## The Boulton Lecture 2018

## Issues surrounding the Maritime Industry in Australia

## Presented by J.E. Lines

Ladies and gentlemen, it is my pleasure to be here with you today to present and discuss with you issues surrounding the Maritime industry in Australia in today's Boulton lecture. Captain Norman Boulton was a man of vision, a man of action, a man of courage. Some of his impressive list of achievements includes founding the Company of Master Mariners in 1938, four years commanding the corvette HMAS Fremantle and being appointed the Commonwealth Director of Navigation in 1960. I am sure we can all learn something from him and the great life he lived.

No doubt you would agree he was a very interesting person and I trust the topics I will cover here today will be of interest and will provoke some discussion going forward. I have been with ANL for over 40 years and in that time I have seen dramatic changes in both my working and personal life. Shipping when I started was a completely different industry to what it is today. It was all paper-based with no computers, communication was done by Telex machines and bills of lading were cranked out of a mimeo graph machine, and cargo manifests were hand written. In our industry and of course the world during this time, there has been much progress, much change but does change always equal something better?? Australia is a huge island nation, dependent on shipping yet there are many issues arising that I feel are not being addressed. The future is of course uncharted but I feel in many senses, we as a country and have lost our way in the maritime space and this will ultimately be to our and our children’s detriment for a country so dependent on shipping.

**Port Privatisation**

I am amazed and deeply concerned about the current trend of port privatisation that has swept through the country with little notice. The privatisation of ports takes the control and development of these crucial gateway public assets away from the people and puts them in control of big business. These are public asset monopolies and whilst the State Government of the time generates large monopolistic based payments, the fact is the monopolistic power remains. The transfer to the hands of private ownership can only result in the detriment of the businesses and communities that rely on the port as the new owners managers seek to recoup their large outlay and work these assets hard to the benefit of the shareholders. As they work these assets harder there is actually a disincentive to invest more in developing expanded or enhanced facilities. Therefore I expect less infrastructure development in the ports under private ownership, not more than when they were in public hands.

This behaviour is of course completely understandable but ignores the fundamental nature of a country’s port infrastructure as a gateway to trade both domestic and international. As a key part of developing and growing our island nation the sell off of our ports is in my view really a tax by stealth. And it is a tax that we will be paying and our children will be paying for decades to come as the cost of every cargo the crosses the wharf is increased. Unfortunately I accept that in relation to port privatisation the horse has already bolted but I fail to accept that we should all remain silent as if it is a good step forward for our country..

**Coastal Shipping**

The story of port privatisation is a compounding influence on one of my other great concerns regarding shipping and its future in Australia that is coastal shipping.

Australia is an island continent with a distant spread of population but all concentrated in coastal regions. If any country was a perfect case study for coastal shipping it would be Australia. The 5th largest shipping task in the world, long distances between dense population centres, major offshore oil and gas industries, we have nearly 90% of our population within 50km of the coast, our population is growing and we have a large domestic freight task already. Heaps and heaps of natural advantages, in fact it couldn’t be better.

So I continually ask myself why it isn’t so.

Before looking forward perhaps we can look back for a moment. Australia in the past was very well served with coastal shipping. In fact ANL’s predecessor was the ACSC, the Australia Coastal Shipping Commission. Coastal shipping was very much on everyone’s radar and part of government policy. ANL pioneered the roll on roll off method of cargo handling in Australia operating between Melbourne and Tasmania. The concept was embraced as revolutionary and ANL expanded its coastal network with the “trader” class RORO vessels using shore ramps along the Australian east coast including Northern Queensland and Darwin. Amazingly some of these shore facilities still remain in some ports, an anachronism that has survived the passing years.

So from these glory days, how and why did we slip to the doldrums the industry is in today? The fleet under the Australian flag keeps falling despite several goes by Federal Government to reverse the trend.

So with all these things going for us, why is coastal shipping in Australia not flourishing? In short, a lack of vision. A lack of vision of what could be, and then the willingness to do the hard things to get there. It starts at a federal level and spreads down to state governments and the port authorities.

The federal government has committed $75bn over the next 10 years for what they call “transport infrastructure” That is a huge amount of money, absolutely huge. This is all to be spent on road and rail but amazingly not one single dollar, not one, on developing the blue water highway that surrounds our great country.

Coastal shipping needs the right shore facilities at the right price at both ends and very likely these will need to be marginally priced. But always remember; once at sea, the ocean is free. There are no huge upfront construction costs and no ongoing maintenance fees; in fact the upside is enormous in reduced road/rail funding, safety improvements with fewer trucks on major highways and less pollution.

With this in mind you would think all government bodies would be tripping over themselves to do more, but sadly this is not the case. In fact, NSW Ports has recently dealt a blow to coastal cargo by increasing wharfage on coastal cargo from $43/TEU to $81.94 (export) and $123.10(import). I am still scratching my head wondering why.

With little vision in Canberra and local port authorities providing obstacles rather than encouragement, it is little wonder that progress is non-existent. But I do live in hope that one day the penny will drop; we get a leader in government to champion the cause, and the blinding obvious to most is obvious to all. Coastal shipping in Australia, it’s a no brainer!.

