

# HR Nicholls XXXIst Conference April 2011

## Shipping and Cabotage

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Australian citizens rely on the Shipping Industry to bring us things that we need to live our lives.

In fact, we rely on shipping for the transport of 99% of our international trade. The other 1% is moved by air.

Also, things that are produced within our Country are moved around to other parts of our country by the Shipping Industry.

If we can develop and maintain a viable and competitive domestic shipping industry we can bring down our cost of living and increase our standard of living.

Recent Government changes to the Shipping Industry will result in cost of living pressures being exacerbated.

Right now the industry is reeling from a two pronged attack by Government; as a result we ordinary Australians will suffer an increased cost of living.

The difference between shipping and Cabotage;

Definition of Shipping;

Goods produced within Australia being moved offshore or between Australian Ports.

Definition of Cabotage;

The movement of goods or persons between Australian Ports by vessels registered in another country.

## The world industry – an overview

Around 90% of world trade is carried by the international shipping industry. As of October 2010, the world fleet was made up of 50,054 ships.

The Australian Fleet consists of 30 ships. I am told that over ten years ago it consisted of over 100. Our fleet is miniscule and Australian Citizens rely heavily on foreign vessels to perform cabotage services for us.

Between 2000 and 2007, the value of world trade grew 12%, whilst total freight costs during this period increased by around half this figure, demonstrating the falling unit costs of transportation.

Total freight costs in world trade still represent, on average, less than 6% of the import value (or shelf price) of consumer goods.

Transporting goods by sea is a low cost and environmentally sound method of bringing things to people.

The worldwide population of seafarers serving on internationally trading merchant ships is estimated to be in the order of 1.25 million.

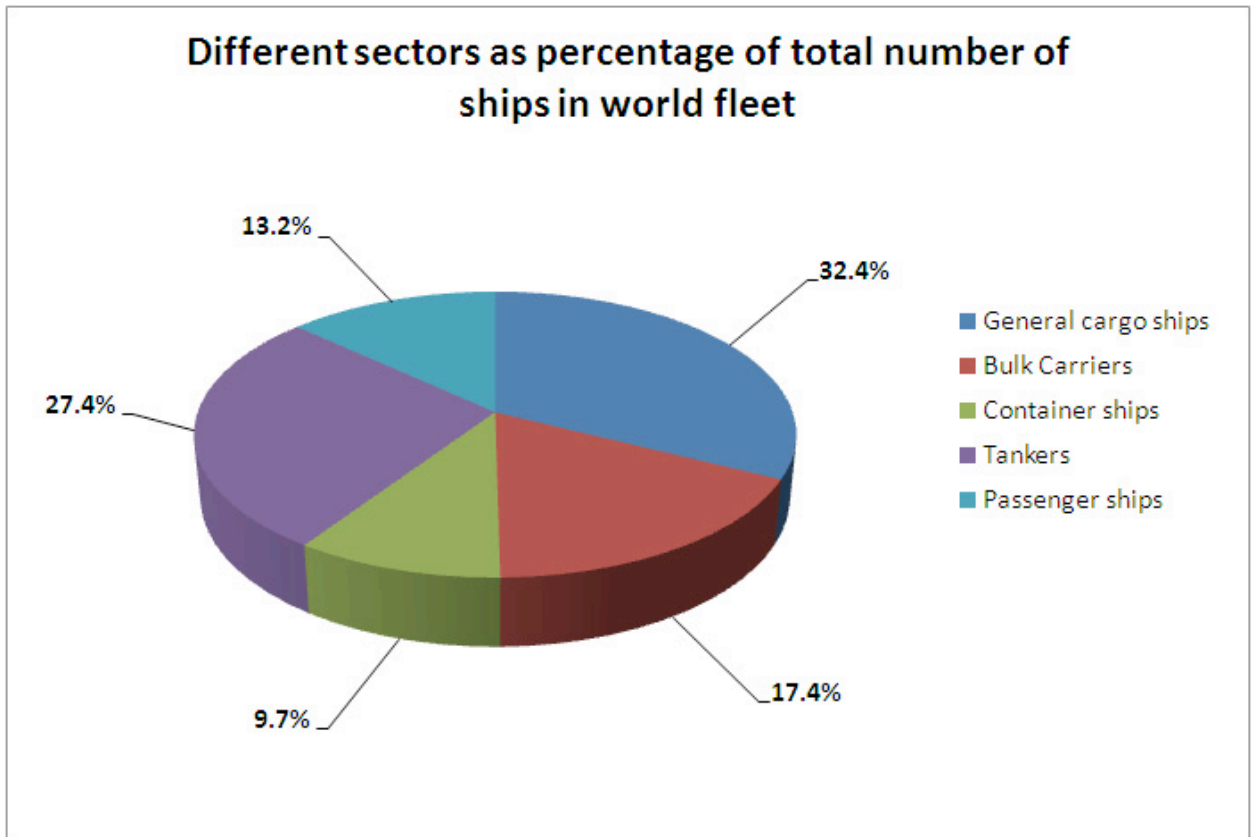
The OECD countries remain an important source for officers, but growing numbers of officers are now recruited from the Far East and Eastern Europe. The majority of the shipping industry's ratings (crew) are recruited from developing countries, especially the Far East and South East Asia.

