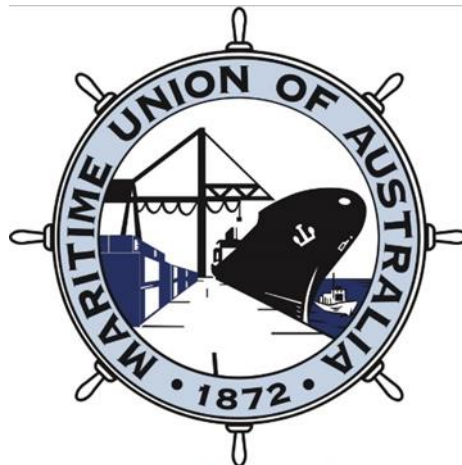


Maritime Union of Australia (MUA)

Submission to Strategic Fleet Taskforce (STF)

Response to STF Discussion Paper

5 December 2022



Authorised by:

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Maritime Union of Australia

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About the Maritime Union of Australia

The Maritime Union of Australia (MUA) is a Division of the 120,000-member Construction, Forestry, Maritime, Mining and Energy Union (CFMMEU), an affiliate of the 2-million member Australian Council of Trade Unions (ACTU) and an affiliate of the 20-million-member International Transport Workers' Federation (ITF).

The MUA represents approximately 14,000 workers in the shipping, stevedoring, offshore oil and gas, port services and commercial diving sectors of the Australian maritime industry. The MUA is also part of an Offshore Alliance with the Australian Workers Union (AWU) that jointly organises workers across the Australian offshore oil and gas industry.

The ITF represents workers involved in the shipping, ports, rail, road, airline and logistics components of global supply chains.

MUA response

Please list your organisation and contact name:

- Rod Pickette, Policy Adviser, Maritime Union of Australia

Organisation:

- Maritime Union of Australia

Contact Name:

- Rod Pickette

Contact number and email (if you are happy for the Taskforce contact you and seek further information on the issues raised in your submission):

- jamie.newlyn@mua.org.au.

Part One – Nature of business and nature of shipping needs

5. Are you another stakeholder?

Yes

5.1 What do you do?

Trade union. We engage in public policy debates, we engage with government, government agencies, regulators, industry stakeholders, investors and other representatives of labour.

5.2 What is your interest in the strategic fleet?

As a registered trade union representing the 'ratings' stream of the shipping industry workforce, and one of the strongest advocates for development of an efficient, productive and sustainable Australian shipping industry that supports decent and secure work for Australian seafarers we are vitally interested in the strategic fleet and the role it can play in contributing to a nationally resilient freight supply chain and to create good maritime jobs.

Part Two - Strategic needs

What is the strategic need?

The primary need

In our view, noting that the Government's policy is that the strategic fleet must operate commercially when not requisitioned and that by itself, creates no new freight volume, the strategic fleet is not primarily about enhancing capability to deal with crises or disruptions as they arise, but it is primarily

about creating a competitive, stable and reliable sea freight mode that complements rail and road freight modes in an integrated domestic freight market.

Strategic fleet ships are commercial ships which could be designated as strategic because they are required in trades where TL data show there is volume to sustain commercial ships and this is the core or baseload cargo that is supporting Australian manufacturing.

We see the strategic fleet as building domestic infrastructure to strengthen supply chains and mitigate risk – which will create investment and add value. In fact the very existence of a strategic fleet reduces risk of disruption to supply chains.

The key to creating that stability, reliability and service standards needed in just in time (JIT) supply chains is to have a core base load capacity in Australian ships where shippers (cargo owners) can secure long term contracts of affreightment (CoA) with capacity to have control or influence over matters such as:

- Crewing quality;
- Safety – crew, ship and cargo;
- Maintenance and dry docking schedules;
- Creating long term partnerships with service providers e.g. towage, mooring, provisioning, insurers, legal services, financiers; workers' compensation and RTW providers; training providers, agents, freight forwarders etc;
- Relationships with regulators;
- Decarbonisation strategies;
- Innovation and uptake of technology; and
- Ship replacement cycles – long term investment plans.

In that light a strategic fleet will enhance economic sovereignty and national security, including fuel and food security.

