Submission to Productivity Commission Inquiry into Road and Rail Freight Infrastructure Pricing

Maritime Union of Australia (MUA)

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Introduction

1. The Maritime Union of Australia (MUA) represents workers in the shipping, stevedoring, port services, hydrocarbons and diving industries.

2. The MUA wishes to challenge the data on which the Productivity Commission (PC) has relied to reach the conclusion outlined in the PC Issues Paper that in relation to modal shares under an increased freight task, road and possibly rail will increase their market share. We note that the Sinclair Knight Mertz and Meyrick and Associates research asserts that road will increase its share, largely at the expense of sea freight, and that on the basis of the Port Jackson Partners research, that rail's share of the freight task could increase significantly.

3. Both those research findings imply that the sea freight task will decrease, losing out to both the road and rail modes. We believe that such findings are outdated, and that developments in coastal shipping over the course of 2006 make these predictions unreliable at best, and possibly redundant.

4. The 2006 developments we refer to include:

    - the commencement of a licenced coastal shipping service by Pan Shipping Pty Ltd:

        - the MUA has actively supported, assisted and encouraged Pan Shipping in its new venture. Its investment in coastal shipping after a long period of decline in investment in Australian coastal shipping is indicative of the rising importance of shipping as a transport mode in the Australian freight task;

    - the acquisition of Patrick Corporation by Toll Holdings;

    - the playing out of the obligations of Toll Holdings to comply with undertakings given to the Australian Competition and Consumer Commission (ACCC) which could lead to new competitive pressures in Bass Strait shipping and a shakeout of the Tasmanian freight transport task;

    - the public statements by Sea Corporation Pty Ltd that its business plan includes the expansion into both bulk commodities and container freight:

        - the MUA is also strongly supportive of the shipping vision of Sea Corporation, a Fremantle based operator, which has foreshadowed plans to expand operations to a Northern NSW-Brisbane-Darwin service that could provide options for southern suppliers to shift products by a combination of north-south rail and northern/eastern shipping. It will be important that the Federal Government provide the right policy settings and practical support to ensure that such an important new service commences and remains viable. This is particularly important in the context of the resources development across the north of Australia; and

- the takeover of P&O Ports by Dubai World Ports, which, together with the entry of Toll into the stevedoring sector will have implications for shipping and therefore shipping costs.

5. We submit that these developments are likely to fundamentally alter the position of sea freight in the modal share of the current and future freight task.

6. This leads us to suggest that the Council of Australian Governments (COAG), and the Treasurer have erred badly in confining this PC reference to road and rail. It is a major deficiency in our view that this study does not include sea freight. Even if the studies referred to in the Issues Paper regarding present modal shares are correct, they show that sea freight accounts, at present, for some 30% of tonne-kilometres – a not insignificant share. Air freight appears to account for about 1%.

7. While the remainder of the MUA submission addresses the specific issues raised by the PC, we raise a note of caution about the use of price signals alone to determine the transport investment of the nation, and therefore the transport options that may be available for users to choose from. We have no issue with the principle of seeking to better understand and apply appropriate pricing, so long as it is comprehensive, and that it represents the true costs of providing a transport service. However, those principles must be balanced against the legitimate role for Governments to adopt strategic, national interest or nation building principles into the transport arrangements for the nation.

8 It is for such reasons that the MUA is a strong advocate of the Adelaide to Darwin (north-south) rail link. We consider such a project as having very strong national interest, defence, regional development and environmental benefits. Even if it takes some years, perhaps decades, to reach its full commercial potential, and if this distorts the pricing arrangements for users on that service, this is not in our view a reason to undermine or condemn such an important component of the national transport system. Rising fuel costs in the transport chain, or opportunities not envisaged at the time investment decisions are being considered, as has occurred (new ore deposits along the Alice Springs to Darwin section of this rail link have been discovered) could change commercial viability of such a transport mode quite rapidly.

Scope of the inquiry

9. The PC Issues Paper says at P14 that " *a key contribution of this review would be to establish a framework and principles for pricing road and rail infrastructure, as well as feasible paths for implementing them in the medium to longer term. Moreover, because efficient prices provide signals about demand and the need for investment (or disinvestment), the Commission sees value in exploring mechanisms and institutional arrangements that would better integrate infrastructure supply and demand*."

Do participants agree with this approach?

Given the terms of reference, where can the Commission's inquiry add most value?

10. We agree with this approach but indicate that development of a framework and principles for road and rail without reference to the validity of the framework and principles to shipping could, if adopted down the track, result in distortions and therefore inequities between all the major domestic transport modes. This would be an undesirable outcome.