The Philippines and India are very significant maritime labour supply nations, with many seafarers from these countries enjoying employment opportunities on foreign flag ships operated by international shipping companies. 20% of the world's seafarers are from the Phillipines.

Without shipping the import and export of goods on the scale necessary for the modern world would not be possible.

Number of ships (by total and trade)

Different sectors as percentage of total number of ships in world



Figures in brackets are numbers of ships, by sector.

General Cargo Ships (16,224)

Bulk Carriers (8,687)

Container ships (4,831)

Tankers (13,175)

Passenger ships (6,597)

Although the shipping industry has enjoyed record markets and freight rates in recent years, freight costs for consumer goods have historically represented only a small fraction of the shelf price, and continuous improvements in technology and efficiency have helped ensure maritime transport costs remain very competitive.



• The typical cost to a consumer in the United States of transporting crude oil from the Middle East, in terms of the purchase price of gasoline at the pump, is about half a US cent per litre.



• The typical cost of transporting a tonne of iron ore from Australia to Europe by sea is about US \$12.



• The typical cost of transporting a 20 foot container from Asia to Europe carrying over 20 tonnes of cargo is about the same as the economy airfare for a single passenger on the same journey.

**Typical Ocean Freight Costs (Asia-US or Asia-Europe)**

	Unit	Typical Shelf Price	Shipping Costs
	1 unit	\$700.00	\$10.00
	1 unit	\$200.00	\$1.50
	1 unit	\$150.00	\$1.00
	Bottle	\$50.00	\$0.15
	1 kg	\$15.00	\$0.15
	Tin	\$3.00	\$0.05
	Can	\$1.00	\$0.01