A strategic fleet will provide a stable competitor for rail, and to a lesser extent road, in the national freight market. It will add to freight sector modal choice and a competitive freight market.

Strategic fleet ships must be in trades where there is capacity to sustain Australian ships and to support Australian manufacturing (including emerging opportunities).

An underlying rationale for the strategic fleet is to help level the domestic freight playing field, noting the levels of industry assistance already available to rail and road, in contrast to ships, which receive negligible Government assistance.

The base load capability we refer to adds to and creates the core Australian fleet upon which to build a maritime cluster (but like any start up [which is effectively what the strategic fleet is given the very low base of Australian ships]) that seeks to grow and flourish, the core needs to be established and nurtured as an anchor to give confidence for investment in related activities and to encourage the growth of a maritime ecosystem of suppliers and support services – in this case for bunkering and other ship provisions suppliers, repair and maintenance provision, crew supply provision, training provision, legal services (charter party) creation; ship chartering services; ship financing services etc.

Other spin offs that make the fleet strategic is that it will:

- Help build the maritime skills base; and
- Create additional berths for sea time for STCW competency development and assessment.

The secondary need

The secondary need or purpose of the strategic fleet is to provide enhanced sovereign capability to perform functions on behalf of the government in times of need. That need could span a range of scenarios including:

- Substituting other freight modes where a land based disruption occurs due a weather event, a cyber-attack etc;
- Fill an import function for emergency supply of products from overseas sources (medical, fuel, food, inputs to a critical manufacturing functions) where for a variety of reasons those products cannot be transported by the usual international ship suppliers;
- Assist the ABF in its border force functions in an emergency;
- Undertake humanitarian missions e.g. a mass evacuation of people and assets where for example a weather event knocks out a coastal community;
- Supporting the Defence Forces in peace (e.g. for exercises) or in conflict; and
- Undertake marine rescue of people and or cargo.

Requisitioning

While providing a capability in the event of disruptive events like floods which knock out rail lines may be one circumstance in which a strategic fleet ship/s is/are requisitioned, there may be other circumstances such as an intelligence warning that a supply route could be threatened or that industry advise the supply of a particular product like 'AdBlue' or a class of products like medical supplies needs bolstering where the Government would have the power to divert a strategic fleet ship or ships from its/their usual supply chain function to a national priority need supply chain function. It is important we keep open the circumstances where a ship/s designated as a strategic fleet ship/s might be requisitioned.

Which freight needs should the Government position itself to influence?

We say that is guided by the market. We do not regard this as picking winners. A doubling of Australian registered ships from 11 to 23 with the addition of 12 strategic fleet ships massively increases domestic Australian ship capability given the low base – it is a more than a 100% increase.

Presumably some of the 12 strategic fleet ships will be suitable for supporting the manufacture and distribution of oil/petroleum products and building/fertilisers/explosives/steel/aluminium products, meaning the shipper in those manufacturing industries would no longer need to rely solely on the spot market, nor face high regulatory, instability or disruption risk.

That will contribute to ship supply stability and reliability for those manufacturing sectors, securing cost certainty through long term contracts of affreightment (CoAs) with shippers, create opportunities to train seafarers through higher levels of berth availability, to have certainty to plan for reduction of emissions, to negotiate with ports for improvements in port fees and charges, provide berthing window prioritisation thus eliminating (or largely reducing) demurrage costs and delivery of improved customer service levels.

In terms of international shipping, the inclusion of several oil/petroleum product tankers in a strategic fleet would provide both the Defence Forces and industry with a small, but nevertheless secure, capacity for achieving a level of supply chain security in the event of the unavailability/disruption of foreign owned tankers – a capacity which does not exist currently given the 100% use of foreign flagged tankers for both domestic and international markets.

While the current Government policy commitment is for up to 12 strategic fleet ships, if the model is successful, there is no reason why stakeholders and Government could not adopt a longer term ambition to extend the strategic fleet beyond an initial 12 trading ships.

The level of control

It is our view that the Government does not need to ‘control’ ships that form the strategic fleet.

