



SUBMISSION TO THE COMMONWEALTH'S STRATEGIC FLEET TASKFORCE

The Western Australian Government welcomes the formation of the Commonwealth's Strategic Fleet Taskforce and looks forward to its deliberations on this important initiative. Recent global events have demonstrated the importance of an improved level of control over shipping capacity in the national security interest. Western Australia also sees considerable merit in strengthening shipping capability to improve resilience of domestic supply chains, especially in view of the fragility of landside logistics networks under climate change and other pressures.

Earlier in 2022, in direct response to the disruption of the east-west railway line in South Australia due to flooding, this government established its own Shipping and Supply Chain Taskforce. The Taskforce, chaired by parliamentarians Jess Stojkovski, MLA, and Kyle McGinn, MLC, has undertaken considerable research and stakeholder consultation into:

- Potential improvements to coastal shipping services and competitiveness
- Co-operation in the development of a national strategic shipping fleet
- Development of local maritime training capability and career pathways
- Improved multi-modal responsiveness to supply chain disruption
- Improved logistics networks for remote WA regions
- Opportunities to improve supply chain co-ordination at WA ports

The WA Taskforce is due to report to the WA Government by March 2023. An interim Discussion Paper will be released shortly.

Interim outcomes

In the course of deliberations to date, the WA Taskforce has come to some interim conclusions on the most promising directions for future policy development.

Scale of WA sea trade

Shipping is a hugely important aspect of the Western Australian economy, and contributes heavily towards Australia's economic wellbeing. As reported by BITRE, of the 6,031 individual cargo ships to visit Australia in 2018/19, 4,648 (77%) made calls in Western Australia. Western Australia accounts for over 60% of national sea trade (by volume) and almost 40% (by value).

Coastal shipping within WA is a minimal fraction of total trade, partly due to the high concentration of the state's population in Perth and the south-western corner of the

state. There is however, potential for shipping to play a larger role in intrastate freight, given the enormous north-south distances, the increasing cost of road freight and the increasing risk of disruption due to climate change factors. Regarding the latter issue, all the evidence currently points to increasing risks of cyclones, floods, bushfires and heatwaves which now confront Western Australia.

Strategic fleet

Any strategic fleet needs to be established nationally, rather than by states such as WA on their own. By far the greatest fraction of WA's 1 billion tonnes of annual sea freight volumes is international trade:

- international, 98% (eg containers, bulk exports, bulk imports, cars etc)
- interstate, 2% (eg alumina, containers, mineral sands, fertilizer)
- intra-state, < 1% (eg fuel, fertilizer, oil/gas supply sector)

A strategic fleet of any substantial value would need to be most active in the international and interstate space, helping guarantee essential supplies of imports (household goods, fuel etc) from key global hubs and eastern states distribution networks. In times of genuine emergency, export capacity would be a secondary consideration, though still vital in more extended emergency contexts.

A strategic fleet most likely would consist of a commercially self-sufficient nationally flagged fleet which could be co-opted into emergency service as needed from time to time.

The most important aspect of a national strategic fleet initiative would therefore be the policy changes to provide the commercial conditions under which Australian flagged vessels could be competitive with foreign-flagged ships in targeted sectors of the economy. These sectors would be those supporting import commodities essential to the domestic economy and wellbeing of Australian citizens, including fuel and some crucial industrial inputs.

Fortunately Australia is virtually self sufficient regarding food. Most population centres, including Perth, have reasonably proximate access to fresh produce, meat, grains and dairy products.

Ultimately the economic wellbeing of the nation depends greatly on international trade of all kinds, beyond the guarantee of critical emergency supplies (like food and fuel). However, the case for establishment of a national fleet servicing second order economic needs such as the container trade and bulk exports, both heavily dominated by international shipping lines, will be a major focus of the Commonwealth's research.

Taxation reform

The viability of Australian flagged shipping could be greatly enhanced through changes to the applicable taxation regimes. If managed carefully, changes could be made that would provide a more level playing field and thereby reduce the need for heavy operational cost subsidization of a strategic shipping fleet.

