessel are significant. While there are matters directly related to Customs (such as duty payable), the greatest impost is that any crew member who is on a maritime crew visa (the most commonly held visa for foreign maritime crew) will be required to leave the vessel or obtain a different work visa. Obtaining crew with Australian work rights has a cost impact on that vessel operator.<sup>319</sup>

The Association further advised that to alleviate this concern, operators can choose to “opt in” to the Coastal Trading Act since Customs have stated that vessels operating on a Temporary Licence will not be imported. However, a consequence of “opting in” is that the Fair Work Act will apply (notably the payment of wages under Part B of the Seagoing Industry Award) to the vessel if it conducts 3 or more voyages within 12 months under the Coastal Trading Act. Under either scenario the cost of the crew on board increases, however the cost impost is likely to be greater when a ship is imported and the use of maritime crew visas not allowed:

*Therefore, the actions/change of policy of Customs has created a situation for shipping companies engaged in intrastate trade to decide whether to continue to operate outside of the Coastal Trading Act or to elect to ‘opt in’. Of these two options ‘opting in’ provides the opportunity to continue to operate with the existing crew on board and likely has a lower overall cost burden. In doing so, however, it does open those voyages to be subject to contest by an Australian ship, if one is available and suitable to undertake those voyages. As noted above, the commercial uncertainty surrounding that element of the Coastal Trading Act has been the cause of considerable concern.*<sup>320</sup>

The Australian Shipowners Association submitted:

*It is therefore understandable that some ship operators would prefer that the Customs arrangements that were in existence prior to the July 2012 changes were still in place today – that they were not imported on intrastate trades and so were not attracted to “opt-in” to the CT Act and be subject to cabotage provisions that exist therein. One way to achieve this may be to reintroduce the RUF system for Queensland intrastate trade as this may provide Customs with the assurances they need that the vessel is only in Australia temporarily.*<sup>321</sup>

Caltex made a recommendation for amendment to the section 112 of the Coastal Trading Act to resolve the unintended consequences of an exempted vessel being imported:

*providing that all vessels exempt from the Coastal Trading Act are not subject to the importation provisions of the Customs Act or state-based maritime legislation.*<sup>322</sup>

<sup>318</sup> CLIA, submission 7:5

<sup>319</sup> ASA, submission 5:14

<sup>320</sup> ASA, submission 5:15

<sup>321</sup> ASA, submission 5:15-16

<sup>322</sup> Caltex Australia, submission 33 on the Options Paper: Approaches to regulating coastal shipping in Australia’ 30 May 2014:6

**Committee comment**

The Committee has noted the issues raised by numerous stakeholders in relation to the application of the *Customs Act 1901* and in particular, the concerns about vessels which are operating outside the *Coastal Trading (Revitalising Australian Shipping) Act 2012* through an exemption or vessels registered on the Australian International Shipping Register and operating on a Temporary Licence.

The Committee has been advised that the application of the “import” regulatory regime has been changed since the introduction of the *Coastal Trading (Revitalising Australian Shipping) Act 2012* so that vessels can now only operate on the Australian coast for 30 days (rather than the previous 90 days) before being “imported” under the *Customs Act 1901*. This is of particular concern to the Committee, given the consequences of importing a vessel are significant, and include the payment of Customs duty and Goods and Services Tax; and the fact that any crew member who is on a maritime crew visa would be required to obtain a different work visa or leave the vessel, resulting in the ship operator having to obtain a new crew with Australian work rights.

The Committee is also concerned by the advice from the Cruise Lines International Association about the relatively recent interpretation by Customs that, under the *Customs Act 1901*, a ship entering a dry dock facility in Australia will be treated as being imported, and that this has resulted in a significant number of cruise ship dry docks being relocated to international alternatives such as Singapore.

**Recommendation 11**

The Committee recommends that the Queensland Government approach the Australian Government to request that the following amendments be considered in relation to the application of the *Customs Act 1901* in order to facilitate the development of a robust coastal shipping service along the Australian coastline, including:

- introducing a new Customs regulation to provide for circumstances whereby importation is not in the ‘national interest’
- amending section 112 of the *Coastal Trading (Revitalising Australian Shipping) Act 2012* to include vessels exempted from the Act as well as Australian International Shipping Register vessels operating under a Temporary Licence
- introducing a timeframe during which vessels in Australia will not be imported (for example, 90 days)
- removing some key flow on effects from importation (such as immigration requirements) in some circumstances, such as dry docking.

**6.2.7 Marine Safety (Domestic Commercial Vessel) National Law Act 2012 (Cwth)**

The *Marine Safety (Domestic Commercial Vessel) National Law Act 2012* (Marine Safety National Law) was passed in August 2012 and came into force on 1 July 2013. It applies to operations of domestic commercial vessels in all states and territories, as well as the Christmas and Cocos (Keeling) Islands. The Marine Safety National Law is administered by the Australian Maritime Safety Authority (AMSA) which states and territories have delegated powers for day-to-day operation of the National System, such as considering application forms; issuing certificates of operation; competency and survey; as well as carrying out compliance and enforcement activities.

The Marine Safety National Law was introduced to provide the following benefits:

- providing an economic benefit to Australia by removing barriers to national movement of seafarers and vessels and by creating a national marketplace
- providing administrative savings (over time) as unnecessary duplication of governmental activities are removed
- general safety benefits by removing regulatory gaps and ensuring that information is shared on a national basis.<sup>323</sup>

Stakeholders were generally supportive of this piece of legislation. For example, the Port of Brisbane recommended the retention of regulatory settings around competition, quarantine, revenue, safety and security policies.<sup>324</sup>

Caltex also supported the current safety regulatory regime:

*The regulation of safety and making sure it is done efficiently is important as well. That is now being done by the Commonwealth, by AMSA, rather than by Queensland which we think is the way to go. We fully support that.*<sup>325</sup>

While no significant concerns about the Marine Safety National Law were raised with the Committee by stakeholders, issues were raised in relation to the retention of certain provisions of the Queensland *Transport Operations (Marine Safety) Act 1994* (TOMSA). These issues are discussed later in this Report.