However, the Government will have significant influence over strategic fleet ships because:

- Government will undoubtedly be providing some level of industrial policy assistance to those ships, whether that be through a combination of tax incentives and or grants or some other instrument (like a national freight equalisation scheme (FES)) and through that mechanism will have an ‘interest’ and or ‘stakeholding’ in such ships;
- The ships will need to hold a General License to engage in coastal trading and under s21(e) and or s22 of the *Coastal Trading (Revitalising Australian Shipping) Act 2012* (CT Act) the Minister may set conditions when issuing the GL; and
- There will need to be legislation providing the power to requisition ships in time of strategic need, which will provide scope for Government to introduce conditionality (and hence influence).

We say it will be the combination of assistance measures and legislation/regulations that will be needed to effect a transition from foreign ships to Australian ships that provides the influence needed by Government.

The assistance measures that deliver a cost neutral outcome for shippers is the carrot that provides the Government with the right to requisition those ships in times of strategic need.

What we are outlining is a mutual obligation model. Government will assist the ship owner or ship supplier with achieving cost neutrality, while shippers (cargo owners) and ship supply organisations will accept that their ships may be requisitioned in times of need (and during those times would either face a temporary disruption in their supply chain, in which case the void would need to be filled by the spot market i.e. TL ships).

It should be noted that the CT Act remains in place and no party is suggestion there will not remain a place for TLs to be issued and voyages to be authorised under these TLs in future, notwithstanding some reforms to the CT Act are required.

The spin offs

The opportunity to operate ships in a competitive market under a long term CoA incentivises the opportunities to seek out backloading, cross trading and triangulation that would increase ship utilisation rates and improve ship efficiency.

CoAs create:

- Certainty and continuity of ship supply and scheduling – it avoids the administrative burden which shippers using the TL system have complained about since 2012, which is their need to regularly make applications for TL variations because there is often uncertainty about when the foreign ship supplier can carry their cargo.
- Adaptability – ships (including generally domestic freight ships), can transport supplies to and from foreign markets.
- Cost benefits on a tonne kilometre basis – shipping freight rates are the cheapest of all domestic freight modes.
- Reduces the cost of purchase of shipping services, which is one of the largest components of Australia’s balance of payment deficit – it would reduce the nearly \$13 billion the nation spends on purchasing foreign freight transportation services annually.
- Australian ships require no subsidisation to operate commercially (or not to the levels required for rail and road freight modes).
- It could create demand for shipbuilding/ship repair and maintenance to help maintain continuity of employment and contracting in the lumpy defence shipbuilding program and provide options for building ships for niche domestic sectors such as ferries etc.

The opportunity for the strategic fleet in supporting future economic activity

Due to other strands of Government policy like climate and energy, and investor imperatives for responsible investing, there are significant future opportunities for Australian ships to participate in various emerging economic activities that have a significant maritime component.. These include:

- Hydrogen, ammonia and bio-fuel production/distribution;
- Green steel (as per the Grattan Institute study);
- Green aluminium;
- Carbon capture and storage (the cement industry plans);
- Niche product manufacturing e.g. the EV industry;
- Bunkering of alternative ships fuels;
- Offshore wind energy production; and
- Australia’s offshore oil and gas decommissioning task.

6. If there was a major disruption that means shipping ceased for more than a few weeks what would be the financial and non-financial consequences for:

The economy

It depends on whether the shipping is involved in international or domestic trade, whether the shipping is containerized, is liquid bulk (oil/RPP) or dry bulk trades servicing manufacturing.

If container trade ceased for say 1-3 weeks, many businesses would presumably be significantly affected financially, stocks would dwindle, but the employment impacts may not immediately be severe.

If oil and more particularly RPP imports were to cease for 1-3 weeks, the business sectors relying on liquid fuels such as manufacturing, transport, mining and agriculture would be dramatically affected, with presumably significant employment impact.

If the dry bulk sector were to cease from 1-3 weeks, some production would cease e.g. steel plants or aluminum smelters or cement manufacture would be impacted quickly with severe employment consequences.

The community

That question could only be answered by knowing what JIT products would not be available. But fuel shortages would have the major impact on the community.

What are the benefits from the fleet during ‘business as usual’ or other scenarios?

