

The Australian

Ill-judged yuletide gift for shippers and unions

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REFORMS to shipping policies must aim for liberalisation, not covert protectionism.

CHRISTMAS is a time for giving. And no form of generosity comes as readily to our political system as taking a bit from each of the unsuspecting many to give a lot to a happy few.

Which is what Transport Minister Anthony Albanese proposed last week as a yuletide gift to the Australian shipping industry and its unions.

At issue are reforms to Australia's shipping policies. That the 1912 Navigation Act needs updating would be difficult to deny. And there is great scope to make our shipping industry more efficient, especially the trade along Australia's coast.

But rather than progress the reforms that have brought large gains since the mid-1980s, the minister proposes costly steps back.

Start from the basics. Despite the growth of trade in services, physical goods account for more than 80 per cent of our exports and imports.

And even with the spectacular rise of China and India, few countries are as remote from their trading partners as we are.

At the start of this century, more than 90 per cent of world gross domestic product was within 10,000km of Britain; only about one-third of world GDP was within that distance of Australia. Little wonder maritime transport is crucial to our prosperity.

Fortunately, a technological revolution has reduced shipping costs and made them less distance-sensitive, while the shift of the centre of gravity of international trade to Asia means we are closer to the world's busiest shipping lanes.

But the gains from that revolution have been slow to percolate to our coastal trade.

Despite Australia's shore-hugging pattern of economic activity, shipping carries a minute share of domestic freight, with fuel and bulk commodities accounting for much of our coastal transport.

Poor performance reflects regulations that protect our small, high-cost shipping industry through a permit system that, in principle, allows foreign ships to carry freight between Australian ports only if an Australian vessel is unavailable.

Beginning in the mid-1980s, a de facto liberalisation occurred, with permits easier to obtain, first for single voyages and then for multiple voyages over a six-month period.

The Howard government, though shortening the permits from six months to three, continued that trend, largely granting permits on demand.

The impacts were most visible on the east-west trade, where the larger international vessels can make the rough passage westwards across the Australian Bight at relatively low cost.

With entry liberalised, shippers offered rates 25 to 50 per cent lower than surface transportation, increasing shipping's share of the non-bulk freight market from near zero to more than 10 per cent.

As competition developed, shipping rates from the east coast to Perth fell by more than one-third in real terms between 1989-90 and 2006-07.

In contrast, rates for Tasmanian shipping, which government subsidies reserve for Australian-flagged ships, barely budged.

But even on the east-west route, shipping's market share was well below the levels it might have obtained, as the permit system lacks the predictability transporters require. And Labor's election victory in 2007 put liberalisation on hold, pending a policy review.

That review's outcomes are not as bad as one might have feared. Foreign competition will not entirely disappear. But the policy package is still costly and dangerous.

It is costly because it throws tax concessions at Australian shipping, which is largely foreign-owned in any case.

Along with foreign shipowners, Australia's highly unionised seamen will be the main beneficiaries, as the tax breaks reduce the cost of hiring them.

With little or no increase in their supply, increased demand for Australian seamen will drive up their earnings, at least in the short term. But that comes at the expense of taxpayers and, in an economy stretched for skilled labour, of other, more efficient sectors.

As for the danger, it arises because foreign ships would be allowed to operate only where it was in the interests of the Australian shipping industry, with "explicit consideration of the employment of Australian seafarers".

How that will work is unclear but the scope it creates for protectionism is all too apparent.

The government's justification for these measures involves loose, implausible references to wider benefits, particularly for defence.

It may be that our navy needs more trained mariners. If so, fund the navy to train them: the defence white paper's proposal of placing 20 new corvettes in service means it will have no shortage of ships on which to do so.

As for increasing the transport the navy can draw on, taxpayers are already spending more than \$3 billion for two amphibious ships, more than doubling the navy's sealift capacity.

And added capability could readily be leased, as it was in the Timor operation. Even if high insurance premiums had to be paid for those leases, the costs would be far lower than those of continued protection of our merchant marine.

Ultimately, adopting these policies to secure defence and other spin-offs is as wrong-headed as feeding the horses to fatten the sparrows.

But, of course, it's that time of year: and the maritime unions are clamouring for their presents. Faced with that, what could be easier than casting bread on the waters in the hope of a political return?

The better course would be to dismantle the existing restrictions, allowing the full integration of our coastal trade into the global shipping system, while using regulatory powers to meet legitimate safety, environmental and labour standards.

This would give shipping an opportunity it has never had to compete with surface transport, reducing road traffic and the damage from trucks, while easing funding pressures in rail.

Now that would be reform worth having, benefiting the community as a whole.

Seem improbable? To sceptics in a sceptical age, undoubtedly. But real reform has happened before. Here's to hoping it happens again.