#### **6.2.8 Commonwealth tax incentives**

There are a range of tax incentives available for Australian corporations with Australian registered eligible vessels. The incentives are designed to promote new investment in Australian shipping assets and operations. They are:

- an income tax exemption for operators of Australian registered eligible vessels on qualifying shipping income
- accelerated depreciation and rollover relief for owners of Australian registered eligible vessels
- rollover relief for owners of Australian registered eligible vessels which allows for a 'balancing adjustment' to income in a later income year
- a refundable tax offset for employers who employ legible Australian seafarers
- an exemption from royalty withholding tax for foreign owners of eligible vessels leased under a bareboat or demise charter to an Australian operator.<sup>326</sup>

---

<sup>323</sup> AMSA, A National System for Domestic Commercial Vessel Safety: Challenges, Achievements and Opportunities Jul 2013:54

<sup>324</sup> Port of Brisbane, submission 2:3 and Hansard transcript (Public Hearing - Brisbane), 27 Aug 2014:11

<sup>325</sup> Caltex Australia, Hansard transcript (Public Hearing), 27 Aug 2014:14

<sup>326</sup> [https://www.infrastructure.gov.au/maritime/business/tax\\_incentives/](https://www.infrastructure.gov.au/maritime/business/tax_incentives/) <accessed 22 Sep 2014> and Department of Infrastructure and Regional Development, Options Paper: approaches to regulating coastal shipping in Australia, 2014:8-9

Nevertheless, foreign flagged vessels continue to enjoy more favourable cost structures compared to Australian licensed ships. Many countries have implemented measures, such as beneficial tax structures, to support their domestic shipping. Ship owners can register a ship in another country to take advantages of that country's tax incentives – some countries have low or zero take rates for shipping businesses.<sup>327</sup>

In the 2014–15 Budget, the Commonwealth Government announced the abolition of the seafarer tax offset from 1 July 2015. On 4 September 2014, the Tax and Superannuation Laws Amendment (2014 Measures No. 5) Bill 2014 was introduced into the Federal Parliament. Among other measures, this bill abolishes the seafarer tax offset. When enacted, the tax offset will not apply for assessments for the 2015–16 income year and later income years.<sup>328</sup> The rationale for abolishing this tax incentive which was provided in the Bill's Explanatory memorandum:

*The low level of claims for the seafarer tax offset indicates that it has not achieved its policy intent. It has not been an effective stimulant for the employment of Australian seafarers on overseas voyages.*<sup>329</sup>

Sea Swift which operates a shipping service to remote locations in North Queensland, raised a concern with the tax regime. The company recommended a definitional change to enable smaller vessels to apply for the available tax offsets and incentives under the Income Tax Assessment Acts, in particular, that the 500 gross tonne limit in regards to what can be termed a genuine coastal trading vessel be reduced to 100 tonnes to take into account smaller vessels that go to some of the smaller destinations, provided they are engaged in regular weekly services to those areas:

*What that would do for shippers like us – we are obviously coming under a lot of cost pressures across-the-board. We have seen a reduction in the fuel excise, which has flowed on to us. So that has obviously increased our cost base. Anything that can assist us to potentially benefit from tax relief that is proposed as part of the coastal shipping reform – that subtle change in definition allows to actually benefit from that if you are a true coastal provider of services and I believe that is a key point for us.*

*... the change in definition would allow for those vessels to be able to be counted in any tax relief that might be available, which again would have a positive impact on lowering the cost of providing those services out to remote communities.*<sup>330</sup>

The Cruise Lines International Association also advised that:

*The ATO is currently reviewing the GST status of domestic and international cruises which CLIA understand includes the status of Willis Island as a "destination outside Australia". Willis Island and its current status have been instrumental in developing Queensland's domestic cruise activity and the regional Queensland destinations would be significantly impacted if Willis Island's tax status was to change.*<sup>331</sup>

Other than the concerns noted above, stakeholders did not raise any significant concerns with the present tax incentives in relation to its impact on a regular weekly coastal shipping service in Queensland.

---

<sup>327</sup> Explanatory Memorandum, Coastal Trading (revitalising Australian Shipping) Bill 2012 (Cwth):1-2.

<sup>328</sup> <https://www.ato.gov.au/General/New-legislation/In-detail/Direct-taxes/Income-tax-for-businesses/Abolition-of-the-seafarer-tax-offset/> <accessed 9 Oct 2014>

<sup>329</sup> Explanatory Memorandum, Tax and Superannuation Laws Amendment (2014 Measures No. 5) Bill 2014:14

<sup>330</sup> Sea Swift, Hansard transcript (Public Hearing – Cairns), 21 Aug 2014:4

<sup>331</sup> CLIA, submission 7:5

**Committee comment**

The Committee notes that only one stakeholder raised an issue with the Australian shipping tax incentive scheme. However, as this definitional issue regarding a restriction on the size of coastal trading vessels that can benefit from tax relief may impact on smaller vessels involved in a coastal sea freight service, the Committee is recommending that the State Government investigate this issue and, if necessary, approach the Federal Government to discuss the possibility of an amendment.

**Recommendation 12**

The Committee recommends that the Minister for Transport and Main Roads investigate whether there are likely to be benefits to the Queensland economy if genuine coastal trading vessels, which are less than 500 gross tonnage, have access to Commonwealth shipping tax incentives and, if so, approach the Federal Government to discuss the possibility of an amendment to the relevant Income Tax Assessment Acts.

**6.3 State regulation – Intrastate shipping**

This section examines the following term of reference referred to the Committee in relation to its Coastal Sea Freight Inquiry:

- *Investigate cross-jurisdictional differences that exist between the states in regulating trading vessels on intrastate voyages that might impact on competition and increase costs within the coastal shipping industry.*

Caltex stated that legislative uncertainty and the regulatory burden of coastal shipping legislation in Australia are creating barriers for companies competing in a global marketplace, seeking to optimise their operations and supply chains wherever possible.