We have responded to this question in the section headed *What is the strategic need?* on P2-6.

Outside of the strategic fleet being called on in times of great disruption, the Taskforce is interested in what other benefits the fleet may provide.

We have responded to this question in the section headed *What is the strategic need?* on P2-6.

7. Benefits to you or your stakeholders. If a fleet of Australian flagged and crewed vessels were established, would you see benefits from the fleet for your business or your stakeholders during periods of ‘business as usual’?

We have responded to this question in the section headed *What is the strategic need?* on P2-6.

However in relation to training and employment opportunities, a strategic fleet of 12 ships would create

- Approximately 216 permanent ‘ratings’ jobs and over 400 ‘seafarer’ jobs; and
- Berths for continuous training of up to 36 trainees (TIRs) and cadets (assumes 3 available berths per ship) at any one time.

8. Broader benefits

Do you see the fleet providing benefits to national security and sovereignty?

Yes.

What are these benefits and who would benefit?

A number of Australia’s main trading partners seek to strengthen their international goods supply chains through all facets of the ship supply chain, from shipbuilding to ship ownership, to ship management, to shipping contracts, and often part ownership of the production of the cargo e.g. oil, refined petroleum, LNG, coal, aluminium, and iron ore.

Vertical integration has been a conscious decision of the commodity traders in those nations, supported by clear government policy, regulatory settings and industrial policy assistance. The result is that their product supply chains are highly secured, in marked contrast to Australia, and they build economic benefits for those nations.

Notwithstanding Australia is a major importer of goods, and major exporter of primary production in global trading terms, and the 4th or 5th largest global user of ships, it does not build a single commercial trading ship, owns and operates only 4 international trading vessels (soon to be phased out), owns virtually no ship management companies with any scale in global terms and sells almost all its bulk commodity exports in an Free-On-Board (FOB) basis which transfers the control of the sea transportation of exports to the buyer at the loading port.

If the four Australian registered LNG tankers are phased out there will be no labour Continuity of Operations Agreements (COAs) in any of Australia’s export supply chains.

A strategic fleet of 12 ships, which doubles Australia's registered trading fleet, is a small but tangible start to strengthen national security and sovereignty.

Do you have any data or research that quantifies these benefits?

Nothing more than what we have already submitted.

Do you see the fleet supporting future economic activity?

Yes. See our response under the heading '*The opportunity for the strategic fleet in supporting future economic activity*' on P5/6.

What activity and who would benefit?

The nation benefits. Rebuilding Australian shipping capability is a national interest issue.

Do you have any data or research that quantifies these benefits? For example, having a fleet may open up regional manufacturing opportunities by moving bulk goods in volumes that are currently unable to be moved by road or rail.

No.

Part Three – any other information

Please provide any other information that you think would assist the Taskforce in its deliberations on identifying the strategic needs a fleet of vessels could address.

We strongly recommend that the Taskforce examine the US maritime security program which supports around 60 US commercial trading ships of which 18 or around 30 per cent are Maersk ships. We note that the current US Government has committed to spend around US\$318 million annually or US\$5.3 million per ship or A\$8.2 million, which is very similar to what the NZ Government provided to encourage the entry of NZ registered ships into its coastal freight market.

It will also be important the Taskforce examines the UK Auxiliary Fleet model.

We note the Australian Government statement on the Green Shipping Challenge made at COP27 which needs to be kept in mind when considering the strategic fleet. One specific initiative that needs to be considered in the strategic fleet context is the need for Australia to secure ships for the emerging offshore wind energy sector.

We also believe that amendments to the CT Act will be required to enhance the establishment and the sustainability of a strategic fleet, to provide certainty for investment.

We note the commitments of the WA and Qld governments to support their domestic shipping industries, a development which needs to be considered when identifying which ships or trades might be designated as being part of the strategic fleet. We also suggest that the Taskforce consider Trans-Tasman trade and trade with Pacific Islands (in the context of the renewed national Defence and security attention being given to the Pacific).

We also urge the Taskforce to consider whether some or all of the Defence and ABF ships that are crewed by Australian seafarers should also be considered as part of the strategic fleet.