



## Economic Vandalism on the Coast

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‘Cabotage’ describes the practice of restricting ‘coastal shipping’ (i.e. the transportation of goods between two Australian ports) to Australian-flagged ships. We should forget about further reform – the laws should be repealed.

Cabotage laws have existed for coastal shipping in Australia since the early twentieth century. Since the introduction of the *Navigation Act 1912*, the general regulatory environment remained fairly static with the industry divided into two broad regulatory categories: ships operating under *licence* – a permanent and unrestricted licence to carry cargo and passengers subject to a range of conditions, including industrial relations requirements; and ships operating under *permit* – a temporary permit to carry nominated cargo, but subject to a lesser range of conditions.

Cabotage will always be anti-competitive and protectionist. However, over the last five years the



Rudd and Gillard Governments introduced changes to plunge the industry further into protectionism.

First, in 2009 the Rudd Government imposed the *Fair Work Act* upon most foreign-registered and foreign crewed vessels. Until this time, foreign seafarers operating on permit ships were generally exempt from Australian industrial relations laws. The effect of this change was substantial, particularly given the difference between foreign wages and Australian award rates.

Second, in 2012 the Gillard Government replaced the old licence and permit system with a complicated three-tiered licensing system. The reforms granted Australian vessels unlimited access to the coastal trade, while restricting the operation of foreign vessels through temporary licences with extensive conditions and reporting requirements. The reforms also introduced tax incentives for Australian vessels.

These reforms came despite a number of Productivity Commission reports citing cabotage laws as a barrier to the competitiveness of coastal shipping, and a key contributor to high freight costs for industry. In a recent speech, ACCC Chairman Rod Simms seriously questioned the cost/benefit of maintaining coastal shipping restrictions.

The intention for the reforms was to 'revitalise' Australian coastal shipping by replacing foreign-flagged vessels with Australian-flagged vessels. Unfortunately, the number of Australian operators in a market is not an indicator of economic success.

The demand for coastal transport arises from the domestic demand for Australian bulk commodities such as cement, iron ore, steel, sugar cane, gypsum, alumina/bauxite, soda ash, retort coke, and fertiliser. By restricting (or prohibiting) competition, the immediate economic effect is to drive up domestic transport costs for these commodities.

Australian export markets are also affected by inhibiting the practice of 'triangular trades'. This is where a ship unloads foreign cargo in Port A and is scheduled to load cargo in Port B for an international destination – it then organises to transport domestic cargo between Ports A and B. Because triangular trades make shipping more profitable for international carriers, cabotage increases the price of international shipping which, in turn, increases the price of our exports.

It's not often that the government seeks to deliberately harm the economy, but the reforms can only be described as an act of economic vandalism.

The government ignored the warnings of its own Department of Infrastructure and Transport which cautioned that the aggregate economic impact of tightening cabotage would *decrease* GDP between \$242m and \$466m. This came on top of Deloitte Access Economics modelling which forecasted job losses for the shipping industry, an increase in prices for domestic commodities and an increase in imported commodities.

The reforms missed the proper focus: coastal shipping reform needs to drive cost efficiencies for Australian producers of bulk goods. The coastal shipping market will be most efficient if it is free



and open, and the cabotage laws are repealed.