



# **Policy, regulatory, taxation, administrative and funding priorities for Australian shipping**

**Submission to the Senate Standing Committees on Rural and  
Regional Affairs and Transport**

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## About CME

The Chamber of Minerals and Energy of Western Australia (CME) is the peak resources sector representative body in Western Australia. CME is funded by its member companies who are responsible for most of the State's mineral and energy production and employment of the sector's workforce.

In 2017-18, the value of Western Australia's mineral and petroleum industry was \$115 billion. Iron ore is currently the State's most valuable commodity at \$61 billion. Petroleum products (including LNG, LPG, crude oil, condensate and natural gas) followed at \$26 billion, with gold third at \$11 billion. Both commodities saw an increase in value of 39 and 5 per cent respectively from the previous financial year.

The resources sector is a major contributor to the local, State and Australian economy, with an estimated \$108 billion of Western Australian projects in the pipeline. The value of royalties from the sector totalled \$5.8 billion (iron ore providing 77%), accounting for 19 per cent of the State Government's revenue.<sup>1</sup>

## Recommendations

The resources sector relies on a globally competitive and sustainable shipping industry.<sup>2</sup> Any changes to Australian shipping policies, regulation, taxation, administration and funding arrangements should be cognisant of the adverse effects it may have on investment planning and operational decision-making of current and future resource projects in Western Australia.

CME is supportive of broad policy initiatives and reforms that will reduce the cost of shipping and administrative complexity of associated reporting requirements, whilst increasing the flexibility, accessibility and availability of shipping services.

It is important the Senate Standing Committees on Rural and Regional Affairs and Transport (the Committee) consider the views and recommendations made in this submission:

- CME is in-principle supportive of changes that will improve the cost effectiveness and operational efficiency of shipping in comparison to road and rail alternatives.
- As a highly trade exposed economy, the resources sector needs flexibility and network coverage via open access by all ships.
- Any changes to Australian shipping priorities should give due consideration to existing policy and regulatory initiatives by State and Commonwealth Governments.
- CME is not supportive of imposing non-competitive cost structures and additional reporting burdens on the shipping industry.
- CME does not support additional imposts such as higher crew wages, the biosecurity imports levy, tonnage taxes, industry wide training levies, port fees or complex reporting and administrative requirements.
- Shipping priorities should consider the commerciality and trade-offs of existing preferred modes of transport.
- Australian shipping priorities should focus on reducing land-based congestion and existing infrastructure constraints associated with moving freight to and from intermodal transport terminals.

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<sup>1</sup> Department of Mines, Industry Regulation and Safety, *2017-18 Statistics digest: Industry activity indicators*, October 2018: [http://www.dmp.wa.gov.au/Documents/About-Us-Careers/Stats\\_Digest\\_2017-18.pdf](http://www.dmp.wa.gov.au/Documents/About-Us-Careers/Stats_Digest_2017-18.pdf)

<sup>2</sup> Shipping industry hereafter refers to either domestic (coastal) trade with Australian-flagged ships operated by Australian crews or international foreign-flagged ships operated by foreign crews.

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- Increased competition of the existing shipping industry should not be at the expense of sinking a significant amount of taxpayer funds into attracting and building a new maritime cluster in Australia.
- Current timeframes for granting shipping licenses and variations should be reduced.
- CME is in support of regulatory and administrative change, which will increase the maximum licence period and streamline the licensing application process and terms of flexibility for variations.
- Long-term integrated planning is required to support efficient transport connections and intermodal hubs between port precincts with access by multiple users.
- Reforms should support improved diversification and competition of ports to handle an increased scope and capacity in trade, commodities and port users.

## Context

In 2017-18, Western Australia contributed to 46 per cent of Australia's international trade, with 96 per cent of major exports derived from the Western Australian resources sector.<sup>3</sup> Commodity export earnings, with stimulus support by governments, has helped the local, State and Australian economy withstand the global financial crisis.<sup>4</sup> With global commodity demand projected to slowdown, producers and users of bulk commodities will have a stronger focus on achieving operational efficiencies and cost reductions across logistics and supply chains.

