

# From the bridge



## A sea change for liner shipping

By ROD NAIRN AM, CEO,  
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The first part of 2018 has been a historic one for liner shipping in Australia. The sudden withdrawal of lines from the major Discussion Agreements operating between Australia, New Zealand and the USA was quickly followed by a similar exodus from the north Asia Trade Facilitation Agreement and the southbound Asia Australia Discussion Agreement. This brings us to uncharted territory with respect to liner shipping and leaves Australia's peak exporting shipper body, the Australian Peak Shippers Association, scratching their heads and wondering why they suddenly have no carrier representative body to talk to.

Changes to this sector of the industry have been expected for some time, ever since the European Union removed their competition protections for shipping and replaced them with a vanilla flavoured block exemption permitting only low market share consortia. Since then, a number of other regulatory regimes have done the lemming thing and followed blindly off the cliff to weaken or remove anti-competition protections from shipping. Hong Kong and New Zealand are among the most recent, and the sum of these changes have made an impact on the psyche of global shipping lines. The shipping industry has a lot of inertia and major changes take time, but they eventually work themselves through. Changes to global competition protections over the past decade are at least partially responsible for the consolidation of shipping lines in recent years, though of course there are other factors. I caution all regulators to be very careful when they consider tampering with a market that is currently highly competitive and working well as "whatsoever a man soweth, that shall he also reap". Andrew Chittenden provides a more comprehensive analysis of the causes and effect of this historic change on page 46.

It is not coincidence that the demise of Discussion Agreements comes after the latest round of shipping industry consolidation. The five or six market leaders are now strong enough to make their own decisions and live by them.

Perhaps the first example of this is in global bunker surcharges. Under a Discussion Agreement regime all the lines participating in that agreement would normally negotiate their bunker base rates, indices and calculation methods for surcharges with

the peak shipper body. This provided standardisation between lines and predictability for the shipper. Now, without DAs to limit them, the major lines can simply set their own surcharges on a global basis and can change these surcharges as they see fit, with no minimum notice periods. So much for predictability.

Let me make it clear that **not all Discussion Agreements have been abandoned**. DAs remain an essential umbrella structure that enables a collection of smaller lines to collaborate to provide a shipping service. The barriers to entry to providing a shipping service are very high indeed, a viable service needs reasonable frequency and sufficient cargo to make it sustainable. That means multiple ships over multiple ports, which demands a massive capital risk. DAs can provide a means by which lines can share this risk and ensure that a regular service is sustained while maintaining competition between the contributing lines to prevent price gouging.

### So where does this reduction in DA participation leave Shipping Australia?

Shipping Australia Limited was formed in 2000 through the amalgamation of the Australian Chamber of Shipping and Liner Shipping Services. Over the years the pendulum of our work effort has swung between liner services and shipping policy matters. Staff levels have been continually adjusted to meet the work demand. In the last few years, as the demand for liner services support has reduced I have reduced our workforce in the liner services department. At the end of May, after almost 30 years working at Shipping Australia (and the former Liner Shipping Services), Andrew Chittenden has taken his retirement. Andrew's reputation for expertise in liner shipping regulation is widely known and respected throughout the industry, and SAL is happy that he has agreed to continue to provide expert advice when called upon. The SAL Board and his work colleagues wish Andrew the very best for the next, more relaxing phase of his life. His dry wit will certainly be missed around the office.

Despite these changes, Shipping Australia maintains the capability to support continuing Discussion Agreements, bunker calculations, regional trade statistics and ongoing registration service for consortia agreements under Part X. We will also

continue to be the industry point of contact for the Registrar of Liner Shipping, and provide advice and support on liner matters to our members. The policy and technical department remains unchanged and will continue to provide information, advocacy and training services to our members and the wider shipping industry as we have done for the past 18 years.

On that note, **Shipping Australia has commenced consultation with the ACCC** over the requirements of the industry for the development of a potential class exemption to cover shipping lines. Our position has always been that Part X of the CCA already provides the appropriate level of competition protection, is low on regulatory compliance red tape and is supported by both carriers and shippers. But the future of Part X is not at issue here, that will be determined by the Government at some future date, not by the ACCC. The ACCC has been tasked to develop a class exemption that best meets the needs of shipping industry carriers and shippers. We are working with them on this but an essential element for shipping lines is certainty and this is not so easy to provide in a self-assessment regime.