Maritime Industry Australia (MIAL) is the industry association covering a broad range of maritime activities in this country. ANL has had a long history working with MIAL and I feel they at least are trying to show the Government how to improve the situation in small bite size pieces.. The MIAL green paper on coastal shipping was born after months of consultation with Industry.

The proposition outlined in the green paper provides the following:

* Removes the regulatory burden involved in obtaining temporary coastal trading licenses.
* Retains the structure for differential treatment of GL, TGL and TL vessels.
* Introduces the potential for increased Australian content across the broadest possible maritime activity areas in Australia.
* Levels the playing field for Australian-based ship operators vs. foreign-based ship operators.
* Removes the Fair Work Act Part B requirement as a payment to foreign seafarers and proposes an alternative that provides far greater benefits to Australia.
* Contemplates the concept of a ‘Strategic Fleet’ – vessels that offer strategic national interest benefits to the nation.
* Calls for the development of infrastructure needed to encourage the establishment of dedicated coastal ro-ro services for containerised cargo/trucks.
* Recognises large cruise ship operations as being suitable for continued exemption from coastal trading provisions.
* Isolates the port-to-port pairing aspect of coastal trading regulation as being a feature that does not work for all sectors or in all instances.
* Identifies the expedition cruise ship sector as requiring further work to determine appropriate settings.

I don’t necessarily agree with all of it but we need to get the ball moving, the discussion going. So I suggest to all of you interested in the future of coastal shipping in the country to look up the MIAL paper.

Sadly I can say that this document is yet to be addressed by Government.

It is essential in my opinion that our leaders address the need for a strategic fleet as a priority so that vessels of certain types are available to secure Australian supply chains and be available for requisition in times of need. This is particularly relevant when fuel security is considered.

We need the vision and leadership to invest to make our nation thrive. Is it so difficult for all of us including the political parties to see that Coastal Shipping is sensible and nation building. There is an absolute need for urgent attention to be given to how best to proceed including legislation to ensure the privately owned port companies are compelled to provide berths for coastal ships because at present even if one wished to set up a coastal service, the likelihood of securing dedicated berths is zero.

**Fuel Security**

Another topic that concerns me and one where the visibility is very low despite the vital importance to our country is fuel security.

Like most people I was under the impression that Australia held 90 days fuel reserve. Where did I get this view from and how can I be so mistaken, more on that later…

Australia is a signatory to the International Energy Agency (IEA) agreement on an international energy program (IEP) treaty and participates in IEA oil market and energy emergency committees.

Key requirements under the IEP treaty are that member countries:

* hold oil stocks equivalent to at least 90 days of their prior year’s daily net oil imports
* in the event of a major oil disruption, contribute to IEA collective actions by way of a stock release, demand restraint, fuel switching, or increased production or fuel sharing.

Australia has historically relied on commercial stock levels to meet the 90 day requirement. Due to declining domestic production and increased demand for liquid fuels, these stocks are no longer sufficient to meet the 90 day requirement. Consequently, Australia has been non-compliant with the 90 day stockholding obligation since March 2012.

Let me say that again. Australia signed up to a program to hold 90 days fuel reserve but has not been compliant at any time in the last six and half years. How can that be? How come we are not all talking about it?

Late last year Liberal Senator Jim Molan raised concerns about our fuel supplies being impact by US airstrikes in the Middle East. He was talking to Alan Jones on Sydney radio, he said and I quote

"At the moment, from my estimations, in relation to petrol we have something between 19 to 24 days. "In relation to diesel we have something between 12 to 17 days and in relation to aviation fuel… we've got something like 17 to 19 days."

The Department of the Environment and Energy collates and publishes fuel statistics every month showing the days cover of various types of fuel. Mind you this data is on page 36 of a 41 page report.. So you have to dig a little.. I have to ask myself is it trying to be buried.

In looking at the latest report for August 2018, it shows we have cover stocks of 23 days for petrol and 19 days for diesel. Both well short of the 90 day commitment. But should we care? Well in my view we need to. This report is saying that should an event disrupt the fuel supply chain, Australia would shut down in 3 weeks – probably sooner when the geographic locations of the supplies are taken into account.

So what does Australia’s fuel supply chain look like and why is it critical to the discussion on fuel security? Don’t we produce our own crude oil? Don’t we refine it ourselves?

Well the answer to these questions is yes and no. Yes we produce substantial quantities of crude oil but the vast majority is exported. No we don’t refine the crude oil ourselves as the oil companies have been busy closing down refineries. We are now in the position that our refining capacity is only 15% of demand. I think you know where I am heading… we send the crude oil offshore and then we import the refined products back into Australia.

The department's monthly statistics show that much of these imports come via the Asia-Pacific region with Korea, Singapore, Japan, China and Malaysia featuring prominently.

Our fuel supply could be severely impacted by natural disaster or conflict in or around the Korean Peninsula, the South China Sea or the Middle East.

So how would we cope? I would say with great difficulty and with great economic loss. The days cover figures I quoted earlier are based on average sales. If there was a crisis panic buying and individual stockpiling would exacerbate the problem. It is not hard to see a scenario where industry shuts down, crops are left to rot in the fields and supermarket shelves across the country look increasing bare. I don’t mean to be alarmist but this could really happen..