11. It is our submission that in putting forward consistent methodologies for the pricing of infrastructure provision and use, across modes, the following factors need to be considered:

- that the full social costs of usage for each mode are recovered;
- ways need to be found in which externalities can be included in the recommended pricing approach. For example, the climate change costs from greenhouse gasses; the health impacts of particle and other emissions and fossil fuel depletion rates are all factors which need to be part of any modal pricing approach; and
- a coherent argument for the recommended pricing principles and methodologies, through the quantification of national benefit to be derived from the adoption of those principles must be advanced.

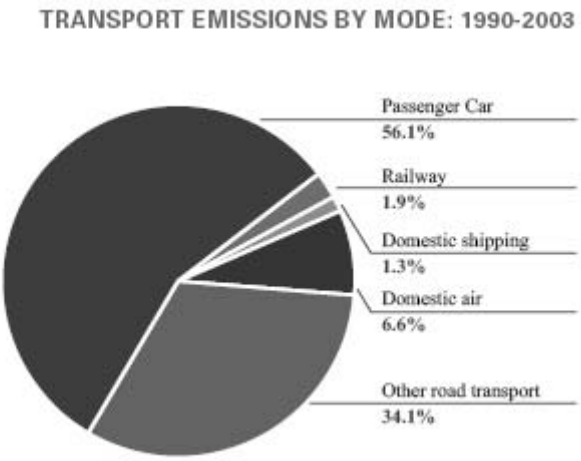
Full economic and social costs of road and rail freight

12. The MUA submits that it is highly desirable to account for, and to factor in, externalities when considering the economic costs of different freight modes. To illustrate the need to account for externalities, we cite three typical and important examples.

13. First, incidents or accidents that have the capacity to impact on the remainder of the community while they share the corridors used by the transport mode. Clearly, road transport, which shares its corridor with members of the public in a compact environment, has the potential to, and in fact does, impact severely on other roads users. Rail has a significantly lower opportunity to impact because of its transaction with the public in a more limited range of circumstances eg level crossings, rail lines shared with passenger trains. Shipping on the other hand, only transacts with the public in very limited circumstances eg recreational boating, and generally only in sheltered waters, as well as fishing vessels. This fact, if built into pricing, would reveal a comparative price advantage for shipping.

14. Second, greenhouse gas emissions. It is our view that given the relatively low emissions by domestic shipping (see Figure 1).particularly when compared to road transport, and given the urgency of national and international efforts to reduce greenhouse emissions which are contributing to climate change, indicates that we must factor such considerations into freight pricing arrangements. We have included at **Attachment A** an extract from the Australian Shipowners Association submission to the House of Representatives Transport and Regional Services Committee inquiry into the integration of regional rail and road networks and their interface with ports which addresses the greenhouse gas emissions issue for shipping.

Figure 1: Transport emissions by mode 1990-2003



Source: National Greenhouse Gas Inventory 2003, Fact Sheet 2

15. In addition, transport pricing considerations must take into account the fact that fossil fuel is a non-renewable resource and there are real concerns about diminishing oil reserves. Unless given adequate consideration we will impose significant restrictions on future choices and impose costs and risks on future generations.

16. Third, transport insurance costs. The value of a cargo on a ship may be significantly greater than the value of a cargo on other transport modes, and the value of the vessel may be greater, indicating that in a catastrophic event the overall loss and therefore claim on insurance may be greater, compared to other transport modes. However, the unique and highly transparent insurance arrangements in the shipping industry have characteristics that enable the cost of the insurance to be readily ascertained and could therefore be attributed to the freight price.

17. Most shipping insurance for both the hardware and the cargo is arranged through international protection and indemnity associations (P&I Clubs), where the insurance is based on the not-for-profit principle of mutuality where members of the Club are both the insurers and the assureds. Considerable data showing insurance costs as a proportion of freight are available which would in our assessment provide an ideal benchmark against which to test the cost of this externality, which is inevitably passed on to consumers of all transport modes.

18. This method of insurance operates on very low overheads and therefore low administration costs. We suggest that it would be desirable for the PC to examine the P&I Club model and its data, through the International Group of P&I Clubs.

Options for pricing reform

Competitive neutrality

19. We would strongly argue the need for a more comprehensive definition of competitive neutrality than that provided in the Competition Policy Agreement principles, so that the concept can be equally applied to Australian coastal shipping. We have no problem with the PC view, as far as it goes, but we still think it is inadequate in the context of coastal shipping.

20. We say this because the coastal shipping zone is considered by Government, incorrectly in our view, as a unique and different market to that of the land side zone. For example, different tax, customs and labour market arrangements apply to certain shipping operators in the coastal zone, relative to the tax, customs and labour market arrangements that apply on land, even though Australian laws clearly extend to this coastal shipping zone. We believe that Australian law must apply consistently to all Australian transport modes for the principle of competitive neutrality to operate fairly and consistently.