**The first half of 2018 has also been mixed in terms of International shipping markets.** The dry bulk indices have been on somewhat of a roller coaster, dipping to peaking with the Baltic Dry Bulk index swinging between 1470 and 1000 twice since the start of the year. In the past two weeks before going to print this index has plummeted 400 points again. Box rates have shown similar instability with the Shanghai Containerized Freight Index climbing above 870 in February, only to drop 200 points in March before staging a modest recovery of half of the lost ground in May. The arrival of a lot of new build tonnage is starting to increase volatility and those lines that provide public accounts have announced operating losses for the first quarter. So, the outlook is not rosy, lines will look carefully at their operating costs and this will put more pressure on lines to either pull out of uneconomic services or look for other ways out of an industry which has been suffering from oversupply for more than a decade. I do see more consolidation coming.

A year out from elections in the New South Wales, Victorian and Federal governments, it seems that **preparing long-term freight and infrastructure strategies** is the thing to do. SAL contributed to the Victorian Infrastructure plan last year, and in the first half of this year has also made submissions to the NSW Freight and Ports Strategy and the review of the National Freight and Supply Chain Strategy. Our submissions are available on our web site but to give you the short version we keep to some simple, and virtually indisputable principles:

- Make the best use of existing and latent infrastructure and minimise greenhouse



*The ANMM Wooden boat festival at Darling Harbour was a fitting companion to the Container Exhibition still running at the museum*

gas production in the national freight task by including coastal shipping in the overall freight strategy – this will cost nothing but the political will to change the coastal shipping rules

- Focus on efficient and effective rail connections between the ports and intermodal hubs, including duplication of the Port Botany rail link, and building a dedicated freight rail connection from Acacia Ridge to the port of Brisbane
- Preserve the freight corridors and port precincts and protect them from urban encroachment

**The Federal Budget** earlier this month did deliver on funding for the duplication of the Port Botany rail but there was no mention of Acacia Ridge to Brisbane. There were other goods and bads in the fine print. One of the goods was the announcement of \$200 million funding to provide a Satellite-Based Augmentation System for GPS. Known as SBAS, this system will improve safety and reliability and accuracy of ship (and land) positioning systems which will improve safety of navigation. It will also support the inevitable move toward more autonomous systems both on land and at sea.

In the bad category, the announcement of an **insidious new biosecurity levy** caught the entire freight industry off guard. Completely unexpected, this levy has been announced with no industry consultation, it is inadequately described and, certainly to this point, insufficiently justified or accounted for (I am running out of derogatory adjectives). This new levy of \$10.02 per TEU or \$1.00 per tonne of non-containerised cargo looks like a slush fund for the Department of Agriculture so that they won't have to justify their future expenditures under the existing cost recovery mechanisms. Its plan to be collected by the terminal operator is also another costly outcome which will add further administrative costs to the

supply chain. In an unprecedented sign of consolidated opposition, Shipping Australia combined with the Australian Logistics Council, Australasian Railway Association and Ports Australia to release a joint media statement condemning the charge. Shipping Australia will be engaging vigorously with the Department of Agriculture on this matter.

Just over a year ago SAL held a function to explain the new concept of **Blockchain**, it was a real eye opener to many who had never heard of the concept. Today you can't get through your first morning coffee without blockchain being mentioned, it seems to be the go-to word for breakfast TV and radio presenters. It seems that Blockchain will fix supply chain integrity, and distribute verified data across networks on a need to know basis, but how many people really understand it and what it can do? In this edition we cover blockchain from a few angles starting with a fundamental explanation by Richard Arrage on page 38, its application in guaranteeing integrity of medicines and other products by Mark Toohey, and its use as the backbone to ensure trust in the development of a new trade community system in Brisbane.

At the **ALC Conference in March** I was encouraged by the fact that shipping and ports gained a greater proportion of the agenda than in previous years. The conference was also the first opportunity for the newly appointed Deputy Prime Minister and Minister for Transport and Infrastructure, the Hon Mike McCormack, to make his first speech in the role. The opposition transport spokesman Mr Anthony Albanese was also in good form and I was pleased to hear him recognise the need for: less regulation, bipartisanism for long-term shipping policy stability, and coastal shipping to do more of the domestic freight task.