The Shipping Reform (Tax Incentives) Act 2012 was introduced as part of a suite of legislation reforming Australian regulation of shipping. The aim was to provide access for Australian companies to tax incentives in order to stimulate local investment in shipping and career pathways for Australian maritime workers.

Tax incentives are offered to vessels registered under the Australian International Shipping Register. Vessels on this register are required to have two Australian officers on board during any voyage.

At the time (2012) there were only 22 Australian flagged vessels, amid competition from international carriers which generally benefitted from very supportive taxation regimes.

Most OECD countries have used tax incentives to increase the size of their shipping registries, thus providing some national security in relation to strategic access to shipping capacity. Australia stands out among heavy sea freight trading nations in not having provided a regulatory regime supporting this end.

The incentives that were introduced through this legislative package have not been effective in attracting new investment or in maintaining the Australian registry. There are now only 11 vessels on the AISR and this is expected to fall to 9 by 2024.

Maritime Industry Australia Ltd (MIAL) recommended, at that time, some specific initiatives that were considered but not adopted in this Act:

- exemption from dividend withholding tax for non-resident shareholders of Australian shipping entities
- exemption from income tax on dividends paid to Australian resident shareholders

The Maritime Union of Australia (MUA) and the International Transport Federation (ITF) jointly support a global tax reform aimed at a minimum wage for maritime workers, which would increase the competitiveness of Australian-crewed vessels.

Coastal shipping

The current national regulatory regime for the shipping industry is not in practice supporting the aims of an Australian shipping industry. There are two shipping registers in operation, and a combined total of only 11 flagged ships. The regulatory regime and the Coastal Trading Act are not serving to make it commercially attractive for Australian companies to put nationally flagged vessels into operation. They also make it harder for international vessels to carry domestic cargo between Australian ports.

The entire regime needs rethinking in order to make it possible for Australian flagged and crewed vessels to compete authentically with foreign shipping lines, at least in certain critical industry sectors.

We note that the Strategic Fleet Taskforce's Terms of Reference numbered 3-7 provide the scope for the full range of these issues to be properly examined by the Taskforce.

Currently, containerised freight between eastern states and WA may be carried by international carriers serving these ports on their international schedules (under Temporary Licences). Some carriers target this domestic market deliberately from time to time, by making slots available regularly, while others avoid this type of trade, especially if it adds operational complexity to their schedules. The viability of this domestic trade for customers is also variable with prevailing sea freight rates.

International shipping has an inherent competitive advantage over any dedicated Australian domestic service for containers, being able to add domestic volumes at marginal cost to pre-existing services.

Under a more favourable coastal shipping regulatory regime, a dedicated Australian-flagged coastal service could be more competitive than it would be under the current regime. The parameters for such a service should be closely examined by the Commonwealth Taskforce on behalf of all the states whose ports could support a coastal service.

For instance, a domestic service linking the major ports of Queensland, NSW, Victoria, South Australia and Western Australia could fill a gap in the market and provide some basic hybrid shipping capability for a strategic fleet, servicing critical needs in the container and RoRo markets.

Maritime Training and career pathways

For a country highly dependent on shipping and sea freight, we have a very thin locally trained and based maritime workforce. The lack of flagged shipping ensures that there are relatively few jobs available to Australians seeking employment in this field. Positions at sea are also subject to international rates of pay, which are generally well below those available under Australian law.

Consequently there are only small numbers of trainees enrolled in maritime training programs around the country. The training capability exists for greater demand that would arise from an improved outlook for Australian maritime workers that could arise from a broad reform of national shipping policy.

Time at sea is an important component of maritime qualification; yet there are few accessible opportunities for Australians to gain this experience. A strategic flagged fleet would provide the platform for much more local time at sea for trainees, with the additional benefit of providing realistic earnings for Australian residents.

There is also the opportunity to work with international shipping lines that regularly service Australian ports so that training positions can be provided for Australian on these vessels. Some shipping lines have indicated informally that they would participate in schemes under which they could provide time-at-sea training on round-Australia schedules, with some level of public sector support.