21. The labour market is the most glaring example of inequity. We say unequivocally that the coastal shipping zone is part of the Australian labour market. It is not a foreign labour market under any definition. Australian labour laws and a range of other commercial laws are all predicated on the basis that our coastal zone is part of Australia. This is the foundation on which the global principle of cabotage is based.

22. Given that coastal shipping is within the Australian market, it is an incontestable fact that no other section of the Australian labour force is required to compete with a wages and conditions regime that equates to the country of origin of the workers engaged in that industry or occupation. Whether it be mining, construction or service industry workers, airline pilots, train drivers or truck drivers, a business wishing to engage foreign workers in these industries or occupations must pay Australian wages and conform with Australian employment conditions for that labour. That is, the labour is paid/rewarded in accordance with the standards of the country in which the labour is engaged, not to the standards for wages and conditions of the country of origin of the labour. Coastal shipping as an industry, and seafarers as an occupation, is the exception.

23. The net effect is that Australian coastal shipping operators, who either register their vessel/s under the *Shipping Registration Act 1981* or licence their vessel/s under Part VI of the *Navigation Act 1912* (Navigation Act) do not enjoy competitive neutrality with shipping operators whose vessels are issued with a permit under Part VI of the Navigation Act. This is the case even under the PC proposed definition, because in effect the foreign shipping operator is subsidising its freight rates by cross subsidising the price it charges from its international freight, or alternatively, is basing its freight rates on a substandard cost structure, particularly labour costs.

24. We say that foreign shipping operators in the coastal shipping zone should be required to comply with the Australian cost structure to ensure that Australian shipping operators face a neutral competitive environment in relation to those costs regulated by government.

25. What we seek from Government is competitive neutrality, which in our assessment equates to fair competition.

Impacts of different pricing regimes

26. The questions raised by the PC about routes and freight tasks where road and rail compete will clearly deliver a distorted outcome in the absence of shipping in the analysis.

27. MUA commissioned research, which is in progress, is analysing these very questions, but is including all transport modes, on a product by product basis. The research is already revealing the mode characteristics of different freight types. For example, it is revealing that in petroleum products, there is a distinct bias towards a shipping-road combination for distribution from refinery, to distribution centres to retail markets. However, this pattern could alter depending on the future of Australian refining capability. A second example, steel products, shows that rail is competing strongly with shipping for the distribution of finished steel product to major market centres.

28. Preliminary indications from the MUA research suggest that there are two kinds of opportunity for growth in Australian coastal shipping. One is integration into manufacturing supply chains, and the other is in general cargo, chiefly containers. Both will require investment in skilling the workforce, in ships and in shore-based facilities. Both will require shipping to develop cost-effective packages of low cost and high reliability, coupled in some instances with craft designed for specific trades and related ports eg ro-ro.

29. Conventionally, shipping is at an advantage over land transport where:

- movement is from waterside to waterside (so not requiring modal transfer); and
- movement is in bulk.

30. Where this is the case, shipping is competitive with land transport over short distances. Where modal transfer costs are incurred at ports, shipping is competitive with land transport when:

- once again, the movement is in bulk (either singly or in aggregate with other movements) – large ships are much less costly to operate per tonne-km than small ships, and it goes without saying that full ships offer lower costs than under capacity ships;
- ships are available which are suited to the particular load;
- the distance is long, allowing the spreading of port costs;
- both port and port access costs are minimised; and
- a time penalty is allowable, both because sea transport is slower than land and because it often takes time for traffic to build up into shiploads (time penalties raise shipper costs, and in the case of perishable cargoes can prevent shipment).

31. Other important costs are:

- capital and maintenance costs of vehicles/vessels, which for all modes depend on utilisation;
- terminal costs, which favour trucking over rail and shipping;
- off-vehicle operating costs, which are relatively high for rail; and
- infrastructure costs, which are relatively low for shipping, since it does not rely on line-haul infrastructure though it requires ports (which means that these costs may be quite important per tonne-km for short-distance trades).

Impediments to efficient pricing and operation of transport infrastructure

32. The MUA submits that the Inquiry's focus on road and rail is a missed opportunity for the PC to examine the road and rail interface with ports and therefore the linkage to, or integration with, the shipping mode. While we acknowledge that there are some sea side infrastructure impediments that affect access to efficient shipping eg Port of Melbourne channel deepening (though this is mainly an issue in relation to international shipping rather than coastal shipping) the key infrastructure impediments in our view are on the land side.

33. There are two key impediments in our view. The first is the road and rail interface with ports. There is no evidence that stevedoring operations or that stevedoring pricing impacts on the flow of domestic container and non-container freight through Australian ports. However, there is a considerable body of evidence that indicates that the road and rail interface at ports is at times, and in some ports, impacting on the efficient flow of goods through ports. We refer the PC to the evidence before the House of Representatives Transport and Regional Services Committee inquiry into the integration of regional rail and road networks and their interface with ports.