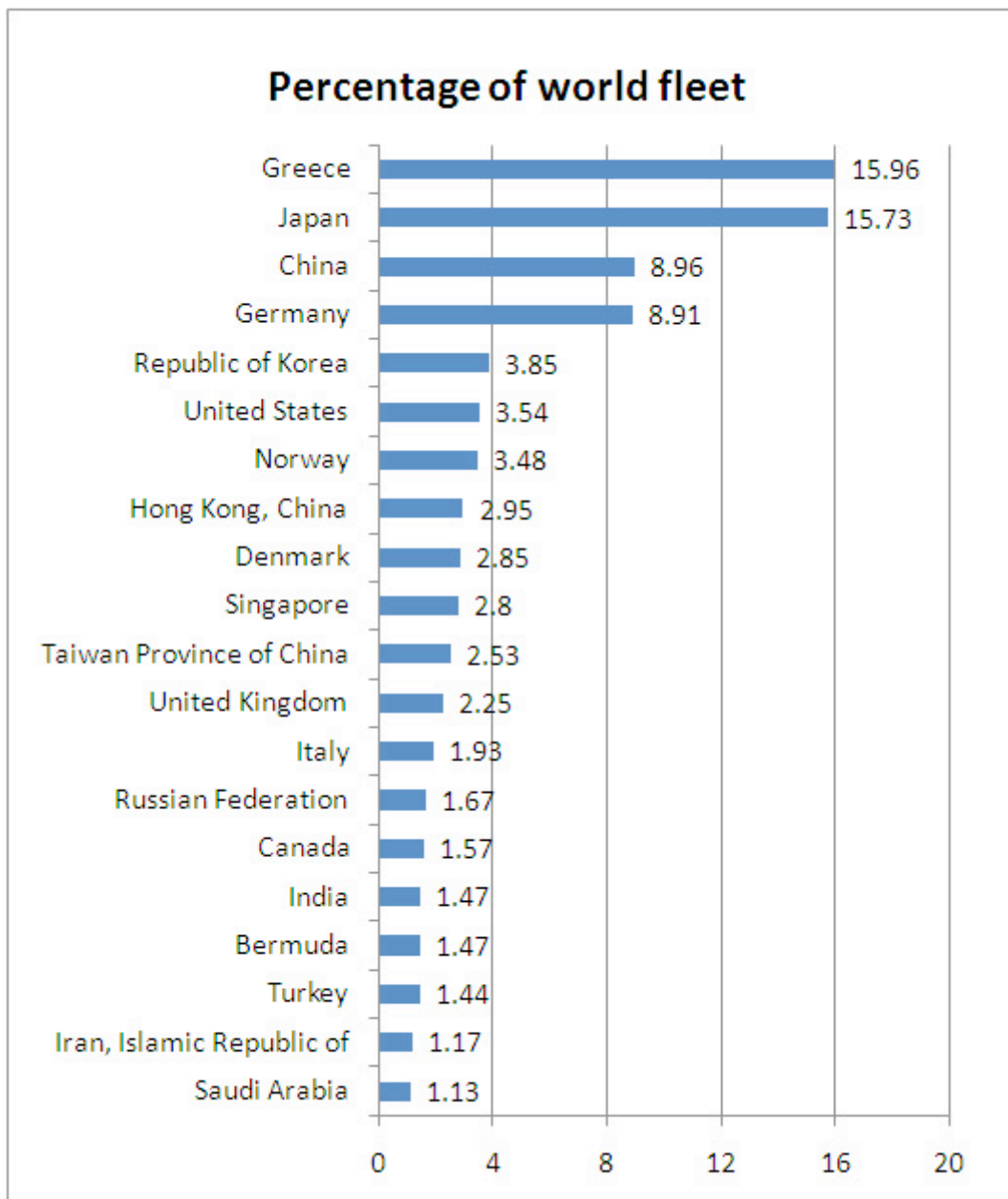
The transport cost element in the shelf price of goods varies from product to product, but is ultimately marginal. For example, transport costs account for only 2% of a television shelf price and only 1.2% of a kilo of coffee.

## The Australian industry – an overview

On a global scale the Australian Industry is small.

Top 20 beneficial ownership countries (January 2009)

(As based on total deadweight tonnage controlled by parent companies located in these countries.)



Our small Australian Shipping fleet does not adequately service the needs of our citizens.

Our fleet consists of only around 30 ships. As stated earlier a miniscule figure and significantly less than ten years ago.

We need international ships to perform Cabotage services for us.

Without Cabotage services, we would have to move more goods by rail and road.

Would this be a good thing for our community?

Would this be an efficient, low cost and environmentally beneficial method of bringing things to people?

In Australia, the interests of Shipping Companies are represented by the peak body, Shipping Australia.

Shipping Australia represents an industry that makes a massive contribution to the Australian economy.

- It carries more than \$200 billion worth of cargo in and out of Australia each year;
- It employs more than 14,000 people either at sea or onshore;
- It carries more than 150 thousand passengers each year;
- It carries around 6 million containers (20 Foot Equivalent Units) every year;
- It carries more than 500 million tonnes of bulk cargo each year; and
- There are more than 26,000 ship visits to Australian ports each year

I mentioned earlier the two pronged attack against the Industry. I will elaborate on this subject now and then I will talk briefly about inefficient practices within the Industry; Union control and corruption.

The first assault on the Industry; the Government has used the Fair Work Act against the industry.

Historically, foreign owned vessels were subject to the Industrial Relations laws of their country of origin.

About 400,000 containers of domestic goods are transported between Australian ports by foreign vessels each year.

When performing Cabotage duties for Australians, vessels owned elsewhere paid their Philippine crew according to Phillipine laws using Phillipine pay rates which they spent when they were back home in the Phillipines. Or Korean pay rates according to Korean laws to Korean crew which they spent in Korea. Employment contracts always related to the law of the crew's mother country.