These types of supported schemes could take many forms, under either national or state industry support mechanisms, of which many exist - serving other sectors, such as the construction sector, or remote area employment.

The WA Taskforce is already engaged in some discussions with the shipping industry and training providers and will provide the Commonwealth with some outcomes of these discussions progressively.

Landside supply chain resilience

The flooding events of early 2022 led to a re-evaluation of WA's dependence on the east-west railway corridor for a large percentage of its groceries and a range of industrial goods. At that time, it became clear that:

- grocery inventory levels under just-in-time models did not provide much protection against major disruptions to rail service
- the ability to quickly transfer custom from rail to road transport and shipping was limited
- communication and co-ordination of responses had to be rapidly built, virtually from scratch

The full recovery of supermarket stock levels took several months. Fortunately, the private sector and government agencies have learnt important lessons from this event, which are currently being deployed in response to some similar disruption to the railway supply chain through November 2022. Flooding in NSW has closed the Sydney to Adelaide link, while a derailment in Victoria also cut services for over a week.

Fortunately, supermarkets had built up their local WA inventory levels to higher levels in anticipation of disruption risks, and in response to the earlier event. Communication channels were quickly reactivated. State and Federal government agencies have been able to co-ordinate approvals to facilitate additional long distance road transport capability. The impact of this latest disruption on the WA community has so far been much less significant than the first event.

However, the ability for shipping to take up a share of the freight lost to the rail network remains fairly limited. The additional costs, double handling and administrative burdens ensure that shipping options fall behind road transport, which is more agile and responsive to changed circumstances.

The Commonwealth's Taskforce should examine how modal shift to shipping for general freight under emergency conditions can be facilitated in time to make a realistic difference to cross-country supply chain needs.

Remote area connectivity

One focus of the WA Taskforce's work is the potential for shipping and logistics initiatives to address the cost of providing essentials to northern regions and remote communities, under both normal and emergency conditions.

Nearly all general freight needs of the communities of the Pilbara and Kimberley regions are delivered by road transport from Perth, over distances between 1,500km (to Karratha) and 3,000km (Kununurra). It is possible that shipping could provide alternative for some of this freight under a more favourable coastal shipping regime.

The resource sector is beginning to make increasing use of shipping for the delivery of mining equipment and other inputs, into Pilbara ports from Singapore. The development of improved port facilities at Port Hedland and Dampier in coming years will further assist this trend.

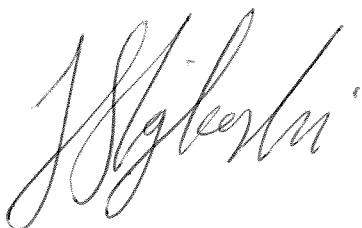
The WA Taskforce is looking at ways in which new port capacity could be harnessed for shipping to service household needs, and particularly those of remote indigenous communities throughout the Pilbara and Kimberley regions currently dependent on Perth-based supply chains operated by supermarket chains.

Improvements to these networks could include the provision of publicly funded warehousing and cold store facilities in key regional centres which could both reduce distribution costs and provide some supply chain resilience during weather events and other disruptions.

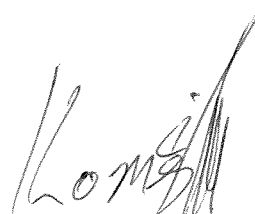
Access to a regular scheduled coastal vessel service and associated warehousing facilities could also greatly assist the charitable sector and remote first nations communities most in need of affordable fresh food and groceries.

Western Australia looks forward to the progress of the Commonwealth's Strategic Fleet Taskforce and will be very pleased to assist in the development of ideas and policy initiatives, particularly as they pertain to the isolated position of this state, and our dependence on enhanced shipping capability.

The WA Taskforce respectfully requests an opportunity to meet with the Commonwealth Taskforce when consultations are commenced.



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The Hon Kyle McGinn, MLC

Co-chairs, Western Australian Shipping and Supply Chain Taskforce