The Western Australian resources sector is diverse and complex. It covers exploration, processing, downstream value adding, refining of over 50 different types of mineral and energy resources and energy production. Major iron ore and LNG projects in Western Australia are located favourably close to the largest markets in Asia. The sector is able to leverage this proximity through a reduction in shipping costs relative to some of its competitors.<sup>5</sup> Competitive shipping through bulk export ports provides an integral linkage to domestic and international supply chains, facilitating economic growth and development.

This inquiry follows on from a number of past reviews conducted in the last decade with the intention of protecting the domestic shipping industry.<sup>6</sup> Due to changes of political parties in government, the policy objectives of these previous efforts has been inconsistent, partially contributing to a decline of domestic shipping in favour of international shipping. With a dwindling number of domestic ships, for the reasons of economic efficiency it is no longer sustainable to continue levelling out the playing field through uncompetitive measures and regulatory requirements. As with most other industries, the extent of protection provided by governments has withdrawn.

An open regulatory framework that is market driven encourages allocative efficiency, which may reverse the currently observed decline in 'triangular trade' shipping patterns and withdrawal of international shipping companies. Although there is sufficient demand to aggregate cargo for new direct shipping routes to Asia, there is insufficient domestic trade volumes for dedicated point-to-point shipping with purpose-built ships within Western Australia.<sup>7</sup> The only large ships on the Australian General Shipping Register are the four LNG carriers trading gas between the Pilbara and Asia. Triangular trade helps to address this.

**CME is in-principle supportive of changes that will improve the cost effectiveness and operational efficiency of shipping in comparison to road and rail alternatives.** If achieved, it will increase the profitability of exports and improve the business case for conducting downstream mineral processing such as lithium hydroxide or nickel sulphate production. As well as being competitively priced, shipping need to be easily accessible, reliable and responsive to fluctuating commodity production cycles. **As a highly trade exposed economy, the resources sector needs flexibility and network coverage via open access by all ships.** With a larger supply of competitive shipping services available, this may advance the development of vertically integrated supply chains from pit-to-port and beyond. As Australia's neighbouring economies continue to grow faster than the global

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<sup>3</sup> Iron ore and concentrates, gold, crude petroleum, copper ore and concentrates, crude minerals, precious metal ores and concentrates, pigments, paints and varnishes. Department of Foreign Affairs and Trade, *Western Australia*, Statistics Section, January 2019: <https://dfat.gov.au/trade/resources/Documents/wa.pdf>

<sup>4</sup> Commonwealth of Australia, *Resources and energy quarterly*, Office of the Chief Economist, Department of Industry, Innovation and Science, December 2018.

<sup>5</sup> Department of Jobs, Tourism, Science and Innovation, *WA LNG profile*, February 2019.

<sup>6</sup> 2008: Inquiry into coastal shipping policy and regulation, 2010: Discussion paper on reforming shipping, 2014: Options paper on approaches to regulating coastal shipping, 2015: Inquiry into increasing use of so-called flag of convenience shipping, and 2017: Discussion paper on coastal shipping reforms.

<sup>7</sup> Oliver, J., *Coastal shipping policy and regulation*, Official Committee Hansard for the Standing Committee on Infrastructure, Transport, Regional Development and Local Government, Perth, May 2008.

average,<sup>8 9 10</sup> it is increasingly important the resources sector is globally competitive to capitalise on growth of these emerging and developing economies.

Continued engagement by State and Commonwealth Government agencies with the resources sector is welcome. Consultations with the State Department of Transport, offering training on using the licensing portal and proactive consultation on development of the Westport Strategy, has been positive. To provide consistency and certainty, **any changes to Australian shipping priorities should give due consideration to existing policy and regulatory initiatives by both State and Commonwealth Governments**. A vision that integrates the following initiatives would assist in building cross-sectoral support:

- Westport Strategy, Regional Freight Transport Network Plan and National Freight and Supply Chain Strategy;
- A Regional Investment Blueprint for the Kimberley and Northern Australia Agenda;
- Western Australian Future Battery Industry Strategy;
- National Resources Statement;
- Liquid Fuel Security Review;
- Future Jobs, Future Skills and National Innovation and Science Agenda;
- Streamline WA, Deregulation Agenda and Red Tape Committee; and
- Free trade agreements, investment policies and other long-term trade relationships with foreign economies.