This meant that ordinary Australians have been the beneficiaries of services delivered in true global fashion. It has been a system that suited them and that suited us.

Now however, with the introduction of the Fair Work Act, when in our waters, foreign vessels are now subject to Australian Industrial Relations laws. They now have to pay their foreign crew by Australian laws at Australian Award rates.

So many of these companies are facing 800% increases in their wages bills whilst they are moving goods for us. A crew that may have cost them from a low of \$3 an hour will now cost them around \$25 an hour. Does anyone really think that these cost increases will not flow on to ordinary Australians?

The knowledge of this change is not yet widely known or appreciated within Australia or within the international Shipping Industry.

The enforcement of these laws is as you know the job of the Fair Work Ombudsman. The Ombudsman regularly target industries to conduct 'audits'

of. I am told that around 25 Maritime Union of Australia (MUA) Officials have become Fair Work Inspectors.

I can imagine the bewilderment of the owners of foreign vessels when an Australian Fair Work Inspector boards their vessel to and inspect and seize their internal pay records.

I can imagine the astonishment when the company representatives are asked to take part in 'voluntary taped interviews' where they will be questioned by an Inspector without knowing what it is they are being accused of.

I can imagine the outrage when the owners are served on Government letterhead letters of demand for money for alleged breaches of Australian Awards.

I can imagine the horror when owners are told that they must give the Ombudsman money to account for back pay to existing and previous workers. Workers that the Ombudsman say they will track down. Don't forget, any monies that are unable to be given to workers because they can't be tracked down remains in Government coffers.

I can just imagine, how once the effect of this change filters down from law into reality, that foreign vessels owners will be reconsidering whether they should continue to provide us with Cabotage services.

Does anyone really think that all of these companies will continue to offer Cabotage services for the benefit of ordinary Australians?

An end result of this change will surely be a greater reliance on transport of goods by road and rail. Is this better for anyone?



The second assault on the Industry; the Government is proposing to use the permit system under the Navigation Act against the industry.

Minister Albanese is proposing changes to the permit system in our country using a raft of changes that are labeled as reform of the industry

Permits are allocated to foreign vessels when there is no Australian Licensed Vessel is available to lift the cargo. Remember there are only about 30 Australian Ships.

The changes are planned for later this year. The changes planned will make it difficult and commercially untenable for international ships to gain permits to perform cabotage functions.

A result of these changes will be a dramatic increase to costs for consumers and the loss of jobs as industry moves to move to import substitution or use road and rail as alternatives.

Mr Llew Russell, CEO of Shipping Australia says *the solution to the Cabotage issue is to recognize the adoption of the wage rates approved by the International Transport Federation. These rates are considerably lower than the Australian rates as they reflect the conditions in developing countries. There is no real need to change the permit system because if Australian ships were viable then no permits would be issued to foreign ships.*

In conclusion our cost of living pressures, already a hot button item for the community, are set to be exacerbated by Government action against the Shipping Industry.

I just can't imagine where the Government might get the idea that these two big changes are required, can you? I will just let you ponder the answer to that question before I move on to the next topic I wish to discuss; union corruption and influence within the Australian Shipping Industry; the 30 vessels that I referred to earlier.

*When you are bringing a ship into Australia you have to have the union crew on from the last port before Australia and also to the first port out of Australia. Bali is used a lot because it is close and you can have them on for as little time as possible. When they fly to/from these ports they often need a rest day or two before starting work after the arduous business class flight and so you put them up in a hotel and pay them and they also need shopping money!*

*Business Owner- New Zealand Maritime Industry*

When a company needs to charter a vessel into Australian waters, they seriously consider whether the trip is necessary. In fact, many companies simply avoid Australian waters like the plague. However, if a trip into Australian waters is unavoidable then I am told that the company owner must begin negotiations with the union (MUA) with a view to organizing an Australian crew to be on board the vessel for at least the duration of the trip that occurs within the Australian waters. The Australian crew, essentially squatters, is additional to the company's existing crew and utterly superfluous to requirements.