*As such, Caltex supports efforts to minimise the regulatory burden associated with coastal shipping in Australia, underpinned by an integrated and consistent policy and regulatory approach by all levels of government. Caltex believes the removal of jurisdictional inconsistencies would help create greater operational certainty for local companies, minimise duplication of the regulatory burden and facilitate efficient and productive supply chains.*<sup>332</sup>

The Australian Shipowners Association submitted that the shipping industry requires certainty with respect to the application of the national standards through consistency of regulation between international and inter/intra state trade in order that the long term investments in a capital intensive industry such as shipping can be made. However, on the other hand the Association is of the view that *“it is entirely appropriate that regulatory regimes between domestic and international trade differ due to Australia’s jurisdictional limitations, international obligations and sovereign rights.”*<sup>333</sup>

The Australian Shipowners Association submitted that as Queensland has a significant coastal shipping task, any differences between intra and interstate regulation has a greater impact on Queensland than most other states.<sup>334</sup>

<sup>332</sup> Caltex, submission 6:6

<sup>333</sup> ASA, submission 5:15

<sup>334</sup> ASA, submission 5:16

*Consistency in the treatment of coastal trading vessels between arrangements in Queensland and those that operate under Commonwealth legislation is both desirable and likely to provide a more productive and efficient industry, to the benefit of Queensland.*

*Consistency in the application of safety/environment/training standards of vessels of this size/type under the Navigation Act 2012 is similarly advantageous in that owners and operators of such ships are familiar with the Australian Maritime Safety Authority as the regulator for responsibility for large ships. Consistency in approach and dealing with a regulator with core competency in this kind of ship regulation most certainly provides the optimum outcome for both Australia and the vessel owners/operators.<sup>335</sup>*

### **6.3.1 Intrastate legs as part of an international voyage**

While many submitters voiced concern on issues related to competition and the economic impacts of the Coastal Trading Act, this legislation only applies to vessels undertaking intrastate and/or international legs along with an interstate leg during any single voyage - it does not apply to exclusively intrastate journeys.

*..it is important to note that in the definition of 'intrastate trade', as defined in the Coastal Trading Act, the Coastal Trading Act does not apply to intrastate shipping. With a service between, let us say, Townsville and Brisbane... and back again, the Coastal Trading Act does not apply to that service. From our research .... there is no explicit economic regulation of sea freight in Queensland....*

*The Commonwealth chose not to exercise its constitutional right to legislate to the fullest extent because, as I am advised they did not want to get too involved in the operation of the state transport systems.<sup>336</sup>*

While the Coastal Trading Act would apply to an intrastate leg in Queensland, carried out as part of an international leg, it is important to note that if a regular coastal sea freight service is established in Queensland it is highly unlikely that this would be carried out by international vessels undertaking an additional leg on their journey to or from the Port of Brisbane. The Department of Transport and Main Roads has advised the Committee that international vessels are highly unlikely to be involved in a coastal sea freight service as they generally have a fixed schedule with the overseas ports:

*That means that the benefit of picking up a couple of containers, or whatever the volume of containers is, is not going to compensate them for losing that cycle, that voyage.*

*... But I see an opportunity for those smaller shipping companies that are focussed on offering a niche service. It is those niche operators that are the ones we are mainly talking to. I can see them having an interest in providing that type of service and operating on what we call an intrastate, which is just operating in Queensland ports.<sup>337</sup>*

---

<sup>335</sup> ASA, submission 5:16-17

<sup>336</sup> TMR, Hansard transcript (Public Briefing), 27 Aug 2014:6

<sup>337</sup> TMR, Hansard transcript (Public Briefing), 27 Aug 2014:4

### 6.3.2 Exclusively intrastate voyages

Exclusively intrastate voyages are regulated by the Commonwealth Marine Safety National Law, the Fair Work Act and the Navigation Act (see previous section of this Report for more information on these Acts). While there are no existing Queensland statutory provisions for the economic regulation of coastal shipping,<sup>338</sup> there are Queensland regulatory provisions providing for temporary permits to be issued through Restricted Use Flags and Maritime Safety Queensland still has an identified and legislated role in marine safety and marine environmental protection in Queensland coastal waters.

The Marine Safety National Law, which came into force on 1 July 2013, applies to operations of domestic commercial vessels in all states and territories. The Navigation Act and the Marine Safety National Law were introduced as part of a national reform agenda which transferred responsibility for the regulation of all commercial shipping to the Australian Government including, design, construction, survey, operations, manning and crew qualifications.

The Marine Safety Act is administered by the Australian Maritime Safety Authority (AMSA) to which states and territories delegated power for the day-to-day operation of the National System, such as considering application forms; issuing certificates of operation; competency and survey; as well as carrying out compliance and enforcement activities.

Caltex Australia supports the national approach to managing the safety of vessels and seafarers operating in the Australian domestic commercial industry with the Maritime Safety Authority as the national regulator and the state and territory marine safety agencies acting as delegates for Australian Maritime Safety Authority having responsibility for the face-to-face operations of the national system.

*This is an example of federal and state governments recognising the benefits of removing cross-jurisdictional differences and moving towards a national approach to policy and regulatory settings.*<sup>339</sup>

In Queensland, prior to the introduction of the Marine Safety National Law, Maritime Safety Queensland issued permits for certain intrastate voyages under the provisions of the Restricted Use Flag (RUF). The Department of Transport and Main Roads advised:

*Previously, under the RUF system, the State had a clear imprimatur to monitor and manage coastal shipping operations from a safety perspective. A strict safety regime is required to ensure that ships are safe to operate in Queensland waters.*<sup>340</sup>

The Australian Shipowners Association advised the Committee that to the best of their knowledge, the only State that seeks to regulate any economic aspect of intrastate voyages is Western Australia and that the West Australian system could be described as 'nominal' in that there is no established structure or process involved.