So what’s being done?

On May 7 Energy Minister Josh Frydenberg announced a Turnbull Government review into fuel security.

Mr Frydenberg said the review "should not be construed as Australia having a fuel security problem", but was the prudent and proper thing to do to make sure Australia was not complacent.

So another review to follow the ones done in 2009, 2011 and the 2015 Energy White Paper.

The 2011 National Energy Security Assessment said Australia had "access to well-functioning markets for liquid fuels which have helped create robust and flexible supply chains with a significant degree of resilience".

The 2015 white paper said the Government "considers that supply reliability will be maintained because of the depth, liquidity and diversity of international crude and fuel markets".

So pretty much the Government concluded that we buy from so many sources if something happens we will just change our source and all will be well. Is this just putting our head in the sand?

If we go back for a moment to the IEA and the 90 days commitment, the Government does have a plan to get us back there.. by 2026..

In June 2016, the IEA Governing Board noted the Australian Government’s plan for returning to compliance with the 90 day stockholding obligation. The pilot phase of the 2 stage compliance plan includes:

* The introduction of mandatory reporting of Australian Petroleum Statistics from January 2018.
* The purchase of up to 400 kilotonnes of oil tickets in each of the financial years 2018-19 and 2019-20, to enable Australia to contribute to an IEA collective action. Tickets are used by some IEA members to supplement in-country stocks to meet their stockholding obligation, and can be used to contribute towards collective action in the event of an oil supply disruption. This in effect means we are borrowing someone else supplies to meet the IEA requirement. Not much help to us in a crisis when that supply is in the Netherlands I understand.
* A commitment to develop a long-term strategy to return to full compliance with the 90 day stockholding obligation by 2026.

The 2026 strategy is under development, so I suggest we all need to watch this space but given we have heard this before I wouldn’t be holding our collective breaths. It should also be of concern that not only do we not refine our own oil but we ostensibly rely on foreign manned vessels to move fuel around the coast. The Japanese government recognises the need to secure energy supply through its support of Japanese controlled shipping, why can’t Australia do the same? Good luck with getting fuel supplies in the event of a world catastrophe, we are already witnessing an instance whereby one Country appears to be taking control of an international shipping route.

**Digitisation**

If looking for a bright spot in the shipping landscape, it is digitisation. I am the first to admit I am no expert (having trouble knowing the difference between by Bluetooth and my Houndstooth), but I am excited by the impact technology will play in shipping of the future. Much of the technology is here but awaiting deployment but much is yet to be conceived. If you think of the basic document of shipping, the Bill of Lading. It is first and foremost a document of title, if you have the original BL in your hands you won the cargo, you can take delivery or draw on your letter of credit. A simple piece of paper will quite soon be revolutionised. Blockchain is the buzzword of late but whilst hitech and bemusing to most the concept is really simple. If we look back to business in the past, every one of them had a ledger normally a book, that recorded all the transactions.. the ledger was the ultimate authority. Blockchain takes this ledger and distributes it. Blockchain is a distributed ledger, all the information is stored in multiple places at the same time, in real time. All the changes are recorded and when the time comes for a transaction to take place using the data all the copies must match for the transaction to be validated.

No need for paper BL’s or other official documents… This is just one example of digitisation. Another is real time container tracking with monitoring of the contents conditions in many parameters.. not just on the ship but at any point in the containers journey.. These technologies are here and now but what about the future- autonomous vessels, remote vessel pilotage or even towage.

**Shipping Incentives**

In most developed countries that rely on a vibrant shipping industry governments have initiated various financial incentives including taxation incentives by way of tonnage taxes and accelerated ship depreciation. In an effort to promote incentives and encourage the development of Australian shipping, Mr Anthony Albanese, the then Transport and Infrastructure Minister initiated and had enacted various tax incentives for the Australian shipping industry which made Australia competitive in this sphere except that it was a form of deferred taxation in that ship owners had to pay tax when dividends were declared and paid. This needs to be looked at again to get Australia on a similar footing to other competing nations.

**Shipping and Defence**

History tells us the importance of the merchant navy in times of conflict but unfortunately this point is sometimes lost in the discussions around the need for a strong and vital Australian shipping industry. There needs to be consideration of an Australian Strategic Fleet.. vessels whose participation in the Australian maritime space is underwritten by some Government funding in return for unfettered access in times of crisis. Tankers for fuel security, cruise vessels for personnel transport or floating hospitals, RORO’s for national supply chains for say Tasmania or Northern Australia, container vessels for local distribution. The funding of this could come from a variety of options.

**Labour Relations**

There is no doubt we have made great strides in term of labour relations in this country particularly in the maritime sphere, but there is more, much more to be done.

In terms of coastal shipping we need a new mindset, not from just the employees and unions but also from the employers as well. If we are to shift the paradigm for coastal shipping in this great country of ours we need to all embrace the vision, put aside the past and focus on what is needed to be achieved.

Thanks you for your time today and I am happy to take any questions.