Companies have detailed to me the following information about how operations in the Australian Industry are conducted. I am told they must arrange for a union official to 'inspect' the vessel, whilst in foreign port. This apparently means a first class overseas flight for the union official, with five star accommodation, entertainment and other 'facilitation' so as to attain the tick of approval for the vessel to be 'safe' to carry the Australian crew. Once the tick of approval is given by the official, the Australian crew is flown overseas, to board the vessel.

The workers who make up the Australian crew are apparently selected in a joint effort between the Australian crew management companies (labour hire firms) and the MUA, who I am told share information about their databases of available workers. The union delegate is the first selected, as the crucial person who will control the crew for the duration of the trip. Any workers that owe the union money, or are out of favor by the union will not be selected for work. In this way, the union controls the conduct of

the workforce at sea as any worker who defies an order by a union delegate will simply never work again.

Once the crew boards the vessel, the union delegate immediately compiles a list of grievances with the condition of the vessel. Sometimes some of the complaints are legitimate, for example, the water could be rancid, but the vast bulk are manufactured, cobbled together petty grumbles. The list is referred to as the 'hard lying' list and is sent to the union official, who uses it to extract additional funds from the company.

If the demands for extra money are not immediately met the crew apparently swiftly create difficulties on the vessel, ranging from refusal to perform work for which they are being paid right through to sabotage of equipment and the vessel itself.

Contact with several international companies indicates whilst some are outraged by union demands for business class flights to Singapore for crews of workers they don't need, don't want and shouldn't have to pay for, most simply accept it as the Australian way. Many companies would prefer to 'donate' funds to the union in exchange for not taking an Australian crew on board. Additional costs incurred to the company are anticipated, factored in and passed on to the client.

According to an internationally experienced and senior maritime worker with over 40 years experience, the typical Australian crew are of the most part *absolutely lazy, uncooperative, unresponsive, unreliable, untidy, un-seamen like and completely incompetent to work on a vessel*. In a detailed written account of a lengthy trip with an Australian crew, he says *the only "work"! or should I say duties that were really completed was bridge lookout duties, which meant sitting down staring out of the window for 4 hours during darkness. What a cracking job for AUS \$85,000 a year for 6 months away from home, most of the time doing nothing constructive whatsoever*. The account details how a seaman, failed by the Doctor in a fit for duty test, was sent off the ship, replaced then reinstated by the power of union say so. The company, was contacted and the worker says *we were told it was out of their hands and were aware that the seaman was not really fit for work but we had to sign him on*. The many failings of the crew are detailed at length and he says *the parting gift from this crew was to*

*deface with paint on a ships safety item in black lettering 30cm high MUA  
HERE TO STAY.*

Another senior maritime worker's written account of his experiences at sea with an Australian crew chronicles how he tried to intervene and assist when a young female worker was in tears after a *period of constant abuse and bullying from her department colleagues*. He approached the head of the department (the MUA delegate) who responded by speaking of *Marxist theory and the class struggle ...there was little point in trying to discuss the issue...* In addition, he describes the stewards as *utterly incompetent...insubordinate and lazy*. Telling how he performed unassisted the work the Australian crew should have performed in his off duty time, taking about 6 or 8 man hours, the department head *used his union position to ensure the crew could not help*.

Should any company wish to defy the union and refuse to have Australian crews on board, they will struggle to function throughout the trip. Essential supplies will not leave Australian Ports, the Australian Maritime Safety Authority will conduct safety inspections and audits, refueling procedures will be blocked.

What happens at sea stays at sea; offshore maritime practices are invisible to us. Remote but insidious, they are the last bastion of the ugly and unsophisticated genre of union thuggery and corruption.

The catchphrase 'MUA here to stay' is better paraphrased as 'MUA here to bludge'". Our wharves may have been somewhat reformed, but beyond the horizon objectionable practices add to the cost of living for all Australians.

In conclusion, it appears that the Government is trying to discourage foreign vessels from performing cabotage services for Australians. The rationale behind this appears to be to meet Union demands to stimulate the shrinking Australian Shipping Industry. However, it has been Union demands that have caused the domestic industry to shrink in the first place.

Either way, it appears that the needs of Australians have been forgotten. We need to have things brought to us in a low cost and sustainable manner. Every Australian should be alarmed about the impact the Government's two pronged attack will have on the Shipping Industry.