*Our understanding of the requirements in WA is that if a non-Australian-flagged ship is to be used a check must first be conducted that there is no Australian ship available that could do the work.*<sup>341</sup>

---

<sup>338</sup> TMR, Background Briefing, Jun 2014:9

<sup>339</sup> Caltex Australia, submission 6:4

<sup>340</sup> TMR, Background Briefing, Jun 2014:9

<sup>341</sup> ASA, submission 5:11



The Australian Shipowners Association submitted that while it could not identify any issue from another state that would impact on competition and increase costs within the coastal shipping industry in Queensland:

*We need regulatory reform at both the Commonwealth and state levels. Regulation of shipping exists clearly at a Commonwealth level through the Navigation Act and the Coastal Trading Act, but also there is Queensland legislation which remains, although Restricted Use Flags are no longer issued in relation to safety. Nevertheless, there is Queensland legislation in place which is giving rise to some confusion and some issues about its current and potential application.*<sup>342</sup>

As noted previously, Maritime Safety Queensland still has an identified and legislated role in marine safety and marine environmental protection in Queensland coastal waters. It delivers a vessel traffic management (VTM) system to minimise the risk of marine incidents and achieve the international objectives of *safer ships, cleaner seas* and occasionally, when foreign flagged ships want or need to operate on intrastate commercial voyages in Queensland waters. The authority for these trips to take place is through the issuing of Restricted Use Flag which are issued for a period of up to 28 days (and not generally issued successively) under the *Transport Operations (Marine Safety) Act 1994*.<sup>343</sup>

While the permit system for Commercial shipping was transferred to the Australian Government in 2012, Division 8 of the Queensland Transport Operations (Marine Safety) Regulation 2014 provides for Maritime Safety Queensland to issue a Restricted Use Flag under certain circumstances, including in circumstances where the operation of the ship is required for:

- a genuine trial, test or demonstration of the ships seaworthiness or some other operational aspect of the ship or its equipment
- a demonstration or display purpose associated with the sale of the ship
- building, disposing of, fitting out, relocating, removing or repairing the ship
- use for a purpose necessarily directed at maintaining the effectiveness and efficiency of the Queensland Maritime industry.

A number of submitters argued that inconsistency between the Coastal Trading Act and state-based legislation such as the *Transport Operations (Marine Safety) Act 1994*, has created legislative uncertainty with respect to the application of both Acts.<sup>344</sup>

Caltex Australia raised an issue in its submission in relation to inconsistency between the Coastal Trading Act and state-based legislation such as the *Transport Operations (Marine Safety) Act 1994* (TOMSA), which has created legislative uncertainty with respect to the application of both Acts. In Queensland, TOMSA regulates the movements of foreign-flagged vessels in Queensland coastal waters by requiring them to obtain a Restricted Use Flag.<sup>345</sup>

Caltex goes on to explain that:

- TOMSA expressly states that it does not apply to the extent that the Navigation Act applies to the vessel in question and that Maritime Safety Queensland has confirmed through a public communication in November 2013 that the reference to the old Navigation Act would be read as referring to the new replacement Navigation Act.

---

<sup>342</sup> Ibid

<sup>343</sup> TMR, Guideline: Applying for a Restricted Use Flag for a Foreign Flagged Ship, 2012:2-3

<sup>344</sup> See for example, Caltex Australia, submission 6:3

<sup>345</sup> Caltex Australia, submission 6:3&7

- Section 12(2) of the Coastal Trading Act allows the owner of a vessel to apply to the relevant federal minister for a declaration that the Act applies to the vessel, even when the vessel is undertaking intrastate voyages – this provides an option to “opt-in” to the federal legislation and avoid the need to apply for a RUF under TOMSA.
- However, if a foreign-flagged vessel is used to carry out an intrastate or coastal voyage in Queensland waters and that vessel is exempt from the Coastal Trading Act (under section 11(1)), then Caltex understands that TOMSA would apply and a Restricted Use Flag application would be required.<sup>346</sup>

*Caltex believes that this creates an anomaly because if the federal minister determines that an exemption from the Coastal Trading Act is justified in particular circumstances (so that the vessel is not required to be licenced to operate and undertake voyages on the Australian coast), requiring that vessel to then apply for a permit at a state-level would defeat the objective and intention of an exemption from the Coastal Trading Act.<sup>347</sup>*

*.....This inconsistency is further contributing to the regulatory burden and legislative uncertainty associated with coastal shipping in Australia.<sup>348</sup>*

In its submission Caltex provided further detail about its concern that the State Government might consider introducing economic regulation of intrastate coastal shipping to enable sea freight to compete with rail and road freight.

*Caltex believes that the options available to the government will depend on whether the government believes an open and competitive intrastate trade in the identified cargo will develop on its own, or whether economic regulation is required to make intrastate shipping a viable alternative. The current lack of such a service may be an indication that coastal shipping of certain goods is not competitive or economic compared to rail.*

*Caltex recommends that any proposal by the government to introduce economic regulation to develop an intrastate shipping trade should be carefully considered and subject to a rigorous cost-benefit analysis through a regulatory impact statement and public consultation process.*

*Caltex also recommends that industries, like the local fuel industry, with well-established economic and efficient shipping operations should not be captured by any such regulation. A regular weekly service would not be suitable for the transport of petroleum products, because such a service would not offer the flexibility required to deal with the variability and unpredictable nature of the petroleum industry.<sup>349</sup>*

And further, at a public hearing, Caltex advised the Committee:

*... there is Queensland legislation which remains, although Restricted Use Flags are no longer issued in relation to safety. Nevertheless, there is Queensland legislation in place, which is giving rise to some confusion and some issues about its current and potential application.*

---

<sup>346</sup> Caltex Australia, submission 6:7

<sup>347</sup> Caltex Australia, submission 6:8

<sup>348</sup> Caltex Australia, submission 6:7

<sup>349</sup> Caltex Australia, submission 6:4

*We need a single national regulatory and safety regime and that requires the Commonwealth and state governments to work together.... In order to achieve the Committee's objectives in relation to a revitalised coastal trade service, clearly both Commonwealth and state legislation needs to be examined.*