If there was a **global prize for newsmaker of the year** there would be no argument, it would go to President Donald Trump. He knows how to hold the news spotlight and to rock the establishment. His withdrawal from the Trans Pacific Partnership was enough to have all players scurrying to see what they could salvage, and salvage a new TPP they did. Trump's continuing quest for funding to build a border wall with Mexico is attracting a lot of local press but on the global scene his abrupt announcement of 25 per cent tariffs on steel and aluminium was seen as the first salvo in a global trade war – and in war, everybody loses. Fortunately for Australian producers, our Government negotiated strongly and was able to obtain exemptions by calling on our long time special relationship with the USA. China retaliated with tariffs on multiple products and then there were reports of USA cargos of sorgum bound for China, being redirected to other Asian countries to avoid the punitive Chinese anti-dumping duties. Most recently, with the world's economies scrambling for position, President Trump tweeted it all off again and it seems that the short but furious war of projected tariffs has been called off. Read what economist Bernard Gresser makes of it all on page 30 We could all learn a lesson to wait until the smoke clears before trying to assess the damage.

Most recently, the **US withdrawal from the 'Iran Deal'** and US re-imposed trade sanction on Iran have left the shipping world in confusion. Questions are being asked on whether other States who continue to respect the 'Deal' can continue to trade with Iran, or will a trade blockade be enforced? This extends to insurance coverage of ships and cargo's who risk being intercepted or impounded for failing to comply with sanctions. A number of European countries have invested heavily in Iran and are understandably reluctant to comply with unilateral US sanctions.

The **AMSA NAV18 Future of Navigation Conference** was held on the Gold Coast in May. I was pleased to present on the implications of disruptive technologies on safe navigation of international shipping. I have long been a strong supporter of the work that AMSA and the Australian Hydrographic Office have done to continually improve the safety of navigation around the Australian coast and through the Great Barrier Reef in particular.

**Shipping through the Great Barrier Reef is far safer than it was twenty years ago**, with incident rates falling from an average of 2.5 per year to only one per 3 years over that period. The last major incident was the grounding of the Shen Neng 1 in 2010. This improvement in safety is not just a coincidence. The past decade has seen the availability of Electronic Navigational Charts (ENC) and the implementation of compulsory carriage of Electronic Chart Navigation

Display Systems (ECDIS). Together these have improved levels of bridge situational awareness and reduced the incidence of navigational error. The extension of REEFVTS services has ensured that there is a "guardian angel" keeping a watchful eye on any ship that starts to wander out of the designated shipping areas. The outcome of all this effort is safer shipping, ensuring that commercial shipping can continue to operate safely and efficiently throughout the essential sea trade lanes of our world heritage listed national park.

There is more good news for maritime trade to come. Previous navigation safety depth calculations combined with shallow waters and a complicated tidal regime have necessitated a limit of 12.2 metres maximum static draught for shipping navigating the Torres Strait and inner Great Barrier Reef, but this looks about to change. **AMSA, in partnership with OMC**, implemented an underkeel management system through the Torres Strait in 2010 and have been collecting data and improving the system ever since. **Now they are at the stage of trialling deeper draught shipping through the Torres Strait** and trial vessels have safely navigated the passage at draughts of up to 12.5 metres. It may not sound like a lot, but for a bulk carrier, every additional centimetre of draught equates to around 5,000 tonnes of cargo. According to the trial report, if the regular bulk ships traveling from Weipa to Gladstone transit Torres Strait at 12.5 metres draft rather than 12.2 metres, then they could carry the same amount of cargo in 10 less transits per year, an operational saving of around \$10 million. Trials for container vessels are scheduled to commence soon and if similar gains are achieved this could equate to thousands of additional containers being carried per ship on the Torres Strait route from Singapore to east coast Australia. This is definitely a win win outcome.

The presence of **Brown Marmorated Stink Bugs (BMSB)** in container cargos from Italy and vehicle cargos from Japan this season caused substantial delays in cargo and substantial costs to shippers and shipping lines. While protocols were in place for containers, it appears that the pre-embarkation fumigation had a lot of holes in it and approved facilities managed to use a lot more fumigant gas than they ever purchased. The result is that DAWR was not able to rely on the fumigation certificates and required inspection of containers prior to unpacking.

The arrival of hitchhiker pests in vehicle consignments from Japan was far more costly and disruptive for shipping companies. With a few BMSG being discovered at sea and others identified as a result of fogging on arrival, a number of RoRo and PCC were refused entry to New Zealand and Australia with no solution identified. This resulted in lengthy and costly delays, offshore fumigations and general aggravation. Car imports have skyrocketed since the end of the BMSG season and SAL has initiated discussions with DAWR and vehicle importers to make better preparations ahead of the next season.