**CME is not supportive of imposing non-competitive cost structures and additional regulatory burdens on the shipping industry.** This will reduce the efficiencies of the Western Australian resources sector who operate in a globally competitive market. For example, Western Australia's iron ore companies are among the world's lowest cost ship exporters, and must remain so to be competitive with major low-cost suppliers from Brazil.<sup>11</sup>

With several member companies and peak bodies across different industry sectors citing above average wages for Australian crews,<sup>12</sup> the cost of domestic shipping is on average \$5 million higher per year to run than international equivalents. This is despite previous industrial reforms focused on improving productivity through multiskilling and crew management. Even if international ships with foreign crews operated under similar conditions, i.e. received standard international rates of pay, it would not be cost effective to use domestic ships with Australian crews for any type of trade (coastal or international).<sup>13</sup>

Any changes that result in higher costs of shipping will be absorbed through the supply chain via higher input costs and ultimately the Australian consumer to bear.<sup>14</sup> This had led to substitution, with inputs imported rather than produced domestically by Australian suppliers. In addition, many member companies are the dominant exporters of their respective commodities, with between 80 and 100 per cent of their product exported to markets in the Asia Pacific region via ports. In a global market, these commodities however are price

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<sup>8</sup> Government of Western Australia, *International trade: Emerging developments and prospective outlook*, Economic and Revenue Forecasting Division, Department of Treasury, February 2019.

<sup>9</sup> World Bank, *Global economic prospects: Darkening skies*, International Bank for Reconstruction and Development, January 2019.

<sup>10</sup> Reserve Bank of Australia, *Statement on monetary policy*, February 2019.

<sup>11</sup> Department of Jobs, Tourism, Science and Innovation, *WA iron ore profile*, February 2019.

<sup>12</sup> Organisation for Economic Co-operation and Development, *Average annual wages*, Employment and Labour Market Statistics, July 2018.

<sup>13</sup> Bergin, A. and Bateman, S., *Shorten's fleet addresses security issues*, Australian Strategic Policy Institute, published in *The Australian*, February 2019.

<sup>14</sup> Australian Competition and Consumer Commission, *Inquiry on the policy, regulatory, taxation, administrative and funding priorities for Australian shipping*, submission to the Senate Rural and Regional Affairs and Transport References Committee, February 2019.

sensitive and highly substitutable.<sup>15</sup> In passing down any cost increases in shipping, major trading partners will substitute to low-cost countries that directly compete with Australian commodities (e.g. Africa and South America), leading to less demand for Australian exports.

Since the 1980s, there has been opposing views on shipping reform from various industry peak bodies, trade unions and governments. Any proposed fiscal, legislative and industrial reforms has been controversial and divided.<sup>16</sup> The result is a highly regulated, inconvenient and uncompetitive industry with relatively small and aging fleets.

Further to the issues mentioned above, other contributors include the administratively burdensome licensing requirements, sustained high fuel prices and port charges. Improvements across these areas would enhance the shipping industry's attractiveness, although a significant cost reduction would be needed for it to be comparatively priced to existing competitors. For these reasons, **CME does not support additional imposts such as higher crew wages, the biosecurity imports levy, tonnage taxes, industry wide training levies, port fees or complex reporting and administrative requirements.**

This has pushed domestic freight to international ships and land-based modes of transport such as road trains and rail. **Shipping priorities should consider the commerciality and trade-offs of existing preferred modes of transport.** For example, CME commends the proposal by the Pilbara Development Commission to create a direct shipping route into the Port of Dampier to overcome road issues associated with moving freight to and from the Port of Fremantle. This will reduce the cost of doing business for the Pilbara.