*Queensland legislation still exists and it could be applied as de facto economic regulation of intra state trade in Queensland. That is not our preference but it is a potential instrument, which could be recommended by the Committee to overcome some of the regulatory problems we face... if you have a restricted use flag, then our understanding is the Fair Work Act would not apply... So Queensland legislation, given the current state of federal legislation, could have the effect of, firstly, avoiding the imposition of the Fair Work Act and higher wage costs and, secondly, avoiding importation under the Customs Act if we are not covered by the Coastal Trading Act.<sup>350</sup>*

Sea Swift also raised this issue with the Committee:

*... there has been inefficiencies driven through coastal shipping reform. Some of those were going to a single jurisdiction rather than having each state and territory have their own jurisdiction. However, there are still state and territory bodies involved. In Queensland there is MSQ and AMSA and we have some overlap in terms of red tape basically that impacts on the business. Although, I must say this is improving.*

*A lot of those things are legacy issues that are starting to be worked through, and we are seeing the impacts of that in a positive way, which is good. I am just pointing out that if that does not continue that could obviously have an impact on the sector.<sup>351</sup>*

Caltex recommended that:

- commercial vessels engaged in both interstate and intrastate coastal trade be regulated by the Coastal Trading Act only and all the conflicting provisions of TOMSA be repealed, for example, a commercial vessel would not require a Restricted Use Flag even if the Coastal Trading Act did not apply (for example, if such a vessel is exempted by the Federal Minister from the Coastal Trading Act, or if it has not opted in to the Coastal Trading Act for intrastate trade)
- the reviews of the Coastal Trading Act and TOMSA be coordinated so the outcome is integrated and consistent federal and state regulation.<sup>352</sup>

---

<sup>350</sup> Caltex, Hansard transcript (Public Hearing - Brisbane), 27 Aug 2014:14

<sup>351</sup> Sea Swift, Hansard transcript (Public Hearing – Cairns), 21 Aug 2014:4

<sup>352</sup> Caltex, submission 6:3

The Department of Transport and Main Roads provided the following advice to the Committee on the Queensland legislation and its potential application to intrastate voyages.

*..... Queensland legislation still exists and it could be applied as de facto economic regulation of intrastate trade in Queensland. That is not our preference but is a potential instrument which could be recommended by the committee to overcome some of the regulatory problems we face. That is obviously for the committee. What benefits would coastal trading regulation have in the form of a restricted use flag in an economic role—not in a safety role but in an economic role? Well, if you have a restricted use flag, then our understanding is the Fair Work Act would not apply. As you heard earlier, under the Coastal Trading Act the Fair Work Act applies; we are required to pay Australian wages to foreign mariners on foreign flagged vessels, which does not make any sense. It just imposes a cost burden on Queensland industry.<sup>353</sup>*

The Australian Shipowners Association had an alternative view on the relationship between Restricted Use Flags and the Fair Work Act, advising that the existence of a Restricted Use Flags (or not) has no bearing on the payment of crew wages.<sup>354</sup>

Caltex recommended that both Federal and State governments work together to develop and implement an integrated and consistent approach to coastal shipping in Australia.

*Caltex calls for cooperation between the federal and state governments to implement appropriate amendments to, or the removal of, relevant state-based legislation to ensure that responsibility for the regulation of all commercial shipping lies with the federal government and that state-based legislation does not inadvertently apply.<sup>355</sup>*

*It is important for governments to minimise regulatory burden imposed on local industry to ensure companies can remain competitive in a global market.<sup>356</sup>*

Incitec Pivot agreed:

*IPL believes that this inquiry should ensure that any changes that are made to the regulation of intrastate shipping in Queensland are coordinated with changes at the federal level in order to ensure a consistent approach to shipping policy applies across both federal and state jurisdictions. In particular the objective should be to minimise duplication of regulation and costs at both the federal and state level and provide a framework that encourages efficient and cost effective movement of cargoes around the coast of Australia.<sup>357</sup>*

Incitec Pivot went on to recommend that the regulatory regime should be amended to encourage competition in the industry by both domestic and international ship owners and ensure consistency across federal and state jurisdictions.<sup>358</sup>

In response to the issues raised by the shipping industry, the Department of Transport and Main Roads advised the Committee:

*There is no clash / inconsistency between state and Commonwealth legislation however the analysis is complex and the application needs care.<sup>359</sup>*

---

<sup>353</sup> TMR, Hansard transcript (Public briefing), 27 Aug 2014:14

<sup>354</sup> ASA, submission 5:13

<sup>355</sup> Caltex, submission 6:8

<sup>356</sup> Caltex, submission 6:4

<sup>357</sup> IPL, submission 11:2

<sup>358</sup> Ibid

**Committee comment**

The Committee notes the concerns raised by a number of stakeholders about inconsistencies between the Commonwealth and State legislation in relation to the regulation of voyages undertaken in Queensland waters. While the Committee understands that the Coastal Trading Act only applies to vessels undertaking intrastate and/or international legs along with an interstate leg during any single voyage, the Navigation Act, Marine Safety National Law and the Fair Work Act do apply to vessels undertaking intrastate only legs.

The Committee endorses the argument put by Caltex Australia that clear parameters need to be set to minimise duplication, regulatory burden and inconsistency with federal legislation, along with clear delineation between industries covered by such regulation to minimise any unintended consequence of state-based regulation.<sup>360</sup> From a regulatory perspective, the shipping industry requires certainty with respect to coastal shipping requirements, so as to prevent inconsistent application of national standards (by different jurisdictions) and to permit ships to trade both internationally and inter/intra state without having to switch between different regulatory regimes.

The Committee supports the current national approach to managing the safety of vessels and seafarers operating in the Australian domestic commercial industry, with the Australian Maritime Safety Authority as the national regulator, and with Maritime Safety Queensland acting as delegate for National Authority and having responsibility for the face-to-face operations of the national system.