34. The second impediment is the inconsistency in the concession terms offered to stevedoring operators at various Australian ports, particularly container ports, and the port charging regime adopted by various port authorities. The MUA believes there is considerable scope for the adoption of greater national consistency and transparency in the tender provisions for wharf space, particularly those provisions going to performance standards of lessees of wharfage space. We consider that there should be a set of nationally consistent principles to be applied by port authorities to ensure those authorities provide a competitively neutral basis for tenderers for wharf space, which would then allow successful tenderers to operate commercially and compete on service provision, productivity performance etc.

35. We also believe that there should be greater transparency of pricing decisions, and consistency, in port user charges. For example, we understand that there is up to a 100% variation in the per container throughput charge adopted by different port authorities across key Australian container ports.

36. We believe that these issues should be addressed through a national infrastructure review process involving the Commonwealth and State Governments, port users and other stakeholders including of course the workforce. We do not believe that these matters should be addressed by the Australian Competition and Consumer Commission under its current legislative framework.

Attachment A

Australian Shipowners Association

House of Representatives Standing Committee on Transport and Regional Services

Inquiry into interaction of regional road and rail networks and their connectivity to ports 2005-2006

ATTACHMENT 1: SEA TRANSPORT EFFICIENCY AND GREENHOUSE GAS EMISSIONS

Climate Change and Greenhouse Gas Emissions

Although the likely impacts and severity is still often debated, the inevitability of global warming and climate change is generally accepted. As such, the stabilization and reduction of anthropogenic greenhouse gas emissions is one of the most pressing current environmental challenges.

The Australian Government, as a signatory to the United Nations Framework Convention on Climate Change (UNFCCC) has recognised the issue of global warming and committed to putting measures in place to stabilise national emissions of greenhouse gases. Although not a signatory to the Kyoto Protocol to UNFCCC, Australia has committed to a CO_2 emissions reduction target of 108% of the 1990 baseline figure by 2008-2012.

The transport sector, which includes passenger cars, domestic aviation, domestic navigation (shipping), rail and other road transport (freight), is responsible for generating 14 percent (or 79 Mt) of Australia's CO_2 emissions[1]. The other designated emission sectors are stationary energy, fugitive emissions (waste emissions from the production and distribution of coal and natural gas), industrial processes, agriculture, land use change and forestry, and waste. Transport is the third highest emitter of greenhouse gases behind stationary energy (47.6%) and agriculture (19.2%).

'…Shipping Supports 28.15% of the domestic freight task…but contributes to just 2% of total emissions from the transport sector.'
[2].

Division of Domestic Freight Task Emissions Contributions

Australia's domestic freight task is divided between shipping, road and rail. The non-urban domestic freight task is relatively evenly spread between these three modes. Shipping supports 28.15 percent of the domestic freight task (Figure 1), consumes 9.6 percent of the total energy used in freight transportation[2] but contributes to just 2 percent of the total emissions from the transport sector (Figure 2).

[1] "Total CO_2 emissions" includes total emissions of other greenhouse gases such as methane, nitrous oxide and perfluorocarbons. In calculating and expressing total greenhouse emissions, these other greenhouse gases are converted to CO_2 equivalent amounts.

[2] 'Australian Maritime Transport 2004', Apelbaum Consulting Group, 2005.

[3] **Figure 1:** Percent share of domestic, non-urban freight task measured in tonne-kilometres.

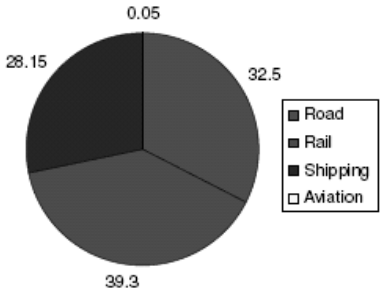
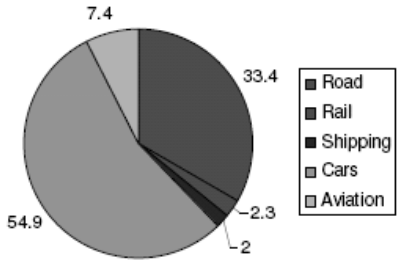


Figure 2 Percent CO2 emissions in 2002 from Transport by mode.



Despite being widely considered to be the most energy efficient transport mode for long distance haulage of large volumes of freight, the share of the domestic freight task (in tonne-kilometres) attributed to shipping has declined from 44 percent in 1984/85 to the current figure of 28.15 percent in 2002/03[4].

[3] National Greenhouse Gas Inventory 2002, Australian Greenhouse Office.
[4] 'Australian Maritime Transport 2004', Apelbaum Consulting Group, 2005.