**Shipping priorities should focus on reducing land-based congestion and existing infrastructure constraints associated with moving freight to and from intermodal transport terminals.** This encourages development of initiatives that can deliver long lasting cross-sectoral economic benefits. In particular, CME supports diversification of the industry in providing competitive alternative modes of transport to carry freight to regions such as the Pilbara, Kimberley, Goldfields and the South West. A competitive shipping industry would unlock access to these remote areas, overcoming roadblocks arising from seasonal flooding, cyclones and bushfires.

## Maritime cluster

CME supports increased competition in the existing shipping industry. This however **should not be at the expense of sinking a significant amount of taxpayer funds into attracting and building a new maritime cluster in Australia.** Australia does not have a history of aggressive fiscal and monetary policies to entice international companies to relocate and operate here. For example, recent scrutiny on the tax transparency, base erosion and profit shifting of multinational companies. A high regulatory burden with high effective tax rates is a widely recognised perceived risk and barrier to investment into Australia.

Despite possessing maritime research centres and a high-tech shipbuilding industry, Australia does not possess a comparative advantage in shipping services. With global economic activity moderating, existing shipping hubs such as Singapore, Hong Kong, Dubai, Shanghai and Vancouver are increasing their market share. These places are better suited for attracting expertise and knowledge to form maritime clusters.

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<sup>15</sup> Deloitte Access Economics, *Economic impacts of the proposed shipping reform package*, February 2012.

<sup>16</sup> Parliament of Australia, *Coastal Trading (Revitalising Australian Shipping) Amendment Bill 2017*, bills digest no. 60, Department of Parliamentary Services, December 2017.

## Ship licensing system

Due to unplanned changes in operational, commercial and meteorological conditions both landside and seaside, it is necessary for shipping to be flexible. Flexibility enables minimisation of trade disruption and cost overruns. In the past, domestic shipping has not been efficient or effective enough to respond to the peaks (spot trading) of global commodity cycles. Access to international ships is therefore important, as demand will continue to outstrip supply.

Current licensing procedures are impractical, onerous and cumbersome. It is difficult to report on voyages in advance with sufficient certainty. Member companies experience the following issues when planning and negotiating long-term commercial shipping contracts:

- The 12-month maximum licensing period, coupled with a four-week lead-time to finalise applications, increasing scheduling complexity and regulatory reporting burden.
- Without applying for a variation, there is no flexibility to deviate from the ports, sailing dates or freight volumes originally stated in the licensing application.
- The formal variation process is slow and rigid. It is often unable to respond in a reasonable amount of time, threatening inventory and supply chain management. **Current timeframes for granting licenses and variations should be reduced.**

Other than enabling preferential treatment of domestic ships, the system as it is does not encourage a competitive shipping industry. There is a cost to the public, through higher cost of goods, in forcing the resources sector to use uncompetitive and unresponsive domestic shipping services. **CME is in support of regulatory and administrative change, which will increase the maximum licence period and streamline the licensing application process and terms of flexibility for variations.**

## Fuel security

Like other transport sectors, the shipping industry is dependent on access to adequate, reliable and affordable supplies of fuel. Relying on just-in-time distribution and the importation of over 90 per cent of Australia's fuel needs, noting there is only 50 days' worth of fuel stockholdings available. With limited refining capabilities, land-based storage and distribution networks, most of Australia's fuel resides offshore in international in-port bunkering tankers. With the global fuel supply becoming increasingly uncertain, Australia does not currently meet the International Energy Agency emergency stockholding obligations of 90 days.

Furthermore, as member companies increasingly embrace broader initiatives such as environmental sustainability, there is a commitment to shift to using fuel with lower sulphur, which has lower emissions but a higher cost impost. Due to these various factors, the price of fuel within Australia remains high. Sustained high fuel prices adds to the difficulty in securing competitive domestic shipping contracts. For example, the most commonly used bunker fuel (IFO380) was 27 per cent cheaper in Singapore than in Australia.<sup>17</sup> Pending outcomes of the current Liquid Fuel Security Review, **CME supports implementation of incentives that will increase Australia's fuel security, thereby reducing the price of fuel and cost of shipping.**

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<sup>17</sup> First week of March 2019.