The Committee has noted that one of the issues raised by stakeholders concerns inconsistent application of national standards by states and territories, and inconsistencies between state and federal government regulation (for example, the Restricted Use Flag provisions provided for in a regulation under the Queensland *Transport Operations (Marine Safety) Act 1994*). The Committee notes the advice from the Department that there is no inconsistency between State and Commonwealth legislation, but that the analysis is complex and application of the legislation needs care. The Committee is therefore recommending that the Minister for Transport and Main Roads review the way in which the legislation is interpreted and applied in Queensland to ensure a consistent approach is applied.

While the Committee has recommended the national licensing system needs amendment, our preference is still for a single, effective, national regulatory regime, not a state-based licensing system. The Committee is concerned that maintaining the Restricted Use Flag provisions in Queensland legislation reportedly causes confusion in the shipping sector and allows for a perception that the State Government is maintaining the provisions as an avenue for introducing a de facto Queensland economic regulatory system for intrastate shipping in the State.

The Committee is therefore recommending that the Queensland Government make it clear to the shipping industry that it does not intend to use the Restricted Use Flag provisions for this purpose.

The Committee understands that Queensland's Restricted Use Flag provisions have been retained in case a ship needs to come into a Queensland port unexpectedly for repairs, and may need to undertake a "test" trip. However, the Committee understands that a Restricted Use Flag is very rarely, if ever, applied for and the Committee is not convinced that the provisions are required for any practical purpose. Therefore the Committee is recommending that the Minister for Transport and Main Roads assess the need for retaining these provisions in the Transport Operations (Marine Safety) Regulation 2014 and report back to the Legislative Assembly within 12 months.

---

<sup>359</sup> TMR, Response to THLGC Inquiry into Coastal Sea Freight Public Submissions, 2014:3

<sup>360</sup> Caltex, submission 6:11

**Recommendation 13**

The Committee recommends that the Minister for Transport and Main Roads review any current inconsistencies in the treatment of coastal trading vessels between arrangements in Queensland and those that operate under Commonwealth legislation and any inconsistencies in the application of safety/environment/training standards of vessels under the Navigation Act and the Marine Safety National Law with a view to ensuring a consistent approach is applied.

**Recommendation 14**

The Committee recommends that the Minister for Transport and Main Roads assess the benefits and disadvantages of retaining the Restricted Use Flag regulatory provisions under the Transport Operations (Marine Safety) Regulation 2014 and report back to the Legislative Assembly within 12 months.

**Recommendation 15**

The Committee recommends that the Minister for Transport and Main Roads make it clear to the shipping industry that the Government does not intend to use the Restricted Use Flag provisions to impose a de facto economic regulatory system for intrastate shipping in Queensland.

## 7 Sea Freight Action Plan – Coastal Shipping

The Department of Transport and Main Roads is working with the Department of Agriculture, Forestry and Fisheries and the Department of State Development, Infrastructure and Planning to examine the policy enablers that will provide the right environment for a coastal shipping service to be established.<sup>361</sup> These enablers have been identified in the Sea Freight Action Plan – Coastal Shipping finalised in mid 2014 (phase 1). Further detail is provided below.

### 7.1 Plan Phases

The Sea Freight Action Plan:

- identified what is currently occurring and what are the future needs,
- examines infrastructure at the ports in scope, and identifies what is required to enable expanded coastal shipping services, it also;
- identifies potential constraints that may adversely impact on the introduction of a commercial coastal shipping service, and
- details appropriate actions that will assist a sustainable coastal shipping service.<sup>362</sup>

The Plan provides for the following phases of the project to be undertaken.

#### **Phase 1: Confirmation of Sea Freight Action Plan**

Gain consensus and establish a more collaborative view on coastal shipping through:

- a consultative process to validate findings
- confirm findings, recommendations and actions with key stakeholders
- work with industry to develop containerised export and project cargo trade
- assist regional ports to develop master plans that support supply chain innovation
- develop a collaborative process to identify and address current port constraints.

#### **Phase 2: Industry Consultation**

Establish how coastal shipping will impact at each port by:

- identifying and engaging with regional supply chain customers through a collaborative process to identify commercial opportunities
- quantify the economics of a modal shift for a specific cargo type through a regional port
- identify the limitations of port infrastructure and connecting road, rail and bridge structures.

#### **Phase 3: Scenarios for coastal shipping**

Identify scenarios to inform port plans by:

- modelling port rotation (vessel) options to inform operational planning and related landside logistics requirements for different cargo types

---

<sup>361</sup> TMR, Hansard transcript (Public Briefing), 27 August 2014:5

<sup>362</sup> TMR, Sea Freight Action Plan, Jul 2014:11

- work with industry to identify port centric logistics opportunities and incorporate them in port master plans
- establishing priority berthing policies that support intrastate coastal shipping.

#### **Phase 4: Policy enablers**

Identify enabling freight policy through a stakeholder engagement process to:

- identify contestable freight movements that present opportunities for modal shift
- identify specific projects at ports and across modal networks that expand the opportunity to establish a container trade supported by a dedicated intrastate coastal shipping service.

#### **Phase 5: Coordinated approach for all ports**

Develop a coordinated approach to coastal shipping that informs individual port plans to:

- support the expansion of containerised freight movements as the standard logistics platform
- identify longer term port capacity constraints and landside logistics issues
- develop common user infrastructure with support from commercial investors
- develop a cooperative approach to new trade opportunities between ports
- develop interrelated supply chain activity within and across regions.

### **7.2 Phase 2 and onward**

The second phase of the Sea Freight Action Plan commenced this financial year and will confirm the findings of the report with key stakeholders. It will undertake scenario modelling, examine policy enablers, and work with ports to establish a coordinated approach within the port master planning process that will support the development of dedicated intrastate coastal shipping services between Queensland ports.