On 12 March I was privileged to attend a special commemoration at the Australian National Maritime Museum, of **the finding of Australia's first Submarine HMAS AE1**, near Rabaul, in Papua New Guinea. In attendance were Minister for Defence, Senator Marise Payne, Chief of Navy, Vice Admiral Tim Barrett, and descendants of the 35 crew who were tragically lost. The circumstances of the sinking and the final resting place of *AE1*, which has remained a mystery for more than 100 years was finally declared solved following the successful search on *MV Fugro Equator*. The display at the ANMM is well worth a visit by all Australians, but for now you can read the story on page 56.



*Coconut undergoing final preparations for the Golden Globe Race 2018 in Plymouth UK*

The IMO MEPC has now confirmed the timeline for the commencement of global low sulphur fuel implementation with the **0.5 per cent sulphur in fuel cap, which will come into effect on 1 January 2020.**

SAL's concerns that the supply of low sulphur fuels will not meet demand have now been echoed by the International Chamber of Shipping chairman Esben Poulson, who is calling for global fuel suppliers to get their preparations in order "particularly for operators in tramp trades, which call at diverse port destinations". Poulson warned operators that it is vital to start making the necessary preparations for this major change, which is expected to significantly increase bunker prices across the shipping industry. Some operators are moving towards fitting of scrubbers, which will allow them to operate even with inadequate low sulphur fuel availability but there has been a significant shift towards the use of LNG as a clean bunker fuel.

**Our feature in this edition looks at LNG** from the point of view of Australian producers just as Australia becomes the world's number one LNG producer, and from the shipping industry perspective as LNG as a bunker fuel approaches critical mass. The ICS has gone even further and, in promoting shipping as the clean transport industry of the future, considers that even LNG is only a stepping stone to a new generation of zero emission fuels such as hydrogen fuel cells or ammonia-based energy.

Among a wealth of other articles, you will find a film review of *The Mercy*, a Hollywood production recounting the desperate attempt of Donald Crowhurst to be the first and fastest to sail single handed non-stop and unassisted around the world in the Golden Globe Race, 1968. I would not be a spoiler to say that he failed; the honours went to Robin Knox Johnson in his yacht *Suhaili*. Now, 50 years on, a commemorative Golden Globe 2018 Race is being held, limited to the same technologies available to the original sailors. A feature on Mark Sinclair and his 34 foot yacht *Coconut*, one of two Australian entries was included in *SAL Spring/Summer 2017* magazine. I am delighted to joining *Coconut* on 14 June for the invitation race from Falmouth, UK to Les Sables d'Olonne, France, ahead of the start of the solo Golden Globe on 1 July. Check out the next Spring/Summer edition for an update.

As we go to print I am pleased to congratulate Craig Carmody (formerly of Svitzer Australia) on his appointment as CEO Port of Newcastle and Nicolai Noes, a former SAL director and CEO of Maersk Australia, who has returned from Singapore to take the helm at Svitzer Australia. ▲

Dear Sir,

This is something of a long shot, but nothing ventured ...

The port of Onehunga, once the biggest secondary port in New Zealand, closed its doors to freight activities at the end of November 2016, bringing to an end roughly 180 years of shipping movements on the eighth biggest harbour in the world, the Manukau Harbour.

The port is now a haven for trawlers, particularly during the albacore (hoki) season during the summer months. But many's the day this once exceedingly busy wharf is now bereft of any activity whatsoever.

To keep alive the memory of this terrific wee port, I've set up a tribute website, [www.ultimatensoccer.com/Onehunga](http://www.ultimatensoccer.com/Onehunga), which boasts a whole host of photos and information about the many ships which have tied up alongside over the years - oh, how I wish those bollards could talk, because the tales, I'm sure, would be abundant!

Which is the reason for this letter. I'm eager for the site to become as comprehensive and definitive a record of shipping at the port of Onehunga as possible, the idea being to gather as much information and stories about the port and its servants (ships and crew), so the role it has played in New Zealand's history isn't lost to future generations.

To this end, I'm keen to receive contributions, be they written or photographic, from any readers who may have lived on the shores of the Manukau and taken pictures of the ships passing by, or who may have worked on those very vessels on their way in and out of Onehunga and across that sometimes feral beast, which is the Manukau Bar.

Submissions can be made via the website, with contributions certain to be fully acknowledged, as a visit to the website can confirm. I look forward to receiving yours.

Thanks,  
Jeremy Ruane

[www.ultimatensoccer.com/Onehunga](http://www.ultimatensoccer.com/Onehunga) - a tribute to shipping at the port of Onehunga



Onehunga Wharf 1981, with  
Adi Viti and Niuvakai alongside.

Image: Ports of Auckland



Onehunga Wharf 2018