## Biosecurity imports levy

Australia has a clear protective biosecurity regime for ships, underpinned by legislation. As an example, the State-Wide Array Surveillance Program developed by Western Australian port authorities and the State Department of Primary Industries and Regional Development was nationally recognised as contributing to Australia's world leading biosecurity status.<sup>18</sup>

With a number of significant resource projects committed to in Western Australia, a levy would materially affect the financial viability of projects that rely on the importation of materials, consumables, plant and equipment to build and construct their mine infrastructure and processing facilities. Furthermore, some imports that member companies use on an ongoing operating basis (such as inputs for chemical processing) are incapable of posing a biosecurity threat. In this context, **CME does not support an increase in costs levied on imports to fund non-regulatory activities.**

## Intermodal transport

The Western Australian resources sector uses a combination of transport modes for both domestic and international trade. In master planning of port precincts, it is important there is consideration of new and emerging industries such as lithium. Unencumbered access between general cargo areas of ports, rail depots and highway road systems should not be overlooked in facilitating commodity movement from pit-to-port, reducing the likelihood of future bottlenecks and congestion caused by poor infrastructure design.

Strategic coordination, planning and design of competing land uses, landside and seaside infrastructure is therefore vital. In particular, CME strongly supports the holistic 50 to 100-year vision being adopted by the Westport Taskforce. **Long-term integrated planning is required to support efficient transport connections and intermodal hubs between port precincts with access by multiple users is important.**<sup>19</sup> CME would like to see the Westport Strategy endorsed as a high priority item by State and Commonwealth Government agencies. If these strategies successfully come into fruition, the collective capacity of transport nodes can be optimised with cross-sectoral and intergenerational benefits realised for Western Australia.

## Port infrastructure, services, fees and charges

Ports are critical enablers of trade. Given the remoteness of Western Australia's resource deposits and basins, adequate port infrastructure and access is an important consideration in progressing the financial viability of resource projects towards a final investment decision. Due to exports by the resources sector, the Port of Port Hedland has become the world's largest bulk export port.

A number of ports are well suited for exports of bulk commodities in Western Australia. Their primary function to facilitate trade for the economic benefit of the State is supported. There is an imbalance however in planning foresight to develop infrastructure in advance of demand to support new and emerging commodities that need containerisation. **Reforms should support improved diversification and competition of ports to handle an increased scope and capacity in trade, commodities and port users.**

As ports are natural monopolies, CME is supportive of ongoing reforms to increase the governance and transparency of how ports operate. An increase in fees and charges levied at ports should be determined by considering taxation principles such as willingness to pay and benefits-received, etc. This will provide port users with increased certainty on how fees are set on an ongoing basis. The current increase in fees to include the State Government

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<sup>18</sup> Pilbara Ports Authority, *WA ports win national biosecurity awards*, news release, March 2019.

<sup>19</sup> CME, *Westport: Preparing for the strategy*, submission to the Westport Taskforce Steering Committee, January 2018: <https://www.cmewa.com/policy-and-publications/policy-areas/economic-competitiveness/preview?path=Submission-on-the-Westport-Strategy-v1.pdf>

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Debt Reduction Levy however distorts the price signal of the cost of using assets and consuming services at the port. These new charges reduce the competitiveness and sustainability of the shipping industry.

## Conclusion

CME welcomes the inquiry into increasing the competitiveness and sustainability of the Australian shipping industry. Any changes should minimise the magnitude of unintended consequences, such as increasing the cost of shipping.

If you have any further queries regarding the matters outlined in this submission, please contact Linh Nguyen, Policy Adviser, Economic Competitiveness, on (08) 9220 8513 or [l.nguyen@cmewa.com](mailto:l.nguyen@cmewa.com).

Authorised by	Position	Date	Signed
Robert Carruthers	Director Policy & Advocacy	22/03/2019	
<b>Document reference</b>	<a href="#">190218-INF-Submission into shipping inquiry v1.0.docx</a>		