The Department of Safety and Main Roads advised the Committee that Project phase two will address actions and recommendations identified in project phase one (2013-14) with port managers/owners to ensure that master planning/land use planning processes support the commercial development of intrastate coastal shipping services, and that this will be achieved by:

- Gaining consensus with industry and port managers on a collaborative view of coastal shipping development including service offerings
- Establish what impacts coastal shipping may have on relevant ports from an operational and infrastructure investment perspective and work with Department of State Development, Infrastructure and Planning to advise relevant port master plans
- Develop a coordinated approach with regional importers and agricultural exporters to identify how a containerised coastal shipping service may support new business opportunities
- Identify enabling freight policy options and proposed legislative amendments that could accelerate the commercial development of intrastate coastal shipping services, quantifying the potential impacts of these changes on vessel operating cost structures.<sup>363</sup>

---

<sup>363</sup> TMR, Background Briefing, Jun 2014:10



### 7.2.1 Sea Freight Action Plan - Action Summary

Action Items	0 to 6 months	6 to 18 months	18 to 36 months
<b>1.1 Port confirmation of Sea Freight Action Plan findings</b>			
<ul style="list-style-type: none"> <li>Clarify ports and shippers differing views by conducting a series of workshops</li> </ul>	✓		
<ul style="list-style-type: none"> <li>Consolidate feedback and gain consensus of all key stakeholders to confirm coastal shipping findings including future scenarios</li> </ul>	✓		
<ul style="list-style-type: none"> <li>Confirm key infrastructure, shipping operations, governance constraints and the broader contestable freight opportunity</li> </ul>	✓		
<b>1.2 Industry consultation</b>			
<ul style="list-style-type: none"> <li>Generate interest in coastal shipping by consulting with industry groups such as miners, retailers, wholesalers, producers, freight forwarders, stevedores and local governments to outline the changing nature of shipping internationally and domestically within Australia</li> </ul>	✓	✓	
<ul style="list-style-type: none"> <li>Engage further with interested parties on the opportunity within Queensland</li> </ul>	✓	✓	✓
<ul style="list-style-type: none"> <li>Establish levels of interest for each port and define options for growth at each port</li> </ul>	✓	✓	✓
<ul style="list-style-type: none"> <li>Create a forum for all stakeholders to meet and express unified support for governance and other coastal shipping common issues, facilitating better communication with all partners in planning for the current and future freight task</li> </ul>	✓	✓	✓
<b>1.3 Scenarios for coastal shipping</b>			
<ul style="list-style-type: none"> <li>Model each scenario of coastal shipping from the confirmation and consultation stages with industry to determine operational plans and infrastructure at each port, each scenario to include port rotations, vessel types, harbour, port and land side logistics dimensions, through to road and rail interfaces</li> </ul>	✓		
<ul style="list-style-type: none"> <li>Develop a strategic logistics plan for each port with typical scenarios to include assessments of OSOM and Project Cargoes, containerised Agricultural Exports through ports from Brisbane to Townsville, and all ports to Cairns for transshipment onwards</li> </ul>		✓	
<ul style="list-style-type: none"> <li>Supply inputs to business cases, strategic and port action plans</li> </ul>		✓	
<b>1.4 Policy enablers</b>			
<ul style="list-style-type: none"> <li>Aggregate key projects of benefit for coastal shipping, confirm the need through industry feedback and check for alignment with government intent to determine what policy responses if any are needed</li> </ul>	✓		
<ul style="list-style-type: none"> <li>Network development plans to align with freight growth, by specifying by commodity how that supply chain will evolve and be deployed regionally, identifying corridors and investments required to enable that evolving supply chains</li> </ul>		✓	
<ul style="list-style-type: none"> <li>TMR with ports to install required infrastructure to accommodate HPV and a modal shift for OSOM</li> </ul>			✓
<ul style="list-style-type: none"> <li>Expand the use of rail freight for the coastal shipping freights that would benefit from an integrated shipping and rail modal service, as this calls for greater integration between rail terminals and Ports, especially with respect to mining inputs, fuels and agricultural exports to encourage a mode shift to rail by developing seamless operations and value adding activities at the nodal locations</li> </ul>		✓	
<b>1.5 Coordinated approach for coastal shipping</b>			
<ul style="list-style-type: none"> <li>Aggregate each ports master plans to establish an overarching coordinated approach for coastal shipping considering interrelated supply chains, and the required infrastructure investments</li> </ul>	✓		
<ul style="list-style-type: none"> <li>Review ports master plans to ensure the functioning of interrelated supply chains is captured and supported by industry to ensure effective deployment of infrastructure investment</li> </ul>	✓	✓	✓

**Committee comment**

The Committee has noted that Phase One of the Sea Freight Action Plan has recently been completed. Phase One of the Plan assessed existing port infrastructure and planning to develop a range of options to maximise the use of ports, as well as identifying the potential commodities that could be carried on those vessels. Phase one also included a consultative process to validate findings, recommendations and actions with key stakeholders. Work still to be undertaken includes establishing how coastal shipping will impact at each port, identifying scenarios to inform port plans, identifying enabling freight policy through stakeholder engagement processes, and developing a coordinated approach to coastal shipping that informs individual port plans.

The Committee supports the proposed strategy and actions (enablers) identified in the Sea Freight Action Plan to facilitate the establishment of an economically viable coastal sea freight service in Queensland. The Committee has concluded that such a service will provide numerous benefits to the Queensland economy and recommends that the relevant Queensland Government departments should work closely with freight providers, the ports and prospective customers to do everything possible to ensure that policy enablers are put in place to provide the right environment for a coastal shipping service to be established.

Specific recommendations on various aspects of establishing a regular, coastal sea freight service have been provided by the Committee throughout this Report.

**Recommendation 16**

The Committee recommends that the Queensland Government continue to work closely with sea, rail and road freight providers, the ports and prospective sea freight customers to ensure the policy enablers identified in the Sea Freight Action Plan, including collaborative supply chain planning, are put in place to provide an environment conducive to the establishment of a coastal shipping service.

**Appendix A – List of Submissions**

<b>Sub #</b>	<b>Submitter</b>
1	Private and confidential
2	<a href="#">Port of Brisbane</a>
3	Private and confidential
4	<a href="#">Mackay Regional Council</a>
5	<a href="#">Australian Shipowners Association</a>
6	<a href="#">Caltex Australia</a>
7	<a href="#">Cruise Lines International Association</a>
8	<a href="#">Shipping Australia Ltd</a>
9	<a href="#">Port of Townsville</a>
10	<a href="#">AgForce</a>
11	<a href="#">Incitec Pivot Ltd</a>
12	<a href="#">Sea Swift</a>
13	<a href="#">Torres Strait Regional Authority</a>

## Appendix B – Public departmental briefing and hearings

Witnesses at public departmental briefing held in Brisbane, Wednesday 27 August 2014

**Department of Transport and Main Roads**

Mr Damian Colclough, Executive Director, Freight, Ports and Governance

**Maritime Safety Queensland**

Captain Patrick Quirk, General Manager

Witnesses at public hearing held on Thursday Island, Wednesday, 20 August 2014

**Torres Strait Island Regional Council**

Mayor Fred Gela

**Torres Shire Council**

Mayor Napau Pedro Stephen

**Badu Island Foundation**

Mr Manuel Nomoa, Business Manager

Witnesses at public hearing held in Cairns, Thursday, 21 August 2014

**Sea Swift**

Mr Fred White, Chief Executive Officer

Mr Lino Bruno, Chief Operating Officer

**Mackay Sugar Ltd**

Mr Peter Gill, Chief Finance Officer

Witnesses at public hearing held in Townsville, Thursday, 21 August 2014

**Port of Townsville Ltd**

Ms Ranee Crosby, Chief Executive Officer

Ms Claudia Brume-Smith, General Manager, Trade and Property

**Townsville Enterprise Ltd**

Mr David Kippin, Chief Executive Officer

**Northern Stevedoring Services**

Mr Chris Ullett, General Manager

Witnesses at public hearing held in Brisbane, Wednesday, 27 August 2014

**Mackay Regional Council**

Mr Jaco Ackerman, Manager, Strategic Planning Development Services  
Mr David McKendry, Executive Officer, Sustainability and Collaboration

**Port of Brisbane Pty Ltd**

Mr Peter Keyte, General Manager, Trade Services

**North Queensland Bulk Ports Corporation**

Mr Gary Richards, Senior Manager, Commercial

**Caltex Australia Ltd**

Mr Nick Campbell-Smith, Product Supply Operations Manager  
Captain Jeanine Drummond, Marine Compliance Specialist  
Mr Frank Topham, Head of Government Affairs  
Ms Alisha Salvestro, Government Affairs Adviser

**AgForce Queensland**

Mr Wayne Newton, President, AgForce Grains  
Ms Tamara Badenoch, Grains Policy Director

**Sea Transport Corporation Ltd**

Mr Stuart Ballantyne, Chief Executive Officer

## Appendix C – Private meetings

Private meeting held in Brisbane, Tuesday, 22 July 2014

### Port of Brisbane

Mr Peter Keyte, General Manager Trade Services  
 Ms Priscilla Radice, Senior Manager Strategic Projects  
 Ms Ruth Perry, Senior Manager Trade

Private meetings held in Sydney, Monday, 15 September 2014

### Cruise Lines International Association

Mr Neil Linwood, Executive Director  
 Mr Brett Jardine

### Port Authority NSW

Mr Dom Figliomena, Executive General manager, Commercial  
 Ms Sandy Rae, Media and Communications Manager

Private meetings held in Melbourne, Tuesday, 16 September 2014

### Australian Shipowners Association

Ms Teresa Lloyd, Executive Director  
 Ms Sarah Cerche, Manager Industry Employee Relations

### Incitec Pivot Ltd

Mr Don Briggs, Vice President, Global Supply Chain  
 Mr Martin Gleeson, National Shipping and Chartering Manager  
 Mr Matt Trotman, Corporate Affairs Manager

Private meetings held in Melbourne, Wednesday, 17 September 2014

### ANL Container Line Pty Ltd

Ms Chris Schultz, General Manager, Business Development  
 Mr Ian Redfern, General Manager, Coastal Trades and Logistics

### Jebsens Australia

Mr Grant Williams, Director - Australia  
 Mr Chris Hilet, General Manager

### Commonwealth Department of Infrastructure and Regional Development

Ms Leanne Kennedy, Acting General Manager, Maritime and Shipping Branch  
 Mr Peter Edsor, Director, Coastal Trading and Maritime Environment Section, Maritime and Shipping Branch

## Statement of Reservation

**DESLEY SCOTT MP**

SHADOW MINISTER FOR COMMUNITY SERVICES AND CHILD SAFETY

SHADOW MINISTER FOR MENTAL HEALTH

SHADOW MINISTER FOR WOMEN AND SENIORS

SHADOW MINISTER FOR MULTICULTURAL AFFAIRS

MEMBER FOR WOODRIDGE

PO Box 15057, City East QLD 4002

[reception@opposition.qld.gov.au](mailto:reception@opposition.qld.gov.au) (07) 3838 6767



Mr Howard Hobbs  
Chair  
Transport, Housing and Local Government Committee  
Parliament House  
George St  
Brisbane QLD 4000

Dear Chair

### **Statement of Reservation – *Inquiry into Coastal Sea Freight***

I wish to notify the Transport, Housing and Local Government Committee that the Queensland Opposition has reservations about aspects of Report No. 59 of the Transport, Housing and Local Government Committee into Coastal Sea Freight.

The Opposition notes the recommendations made by the Committee. Whilst we are supportive of some of the recommendations, many have aspects that we remain concerned about.

The Opposition will detail further reasons for its concerns during the parliamentary debate on the report.

Yours sincerely

A handwritten signature in black ink that reads 'Desley C. Scott'.

**Desley Scott MP**  
Member for Woodridge